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SEPTEMBER

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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

At its meeting on 6 September 2007, the Governing Council of the ECB decided, on the basis of its regular economic and monetary analyses, to leave the minimum bid rate on the main refinancing operations of the Eurosystem unchanged at 4.00%. The interest rates on the marginal lending facility and the deposit facility were also left unchanged at 5.00% and 3.00% respectively. The information that has become available since the previous meeting of the Governing Council has confirmed that the medium-term outlook for price stability remains subject to upside risks, as identified by both its economic and monetary analyses. Incoming macroeconomic data also confirm the strong fundamentals of the euro area economy and support a favourable medium-term outlook for real GDP growth. Against this background, the ECB's monetary policy stance is still on the accommodative side with, inter alia, money and credit growth vigorous in the euro area. At the same time, the financial market volatility and reappraisal of risk of recent weeks have led to an increase in uncertainty. Given this high level of uncertainty, it is appropriate to gather additional information and to examine new data before drawing further conclusions for monetary policy in the context of the ECB's medium-term-oriented monetary policy strategy aimed at delivering price stability. Accordingly, the Governing Council will monitor very closely all developments. On the basis of its assessment, and by acting in a firm and timely manner, the Governing Council will ensure that risks to price stability over the medium term do not materialise and that medium-term inflation expectations remain firmly anchored in line with price stability. This is all the more important at times of financial market volatility and increased uncertainty. As regards the financial markets, the Governing Council will continue to pay great attention to developments over the period to come.

Considering first the economic analysis, the data available suggest that economic activity in the euro area is continuing to expand at sustained rates. Euro area real GDP growth in the second quarter moderated to 0.3% quarter on quarter,

compared with 0.7% in the previous quarter. However, due account should be taken of the volatility of these growth rates. Accordingly, economic growth during the first half of 2007, as a whole, was in line with potential growth. Data on activity in the third quarter – from various confidence surveys and indicator-based estimates – remain favourable overall and support the assessment that real GDP is growing at sustained rates. In particular, the latest data on unemployment are favourable and the levels of all confidence indicators to August were high. Global economic activity is expected to remain robust, as the likely slowdown in the United States is expected to be largely offset by the continued strong growth in emerging markets. This will continue to provide support to euro area exports and investment. In addition, consumption growth in the euro area should strengthen further over time, in line with developments in real disposable income, as employment conditions improve further. That said, in view of the overall potential impact of increased financial market volatility and the re-pricing of risk on the real economy, appropriate monitoring of the economy's evolution is necessary.

This outlook is also reflected in the September 2007 ECB staff macroeconomic projections for the euro area, which for the first time include Cyprus and Malta. The projections foresee average annual real GDP growth in a range between 2.2% and 2.8% in 2007, and between 1.8% and 2.8% in 2008. In comparison with the June Eurosystem staff projections, the range projected for real GDP growth in 2007 has been revised slightly downwards, mainly reflecting the assumptions of somewhat higher oil prices and slightly tighter market financing conditions due to higher average risk premia.

In the view of the Governing Council, the ranges presented serve as a good reminder of the general uncertainty surrounding economic projections, which it is worthwhile emphasising given the current volatility in the financial markets. The risks to these projections for economic growth are judged to lie on the

downside. These downside risks relate mainly to a potentially broader impact from the ongoing reappraisal of risk in financial markets, global imbalances and protectionist pressures, as well as further oil and commodity price rises.

With respect to price developments, according to Eurostat's flash estimate, annual HICP inflation was 1.8% in August 2007, the same rate as in the previous month. However, over the remainder of this year, inflation rates are likely to increase again to above 2%. In the September 2007 ECB staff projections, annual HICP inflation is projected to lie between 1.9% and 2.1% in 2007, and between 1.5% and 2.5% in 2008. In 2008, a declining impact from indirect taxes and energy prices is expected to be compensated by higher pressures from unit labour costs. Compared with the June 2007 Eurosystem staff projections, the new ranges for 2007 and 2008 are within the ranges previously projected.

The Governing Council is of the view that risks to this outlook for price developments lie on the upside. These upside risks include increases in indirect taxes beyond those anticipated thus far and further increases in oil prices and prices for agricultural products. More fundamentally, stronger than expected wage developments and an increase in the pricing power in market segments with low competition may occur. Such developments would pose upside risks to price stability. It is therefore crucial that all parties concerned meet their responsibilities. The potential materialisation of these risks – or their abatement – requires close monitoring.

The monetary analysis confirms the prevailing upside risks to price stability at medium to longer-term horizons. On the basis of the latest available data (covering the period to the end of July), the underlying rate of monetary and credit expansion remains strong. This is reflected in the rapid growth of the broad monetary aggregate, M3, which grew at an annual rate of 11.7% in July, and the strength of MFI loans to the private sector, which continue to increase at double-digit rates on an annual basis.

When identifying and assessing the policy-relevant underlying trends in monetary expansion, it is important to look through short-term volatility and the impact of temporary factors on developments in specific monetary aggregates. Taking the appropriate broader and medium-term-oriented perspective, there are several indications that increases in short-term interest rates over recent quarters have influenced monetary developments. For example, increases in short-term rates have contributed to a more modest expansion of M1, as the opportunity cost of holding the most liquid components of M3 has increased. Moreover, higher short-term rates have led to some stabilisation in the growth of MFI credit to the private sector, albeit at double-digit annual rates, with the growth of household borrowing moderating as house price dynamics and real estate activity have slowed. However, these developments are yet to dampen the overall rate of monetary expansion, as the flattening of the yield curve has increased the attractiveness of monetary assets relative to less liquid longer-maturity instruments, thereby causing broad money growth to rise. Furthermore, the growth of loans to non-financial companies has shown renewed vigour in recent months.

In the current situation, it should be stressed that volatility in financial markets can temporarily exert considerable influence over monetary dynamics. In previous episodes, private sector perceptions of and attitudes towards risk, and the resulting portfolio behaviour, have strongly affected monetary developments. The monetary data for July may already have been partly influenced by such portfolio considerations and this could possibly apply even more to the August data to be released later in September. However, as has been demonstrated in the past, an in-depth and comprehensive analysis of the monetary data can improve the understanding of the impact of financial developments on monetary developments and help to extract the policy-relevant signal in monetary growth with regard to longer-term inflationary trends. In such

circumstances, the broad-based approach adopted in the ECB's monetary analysis is at a premium.

Overall, the continued vigour of underlying monetary and credit expansion points to upside risks to price stability over the medium to longer term. Monetary developments therefore continue to require very careful monitoring.

To sum up, a cross-check of the information identified under the economic analysis with the outcome of the monetary analysis has confirmed the existence of upside risks to price stability over the medium term – against the background of the strong fundamentals of the euro area economy. Accordingly, the ECB's monetary policy stance is still on the accommodative side with, *inter alia*, money and credit growth vigorous in the euro area. At the same time, given the high level of uncertainty, additional information is needed before further conclusions for monetary policy can be drawn. Accordingly, the Governing Council will monitor very closely all developments. On the basis of its assessment, and by acting in a firm and timely manner, the Governing Council will ensure that risks to price stability over the medium term do not materialise and that medium-term inflation expectations remain firmly anchored in line with price stability. In the current context, it is all the more important that inflation expectations remain firmly anchored in line with price stability. As regards the financial markets, the Governing Council will continue to pay great attention to developments over the period to come.

In the area of fiscal policy, progress in structural fiscal consolidation remains slow and there are risks that some countries will pursue expansionary pro-cyclical fiscal policies. For the execution of 2007 budgets and the planning of 2008 budgets, it is crucial that the mistakes made during the previous economic upswing of 1999-2000 are not repeated. At present, countries with fiscal imbalances need to correct them in line with the requirements of the Stability and Growth Pact. The commitment in

the Eurogroup to reach medium-term budgetary objectives in 2008 or 2009, and by 2010 at the latest, has to be respected by all euro area member countries. Those countries that have already achieved sound fiscal positions need to abstain from pro-cyclical fiscal policies.

Turning to structural reform, the Governing Council welcomes further efforts to increase the productive capacity of the euro area through higher employment. Euro area labour markets have shown clear signs of progress in the last few years, partly reflecting the impact of past labour market reforms. Further progress is needed, however, to enhance occupational and geographical labour mobility and skill creation, so as to overcome the comparatively low rates of labour market participation and still high unemployment rates in some countries and regions.





# ECONOMIC AND MONETARY DEVELOPMENTS

## I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

Overall, global economic growth continues to be robust, supported particularly by buoyant activity in emerging economies. Consumer price inflation has remained broadly stable in industrialised countries, but there are indications of rising inflationary pressures in view of emerging capacity constraints and rising global commodity prices. Negative risks to the global economic outlook have recently increased, mainly as a result of the tensions in the US sub-prime mortgage market, with fears of growing spillovers to other market segments. Risks also relate to global imbalances, protectionist pressures and the possibility of further increases in oil and commodity prices.

### I.1 DEVELOPMENTS IN THE WORLD ECONOMY

Overall, global economic activity continues to be robust, supported primarily by buoyant activity in emerging economies. In particular, the larger countries in Asia continue to record strong growth rates, and the region remains the main engine of global growth. While the global repercussions of the US economic slowdown have so far been limited, it remains to be seen whether the recent financial market turmoil will lead to a lasting reappraisal of global financial market risks and a loss in confidence with possible implications for the real economy. Up to June 2007 industrial production in the OECD countries (excluding the euro area) continued to expand at a relatively robust rate. However, the most recent survey evidence suggests some possible weakness in industrial production at the beginning of the third quarter.

Global price developments have been further significantly affected by changes in commodity prices. The annual rates of increase in headline consumer price inflation and inflation excluding food and energy in the OECD countries in June 2007 were 2.2% and 2.0% respectively (see Chart 1). Survey evidence on input prices suggests continuing elevated cost pressures resulting from emerging capacity constraints and rising global commodity prices.

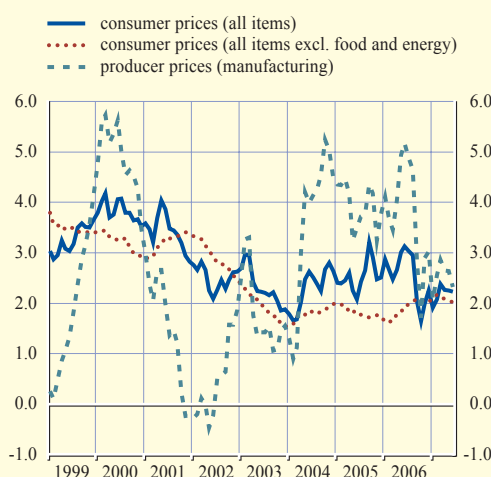
#### UNITED STATES

In the United States, where economic activity had grown at a rate below trend over most of the previous year, real GDP growth rebounded in the second quarter of 2007. According to preliminary estimates, it grew by a quarterly annualised rate of 4.0%, after 0.6% in the first quarter. The increase in real GDP growth reflected a rebound in the contributions from net trade, inventories and government consumption as well as a pick-up in non-residential investment. By contrast, the growth of private consumption slowed sharply relative to the previous quarter, to a quarterly annualised rate of 1.4%. In addition, residential investment continued to be a drag on economic growth, although less so than in the first quarter.

As regards price developments, annual consumer price inflation has been somewhat elevated in past months, averaging 2.6% in the six months from February to July 2007.

Chart 1 Price developments in OECD countries

(annual percentage changes; monthly data)



Source: OECD.

Recently, however, partly due to base effects, a slowdown in the annual rate of increase in energy prices has led to a slight fall in inflation rates. Annual CPI inflation declined to 2.4% in July, from 2.7% in the previous month. Annual consumer price inflation excluding food and energy was unchanged for the third consecutive month at 2.2% in July.

Looking ahead, the US economy is expected to expand at a rate below trend in the second half of 2007 as a whole, assuming ongoing negative effects of the housing market on consumption and residential investment. The recent turmoil in financial markets and the tightening of lending standards also pose downside risks to the US economy.

On 7 August 2007 the US Federal Open Market Committee decided to keep its target for the federal funds rate unchanged at 5.25% for the eighth consecutive time. On 17 August, as a reaction to recent financial market turbulence, the Federal Reserve Board approved temporary changes to its primary credit discount window facility. The changes included a 50-basis-point reduction in the primary credit rate to 5.75% and allowing the provision of term financing for as long as 30 days, renewable by the borrower.

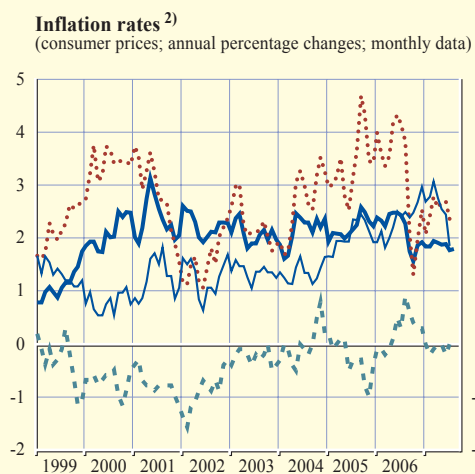
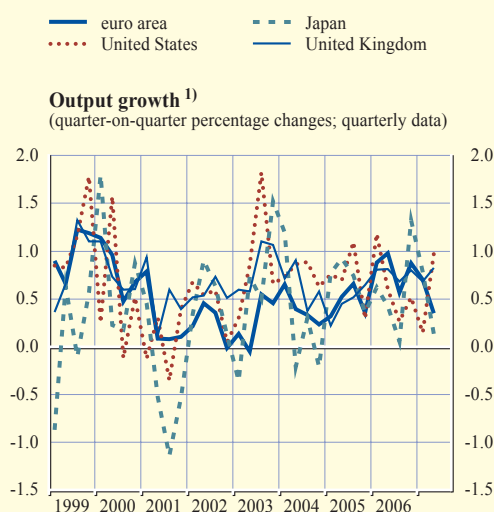
## JAPAN

In Japan, economic activity has slowed down over recent months, and inflation has remained subdued. Output has been supported by strong exports. In the second quarter of 2007, however, according to first preliminary data released by the Cabinet Office, real GDP growth declined from the rapid expansion recorded in previous quarters, owing to a slowdown in private consumption and private residential investment.

Real GDP grew by 0.1% on a quarterly basis – slightly below market expectations – after 0.8% in the previous quarter.

With regard to price developments, inflation has remained subdued (see Chart 2). In July 2007 consumer price inflation was zero on an annual basis (after -0.2% in June); the annual change in the CPI excluding fresh food was -0.1%, unchanged for the fourth consecutive month. Negative contributions from numerous items, most notably housing, as well as reading and recreation, continued to dampen inflation in July.

**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.

The outlook for the Japanese economy remains favourable. Real GDP growth is expected to be supported by both domestic demand and net exports. Price developments are expected to turn into positive territory in the medium term.

At its meeting on 23 August 2007 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, GDP growth has remained robust and stable in recent quarters (see Chart 2), reaching 0.8% (quarter on quarter) in the second quarter. Growth in the second quarter was driven by private consumption, whereas investment and export growth declined, and the contribution of net exports was negative. The pace of quarterly GDP growth in the second half of 2007 is expected to decelerate moderately.

HICP inflation, after peaking at 3.1% in March 2007, declined gradually to 1.9% in July. The moderation in the annual inflation rate over recent months was driven mainly by utility bills. In July there was also a significant downward contribution from food, furniture and household goods. The short-term outlook for inflation is very uncertain due to expected volatility in both food prices, relating to the recent floods in the United Kingdom, and energy prices.

On 6 September 2007 the Bank of England's Monetary Policy Committee decided to leave its main policy rate unchanged at 5.75%.

### OTHER EUROPEAN COUNTRIES

In most other EU countries outside the euro area, output growth has remained robust in recent quarters, mainly as a result of sustained domestic demand. Inflation developments have been mixed across countries in recent months.

Real economic developments have followed different paths in Denmark and Sweden in recent quarters. In Denmark quarterly growth decreased to -0.4% in the second quarter of 2007, mainly due to a broad-based weakening of domestic demand. In Sweden, however, real GDP growth strengthened to 1.0% in the second quarter, mainly due to domestic demand growth. HICP inflation has been contained in the two countries in recent months and is expected to remain so. In July annual HICP inflation in Denmark decreased to 1.1%, whereas in Sweden it increased to 1.4%.

As regards the four largest central and eastern European economies (namely the Czech Republic, Hungary, Poland and Romania), output growth has remained robust in recent quarters in the Czech Republic, Poland and Romania but has decelerated markedly in Hungary. In the first three countries, real GDP growth has been driven by domestic demand, while in Hungary it has driven mainly by net exports. Activity indicators suggest some weakening of economic growth in these countries in the remainder of the year. Regarding price developments, in recent months the level of inflation has continued to differ significantly across the four countries. In the Czech Republic and Poland, HICP inflation decreased to 2.5% in July, while in Romania it increased to 4.1%. In Hungary it decreased to 8.3% but remained the highest among the four countries, reflecting a large increase in indirect taxes and administered prices, which is part of the country's fiscal consolidation package. In the months ahead HICP inflation is expected to pick up somewhat in all countries except Hungary. On 29 August Narodowy Bank Polski decided to raise its key policy rate by 25 basis points to 4.75%, due to concerns about wage and inflationary pressures. On 30 August



Česká národní banka decided to raise its key policy rate by 25 basis points to 3.25%, also citing inflation concerns.

In most of the smaller non-euro area EU countries, quarterly real GDP growth has been strong in recent quarters, mostly supported by robust domestic demand, which has been underpinned by fast credit and disposable income growth. Activity indicators suggest continued strong economic growth in the remainder of the year. Annual HICP inflation has remained high and increased somewhat in recent months in most of the fastest-growing countries, such as Bulgaria and the Baltic states. Inflationary pressures are expected to continue in these economies. Box 1 focuses on house price developments in central and eastern European non-euro area EU countries.

In Russia, real GDP growth increased in the first quarter of 2007 to an annual rate of 7.9%, driven mainly by domestic demand. Leading indicators of economic activity suggest that the upswing continued during the second quarter. Inflation rose to an annual rate of 8.7% in July (from 8.5% in June). On 14 August the Bank of Russia raised deposit interest rates across maturities by 25 basis points to counteract inflationary pressures.

#### Box 1

### HOUSE PRICE DEVELOPMENTS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

In recent years many of the non-euro area EU countries in central and eastern Europe (EU9) have experienced rapid growth in residential property prices. The available data indicate that between 2004 and 2006 the average annual growth rate was over 30% in the Baltic countries, Bulgaria and Romania, and between 6% and 8% in Poland and Slovakia (see Chart A). Although the average figures mask some volatility in the growth rates over the years, and the available residential property price statistics are of mixed quality and are not fully comparable across countries,<sup>1</sup> these strong growth rates prompt questions as to their drivers, sustainability and macroeconomic implications.

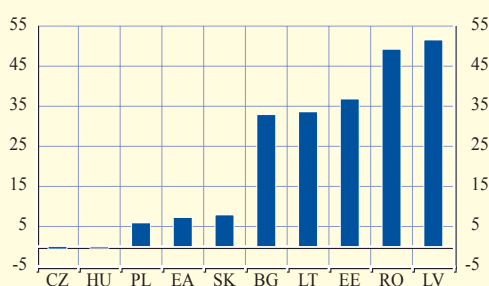
Given the usual rigidity of housing supply, demand factors play a key role in determining house prices in the short to medium term. Among these factors, housing financing seems to be of particular importance for the EU9 economies. In most of these countries mortgage instruments have in recent years become more widely available at lower cost and longer maturities, and on more flexible terms (such as lower amortisation requirements and higher loan-to-value ratios). This is attributable to the deepening of and increasing competition in the mortgage loan markets, reflecting both the low initial level of financial development and integration into the EU (see Chart B). Moreover, in many countries low nominal and real interest rates have prevailed, owing to improved macroeconomic stability and lower risk premia.

Other important factors are strong output growth, rising employment and higher income expectations. In addition, in several EU9 countries fiscal incentives, such as subsidies to

<sup>1</sup> The residential property price indicators presented for the EU9 countries are based on non-harmonised national sources and differ in statistical quality. Consequently, they are not directly comparable across countries and may not cover the entire housing market in a given country. In particular, the figures for Bulgaria, Estonia, Hungary and Romania refer only to prices collected in capital or major cities. The available price data for Bulgaria, Hungary, Latvia, Romania and Slovakia relate only to existing dwellings. Furthermore, most series reflect average prices of pre-defined dwelling categories, and do not properly account for quality changes of the dwellings over time. This may be of particular relevance in the case of markets with large quality differences between old and new dwellings, and dwellings in different locations or regions. The changes in dwelling prices presented should therefore be analysed with caution.

**Chart A Annual average growth of residential property prices in 2004-06**

(annual percentage changes)

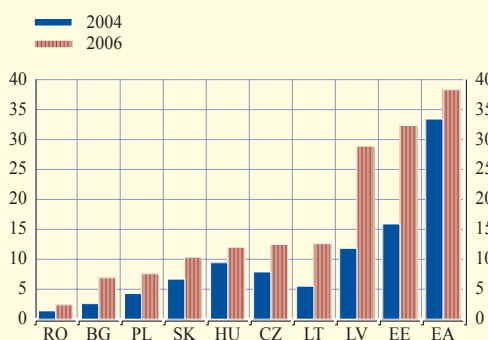


Source: ECB calculations based on non-harmonised national data.

Note: Data for the Czech Republic cover the period 2004-05. Figures for Romania are estimates provided by Banca Națională a României. The euro area (EA) aggregate excludes Slovenia.

**Chart B Outstanding loans for house purchase**

(as a percentage of GDP)



Sources: ECB, Banca Națională a României and Българска народна банка (Bulgarian National Bank).

saving, lower interest rates on mortgages, tax deductibility of interest payments and/or reduced property taxation, have also played a role. However, some of these measures have recently been curtailed.

In addition to the typical house price drivers referred to above, the EU9 countries have been exposed to several transition-specific factors.<sup>2</sup> In the past house prices in many of these countries were distorted owing to large-scale public/municipal ownership and rent regulations, which effectively contained prices below their market value. Thus, the recent price increases might to some extent be viewed as a correction of these distortions. Furthermore, strong demand for new houses may reflect the poor quality of the initial housing stock and the rapidly changing geographic concentration of economic activities. In some countries, in connection with EU entry, foreign demand for housing has increased, primarily in capital cities and holiday resorts. Moreover, there was a temporary boost to demand around the time of EU accession in some countries amid anticipation of higher house prices on account of hikes in the VAT rates on construction materials in the process of VAT harmonisation within the EU.

In the medium to longer run house prices are also determined by supply factors, especially by regulations in the housing markets. In several EU9 countries complicated spatial planning and construction procedures appear to have depressed supply.

One of the main channels through which housing market developments can affect the economy as a whole is the link with household consumption. Higher property prices may increase households' wealth and boost consumption, contributing to consumer price pressures. The impact on aggregate consumption is, however, not straightforward, since not all households are affected in the same way.<sup>3</sup> This depends, among other things, on whether a household owns a property and, if it wishes to sell, whether it intends to trade up or down (for instance, a household climbing the "housing ladder" may actually reduce consumption). Moreover, given data

2 See Égert and Mihaljek (2007), "Determinants of house price dynamics in central and eastern Europe," *Focus on European Economic Integration*, 1/2007, pp. 52-76.

3 See for instance ECB (2003), "Structural factors in the EU housing markets".

limitations for the EU9 countries, it is difficult to obtain reliable empirical evidence on this link. Property prices may also affect consumption via the credit channel, since residential property can be used as collateral for borrowing. A rise in the value of property may increase the collateral available to its owners. Although growing in importance, mortgage equity withdrawal instruments are relatively rare in the EU9 countries, with few exceptions.

Housing market developments can also affect the economy as a whole via financial markets. Given the strong growth of loans for house purchase, an increasing part of financial intermediaries' assets in many EU9 countries has become linked to residential real estate values. It is difficult to assess to what extent this reflects a catching-up development and to what extent this may be excessive lending. Although average household debt levels are still relatively low in several countries (see Chart B), rising interest rates may be negatively affecting the balance sheets of households. The interest rate channel may be particularly important in Hungary, Poland and the Baltic countries, where the vast majority of mortgage loans are at a variable rate. An additional risk stems from the fact that in some EU9 countries a significant proportion of household loans are denominated in foreign currency, exposing borrowers to exchange rate shocks and challenging the effectiveness of monetary policy in controlling credit growth. Moreover, there may be a risk of deteriorating credit standards. In some countries loan-to-value and loan-to-income ratios have increased, making banks and households more vulnerable to falls in property prices and adverse shocks to income and interest rates.

Given the potentially important spillovers from the housing market to the rest of an economy it is important for central banks to monitor house prices and mortgage developments, analyse their main drivers and identify any misalignments. To this end, reliable statistics are of key importance, an area in which further efforts are urgently required. The link between the housing market and financial stability necessitates close monitoring of the mortgage loan markets and, where necessary, the adoption of appropriate prudential measures on the part of regulatory authorities. In addition, it is important that households in the EU9 countries become more aware of the risks when engaging in certain forms of mortgage borrowing, especially at variable interest rates and in foreign currency. These risks seem to be often underestimated by households. Finally, other relevant policy areas (such as fiscal incentives and housing market regulations) should be overhauled so as to alleviate housing price pressures.

## EMERGING ASIA

In emerging Asia, economic activity has continued to expand at a sustained pace, especially in the largest economies of the region. Inflationary pressures have increased further in China, but remained broadly stable in the other large economies.

In China, after growing vigorously in the first half of 2007, economic activity has moderated somewhat, as witnessed by somewhat lower growth in industrial production and investment in July. The trade surplus grew to a cumulative USD 136.8 billion in the first seven months of 2007, an increase of 81% compared with the same period in 2006. Foreign exchange reserves also continued to rise, totalling USD 1,332.6 billion at end-June 2007. Consumer price inflation continued its upward trend, reaching 5.6% in July, mostly driven by rapidly rising food prices. The People's Bank of China continued its tightening policy, raising the minimum reserve requirements for banks by a further 50 basis points to 12% in July. The benchmark deposit and lending rates were increased by 27 basis points to 3.6% and by 18 basis points to 7.02% respectively in August.

In South Korea, real GDP grew at an annual rate of 5.0% in the second quarter of 2007, up from 4.0% in the first quarter. Annual consumer price inflation declined to 2.0% in August. In India, economic activity remained sustained, with GDP growth increasing to 9.3% on an annual basis in the second quarter of 2007. Wholesale price inflation, the Reserve Bank of India's main inflation measure, continued to decline (to 4.0% in August).

Overall prospects remain favourable for emerging Asia, underpinned by steady growth in domestic demand, as well as robust growth in exports.

### LATIN AMERICA

In Latin America, economic activity has remained sustained overall, but with heterogeneity in the growth and inflation performances of the major economies. In Brazil, industrial production has continued to accelerate: in the second quarter of 2007 it rose at an average annual rate of 5.8%, compared with 3.8% in the first three months of the year. Annual consumer price inflation, after remaining stable in the first quarter of 2007, started to increase in the second quarter, to stand at 3.7% in July. In Argentina, economic activity has slowed down in recent months. Annual industrial production growth was, on average, 6.0% in the second quarter, after 6.7% in the first quarter; in July it declined further, to 2.3%. Annual consumer price inflation declined in the second quarter to an average of 8.8%. In Mexico, real GDP expanded by an annual rate of 2.8% in the second quarter, up from 2.6% in the first quarter. Annual consumer price inflation has remained relatively stable since the beginning of the year and stood at 4.1% in July.

The outlook for Latin America as a whole continues to be favourable, with domestic demand expected to remain the main engine of growth.

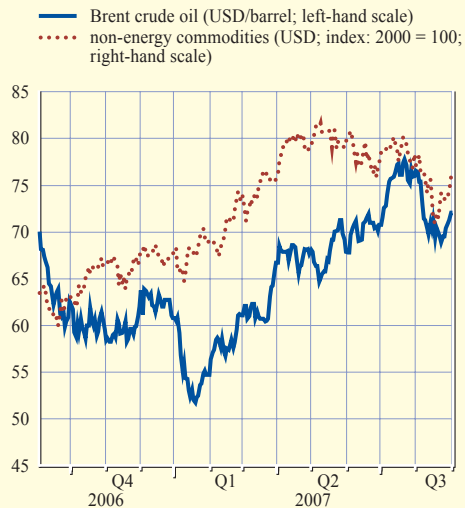
## 1.2 COMMODITY MARKETS

After a surge in July 2007, oil prices declined substantially at the beginning of August and have since remained fairly volatile. On 5 September the price of Brent crude oil stood at USD 73.6 per barrel, about 5% below the peaks reached in late July. Concerns over the potential effects of the global financial turmoil on the global economy and the possibility of dampening effects on energy demand triggered significant falls in the main benchmark crude price in early August. The price declines were, however, limited by strong underlying market fundamentals, as the Organization of the Petroleum Exporting Countries (OPEC) maintained production discipline amid robust global oil demand and tightening US inventories. The emergence of the first significant hurricane threats to energy production this year, combined with the unwinding of speculative positions, further fuelled market volatility. Looking ahead, robust demand, limited crude oil supply growth and spare capacity are likely to keep oil prices at elevated levels and fairly sensitive to unexpected changes in the supply/demand balance.

Following a period of significant volatility, the prices of non-energy commodities fell substantially in August 2007, reflecting mainly a decline in the prices of industrial raw materials, particularly non-ferrous metals. Food prices, which had increased in recent months, also declined slightly in August in monthly terms, despite an increase in the prices of cereals (see Box 7 for recent developments in food prices). Nevertheless, the overall non-energy commodity price index (denominated in US dollars) was on average approximately 12% higher in August than a year earlier.



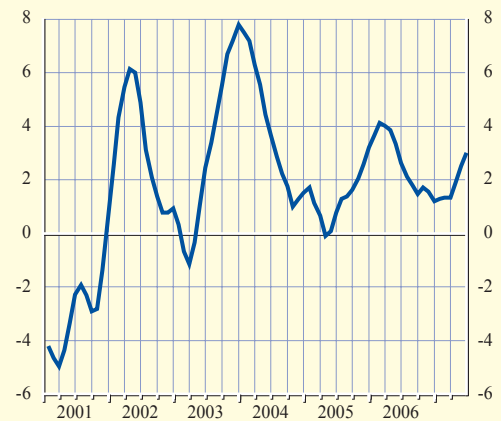
**Chart 3 Main developments in commodity markets**



Sources: Bloomberg and HWWI.

**Chart 4 OECD composite leading indicator**

(six-month rate of change)



Source: OECD.

Note: The latest observations are for June 2007.

### I.3 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

The outlook for the external environment, and therefore for foreign demand for euro area goods and services, remains favourable. In June 2007 the six-month rate of change in the composite leading indicator (CLI) for the OECD countries improved further (see Chart 4). The CLI data also showed an improved performance in most of the advanced economies. The latest CLI data for major non-OECD economies point to continued steady expansion in China and India and an improved outlook for Brazil.

Negative risks to the global economic outlook have recently increased, mainly as a result of the tensions in the US sub-prime mortgage market, with fears of growing spillovers to other market segments. Risks also relate to global imbalances, protectionist pressures and the possibility of further increases in oil and commodity prices.

## 2 MONETARY AND FINANCIAL DEVELOPMENTS

### 2.1 MONEY AND MFI CREDIT

The underlying rate of monetary expansion in the euro area remained strong in the second quarter of 2007. This was reflected in the ongoing strength of annual M3 growth – which increased even further in July – as well as in the double-digit annual growth rate of MFI credit to the private sector. The gradual withdrawal of monetary policy accommodation since December 2005 is continuing to influence monetary dynamics, notably by contributing to the stabilisation of the annual growth of loans to the private sector. At the same time, higher short-term interest rates have stimulated growth in short-term liquid deposits in the context of a relatively flat yield curve in the euro area. Recent financial market developments may also have influenced the monetary data, but the full extent of such effects will become apparent only in the months to come. Nonetheless, even when taking into account these short to medium-term effects, underlying monetary dynamics remain strong and point to upside risks to price stability over the medium to longer term.

#### THE BROAD MONETARY AGGREGATE M3

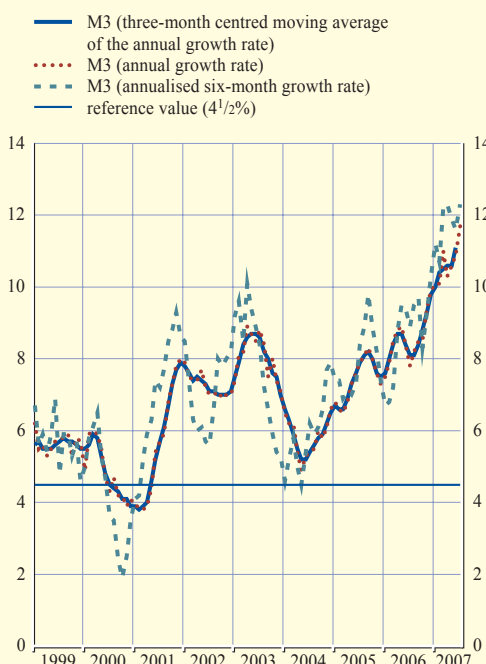
In the second quarter of 2007 annual M3 growth increased to 10.6%, from 10.2% in the first quarter. The annual growth rate of M3 strengthened in the course of the second quarter and rose further in July to stand at 11.7%. The strength of the monetary expansion observed over the past few months is also illustrated by its shorter-term dynamics, as measured, for example, by the annualised six-month growth rate of M3, which has remained well above the annual growth rate, standing at 12.3% in July (see Chart 5).

The recent data on money and credit developments continue to support the assessment that the gradual withdrawal of monetary policy accommodation since December 2005 has had an impact on monetary dynamics. On the components side, the impact of higher key ECB interest rates has been visible in the downward trend of the annual growth rate of M1. On the counterparts side, higher interest rates have contributed to the stabilisation seen since the second half of 2006 in the annual growth rate of loans to the euro area private sector, which has nonetheless remained at double-digit levels.

At the same time, higher short-term interest rates have contributed to the strong growth of short-term time deposits and marketable instruments. Since the yield curve in the euro area has remained fairly flat in recent months, these instruments have retained their relative attractiveness compared with longer-term assets outside M3, as they offer similar levels of remuneration while, at the same time, being more liquid and implying less exposure to risk.

Chart 5 M3 growth

(percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.

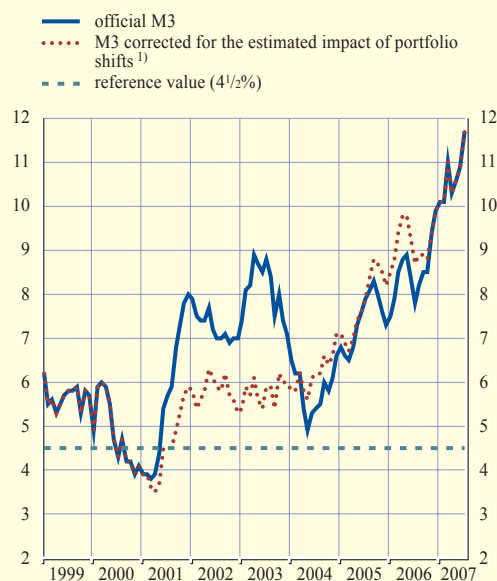
The strong expansion of M3 in July – with a growth rate of 1.1% month on month – may partly reflect recent financial market developments. Previous episodes demonstrate that the uncertainties associated with such developments can exert a stimulative impact on monetary aggregates through, for instance, exceptional portfolio shifts into safe and liquid monetary assets as investors seek a safe haven. This may lead to increased shorter-term volatility in monetary dynamics and can complicate the extraction of the policy-relevant underlying rate of monetary expansion. Corrections have been made in the past for the estimated impact of portfolio shifts into money that could not easily be explained on the basis of conventional determinants of money demand (prices, income and interest rates) in order to account for the effect of geopolitical, economic and financial market uncertainty on monetary developments, especially between 2001 and 2003.<sup>1</sup> The most recent indication of an unwinding of these portfolio shifts dates back to the second half of 2005. Hence, the official M3 series and the M3 series corrected for the estimated impact of portfolio shifts have followed a similar pattern over recent months (see Chart 6). Uncertainty in financial markets, as measured, for instance, by implied volatility in bond and equity markets, has increased since July but remains much lower than in the period 2001-03. Consequently, it remains to be seen whether the recent bout of nervousness in financial markets will trigger an exceptional preference for monetary assets.

However, even taking into account the stimulative impact on M3 of the flat yield curve and, more recently, of possible financial uncertainties affecting portfolio decisions, the analysis of components and counterparts suggests that the underlying rate of monetary expansion remains strong.

<sup>1</sup> See the article entitled “Monetary analysis in real time” in the October 2004 issue of the Monthly Bulletin.

**Chart 6 M3 and M3 corrected for the estimated impact of portfolio shifts**

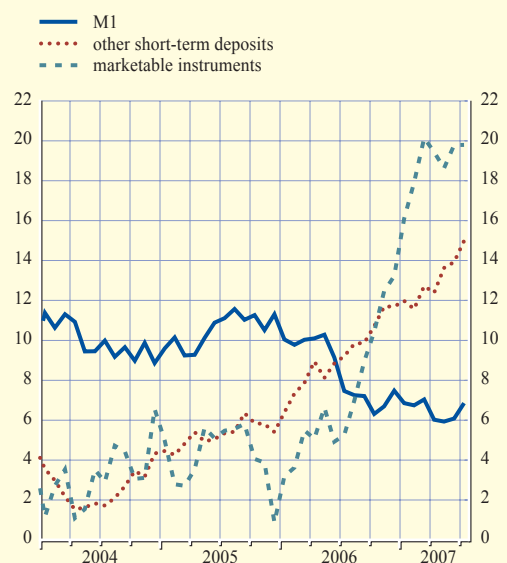
(annual percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.  
 1) Estimates of the magnitude of portfolio shifts into M3 are constructed using the general approach discussed in Section 4 of the article entitled “Monetary analysis in real time” in the October 2004 issue of the Monthly Bulletin.

**Chart 7 Main components of M3**

(annual percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.

Table 1 Summary table of monetary variables

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

	Outstanding amount as a percentage of M3 <sup>1)</sup>	Annual growth rates					
		2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 June	2007 July
<b>M1</b>	<b>46.0</b>	<b>7.6</b>	<b>6.8</b>	<b>7.0</b>	<b>6.2</b>	<b>6.1</b>	<b>6.9</b>
Currency in circulation	7.3	11.4	11.1	10.5	10.0	9.2	9.2
Overnight deposits	38.7	7.0	6.0	6.3	5.5	5.5	6.4
<b>M2 - M1 (= other short-term deposits)</b>	<b>39.0</b>	<b>9.5</b>	<b>11.1</b>	<b>11.9</b>	<b>13.1</b>	<b>13.9</b>	<b>15.0</b>
Deposits with an agreed maturity of up to two years	20.7	19.7	25.2	29.5	33.2	35.1	37.5
Deposits redeemable at notice of up to three months	18.4	2.4	1.1	-0.8	-2.1	-2.5	-2.9
<b>M2</b>	<b>85.0</b>	<b>8.4</b>	<b>8.7</b>	<b>9.1</b>	<b>9.2</b>	<b>9.5</b>	<b>10.4</b>
<b>M3 - M2 (= marketable instruments)</b>	<b>15.0</b>	<b>6.4</b>	<b>11.3</b>	<b>16.9</b>	<b>19.3</b>	<b>19.8</b>	<b>19.8</b>
<b>M3</b>	<b>100.0</b>	<b>8.1</b>	<b>9.0</b>	<b>10.2</b>	<b>10.6</b>	<b>10.9</b>	<b>11.7</b>
<b>Credit to euro area residents</b>		<b>9.2</b>	<b>8.8</b>	<b>8.0</b>	<b>8.1</b>	<b>8.6</b>	<b>8.7</b>
Credit to general government		-0.9	-3.1	-4.5	-4.3	-3.6	-3.7
Loans to general government		-0.6	-0.4	-1.3	-1.2	-1.3	-0.6
Credit to the private sector		11.9	11.9	11.1	11.0	11.5	11.6
Loans to the private sector		11.2	11.2	10.6	10.5	10.8	10.9
<b>Longer-term financial liabilities (excluding capital and reserves)</b>		<b>8.5</b>	<b>9.0</b>	<b>9.9</b>	<b>10.0</b>	<b>10.3</b>	<b>10.2</b>

Source: ECB.

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

### MAIN COMPONENTS OF M3

In the second quarter of 2007 the annual growth rate of M1 declined to 6.2%, from 7.0% in the previous quarter (quarterly average growth rates calculated on the basis of the average level in the quarter). However, this decline from a quarterly average perspective masks a slight increase in June and a further strengthening, to 6.9%, in July (see Table 1).

With regard to developments in the components of M1, the annual growth rate of currency in circulation declined to 9.2% in July 2007, having stood at 10.0% in the second quarter, which in turn was lower than the 10.5% observed in the previous quarter, suggesting that the impact of the euro cash changeover on the growth of demand for currency may be petering out. By contrast, the annual growth rate of overnight deposits increased to 6.4% in July (partly reflecting a base effect), having stood at 5.5% in the second quarter and 6.3% in the first quarter.

Annual growth in short-term deposits other than overnight deposits has strengthened further over recent months, reaching 15.0% in July 2007, having stood at 13.1% in the second quarter of 2007 and 11.9% in the first quarter of this year (see Chart 7). This development reflects continued strong increases in short-term time deposits (i.e. deposits with an agreed maturity of up to two years), which grew at a rate of 37.5% in July on an annual basis. By contrast, the money-holding sectors have continued to reduce their savings deposits (i.e. deposits redeemable at notice of up to three months) in recent months.

The fact that over recent quarters demand has been stronger for short-term time deposits than for overnight deposits and short-term savings deposits reflects the increasing spreads in the remuneration on these different types of deposit. While the interest rates paid on short-term time deposits have broadly followed the rise in money market rates, the interest rates paid on the other types of short-term deposit have responded less quickly since the end of 2005.



In the context of the still relatively flat yield curve in the euro area, the increase in short-term interest rates is having a general stimulative impact on M3 by fostering speculative demand for monetary assets. This impact is particularly visible in the ongoing strong growth of marketable instruments, which are mostly remunerated at money market rates. In July the annual rate of growth of marketable instruments reached 19.8%, having stood at 19.3% in the second quarter of 2007 and 16.9% in the previous quarter. This increase is attributable largely to a strengthening in the annual growth rate of money market fund shares/units. These instruments are often used as a transitory investment while the adjustment of longer-term asset prices is ongoing. In recent quarters some money market funds have been particularly attractive, as they have outperformed their money market rate benchmarks by investing part of their portfolios in instruments involving credit risk, such as asset-backed securities. In the context of the recent financial market developments, the relative attractiveness of these particular funds may decline, while at the same time more traditional money market funds may accommodate flight-to-safety inflows, as observed in previous episodes of financial market volatility.

An analysis of the sectoral breakdown of monetary growth relies on data for short-term deposits and repurchase agreements (hereafter referred to as “M3 deposits”), the M3 components for which sectoral information is available. The annual growth of aggregate M3 deposits strengthened further in July, following a series of increases in the previous three quarters. The strengthening observed in the second quarter of 2007 reflected an increase in the annual growth rate of M3 deposits held by the non-financial sectors, whereas the increase in July was broadly based across sectors. More specifically, non-financial corporations continued to invest strongly in M3 deposits, with their holdings increasing at an annual rate of 13.7% in July, following 13.1% in the second quarter. The annual growth rate of M3 deposits held by households reached 7.0% in July, having stood at 6.7% in the second quarter. M3 deposits held by non-monetary financial institutions grew at an annual rate of 22.1% in July, following 15.7% in the second quarter. While in July the M3 deposits of non-monetary financial institutions (which may, to some extent, already reflect the impact of recent financial market developments) continued to exhibit the highest and most volatile growth rate within the M3 deposits held by the private sector, those held by households continued to contribute the most to the strong overall rate of growth.

#### **MAIN COUNTERPARTS OF M3**

On the counterparts side, the high rate of money growth continues to be associated with robust growth in MFI credit to euro area residents, which increased to 8.7% in July, having stood at 8.1% and 8.0% in the second and first quarters of 2007 respectively (see Table 1).

Within total MFI credit, credit to general government has continued to decline, reflecting in particular ongoing net sales of government-issued securities. However, as the rate of decline has decreased (reaching 3.7% in July, having stood at 4.3% and 4.5% in the second and first quarters respectively), this has contributed to the strengthening in overall credit growth.

The annual growth rate of credit to the private sector increased to 11.6% in July, after remaining broadly unchanged in the second and first quarters of 2007 (at 11.0% and 11.1% respectively). While the annual growth rate of MFI holdings of private sector securities other than shares increased, the growth rate of MFI holdings of shares and other equity declined. MFI loans remained the main contributor to the strong growth of credit to the private sector, with an annual rate of growth of 10.9% in July 2007, higher than the growth rates recorded in the second and first quarters of 2007 (10.5% and 10.6% respectively). This pattern reflects the dynamics of lending to non-financial corporations. By contrast, the annual growth rate of MFI lending to households

continued to moderate (see Sections 2.6 and 2.7 for sectoral developments in loans to the private sector).

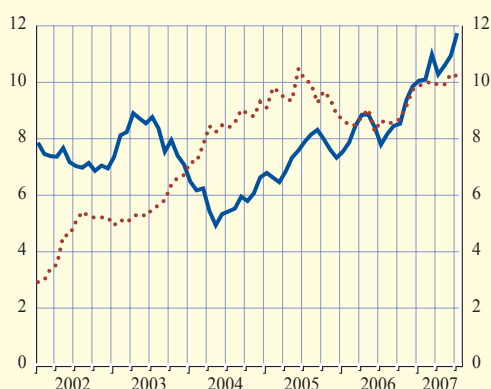
Among the other counterparts of M3, the dynamics of MFI longer-term financial liabilities (excluding capital and reserves) held by the money-holding sector have strengthened over the past few months, with their annual growth rate increasing to 10.2% in July, having stood at 10.0% and 9.9% in the second and first quarters of 2007 respectively (see Chart 8). Looking at the components of these liabilities, the annual growth rate of longer-term deposits continued to moderate in the second quarter of 2007, as the dampening impact of deposit holdings by the non-financial private sector increased. At the same time, the annual growth rate of MFI debt securities issued with a maturity of over two years has remained at a high level in 2007.

The annual flow in the net external asset position of the MFI sector, the growth of which explained most of the strengthening in M3 dynamics at the end of 2006 and the start of 2007, moderated over the course of the second quarter, reflecting negative monthly flows. However, this pattern was reversed in July, when the annual flow increased to €282 billion (following a monthly inflow of €25 billion), from €262 billion in June (see Chart 9). The developments in the net external asset position in July were, on the counterparts side, the main driver behind the rise in the annual growth rate of M3 in that month. Evidence from the monetary presentation of the balance of payments (available up to June) suggests that the strong annual inflows observed since end-2006 have generally resulted from stronger investment by non-residents in euro area assets, reflecting a continuation of non-resident investors' positive perception of investment prospects in the euro area.

**Chart 8 M3 and MFI longer-term financial liabilities (excluding capital and reserves)**

(annual percentage changes; adjusted for seasonal and calendar effects)

- M3
- ..... longer-term financial liabilities (excluding capital and reserves)

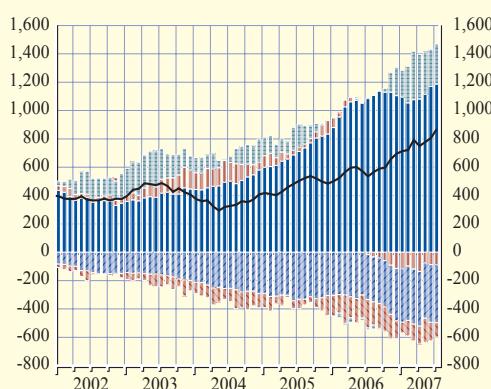


Source: ECB.

**Chart 9 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.

Overall, the latest data (i.e. up to July 2007) confirm that rises in key ECB interest rates since December 2005 have influenced monetary developments. They also confirm that underlying monetary dynamics remain strong. In this respect, the robust growth of both M3 and credit reflects to a large extent the strength of economic activity and the favourable financing conditions that prevailed until the end of July. This assessment still holds when taking into account the effect that the flat yield curve has had on portfolio decisions in past quarters and any possible impact of the most recent financial market developments.

### GENERAL ASSESSMENT OF MONETARY LIQUIDITY CONDITIONS IN THE EURO AREA

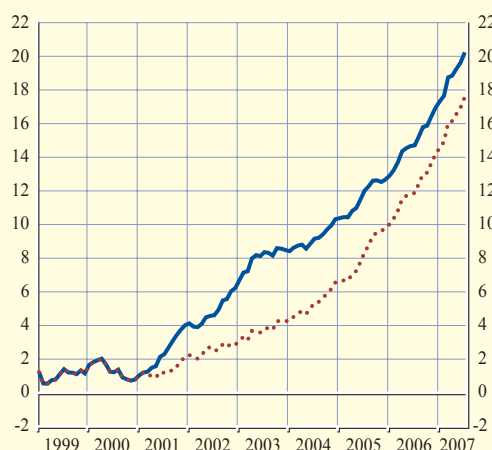
The strong dynamics of M3 in 2007 have led to a further accumulation of monetary liquidity in the euro area, as reflected in developments in the nominal and real money gaps. Chart 10 shows the evolution of the nominal money gap, on the basis of both official M3 data and the M3 series corrected for the estimated impact of portfolio shifts. (Note that monetary liquidity as reviewed here is distinct from the financial market liquidity discussed in subsequent sections.)

Real money gaps take into account the fact that part of the accumulated liquidity has been absorbed by higher prices, reflecting the fact that inflation has deviated upwards from the ECB's definition of price stability. The real money gaps constructed on the basis of the official M3 series and the measure of M3 corrected for the estimated impact of portfolio shifts are both lower than the respective nominal money gap measures (see Charts 10 and 11).

**Chart 10 Estimates of the nominal money gap<sup>1)</sup>**

(as a percentage of the stock of M3; adjusted for seasonal and calendar effects; December 1998 = 0)

— nominal money gap based on official M3  
 ..... nominal money gap based on M3 corrected for the estimated impact of portfolio shifts<sup>2)</sup>



Source: ECB.

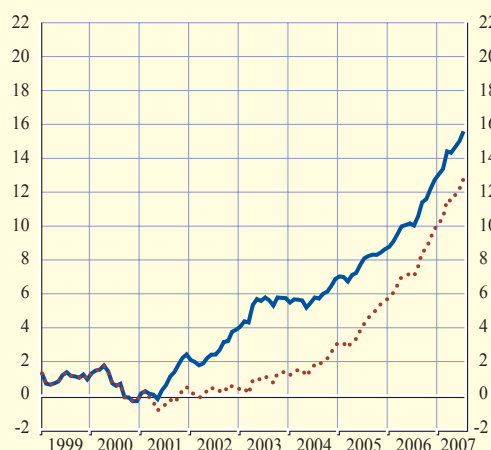
1) The measure of the nominal money gap is defined as the difference between the actual level of M3 and the level of M3 that would have resulted from constant M3 growth at its reference value of 4½% since December 1998 (taken as the base period).

2) Estimates of the magnitude of portfolio shifts into M3 are constructed using the general approach discussed in Section 4 of the article entitled "Monetary analysis in real time" in the October 2004 issue of the Monthly Bulletin.

**Chart 11 Estimates of the real money gap<sup>1)</sup>**

(as a percentage of the stock of real M3; adjusted for seasonal and calendar effects; December 1998 = 0)

— real money gap based on official M3  
 ..... real money gap based on M3 corrected for the estimated impact of portfolio shifts<sup>2)</sup>



Source: ECB.

1) The measure of the real money gap is defined as the difference between the actual level of M3 deflated by the HICP and the deflated level of M3 that would have resulted from constant nominal M3 growth at its reference value of 4½% and HICP inflation in line with the ECB's definition of price stability, taking December 1998 as the base period.

2) Estimates of the magnitude of portfolio shifts into M3 are constructed using the general approach discussed in Section 4 of the article entitled "Monetary analysis in real time" in the October 2004 issue of the Monthly Bulletin.

These mechanical measures provide only imperfect estimates of the liquidity situation and should thus be treated with caution. This uncertainty is illustrated, to some extent at least, by the broad range of estimates derived from the four measures presented above. Nonetheless, the overall assessment on the basis of these measures – and particularly that derived from a broad monetary analysis geared towards identifying the underlying growth of M3 – is that monetary liquidity conditions in the euro area are ample. Strong monetary and credit growth in a context of ample monetary liquidity imply upside risks to price stability over the medium to longer term, particularly in an environment of robust economic activity.

## 2.2 FINANCIAL INVESTMENT OF THE NON-FINANCIAL SECTORS AND INSTITUTIONAL INVESTORS

*In the first quarter of 2007 the annual growth rate of financial investment by the non-financial sectors remained unchanged, reflecting broadly stable contributions across the individual sub-sectors. The dynamics of financial investment by institutional investors moderated somewhat in the first quarter of 2007.*

### NON-FINANCIAL SECTORS

In the first quarter of 2007 (the most recent quarter for which data are available from the quarterly euro area sector accounts) the annual growth rate of total financial investment by the non-financial sectors remained unchanged at 4.7% (see Table 2). This masks divergent developments across instruments. The annual growth rate of investment in debt securities decreased strongly, following successive increases in the previous four quarters. The annual growth rate of investment in insurance and pension products also decreased, continuing a deceleration that started in the first quarter of 2006. The more moderate investment dynamics in these asset classes were offset by the higher annual growth rate of investment in shares, although the level of this growth rate remained

Table 2 Financial investment of the euro area non-financial sectors

	Outstanding amount as a percentage of financial assets <sup>1)</sup>	Annual growth rates									
		2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1
<b>Financial investment</b>	<b>100</b>	<b>3.9</b>	<b>4.0</b>	<b>3.8</b>	<b>4.0</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>	<b>4.7</b>
Currency and deposits	22	5.6	5.6	5.7	5.5	6.5	6.6	6.6	7.3	7.1	7.2
Debt securities, excl. financial derivatives	6	2.0	2.8	1.9	1.0	0.5	2.9	3.9	5.7	7.3	5.0
<i>of which:</i> short-term	1	3.1	-6.6	-10.1	-4.1	-12.2	12.4	13.1	21.7	40.3	24.9
<i>of which:</i> long-term	5	1.9	3.8	3.2	1.6	1.6	2.2	3.2	4.4	5.0	3.3
Shares and other equity, excl. mutual fund shares	34	1.8	2.0	2.0	2.9	2.6	2.2	2.5	1.9	2.0	2.4
<i>of which:</i> quoted shares	10	1.0	0.9	-0.5	-1.3	1.0	-0.8	0.8	1.8	0.7	1.4
<i>of which:</i> unquoted shares and other equity	23	2.1	2.4	3.0	4.6	3.3	3.5	3.2	1.9	2.6	2.8
Mutual fund shares	7	1.6	1.7	2.2	3.8	4.6	3.3	2.0	0.0	-1.0	-0.8
Insurance technical reserves	15	7.0	7.0	7.1	7.3	7.6	7.5	7.0	6.6	6.0	5.5
Other <sup>2)</sup>	16	4.1	4.0	2.8	2.1	4.2	5.2	6.1	7.7	7.1	7.6
M3 <sup>3)</sup>		6.6	6.5	7.6	8.3	7.3	8.5	8.4	8.5	9.9	11.0

Source: ECB.

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

2) Other financial assets comprise loans, financial derivatives and other accounts receivable, which in turn include, inter alia, trade credit granted by non-financial corporations.

3) End of quarter. The monetary aggregate M3 includes monetary instruments held by euro area non-MFIs (i.e. the non-financial sectors and non-monetary financial institutions) with euro area MFIs and central government.



somewhat below that of the other investment categories. The annual growth rate of investment in currency and deposits remained broadly unchanged; this asset class continues to be the main contributor to the non-financial sectors' financial investment dynamics.

The breakdown of total financial investment by institutional sector indicates that the stable annual growth rate of total financial investment in the first quarter of 2007 reflects broadly stable contributions from the individual sub-sectors (see Chart 12). Non-financial corporations and households jointly accounted for 4.6 percentage points of the annual 4.7% increase. The annual growth rate of financial investment by non-financial corporations continued to exceed that of households and general government (see Sections 2.6 and 2.7 for more details regarding sectoral developments in financial investment by the private sector).

#### INSTITUTIONAL INVESTORS

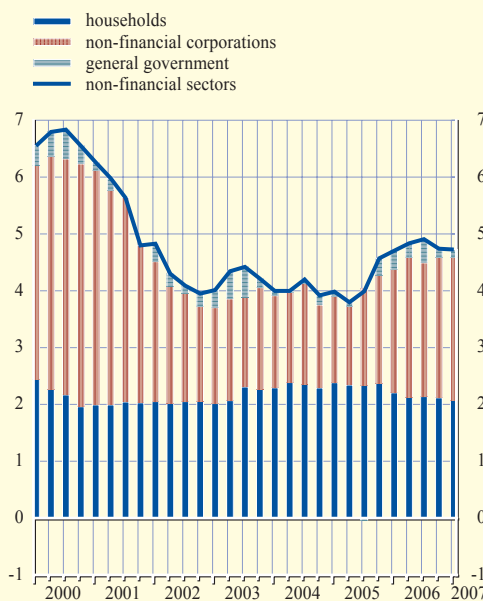
The annual growth rate of the total assets of investment funds (excluding money market funds) in the euro area declined to 9.9% in the first quarter of 2007, from 15.9% in the previous quarter. This decline was broadly based across all types of investment in the portfolios of investment funds. It was particularly pronounced in the case of shares, for which the annual growth rate declined to below 10%, from 20% in the previous quarter.

Data provided by EFAMA<sup>2</sup> show not only that the annual growth rate of the value of the total assets of investment funds (which is influenced by valuation effects) declined, but also that net annual flows into investment funds (excluding money market funds) fell back significantly in the first quarter of 2007. Although all types of fund recorded lower annual inflows, the decline was most pronounced in the case of equity funds (which fell to a level not observed since mid-2003). Mixed funds continued to record the largest annual inflows among the different investment fund categories, possibly reflecting the environment of increased stock market volatility and the flat yield curve, which made investments in outright equity or bond funds less attractive. The flat yield curve also explains the rising annual inflows into money market funds recorded in the second half of 2006 and the first quarter of 2007 (see Chart 13).

The annual growth rate of total financial investment by insurance corporations and pension funds in the euro area declined to 6.2% in the first quarter of 2007, from 6.7% in the previous quarter (see Chart 14). This mirrored the declining growth rate of investment by the non-financial sectors in insurance and pension products and was essentially driven by the lower contributions of

**Chart 12 Financial investment of non-financial sectors**

(annual percentage changes; contributions in percentage points)



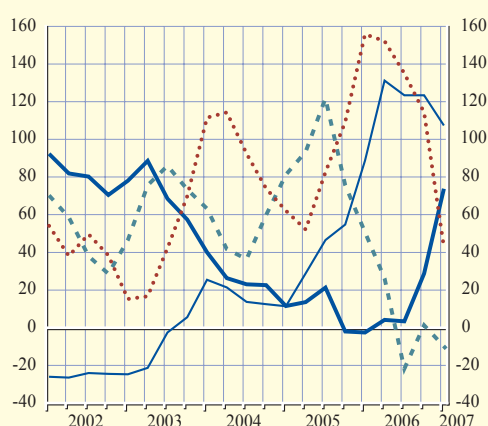
Source: ECB.

2 The European Fund and Asset Management Association (EFAMA) provides information on net sales (or net inflows) of publicly offered open-ended equity and bond funds for Germany, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. See the box entitled "Recent developments in the net flows into euro area equity and bond funds" in the June 2004 issue of the Monthly Bulletin for further information.

**Chart 13 Net annual flows into investment funds (by category)**

(EUR billions)

- money market funds
- ... equity funds <sup>1)</sup>
- - - bond funds <sup>1)</sup>
- mixed funds <sup>1)</sup>



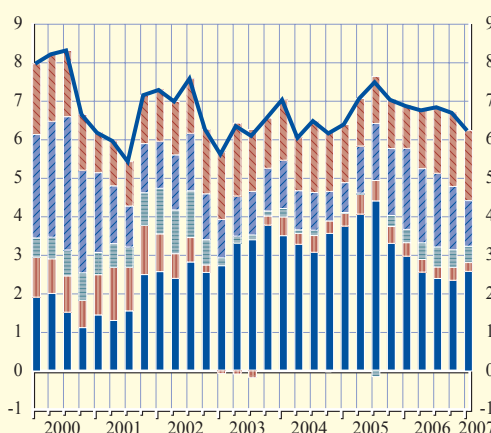
Sources: ECB and EFAMA.

<sup>1)</sup> ECB calculations on the basis of national data provided by EFAMA.

**Chart 14 Financial investment of insurance corporations and pension funds**

(annual percentage changes; contributions in percentage points)

- debt securities, excluding financial derivatives
- ... quoted shares
- - - unquoted shares and other equity
- mutual fund shares
- ... other <sup>1)</sup>
- total financial assets



Source: ECB.

<sup>1)</sup> Includes loans, deposits, insurance technical reserves, other accounts receivable and financial derivatives.

investment in mutual fund shares and, albeit to a much more limited extent, investment in quoted and unquoted shares. By contrast, the contribution of debt securities increased slightly in the first quarter of 2007, for the first time since mid-2005.

### 2.3 MONEY MARKET INTEREST RATES

*Between the beginning of June and the beginning of September 2007 market expectations regarding the future evolution of short-term interest rates – as reflected in EONIA swap rates – decreased. At the same time, following the turbulence seen in money markets in August, the spread between unsecured and secured money market rates at three-month and longer maturities widened. These spreads remained elevated at the start of September.*

Unsecured money market interest rates rose between the beginning of June and the beginning of September 2007, particularly in the context of the market turbulence observed in August. On 5 September the one-month, three-month, six-month and twelve-month EURIBOR rates stood at 4.49%, 4.76%, 4.79% and 4.81% respectively, i.e. 46, 63, 54 and 34 basis points higher than the levels observed at the beginning of June.

The spread between the twelve-month and the one-month EURIBOR was 31 basis points on 5 September, compared with 43 basis points on 1 June (see Chart 15). However, the slope of the money market yield curve established on this basis should be interpreted with some caution, because developments in spreads between unsecured EURIBOR rates and secured rates (such as EUREPO, an index for the rates on private sector repurchase agreements) were exceptional during

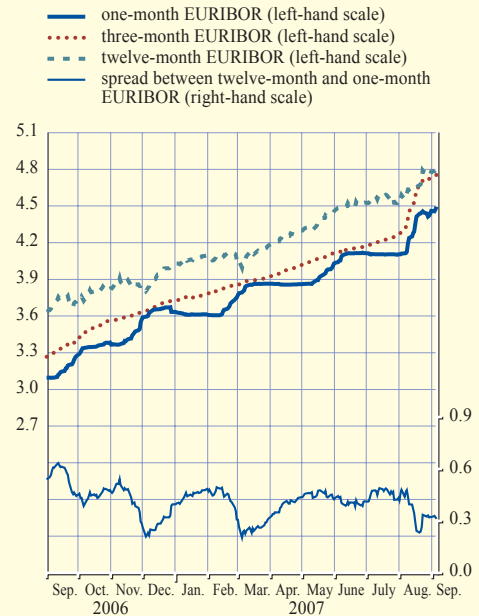
the reference period by historical standards, owing to the turbulence seen in money markets in August.

Indeed, market participants' expectations for interest rates at very short-term maturities over the course of 2007 and 2008 were adjusted downwards between the beginning of June and the beginning of September, as reflected in the evolution of EONIA swap rates (see Chart 16). This is not reflected in the developments in three-month EURIBOR futures contracts because the spread between deposit rates and the corresponding EONIA swap rates increased significantly.

The interest rates implied by the three-month EURIBOR futures contracts maturing in September 2007, December 2007, March 2008 and June 2008 stood at 4.68%, 4.53%, 4.35% and 4.27% respectively on 5 September 2007. For the September 2007 contract, this implies a rate 31 basis points higher than at the beginning of June, while for the December 2007, March

**Chart 15 Money market interest rates**

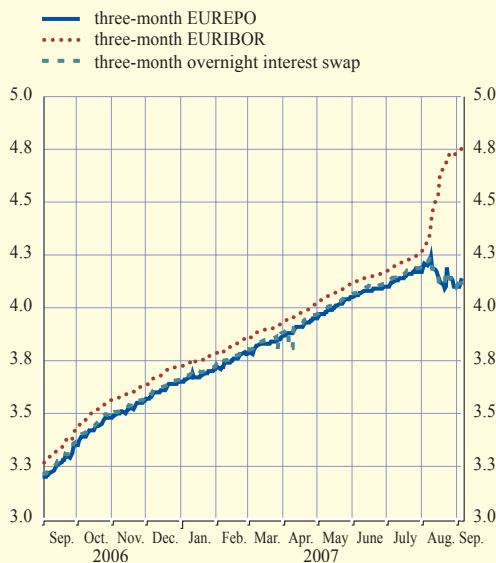
(percentages per annum; daily data)



Sources: ECB and Reuters.

**Chart 16 Three-month EUREPO, EURIBOR and overnight interest swap**

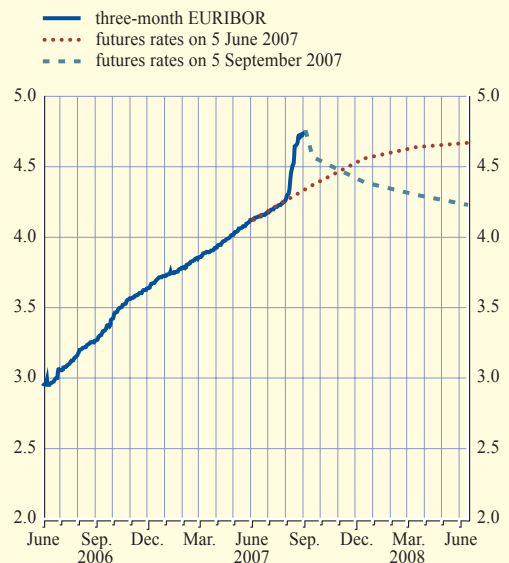
(percentages per annum; daily data)



Sources: ECB and Reuters.

**Chart 17 Three-month interest rates and futures rates in the euro area**

(percentages per annum; daily data)

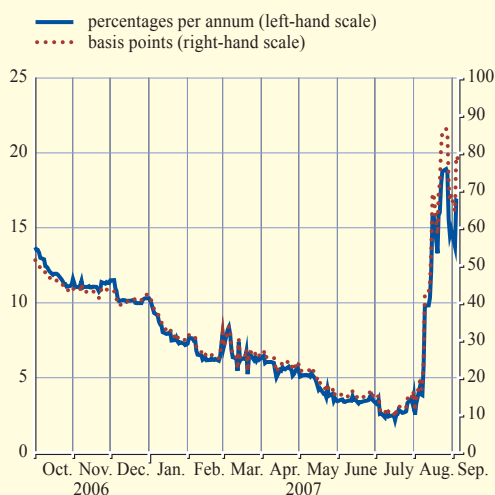


Source: Reuters.

Note: Three-month futures contracts for delivery at the end of the current and next three quarters as quoted on Liffe.

**Chart 18 Implied volatility derived from options on three-month EURIBOR futures maturing in September 2007**

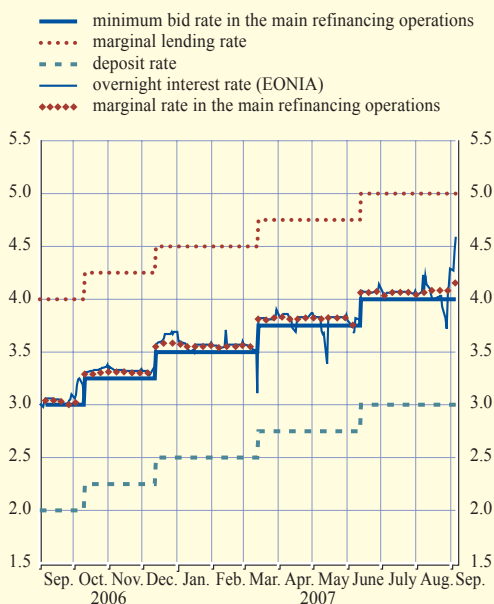
(percentages per annum; basis points; daily data)



Sources: Bloomberg, Reuters and ECB calculations.  
Note: The basis point measure is obtained as the product of implied volatility in percentages and the corresponding interest rate (see also the box entitled “Measures of implied volatility derived from options on short-term interest rate futures” in the May 2002 issue of the Monthly Bulletin).

**Chart 19 ECB interest rates and the overnight interest rate**

(percentages per annum; daily data)



Sources: ECB and Reuters.

2008 and June 2008 contracts, the implied rates are 3, 29 and 40 basis points lower (see Chart 17).

As regards indicators of uncertainty about money market developments, the implied volatility derived from options on three-month EURIBOR futures decreased further between the beginning of June and mid-July. It then increased, with the increase becoming significantly stronger during August in the context of the market turbulence (see Chart 18). The levels of implied volatility observed at the beginning of September 2007 are the highest for four years and are comparable to those prevailing in 2003.

In June 2007 interest rates rose at the very short end of the money market curve following the decision, taken on 6 June, to increase key ECB interest rates by 25 basis points (see Chart 19). Between the beginning of June and early August interest rate conditions in the money market were relatively stable, with the spread between the EONIA and the minimum bid rate in the Eurosystem’s main refinancing operations (MROs) standing at levels of between 6 and 7 basis points. The only exception was the last operation of the July reserve maintenance period. In order to continue fostering smooth liquidity conditions in the money market, in June and July the ECB maintained its policy of allotting slightly more than the benchmark amount in the Eurosystem’s MROs (see Box 2).

Box 2

**LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 15 MAY TO 7 AUGUST 2007**

This box describes the ECB's liquidity management during the three reserve maintenance periods ending on 12 June, 10 July and 7 August 2007 respectively.

**Liquidity needs of the banking system**

During the period under review banks' liquidity needs increased by €16.7 billion. This was a result of autonomous factors rising by €9.7 billion and reserve requirements increasing by €7 billion. Reserve requirements and autonomous factors averaged €188.3 billion and €254.5 billion respectively over that period. On 3 August banknotes in circulation, the most prominent autonomous factor, reached the highest level observed since the start of Stage Three of EMU (€645 billion).

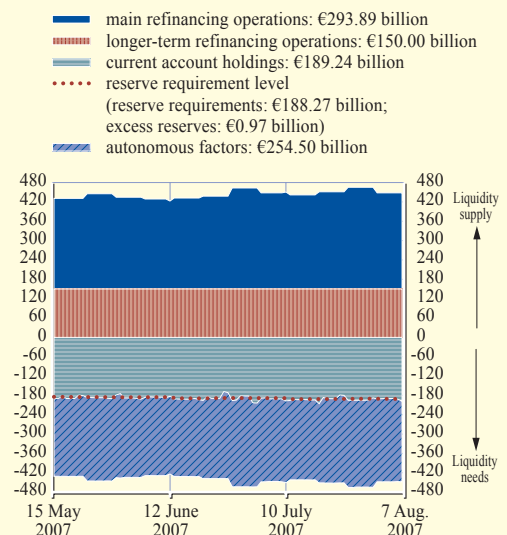
Over the period under review the level of daily average excess reserves (i.e. the daily average of current account holdings in excess of reserve requirements) was somewhat higher than usual. Excess reserves averaged €0.92 billion in the reserve maintenance period ending on 12 June and €1.2 billion in the reserve maintenance period ending on 10 July. They declined, however, to an average level of €0.74 billion in the reserve maintenance period ending on 7 August (see Chart B).

**Liquidity supply and interest rates**

Reflecting the increase in liquidity needs, the volume of open market operations increased during the period under review (see Chart A). Liquidity provided via the main refinancing operations (MROs) averaged €293.9 billion. The ratio between bids submitted by counterparties and satisfied bids (the bid-cover ratio) in the MROs ranged between 1.08 and 1.31, with an average of 1.23 over the review period.

**Chart A Liquidity needs of the banking system and liquidity supply**

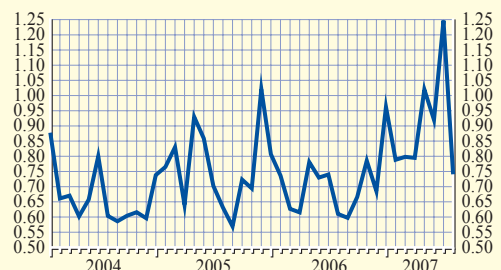
(EUR billions; daily averages for the whole period are shown next to each item)



Source: ECB.

**Chart B Excess reserves <sup>1)</sup>**

(EUR billions; average level in each maintenance period)



Source: ECB.

<sup>1)</sup> Banks' current account holdings in excess of reserve requirements.

Liquidity provided through longer-term refinancing operations remained unchanged at €150 billion in the period under review.

### Reserve maintenance period ending on 12 June

The ECB allotted €1 billion above the benchmark amount in all four MROs of the reserve maintenance period. The average spread between the EONIA (euro overnight index average) and the MRO minimum bid rate was 5 basis points, thus slightly lower than the historical average. The first two MROs of the period produced marginal and weighted average MRO rates of 3.82%, with the EONIA remaining stable at 3.83%. In the third tender, the marginal MRO rate remained unchanged, whereas the weighted average MRO rate increased to 3.83%. The EONIA rose slightly to 3.85% on 31 May owing to the usual end-of-month effect. In the following days the EONIA gradually declined to a level slightly below the minimum bid rate. Also in the light of this development, the final MRO of the reserve maintenance period produced marginal and weighted average rates of 3.75% and 3.77% respectively.

The EONIA fell to 3.68% following the allotment of the last MRO of the reserve maintenance period, before stabilising at around 3.80% before the end of the reserve maintenance period.

On the last day of the reserve maintenance period the ECB absorbed an expected liquidity surplus of €6 billion by means of a fine-tuning operation. The reserve maintenance period ended with net recourse to the marginal lending facility totalling €0.7 billion and the EONIA standing at 3.79%.

### Reserve maintenance period ending on 10 July

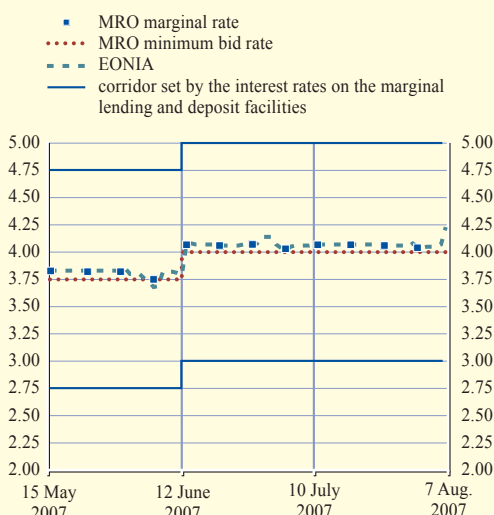
On 6 June the Governing Council of the ECB decided to increase the key ECB interest rates (the minimum bid rate and the rates on the deposit and marginal lending facilities), raising them by 25 basis points to 4%, 3% and 5% respectively. This change was effective as of 13 June, the first day of the subsequent reserve maintenance period.

The policy of allotting €1 billion above the benchmark amount was maintained for all four MROs of this reserve maintenance period. The spread between the EONIA and the MRO minimum bid rate averaged 7 basis points across the reserve maintenance period as a whole.

The first two weeks of that period saw the weighted average rate in the MROs standing at 4.07%, with the marginal rate standing at 4.06%. The EONIA remained stable between 4.06%

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.



and 4.08% during those first two weeks. In the following MRO both the weighted average rate and the marginal rate increased by 1 basis point, to 4.08% and 4.07% respectively. On 29 June the EONIA peaked at 4.14% for this reserve maintenance period on account of the usual end-of-month effect. The marginal and weighted average rates were lower for the final MRO of the reserve maintenance period, at 4.03% and 4.05% respectively. The EONIA declined in the days following that allotment and reached 4.01%, before stabilising at 4.06% on 6 July. The ECB conducted a fine-tuning operation to withdraw €2.5 billion of liquidity on the last day of the reserve maintenance period. The fine-tuning operation was oversubscribed (with bids totalling €17.4 billion from 18 counterparties), and the reserve maintenance period ended with net recourse to the marginal lending facility totalling €0.4 billion and the EONIA standing at 4.07%.

#### **Reserve maintenance period ending on 7 August**

As in the previous maintenance period, the ECB allotted €1 billion above the benchmark amount in all MROs, and the average spread between the EONIA and the MRO minimum bid rate stood at 7 basis points. The first two weeks of that period saw marginal and weighted average MRO rates of 4.06% and the EONIA stable at 4.07%, while in the third week the weighted average MRO rate rose to 4.07%. The EONIA increased to 4.08% on 31 July owing to the usual end-of-month effect. The marginal and weighted average rates stood at 4.04% and 4.06% respectively in the last MRO of the reserve maintenance period, while the EONIA declined slightly to 4.05%, before returning to its previous level of 4.07% on the penultimate day of the maintenance period. A fine-tuning operation was not necessary on the last day of the reserve maintenance period, given that net recourse to the marginal lending facility totalled €0.4 billion and the EONIA stood at 4.23%.

However, the reserve maintenance period starting on 8 August has been characterised by a significant increase in money market volatility. On 9 August tensions in the overnight money market – which resulted in the intraday overnight rate rising to elevated levels of around 4.60% – led the ECB to conduct a number of fine-tuning operations in the following days. These developments are described in Box 3.

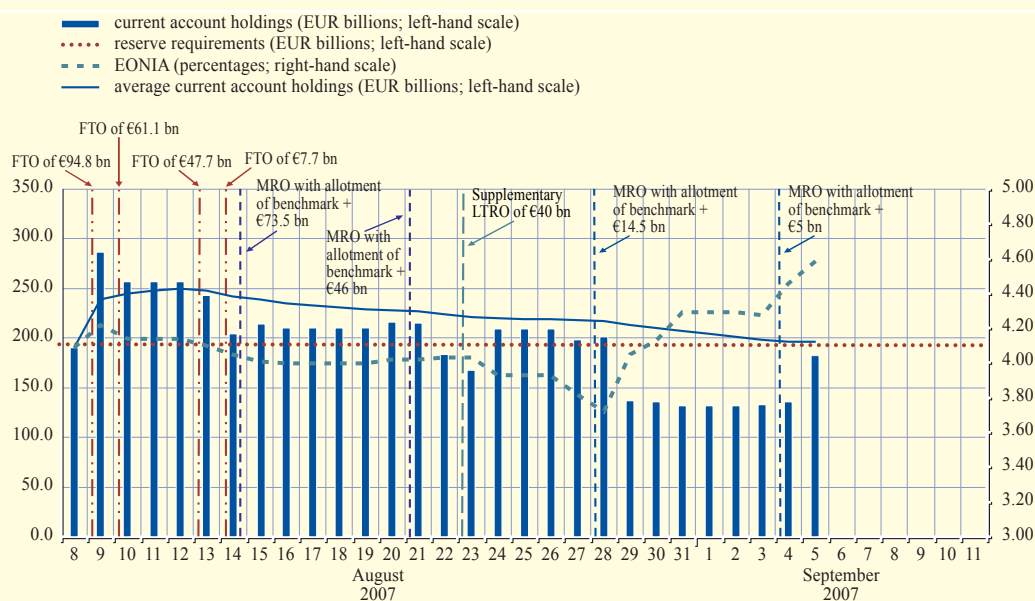
#### **Box 3**

##### **THE ECB'S ADDITIONAL OPEN MARKET OPERATIONS IN THE PERIOD FROM 8 AUGUST TO 5 SEPTEMBER 2007**

In order to reduce the tensions observed in the money market in the period from 8 August to 5 September, the ECB carried out additional liquidity-providing open market operations over and above the pre-scheduled operations. This box outlines the developments in the money market during that period and describes the ECB's operational actions (see table).

On the morning of 9 August a dislocation of the money market took place, characterised by a very small trading volume and a sudden increase in short-term money market rates. Banks' demand for current account holdings with the Eurosystem had temporarily increased as a result

Current account holdings and the EONIA in the maintenance period from 8 August to 11 September 2007



Source: ECB.

of tensions in some segments of the US dollar-denominated money market. In order to foster orderly conditions in the short-term money market, the ECB conducted a fine-tuning operation (FTO) with same-day settlement and overnight maturity. The operation was conducted as a fixed rate tender at 4.00% (the prevailing level of the minimum bid rate) and with pre-announced full allotment. This tender specification allowed the ECB to inject an amount of liquidity matching counterparties' demand, which the ECB could not easily quantify by means of its regular liquidity analysis. 49 banks submitted bids in this fine-tuning operation for a total amount of €94.8 billion.<sup>1</sup> The overnight rate normalised rapidly and was quoted at around 4.05% for the rest of the day (see chart). However, the bid-offer spread in the overnight market remained elevated at 10 basis points (by comparison with a normal spread of 5 basis points) in the context of continued subdued turnover.

On the morning of 10 August the ECB again conducted an overnight fine-tuning operation. This was conducted in accordance with the tender procedure normally used in the Eurosystem's MROs, namely a variable rate tender procedure with a minimum bid rate and without a pre-announced allotment amount. The change of tender procedure reflected the assessment that the operation on the previous day had had the intended impact on market tensions and that a demand schedule in which counterparties posted the rates they were willing to pay to obtain finance from the Eurosystem could reveal useful information on the banking system's demand for liquidity. 62 counterparties bid for a total amount of €110 billion at interest rates varying from 4.00% to 4.15%. The ECB decided to allot liquidity to all bids at or above 4.05%

<sup>1</sup> The fact that the additional operations of the Eurosystem were larger than those conducted by other central banks on these days mainly reflects the much larger size of the reserve requirements (together with the averaging provision) in the euro area. The larger the reserve requirements, the easier it is for banks to absorb temporary supply and demand shocks related to liquidity. However, this also implies that larger temporary liquidity injections are needed in order to have a certain effect on short-term interest rates.

## Summary of the ECB's actions in the period from 8 August to 5 September 2007

Date	Time	Action	Communication	Operational details	
9 Aug.	10.15 a.m.	Communication on news wire services	"The ECB notes that there are tensions in the euro money market, notwithstanding the normal supply of aggregate euro liquidity. The ECB is closely monitoring the situation and stands ready to act to assure orderly conditions in the euro money market."		
9 Aug.	12.30 p.m.	Announcement of fine-tuning operation at 4.00% with full allotment	"Following the communication given earlier this morning on the ECB page "Announcements on operational aspects", this liquidity-providing fine-tuning operation aims to assure orderly conditions in the euro money market. The ECB intends to allot 100% of the bids it receives."	Maturity: Amount allotted: Fixed rate: Number of bidders: Number of bids: Bid-cover ratio:	overnight €94.8 billion 4.00% 49 49 1.00
10 Aug.	9.20 a.m.	Communication on news wire services	"The ECB continues to closely monitor the conditions in the euro money market."		
10 Aug.	10.15 a.m.	Announcement of fine-tuning operation, conducted as a variable rate tender with a minimum bid rate and without a pre-announced allotment amount	"This liquidity-providing fine-tuning operation follows up on yesterday's operation and aims to assure orderly conditions in the euro money market."	Maturity: Amount allotted: Marginal rate: Weighted average rate: Number of bidders: Number of bids: Bid-cover ratio:	overnight €61.1 billion 4.05% 4.08% 62 124 1.80
13 Aug.	9.15 a.m.	Communication on news wire services	"The ECB continues to closely monitor the conditions in the euro money market."		
13 Aug.	9.30 a.m.	Announcement of fine-tuning operation, conducted as a variable rate tender with a minimum bid rate and without a pre-announced allotment amount	"The ECB notes that money market conditions are normalising and that the supply of aggregate liquidity is ample. With this fine-tuning operation, the ECB is further supporting the normalisation of conditions in the money market."	Maturity: Amount allotted: Marginal rate: Weighted average rate: Number of bidders: Number of bids: Bid-cover ratio:	overnight €47.7 billion 4.06% 4.07% 59 103 1.77
13 Aug.	3.30 p.m.	Announcement of main refinancing operation <sup>1)</sup>	"In this refinancing operation, the ECB aims to ensure the continued normalisation of money market conditions. The allotment amount will be consistent with this aim and will not be bound by the published benchmark allotment amount."	Maturity: Amount allotted: (above benchmark) Marginal rate: Weighted average rate: Number of bidders: Number of bids: Bid-cover ratio:	1 week €310 billion (€73.5 billion) 4.08% 4.10% 344 628 1.38
14 Aug.	9.15 a.m.	Communication on news wire services	"The ECB continues to closely monitor the conditions in the euro money market."		
14 Aug.	9.30 a.m.	Announcement of fine-tuning operation, conducted as a variable rate tender with a minimum bid rate and without a pre-announced allotment amount	"The ECB notes that money market conditions are now close to normal. However, with this fine-tuning operation the ECB is still offering the opportunity to cover any remaining liquidity needs ahead of the settlement of this week's MRO tomorrow."	Maturity: Amount allotted: Marginal rate: Weighted average rate: Number of bidders: Number of bids: Bid-cover ratio:	overnight €7.7 billion 4.07% 4.07% 41 67 5.97
20 Aug.	3.30 p.m.	Announcement of main refinancing operation <sup>1)</sup>	"Consistently with the normalisation of conditions on the shortest term of the money market, the ECB intends to gradually reduce the large reserve surplus which has accumulated in the first weeks of this reserve maintenance period. The allotment amount in this main refinancing operation will exceed the published benchmark of €227 billion by an amount which is consistent with this aim."	Maturity: Amount allotted: (above benchmark) Marginal rate: Weighted average rate: Number of bidders: Number of bids: Bid-cover ratio:	1 week €275 billion (€46 billion) 4.08% 4.09% 355 635 1.60

Summary of the ECB's actions in the period from 8 August to 5 September 2007 (cont'd)

Date	Time	Action	Communication	Operational details
22 Aug.	3.30 p.m.	Announcement of supplementary longer-term refinancing operation <sup>2)</sup>	<p>“Today the European Central Bank’s Governing Council has decided to conduct a supplementary liquidity-providing longer-term refinancing operation with a maturity of three months for an amount of €40 billion.</p> <p>This operation is a technical measure aimed at supporting the normalisation of the functioning of the euro money market. It is conducted in addition to the regular monthly longer-term refinancing operations, which remain unaffected. The allotment amounts in the main refinancing operations will offset this provision of liquidity, taking into consideration the overall liquidity conditions. Today’s decision was taken by written procedure.</p> <p>The position of the Governing Council of the ECB on its monetary policy stance was expressed by its President on 2 August 2007.”</p>	<p>Maturity: 3 months            Amount allotted: €40 billion            Marginal rate: 4.49%            Weighted average rate: 4.61%            Number of bidders: 146            Number of bids: 411            Bid-cover ratio: 3.14</p>
27 Aug.	3.30 p.m.	Announcement of main refinancing operation <sup>1)</sup>	<p>“Consistently with the ongoing normalisation of conditions on the short term of the money market, the ECB continues to aim at gradually reducing the large reserve surplus which has accumulated in the last weeks. Accordingly, the allotment amount in this main refinancing operation will exceed the published benchmark of €194 billion by an amount which is consistent with this aim.”</p>	<p>Maturity: 1 week            Amount allotted: €210 billion (above benchmark)            Marginal rate: 4.08%            Weighted average rate: 4.09%            Number of bidders: 320            Number of bids: 578            Bid-cover ratio: 1.68</p>
3 Sep.	3.30 p.m.	Announcement of main refinancing operation <sup>1)</sup>	<p>“The ECB continues to aim at gradually reabsorbing the large reserve surplus which has accumulated in the last weeks. Accordingly, the allotment amount in this main refinancing operation will slightly exceed the published benchmark of €251 billion by an amount which is consistent with this aim.”</p>	<p>Maturity: 1 week            Amount allotted: €256 billion (€5 billion above benchmark)            Marginal rate: 4.15%            Weighted average rate: 4.19%            Number of bidders: 356            Number of bids: 746            Bid-cover ratio: 1.67</p>
5 Sep.	3.10 p.m.	Communication on news wire services	<p>“Volatility in the euro money market has increased and the ECB is closely monitoring the situation. Should this persist tomorrow, the ECB stands ready to contribute to orderly conditions in the euro money market.”</p>	

1) Main refinancing operations are conducted as variable rate tenders with a minimum bid rate.

2) Longer-term refinancing operations are conducted as pure variable rate tenders with a pre-announced allotment amount.

(€61.1 billion, roughly two-thirds of the value of the previous day’s operation), one basis point lower than the marginal MRO rate in the regular tender which had been settled on 8 August. The EONIA stood at 4.14% on that day.

On the morning of 13 August the overnight rate was quoted at a level 10 basis points above the minimum bid rate, but the money market was still characterised by elevated bid-offer spreads and subdued turnover. The ECB conducted another fine-tuning operation with a specification similar to that of the previous day. 59 counterparties bid for a total amount of €84 billion at interest rates varying from 4.00% to 4.10%. The ECB decided to allot liquidity to all bids at or above 4.06% (€47.7 billion), one basis point higher than in the previous operation. The fact that the EONIA stood at 4.10% on that day confirmed that conditions at the shortest end of the money market were, at that point in time, improving.

On the morning of 14 August the ECB decided to launch a further overnight fine-tuning operation to address additional liquidity needs possibly arising from the fact that the main refinancing operation allotted on the same day would not settle until the next day. The fine-tuning operation was once again conducted as a variable rate tender with a minimum bid rate and without a pre-announced allotment amount. 41 counterparties bid for a total amount of €46 billion, with bids ranging from 4.00% to 4.09%. The fact that the bid amount and bid rates were significantly lower showed that the demand for current account holdings with the Eurosystem was, at that point in time, normalising. The ECB decided to allot liquidity to all bids at or above 4.07% (€7.7 billion), one basis point higher than in the previous operation.

In addition to that fine-tuning operation, the ECB decided to allot €73.5 billion above the benchmark amount in the regular main refinancing operation on 14 August. This allotment sought to prevent the outflows in credit institutions' current account holdings which would have resulted from allotting the "mechanical" benchmark amount. By definition, allotting the benchmark amount would, within just one week, have led to the absorption of the large reserve surplus resulting from the fine-tuning operations and could possibly have increased market tensions. Following the allotment above the benchmark amount, the overnight rates in the euro area stood at around 4.00%, as also reflected in the EONIA, which stood between 4.00% and 4.02% over the next few days.

Given the temporary improvement at the shortest end of the money market, the ECB decided to progressively reduce the large reserve surpluses that had been accumulating in the first weeks of the maintenance period. Consequently, in the MROs on 21 and 28 August, it reduced the amount by which the allotment exceeded the "mechanical" benchmark to €46 billion and €14.5 billion respectively.

Notwithstanding the smooth functioning of the shortest end of the money market during that week, tensions continued to be observed at longer maturities, for which turnover remained very low. In order to support the normalisation also of the longer-term segment of the money market, the ECB decided on 22 August to conduct a supplementary longer-term refinancing operation (LTRO), in the form of a pure variable rate tender with a three-month maturity for an amount of €40 billion. 146 counterparties bid for a total amount of €126 billion, with bids ranging from 3.80% to 5.00%. Notwithstanding this operation, which was settled on 24 August, tensions remained in the longer-term segment of the money market.

On 30 August the overnight rate started to rise again, partly because of the usual tensions observed at the shortest end of the money market at the end of the month. The EONIA stood at 4.29% on 31 August and declined only slightly on the following business day. Given the continuing tensions in the overnight market, the ECB decided on 4 September to allot €5 billion above the "mechanical" benchmark in the last MRO of the maintenance period, even though the end of the maintenance period, at which point the ECB usually seeks to achieve balanced liquidity conditions, was approaching. Nevertheless, the EONIA stood at 4.458%<sup>2</sup> on that day.

<sup>2</sup> As of 3 September 2007 the EONIA will be published with three decimal places, following a decision by the European Banking Federation and Euribor ACI.

## 2.4 BOND MARKETS

*Global asset prices underwent strong swings in the summer months as investors became increasingly concerned about the wider financial and economic impacts of the crisis in asset markets exposed to US sub-prime mortgages. In the wake of the financial market turmoil, investors' risk appetite was sharply reduced. As a result, investors shifted funds from risky asset classes into government bonds, resulting in lower bond yields in most advanced economies, including the euro area. At the same time, market participants' uncertainty about future bond market developments increased sharply, both in the euro area and the United States.*

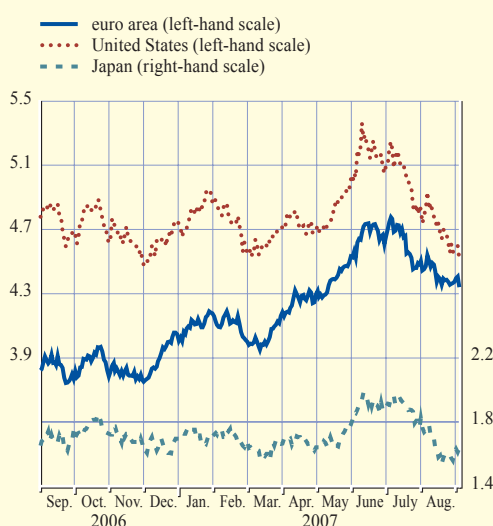
The generally stable financial market conditions witnessed over the past few years came to an abrupt halt over the summer months on account of mounting uncertainties about the sub-prime segment of the mortgage markets in the United States. Global bond markets were also affected by the turmoil, owing mainly to flight-to-safety portfolio shifts on the part of investors, which resulted in strong yield declines amid large daily fluctuations over the review period. Overall, euro area ten-year government bond yields stood at 4.3% on 5 September, which was around 15 basis points lower than the level at end-May (see Chart 20). This muted overall development of long-term bond yields despite the recent financial market turmoil reflects the fact that the yields continued their increasing trend throughout the first half of the review period. Between end-May and 5 September ten-year government bond yields in the United States fell by around 45 basis points, to stand at 4.5% on the latter date. As a result, the long-term interest rate differential between US and euro area bonds narrowed over this period, standing at 20 basis points in early September. In Japan, ten-year government bond yields declined by 10 basis points, to stand at 1.6% at the end of the review period.

The financial market turmoil brought about a sharp increase in market participants' uncertainty about the near-term outlook for euro area and US long-term bond yields, as indicated by higher levels of implied bond market volatility in the corresponding markets between the end of May and 5 September. Bond market volatility in emerging financial markets increased markedly over the review period. Reflecting the general evaporation of investors' risk appetite, emerging market bond spreads over US Treasuries, as measured by the EMBIG index, widened by around 70 basis points to a level of close to 260 basis points between the end of July and the peak of the correction in mid-August. Since then, emerging financial markets have, in part, recovered, in the context of strong fundamentals in these economies as a whole.

In June US long-term bond yields rose markedly on account of what investors perceived as brighter economic prospects. From mid-July onwards, however, the sentiment in financial

**Chart 20 Long-term government bond yields**

(percentages per annum; daily data)

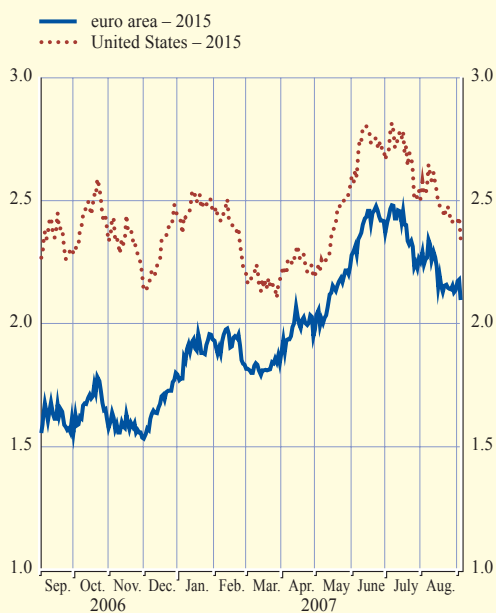


Sources: Bloomberg and Reuters.  
Note: Long-term government bond yields refer to ten-year bonds or to the closest available bond maturity.



**Chart 21 Real bond yields**

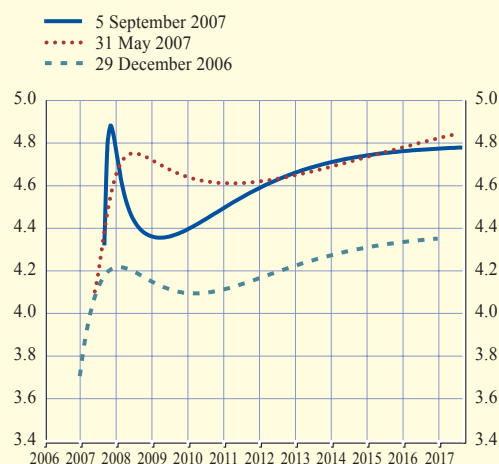
(percentages per annum; daily data)



Sources: Reuters and ECB calculations.

**Chart 22 Implied forward euro area overnight interest rates**

(percentages per annum; daily data)



Sources: Reuters and ECB estimates.

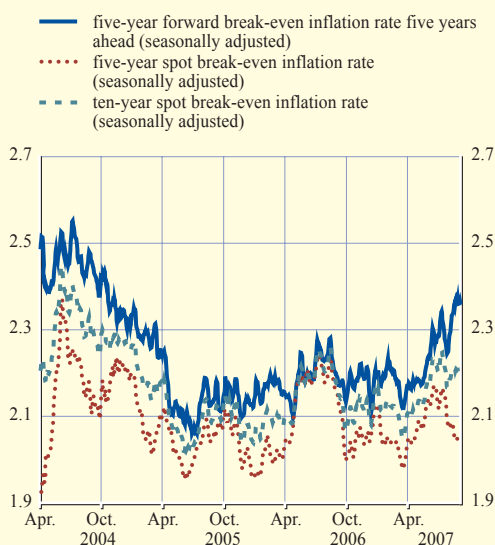
Notes: The implied forward yield curve, which is derived from the term structure of interest rates observed in the market, reflects market expectations of future levels for short-term interest rates. The method used to calculate these implied forward yield curves was outlined in Box 4 of the January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

markets shifted markedly when a number of financial institutions revealed that they had recorded losses on account of heavy exposures to securities backed by sub-prime mortgage loans, i.e. loans granted to borrowers who do not qualify for “prime loans” because of a weak credit record, low credit scores or incomplete income documentation. This news led to a general drop in risk appetite among investors and prompted flight-to-safety portfolio shifts from risky assets to government bonds, in particular. As a result, US bond yields fell sharply. Between mid-July and early September, ten-year government bond yields fell by 65 basis points. Most of the drop in US nominal bond yields from mid-July onwards stemmed from lower real yields on inflation-linked bonds. It cannot be excluded that part of the lower real yields reflected investors’ worries that the housing slump could spill over to private consumption and thus economic growth. Market-based measures of inflation expectations suggest that investors became less worried about future price pressures over the review period. For instance, the break-even inflation rates derived from 2015 inflation-linked bonds have declined by 40 basis points over the past three months, and stood at a level of 2% in early September.

As in the United States, long-term nominal bond yields in the euro area increased in the early part of the review period, thus continuing the steep upward trend that began in mid-March this year. Favourable data releases during this period reinforced investors’ view that economic growth would continue to grow at a sustained pace. As a result, not only nominal but also real yields offered on euro area inflation-linked bonds increased by around 20 basis points across most maturities in June (see Chart 21). Conditions in the euro area bond markets changed significantly in the latter part of the review period in the wake of the global financial turmoil. During late July and August several euro area financial institutions revealed that they had underestimated the risk entailed by investments in securities backed by US sub-prime mortgages, thus spreading related

**Chart 23 Zero-coupon spot and forward break-even inflation rates**

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



Sources: Reuters and ECB calculations.

concerns to the euro area markets and fuelling an environment of increased risk aversion and heightened liquidity preference that essentially affected all asset classes in the euro area, as elsewhere. Owing to their “safe-haven” status, government bond yields in the euro area declined sharply across all maturities. For example, ten-year nominal and real bond yields declined by 40 basis points and 30 basis points respectively between mid-July and early September.

Over the review period as a whole, implied forward overnight interest rates for the euro area shifted downwards over short and medium-term horizons, reflecting slightly changed investor expectations of the future path of the key ECB interest rates (see Chart 22). Implied forward rates at the long end of the curve, however, were little altered by the recent financial market turmoil.

Break-even inflation rates in the euro area remained broadly unchanged in the period under review. For example, the five-year forward break-even inflation rate five years ahead – a measure of purely long-term inflation expectations and related risk premia which is, furthermore, less susceptible to the impact of seasonal movements in consumer prices than spot break-even inflation rates (see Box 4) – increased only slightly over the review period, and stood at 2.35% on 5 September (see Chart 23). The muted movements in break-even inflation rates therefore suggest that the recent turmoil did not materially alter market participants’ inflation expectations for the euro area economy.

**Box 4**

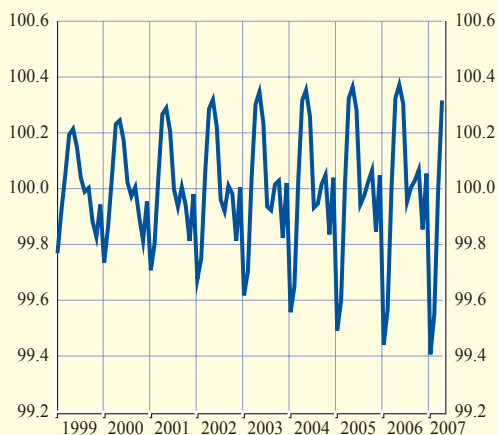
**SEASONALITY IN BREAK-EVEN INFLATION RATES**

Break-even inflation rates (BEIRs) derived from inflation-linked government bonds have achieved benchmark status for measuring market participants’ inflation expectations in the euro area. However, BEIRs are no direct measure of inflation expectations but also include, among other things, inflation risk premia. This box discusses another “distortion” in the use of BEIRs as indicators of market participants’ expectations about future inflationary trends stemming from seasonality in the euro area HICP (excluding tobacco), which is the standard reference index for government bonds linked to euro area inflation.<sup>1</sup>

<sup>1</sup> Seasonality generally affects bonds linked to seasonally unadjusted price indices, including, among others, US Treasury Inflation-Protected Securities (TIPS) or UK inflation-linked gilts. For a discussion of other caveats in relation to BEIRs, see, for example, the article entitled “Measures of inflation expectations in the euro area” in the July 2006 issue of the Monthly Bulletin. Moreover, note that although the ECB’s quantitative definition of price stability refers to all-items HICP, compliance with French regulations on the issuance of inflation-linked instruments has led to the choice of euro area HICP (excluding tobacco) as the reference index. For the practical purpose of assessing long-term inflation expectations, the difference between HICP (all-items) and HICP (excluding tobacco) is negligible.

**Chart A Seasonality in euro area HICP (excluding tobacco)**

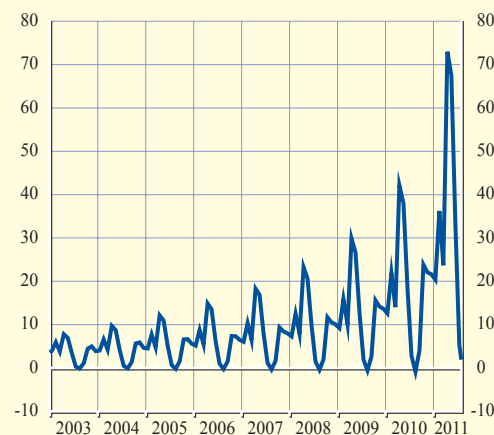
(index ratio; monthly data)



Source: Eurostat and ECB calculations.

**Chart B Seasonal distortions in the 2012 break-even inflation rate**

(basis points; monthly data)



Source: ECB calculations.

### Seasonality in euro area HICP (excluding tobacco) and break-even inflation rates

The euro area HICP (excluding tobacco) shows a pronounced pattern of seasonality<sup>2</sup> (see Chart A). In particular, in January consumer prices are generally lower as compared with the trend in the price level over the year, whereas in May prices tend to be high relative to the price trend. Another striking feature of HICP seasonality is the gradual increase in its magnitude over time.<sup>3</sup>

The influence of HICP (excluding tobacco) seasonality on BEIRs stems from the fact that the remaining maturity of traded inflation-linked government bonds shortens over time. Most of the time, therefore, the remaining maturity will not be a full number of years, but rather a full number of years plus a fraction of a year. The inflation compensation corresponding to this residual fraction of a year can be highly seasonal. This also implies that the shorter the maturity of the bond, the stronger the impact of seasonality. The relationship between the effect of seasonality and maturity is illustrated in Chart B using the French 2012 inflation-linked government bond as an example. The chart shows distortions from seasonality expressed in basis points.<sup>4</sup> In the first few years after issuance, the remaining maturity of this bond was long enough to effectively mute the impact of seasonality. However, in parallel with the gradual decline in the remaining maturity, the impact of seasonality on the BEIR of this particular bond has become considerably stronger, and will further increase in the future. For example, in May 2011, when the remaining maturity of the bond will be reduced to about 1.25 years, the extracted BEIR will show inflation expectations which are 70 basis points higher than the seasonally adjusted figures, all else being equal.

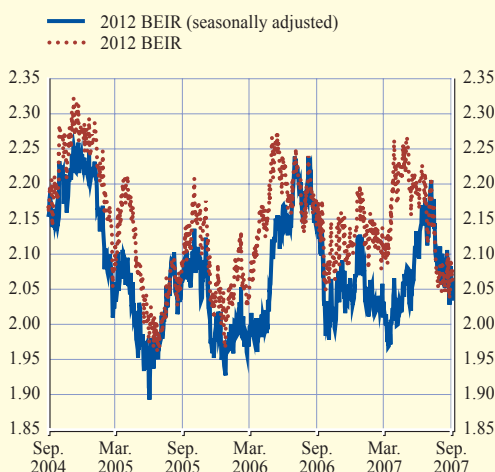
2 The seasonal factors shown in Chart A are computed as the ratio between the HICP (excluding tobacco) compiled by Eurostat and the same price index seasonally adjusted by the ECB. More details on the underlying X-12 ARIMA method can be found in: "Seasonal adjustment of monetary aggregates and HICP for the euro area", ECB, August 2000.

3 More details on seasonal patterns in the euro area HICP can be found in Box 5, entitled "Seasonal patterns and volatility in the euro area HICP", in the June 2004 issue of the Monthly Bulletin.

4 In constructing the chart, it is implicitly assumed that the seasonality remains constant beyond December 2006.

**Chart C Adjusted and unadjusted 2012 break-even inflation rates**

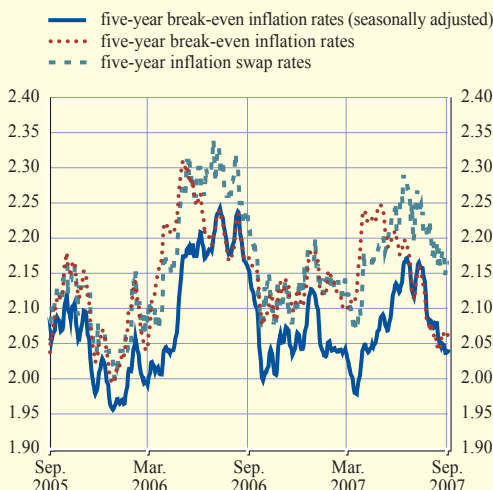
(percentages per annum; daily data)



Sources: Reuters and ECB calculations.

**Chart D Adjusted and unadjusted five-year constant maturity break-even inflation rates and inflation swap rates**

(percentages per annum; daily data)



Sources: Reuters and ECB calculations.

### Seasonality in break-even inflation rates can affect the interpretation of movements in inflation expectations

Chart C shows break-even inflation rates extracted from inflation-linked bonds maturing in 2012 in both seasonally adjusted and unadjusted terms. The chart demonstrates that, at certain times, seasonal effects tend to become rather important for a proper interpretation of BEIRs as indicators of inflation expectations and inflation risk premia. For example, seasonally adjusted and unadjusted 2012 break-even inflation rates behaved rather differently over the three months from April to July 2007. Unadjusted break-even inflation rates declined somewhat over this period. However, this decline was mainly driven by the unwinding of a strong seasonal increase between February 2007 and April 2007. Indeed, BEIRs corrected for seasonality increased gradually throughout the whole period from February to July. Another noteworthy feature of the chart is that the distortionary effects from seasonality on this particular BEIR tends to be most pronounced in April and May of each year.

Unlike standard seasonal adjustments, the adjustment for seasonality in BEIRs is usually not symmetric in the sense that the cumulated adjustments do not cancel out over the year.<sup>5</sup> The adjustment factor, which is applied to the prices of inflation-linked bonds in order to correct BEIRs for seasonality, is the ratio of two seasonal factors. The numerator of this ratio changes day by day, whereas the denominator reflects the seasonal factor corresponding to the maturity of the bond and thus remains fixed.<sup>6</sup> For example, in the case of French inflation-linked bonds, which mature (and pay coupons) on 25 July, the seasonal factor at maturity is the one

<sup>5</sup> As an example, note that a bond which pays coupons (and principal) at a time of year where prices are seasonally high, will – unless it has a full number of years of remaining maturity – embed inflation expectations which are higher than the trend of inflation over the year. The unadjusted BEIR of this bond will thus, on average, be higher than the corresponding seasonally adjusted BEIR.

<sup>6</sup> The daily seasonal factors are interpolated linearly from estimated monthly seasonal factors. This interpolation is completely analogous to the interpolation made between monthly HICP releases for the purpose of calculating the daily inflation accrual on inflation-linked bonds.

corresponding to 25 April owing to the three-month indexation lag. Because the April seasonal factor for the euro area HICP (excluding tobacco) is higher than the average seasonal factor, adjusted BEIRs based on the French bonds will, for most of the year, be lower than unadjusted rates. The converse is true for the German 2016 inflation-linked bond, which is indexed to the (seasonally low) January price level.

### **The comparability of break-even inflation rates and inflation swap rates**

Inflation swap rates – which in principle provide similar information to that of break-even inflation rates – are quoted for full-year maturities, such that the inflation-indexed leg of such contracts is linked to year-on-year increases in the HICP (excluding tobacco). Inflation swap rates are therefore generally much less affected by seasonal variations in the consumer price level. Hence, any comparison between inflation swap rates and unadjusted BEIRs extracted from inflation-linked bonds is subject to seasonality effects.

Chart D illustrates the importance of adjusting, in particular, shorter-term BEIRs for seasonality in order to derive consistent messages about inflation expectations (and related risk premia) from both inflation-linked markets. The chart depicts the adjusted and unadjusted five-year constant maturity BEIRs together with the five-year inflation swap rate.<sup>7</sup> The seasonally adjusted BEIR moves very closely with the inflation swap rate, with the spread between the two displaying broad stability over time. By contrast, seasonality often produces relatively wide and volatile gaps – sometimes of opposite signs – between the unadjusted BEIR and its counterpart from the inflation swap market.

The distortion in BEIRs induced by seasonality in consumer price indices implies that, when assessing inflation expectations and related premia from inflation-linked bonds, it is preferable to focus on longer-term forward BEIRs – which are much less affected by seasonality – or apply an appropriate seasonal adjustment. Therefore, the ECB will publish seasonally adjusted BEIRs for the euro area starting with this issue of the Monthly Bulletin.

<sup>7</sup> Details on computing constant maturity break-even inflation rates can be found in Box 3, entitled “Estimation of constant-maturity index-linked bond yields and break-even inflation rates”, in the July 2006 issue of the Monthly Bulletin.

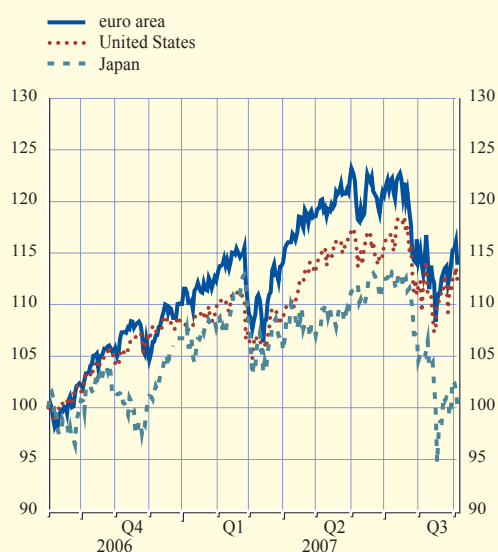
## **2.5 EQUITY MARKETS**

*Between the end of May and early September, global equity markets witnessed a marked correction as market participants became increasingly concerned about financial risks associated with tensions in the US sub-prime mortgage market, which triggered a broader reassessment of credit risks and heightened risk aversion. In the euro area, the bulk of the decline in stock prices seems to reflect higher equity risk premia demanded by investors for holding stocks rather than any revisions in the strong expected earnings prospects among euro area firms. Implied stock market volatility increased sharply in the major markets over the review period.*

The turmoil in financial markets had a marked impact on global stock prices, which, overall, have fallen sharply in most major markets over the past three months (see Chart 24). Stock prices in the euro area, as measured by the Dow Jones EURO STOXX index, declined by 7% between end of May and 5 September. In the United States, stock prices, as measured by the Standard & Poor’s 500 index, also ended the period lower, dropping by 4%. Thus, in early September, stock prices in the two

Chart 24 Stock price indices

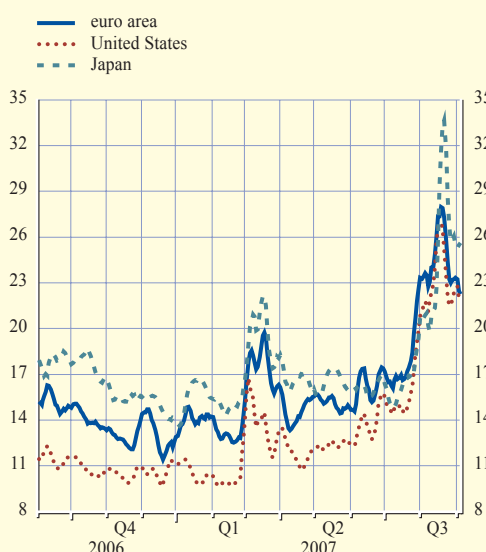
(index: 1 September 2006 = 100; daily data)



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 25 Implied stock market volatility

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



Source: Bloomberg.  
Note: 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.

economies stood at levels fairly close to those that had prevailed at the start of the year. In Japan, stock prices, as measured by the Nikkei 225 index, fell by close to 10% over the review period.

Near-term stock market uncertainty, as measured by the implied volatility extracted from stock options, rose sharply in the major markets on account of the financial market turmoil (see Chart 25). The higher degree of stock market uncertainty coincided with a sudden rebound in corporate bond spreads, in particular for lower-rated companies after an extended period when spreads had been at historically low levels. The developments in these two indicators suggest that investors' attitude towards risks reversed sharply over the period under review. Against this background, equity risk premia have in all likelihood increased substantially in recent months, thereby to a large extent driving the declines observed in stock prices.

In the United States, the recent fall in stock prices has been more pronounced than the two short-lived sell-offs in February/March and June of this year. As in the first of these episodes, the current financial market turmoil also emanated from distress in the US sub-prime mortgage market (see Section 2.4). This time, however, it became clear that financial institutions, in particular, would face larger losses from exposures to this market segment than earlier anticipated, while a large degree of uncertainty remained about the ultimate size and distribution of the losses, partly owing to the opaque nature of the vehicles typically used for investing in sub-prime mortgage-backed securities. The resulting general increase in risk aversion and equity risk premia affected all stock market sectors – and overseas markets – with stock prices in the US financial sector dropping more strongly (by 12% between end-May and 5 September).



At the same time both actual and expected earnings prospects among US firms remained strong, and, together with lower bond yields, probably helped to dampen the overall decline in US stock prices over the review period. The earnings per share of corporations included in the Standard and Poor's 500 index grew by 11% in the 12 months to August, a decline of 2 percentage points compared with the annual growth rate observed in May. Analysts' expectations, extracted in August, regarding the growth of earnings per share over the twelve months ahead also stood at 11% (see Chart 26). This is almost 2 percentage points higher than in May, which might indicate that, at the time they responded to the survey, analysts were still acting on the assumption that the economy as a whole would prove robust to the financial turmoil.<sup>3</sup>

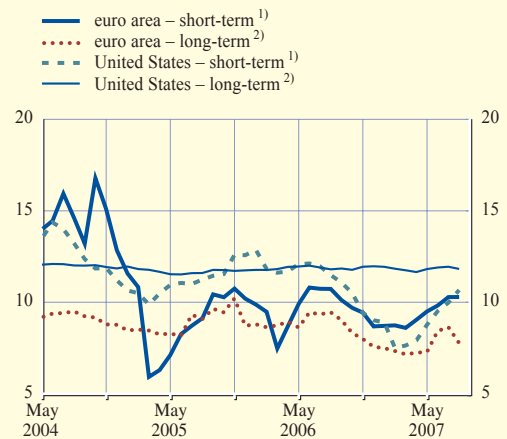
Reflecting the trend in global markets, euro area stock prices have also fallen markedly over the past three months. Euro area stock prices came under intense pressure when it became clear that not only US investors but also euro area financial institutions were heavily exposed to investments in US sub-prime loan markets. The resulting general uncertainty and risk aversion induced investors to demand higher equity premia for euro area stocks. By mid-August, the Dow Jones EURO STOXX index declined by around 8% as compared with end-May. Subsequently, the index was able to recover part of this decline, despite the continued high level of stock market uncertainty.

Mitigating the drop in stock prices, both actual and expected earnings among euro area listed firms remained at strong levels. In August the actual earnings per share of the companies included in the Dow Jones EURO STOXX index continued to rise at a high annual rate, of 16%, down from 18% in May. In August analysts expected earnings to grow at a rate of close to 10% over the coming 12 months and by around 8% over a horizon of three to five years ahead. In both cases, these figures imply a marginal upward revision in expected earnings growth as compared with three months ago. This, in turn, indicates that, notwithstanding the financial turmoil, analysts still anticipate that aggregate euro area listed firms will deliver very robust earnings growth over the coming years, well in excess of the expected nominal growth rate of euro area GDP. This persistent decoupling could be partly explained by continued buoyant growth of the world economy, which tends to favour multinational firms (see Box 5). In addition, by acting as a favourable discount effect, the decline in government bond yields in the euro area across the maturity spectrum probably also helped to mitigate the overall drop in equity prices.

As regards developments in sectoral stock price indices in the euro area, most economic sectors recorded relatively strong stock price declines in the period under review (see Table 3). Among the

**Chart 26 Expected growth in corporate earnings per share in the United States and the euro area**

(percentages per annum; monthly data)



Sources: Thomson Financial Datastream and ECB calculations.

Notes: Expected earnings growth of the Dow Jones EURO STOXX index for the euro area and Standard & Poor's 500 index for the United States.

1) Short-term refers to analysts' earnings expectations 12 months ahead (annual growth rates).

2) Long-term refers to analysts' earnings expectations three to five years ahead (annual growth rates).

<sup>3</sup> Data on actual and expected earnings per share are from Thomson Financial I/B/E/S.

**Table 3 Price changes in the Dow Jones EURO STOXX economic sector indices**

(price changes as percentages of end-of-period prices)

	Basic materials	Consumer services	Consumer goods	Oil and gas	Financial	Health-care	Industrial	Tech-nology	Tele-communications	Utility	EURO STOXX
<b>Share of sector in market capitalisation</b> <i>(end-of-period data)</i>	6.9	6.2	12.1	6.6	32.2	2.9	11.8	5.5	6.3	9.4	100.0
<b>Price changes</b> <i>(end-of-period data)</i>											
2006 Q2	-1.2	-3.0	-7.5	-3.9	-7.1	-2.1	-5.4	-9.7	-5.8	-2.4	-5.6
2006 Q3	8.7	7.8	8.8	0.6	10.5	-2.2	4.4	-0.4	6.0	11.9	7.4
2006 Q4	12.4	4.7	7.3	7.8	6.1	-0.2	11.7	3.3	11.8	9.4	7.5
2007 Q1	10.1	7.5	9.5	-2.5	1.9	-3.1	7.7	-0.3	-2.4	2.1	3.4
2007 Q2	12.6	0.9	8.8	13.4	1.6	-1.5	12.1	13.7	2.4	9.4	6.3
July	-3.0	-3.0	-2.8	-3.2	-4.5	-1.0	-6.4	-1.5	-1.8	-4.5	-3.8
August	1.0	-0.5	-1.3	-3.7	-3.2	-1.0	-2.7	4.7	5.9	3.2	-0.9
31 May - 5 September	0.3	-8.1	-3.8	-2.8	-11.4	-11.7	-9.0	5.6	-1.4	-5.9	-6.8

Sources: Thomson Financial Datastream and ECB calculations.

sectors underperforming the broad-based Dow Jones EURO STOXX index over the past three months were the financial and healthcare sectors, which both declined by around 11% between end-May and early September. As in the case of the United States, the underperformance of the financial sector reflects the fact that the credit market turmoil has adversely affected market participants' perceptions of the soundness of euro area financial institutions, many of which were reported to have relatively large exposures to assets linked to risky sub-prime mortgages in the United States.

#### Box 5

#### THE RELATIONSHIP BETWEEN LISTED COMPANIES' EARNINGS GROWTH AND OUTPUT GROWTH IN THE ECONOMY AS A WHOLE

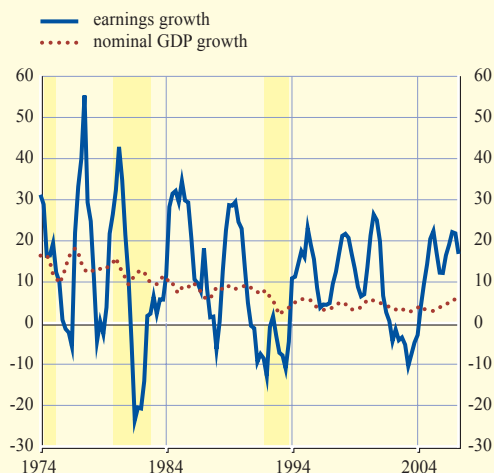
Until the recent turmoil, stock prices in most major markets had been on an overall upward trend since the trough reached in 2003. The main driver of the positive stock market sentiment over this period was very strong profitability among the largest firms typically included in benchmark stock market indices. Indeed, since 2003, listed companies in the euro area and the United States have delivered earnings that have far exceeded their respective areas' economic growth rates associated, inter alia, with a notable ratcheting up of the profit share in GDP. Given that corporate earnings and aggregate economic activity should be expected to develop broadly in line over longer horizons, some analysts have warned that the recent decoupling may not be sustainable. This box examines empirically the relationship between nominal earnings for listed companies and nominal growth in the euro area and the United States over relatively long periods. In addition, it also illustrates that accounting differences and firm-specific measures can cause both short and long-term deviations between the two measures.

The sources of listed firms' revenues mirror, to some extent, the composition of GDP.<sup>1</sup> First, consumption of households and the public sector form the basis of income for numerous firms.

<sup>1</sup> Corporate earnings can also be directly measured from the National Accounts. The gross operating surplus is the most standard proxy for measuring absolute profits in the economy. The gross operating surplus is defined as GDP less compensation of employees less taxes (minus subsidies) on production. For more details, see the article entitled "Measuring and analysing profit developments in the euro area" in the January 2004 issue of the Monthly Bulletin.

**Chart A Earnings and nominal GDP growth for the euro area**

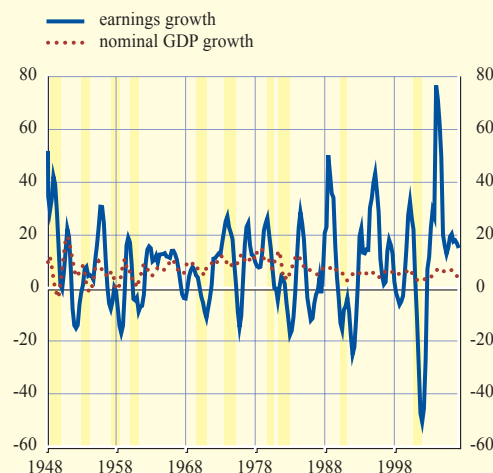
(annual percentage changes; quarterly data)



Sources: Thomson Financial Datastream and ECB calculations. Note: Shaded areas represent recessions as defined by the Centre for Economic Policy Research.

**Chart B Earnings and nominal GDP growth for the United States**

(annual percentage changes; quarterly data)



Sources: Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Robert Shiller's homepage (<http://www.econ.yale.edu/~shiller/>), Thomson Financial Datastream and ECB calculations. Note: Earnings from Robert Shiller's dataset are used up to Q4 2006. For Q1 2007, earnings from Thomson Financial Datastream's total market index are used. Shaded areas represent economic recessions as defined by the National Bureau of Economic Research.

Second, some earnings of firms reflect the production and sale of investment goods.<sup>2</sup> Third, in the wake of increased globalisation and the fact that large firms are mostly multinational companies, their earnings are also heavily dependent on income generated abroad. This, in turn, partly finds its way to GDP through the net exports item. Given the commonalities between stock market earnings and GDP they can thus be expected to follow a similar trend growth over the long term. To examine the strength of this relationship, Charts A and B show annual nominal growth rates of earnings and GDP over long periods for the euro area and the United States.

The charts reveal three interesting features. First, over the samples under consideration, both nominal earnings and GDP growth seem to fluctuate around long-term trends in the two economies.<sup>3</sup> Second, both US and euro area listed firms' earnings experienced a sharp downturn during the recessions in their respective economies, although the earnings growth rates display a much more volatile pattern as compared with the fluctuations in GDP growth rates. Third, the size of the observed positive gaps between earnings and GDP growth over the past few years does not appear unusual on both sides of the Atlantic by historical standards.

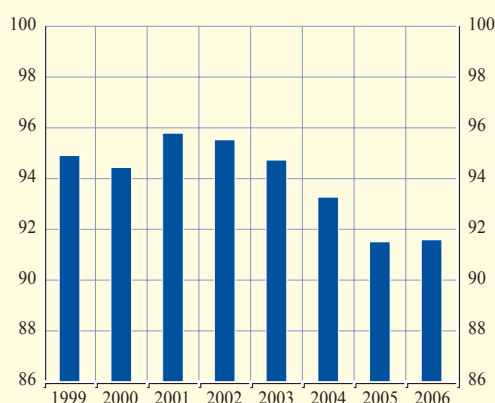
There are a number of reasons why the two measures can grow at different rates for long periods. First, the set of firms included in most stock market indices is not constant over time. In this respect, the overriding criteria for inclusion in stock market indices are usually based on firms' market capitalisation (measured as firms' stock prices multiplied by the number of

<sup>2</sup> See F. Lequiller and D. Blades: "Understanding National Accounts", OECD 2006.

<sup>3</sup> Mean nominal GDP and earnings growth rates for the euro area over the sample period 1974-2005: 8% and 10% respectively; for the United States over the sample period 1948-2006: 7% and 8.5% respectively.

**Chart C Ratio of operating expenses to net sales for listed firms in the euro area**

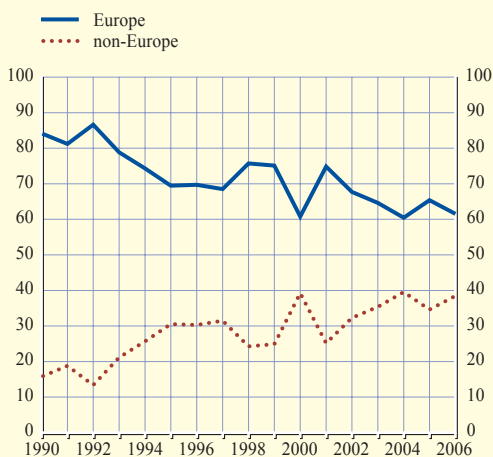
(annual data)



Sources: Thomson Financial Datastream and ECB calculations. Note: Calculations are based on aggregated annual financial statements of listed non-financial corporations in the euro area.

**Chart D Euro area firms' income generated within and outside Europe**

(in percentages; annual data)



Sources: Thomson Financial Datastream and ECB calculations. Note: The operating income data for EURO STOXX 50 firms are sorted according to the geographical segmentations as provided to Thomson Financial Datastream.

shares outstanding). Thus, on a regular basis, stock market indices are adjusted by the respective index providers to include only the largest companies in terms of market capitalisation. The effect of this, however, is that aggregate earnings calculated for stock market indices have an upward bias, as only those companies which were successful enough to survive are included. By contrast, the GDP measure does not suffer from this “survivorship bias”, as it represents the performance of the economy as a whole.

Second, reflecting corporate restructuring after the bust of the IT boom in the early years of this decade, cost-cutting measures such as labour shedding, efforts to eliminate excess capacity and reducing inventories have probably played an important role in the recently observed decoupling of listed companies' earnings and GDP growth on both sides of the Atlantic. However, since such one-off measures tend to boost earnings only temporarily, their impact should by nature be relatively short-lived. Providing some evidence of improved cost-efficiency during those years, the ratio of operating expenses to sales for euro area firms fell at a relatively rapid pace between 2001 and 2005 (see Chart C).

Third, firms in most mature economies have become more multinational, which may blur the earnings-GDP relationship. In this context it is important to note that the GDP measure follows the national accounts principle, i.e. it captures only the operating profit of firms carrying out their activities within the respective economic territory and thus does not include the profit of multinationals' overseas subsidiaries. However, estimated data on the geographical breakdown of the largest euro area listed firms' earnings suggest that earnings generated abroad have gained in importance over the past 15 years or so. To this end, in 2006 the largest listed euro area firms' operating income generated outside European countries accounted for close to 40% of total income, compared with 15% in the early 1990s (see Chart D). Thus, it is likely that the particularly strong growth dynamics in some parts of the world outside Europe (in particular

non-Japan Asia, India and Latin America) contributed to the higher level of growth in the earnings of euro area listed firms than in euro area GDP.<sup>4</sup>

To sum up, seen over longer horizons the growth rates of listed firms' aggregated earnings and of GDP tend to share similar trends. Reflecting the fact that earnings growth cycles regularly display much larger amplitudes than GDP growth cycles, the size of the strong gaps in favour of earnings growth recently observed both in the euro area and in the United States does not appear unusual. Focusing on the euro area, although earnings growth is likely to slow down from the high double digit rates witnessed over the past few years, earnings can still be expected to grow faster than GDP, at least over the near term, in particular owing to strong growth in income from overseas against the background of buoyant world economic growth.

<sup>4</sup> Similarly, estimates conducted by Bruegel suggest that the home markets of Europe's 100 largest listed companies are increasingly Europe as a whole rather than any particular country within it. The share (relative to total revenues) of companies' revenues from the headquarter zone declined from around 50% in 1997 to about 37% in 2005. See the Bruegel policy brief entitled "Farewell national champions", issue 2006/04.

## 2.6 FINANCIAL FLOWS AND FINANCIAL POSITION OF NON-FINANCIAL CORPORATIONS

*In the second quarter of 2007 the financing conditions of the non-financial corporate sector in the euro area remained favourable and profitability remained strong. Non-financial corporations continued to have extensive recourse to debt financing, despite the increases in the real cost of external financing, primarily in the form of MFI loans. As a result, the sector's debt-to-GDP ratio increased further over the review period. The extent to which recent developments in financial markets may have a lasting impact on the financing conditions of the euro area corporate sector in the period ahead remains to be seen.*

### FINANCING CONDITIONS

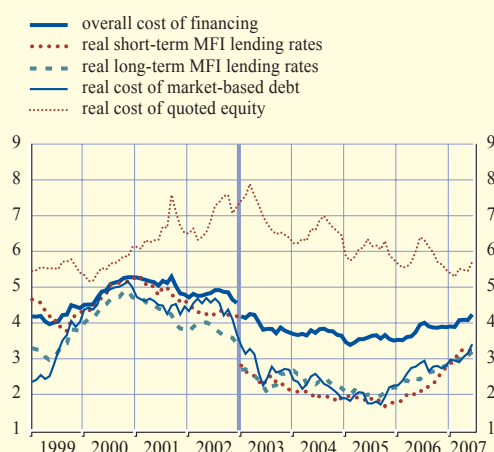
The real cost of non-financial corporations' external financing in the euro area – as calculated by weighting the cost of different sources of financing on the basis of the respective amounts outstanding (corrected for valuation effects) – gradually increased in the second quarter of 2007 (see Chart 27), but remained below levels reached in the previous upswing.<sup>4</sup> The real costs of bank lending continued to increase, in line with the increases in market rates and market debt financing costs. The real cost of quoted equity for non-financial corporations increased in the second quarter, largely reflecting a decline in stock prices over the same period. More recently, in July and August, financial market movements have also been associated with an increase in the cost of market-based financing, despite the decline in long-term rates. Overall, the recent turmoil on credit markets has thus far reinforced the trend towards a tightening of financing conditions that started in December 2005.

Continuing the trend observed in previous quarters, the real cost of bank lending rose further in the second quarter of 2007. The increases observed in bank interest rates were, overall, somewhat below the movements seen in market rates for corresponding periods of rate fixation, reflecting recent developments in the slope of the yield curve (see also Section 2.4). In particular, short-term

<sup>4</sup> For a detailed description of how the real cost of the external financing of euro area non-financial corporations is measured, see Box 4 in the March 2005 issue of the Monthly Bulletin.

**Chart 27 Real cost of the external financing of euro area non-financial corporations**

(percentages per annum)



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

Notes: The real cost of the external financing of non-financial corporations is calculated as a weighted average of the cost of bank lending, the cost of debt securities and the cost of equity, based on their respective amounts outstanding and deflated by inflation expectations (see Box 4 in the March 2005 issue of the Monthly Bulletin). The introduction of the harmonised MFI lending rates at the beginning of 2003 led to a break in the statistical series.

MFI interest rates on loans to non-financial corporations with a floating rate and an initial rate fixation of up to one year rose by around 20 basis points between March 2007 and June 2007, which was a little lower than the increase observed in money market rates over the same period (see Table 4). Since September 2005, when money market rates first started to rise, short-term lending rates to non-financial corporations have increased by around 170 to 190 basis points, thus broadly matching the increase of around 200 basis points seen in the corresponding three-month money market rate. By contrast, in the second quarter of 2007 long-term lending rates to non-financial corporations rose by only around 15 to 31 basis points, while the corresponding long-term market interest rates rose by 63 basis points. Between September 2005 and June 2007 MFI interest rates on loans to non-financial corporations with an initial rate fixation of over five years rose by some 90 to 130 basis points, compared with an increase of 150 basis points for the five-year government bond yield.

**Table 4 MFI interest rates on new loans to non-financial corporations**

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

							Change in basis points up to July 2007 <sup>2)</sup>		
	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 June	2007 July	2007 Jan.	2007 Apr.	2007 June
<b>MFI interest rates on loans</b>									
Bank overdrafts to non-financial corporations	5.52	5.76	5.90	6.12	6.18	6.31	41	18	13
Loans to non-financial corporations of up to €1 million									
with a floating rate and an initial rate fixation of up to one year	4.58	4.91	5.16	5.37	5.53	5.59	43	22	6
with an initial rate fixation of over five years	4.45	4.60	4.65	4.86	5.00	5.08	44	23	9
Loans to non-financial corporations of over €1 million									
with a floating rate and an initial rate fixation of up to one year	3.85	4.23	4.46	4.70	4.88	4.90	44	20	2
with an initial rate fixation of over five years	4.48	4.46	4.71	4.88	5.17	5.18	46	30	1
<b>Memo items</b>									
Three-month money market interest rate	3.10	3.50	3.75	3.98	4.15	4.22	46	24	7
Two-year government bond yield	3.58	3.69	3.94	4.11	4.45	4.48	54	37	3
Five-year government bond yield	3.84	3.77	4.02	4.15	4.57	4.55	54	40	-2

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) Figures may not add up due to rounding.



Overall, spreads on short-term loans to non-financial corporations first contracted and then widened somewhat in the second quarter of 2007, ending the review period at approximately the same level as at end-March 2007, while spreads on long-term loans remained somewhat below the levels reached in the first quarter. Although there are signs of a lagged and possibly incomplete pass-through from market rates to lending rates for longer maturities, the pass-through of bank interest rates in the current period of progressive withdrawal of monetary accommodation appears to be broadly similar to that observed in past episodes.

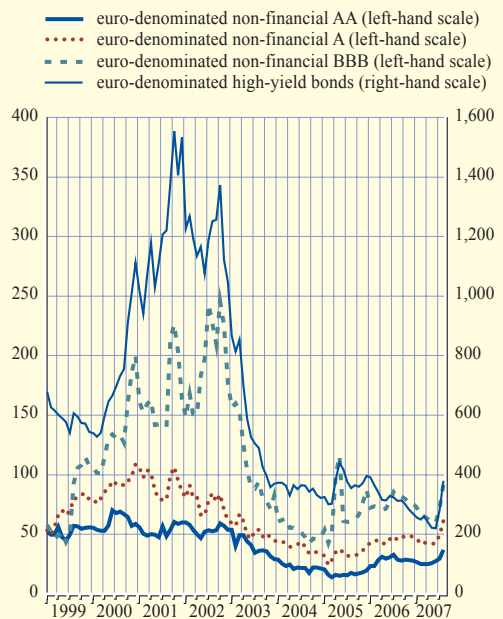
In view of the recent events in financial markets and of a general reassessment of risks, a negative impact on bank credit conditions and the non-financial private sector's access to credit in the short to medium term cannot be excluded. According to preliminary market data from Dealogic Loanware, syndicated loan margins increased significantly in July and August 2007, to reach their highest level in two years, while the number of syndicated loan transactions completed declined considerably in August, suggesting that banks may become more restrictive both with respect to their pricing and, in particular, to the granting of loans. According to the results of the July 2007 bank lending survey, which covers the second quarter of 2007, i.e. prior to the outbreak of the financial market turmoil, banks continued to point to an overall easing of credit standards. However, the reported expectations for the third quarter of 2007 already suggested that banks would be likely to tighten credit standards, reflecting emerging concerns about global credit market conditions at that time.

With regard to developments in market debt financing, the real cost of non-financial corporations' market-based debt financing continued to increase in the second quarter of 2007, reaching levels last recorded at the beginning of 2003. At the same time, corporate bond spreads remained broadly unchanged over the second quarter as a whole (see Chart 28). As the financial turmoil became more broad-based, credit spreads for a range of financial instruments widened, notably for securities issued by financial intermediaries and lower-rated corporate credit in July and August 2007, but remained well below the peaks observed in earlier years, in particular during 2002.

The real cost of equity for non-financial corporations declined at the beginning of the second quarter of 2007, but rose in June; it continued to rise in July and August, to stand at a level corresponding to that seen at the end of the third quarter of 2006. These movements largely reflect swings in stock prices, accompanied by rising implied price volatilities over that period. Consequently, although the real cost of equity remained significantly higher than the real cost of debt financing, the gap between the two narrowed slightly over the review period.

**Chart 28 Corporate bond spreads of non-financial corporations**

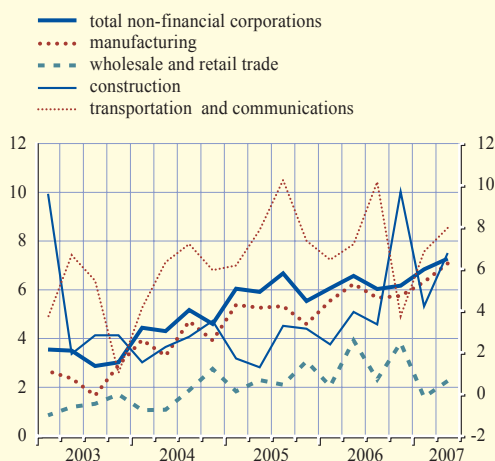
(basis points; monthly averages)



Sources: Thomson Financial Datastream and ECB calculations. Note: Non-financial bond spreads are calculated against the AAA government bond yields.

**Chart 29 Profit ratios of listed non-financial corporations**

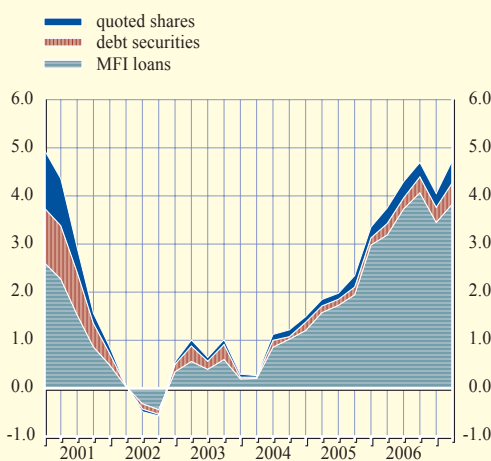
(net income-to-net sales ratios; quarterly data)



Sources: Thomson Datastream and ECB calculations.

**Chart 30 Breakdown of the real annual rate of growth of financing to non-financial corporations**

(annual percentage changes)



Source: ECB.

Note: The real annual growth rate is defined as the difference between the actual annual growth rate and the GDP deflator.

## FINANCIAL FLOWS

On the basis of aggregated financial statement data for listed non-financial corporations in the euro area, the profitability of euro area non-financial corporations – measured in terms of their ratio of net income to net sales – continued to increase in the second quarter of 2007. This overall increase reflects strong profitability in the manufacturing sector, as well as sharp increases in the transportation and communication sectors, while the profit ratio in the construction sector recovered from the fall in the first quarter. Profit ratios in the wholesale and retail trade sectors remained below the average for the non-financial corporate sector as a whole (see Chart 29).

Stock market-based profitability measures, such as actual and expected growth in corporate earnings per share, which include data up to August 2007, indicate that growth in the profitability of large listed corporations was relatively resilient to the recent financial turbulence (see Chart 26). Actual earnings per share remained broadly unchanged at a high level in the second quarter of 2007 and, having decreased during July, picked up again by the end of August. Over the longer term, earnings growth is expected to decline slightly, which may indicate a certain degree of normalisation following the particularly strong performance recorded in recent years.

In addition to drawing on abundant internal funds, non-financial corporations remained substantially reliant on total external financing in the second quarter of 2007 (see Chart 30). The real annual growth rate of the external financing of non-financial corporations increased to 4.8%, from 4.1% in the second quarter of 2007. This development was driven primarily by an increase in the growth rate of MFI loans, while the contributions of debt securities and quoted shares issued by non-financial corporations remained modest, albeit rising slightly.

After having declined at the beginning of 2007, the annual growth rate of MFI loans to non-financial corporations increased again, to reach 13.3% at the end of the second quarter of 2007 (see Table 5). It continued to increase, to 13.6%, in July, reaching the highest level since January 2000. This reflected an increase in the annual growth of lending to non-financial corporations at

**Table 5 Financing of non-financial corporations**

(percentage changes; end of quarter)

	Annual growth rates					
	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 July
<b>MFI loans</b>	11.4	12.8	13.1	12.6	13.3	13.6
Up to one year	8.0	10.3	9.7	9.9	11.3	11.5
Over one and up to five years	17.4	20.4	20.8	18.7	19.8	19.3
Over five years	11.4	11.6	12.5	12.1	12.1	12.8
<b>Debt securities issued</b>	4.5	4.3	6.0	6.5	8.8	-
Short-term	-4.5	-3.3	3.7	7.9	18.6	-
Long-term, of which: <sup>1)</sup>	6.4	5.7	6.4	6.2	7.0	-
Fixed rate	1.3	1.5	3.1	4.3	5.0	-
Variable rate	30.9	27.9	25.3	20.3	18.8	-
<b>Quoted shares issued</b>	1.0	1.0	0.8	0.9	1.3	-
<b>Memo items<sup>2)</sup></b>						
Total financing	6.4	6.1	6.4	5.1	3.2	-
Loans to non-financial corporations	10.2	10.7	10.9	8.3	4.8	-
Insurance technical reserves <sup>3)</sup>	4.0	3.9	3.9	2.9	2.0	-

Sources: ECB, Eurostat and ECB calculations.

Note: Data shown in this table (with the exception of the memo items) are reported in money and banking statistics and securities issues statistics. Small differences compared with data reported in financial accounts statistics may arise, mainly as a result of differences in valuation methods.

1) The sum of fixed rate and variable rate data may not add up to total long-term debt securities data because zero-coupon long-term debt securities, which include valuation effects, are not shown separately in this table.

2) Data are reported from quarterly European sector accounts. Total financing of non-financial corporations includes loans, debt securities issued, shares and other equity issued, insurance and technical reserves, other accounts payable and financial derivatives. Loans to non-financial corporations comprise loans granted by MFIs and other financial corporations. The latest quarter is estimated using data from money and banking statistics and securities issues statistics.

3) Includes pension fund reserves.

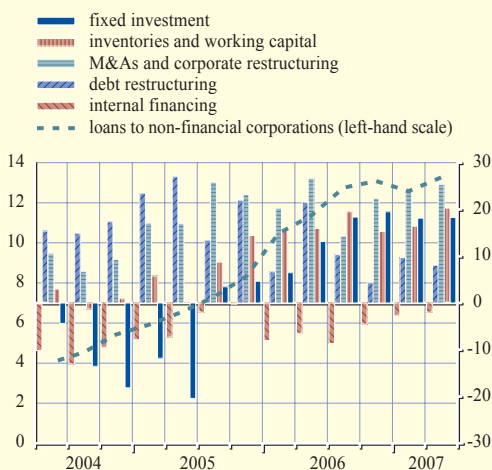
short and medium maturities. In particular, the annual growth rate of short-term loans increased in the second quarter of 2007 (as compared with the previous quarter), to stand at 11.3% in June 2007, before reaching 11.5% in July, while that of long-term MFI loans (i.e. those with a maturity of over five years) remained unchanged at 12.1% in the second quarter of 2007, before increasing to 12.8% in July.

The annual growth rate of debt securities issued by non-financial corporations, which remained more moderate than that of loans, rose in the second quarter, to stand at 8.8% in June 2007, as compared with 6.5% in March 2007. This strong increase was mainly a reflection of the issuance of short-term debt securities, whose growth rate more than doubled between the first and second quarters of 2007, combined with long-term debt securities issuance which remained robust, in particular at variable rates. In the second quarter of 2007 the growth rate of debt securities issued by non-monetary financial corporations, including special-purpose vehicles, remained strong, reaching around 27.4% in June, down from 29.7% in March. Some of this issuance activity may be related to financing vehicles set up directly by large non-financial corporations. Most, however, is probably related both to the securitisation activities of banks and private equity funds and to the off-balance sheet activities of banks.

The annual growth rate of quoted shares issued by non-financial corporations increased slightly, to 1.3%, at the end of the second quarter of 2007, on account of stronger gross issuance. The continued subdued growth of equity issuance was probably related to the still high cost of issuing equity as well as to the high level of share buyback activities, the robustness of corporate profitability and the large number of firms taken private, in particular via leveraged buyouts. On

**Chart 31 Loan growth and factors contributing to non-financial corporations' demand for loans**

(annual percentage change; net percentages)

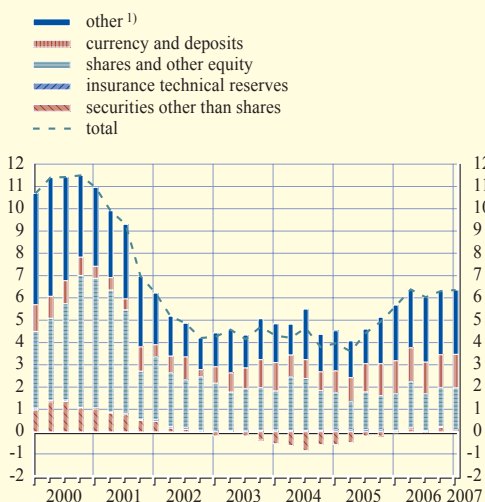


Source: ECB.

Note: The net percentages refer to the difference between the percentage of banks reporting that the given factor contributed to a tightening of credit standards and the percentage reporting that it contributed to an easing. See also the July 2007 bank lending survey.

**Chart 32 Financial investment of non-financial corporations**

(annual percentage changes; contributions in percentage points)



Source: ECB.

1) Includes loans, other accounts receivable and financial derivatives.

the basis of available quarterly euro area sector accounts, the rate of growth of unquoted shares (which account for a little more than 60% of the stock of equity, excluding mutual funds) was 2.5% in the first quarter of 2007.

The robust profit developments and strong loan growth observed in recent years have provided euro area non-financial companies with plenty of funds to channel into both financial and non-financial activities. In the July 2007 bank lending survey banks reported that the perceived demand for loans to enterprises was indeed increasingly driven by mergers and acquisitions and corporate restructuring as well as the need to finance fixed investment, inventories and working capital (see Chart 31). Additionally, according to the newly available integrated quarterly euro area sector accounts the annual growth rate of total financial investment by non-financial corporations in the euro area remained broadly unchanged at 6.4% in the first quarter of 2007 (see Chart 32 and Section 2.2), though at relatively high levels. In the first quarter of 2007 the main drivers of the overall financial investment dynamics of the non-financial corporate sector were investment in shares and other equity, followed by investments in loans (which includes intercompany loans) and other accounts receivable as well as investments in currency and deposits.

## FINANCIAL POSITION

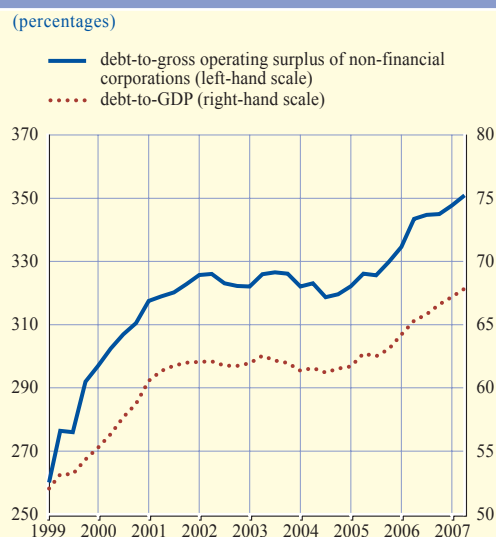
The considerable recourse to debt financing on the part of non-financial corporations in the euro area has led to a further increase in the sector's overall debt-to-GDP ratio, which, on the basis of available quarterly euro area sector accounts, rose to 68% in the second quarter of 2007 (see Chart 33). Following a period of consolidation, the debt ratios of non-financial corporations have, since mid-2005, been higher than those recorded at the previous peak in mid-2003, which followed a sharp increase in debt in the second half of the 1990s. Debt also increased as a percentage of gross operating surpluses in the second quarter of 2007. These rising debt ratios resulted in

significant increases in the interest burdens of non-financial corporations in 2006 and early 2007, reflecting both increases in interest rates and strong loan growth. However, the financing gap of non-financial corporations (essentially the balance between gross saving and gross capital formation) remained relatively low in the first quarter of 2007.

The debt-to-financial assets ratio has recorded a downward trend since 2002, largely reflecting a strong accumulation of financial assets by non-financial corporations, but also an increase in the value of assets on account of favourable financial market developments (see also Box 6 entitled “Recent developments in non-financial corporations’ leverage ratios”).

Overall, the high rate of growth of debt financing by non-financial corporations, particularly by means of MFI loans, indicates that until recently euro area firms continued to have relatively easy access to finance. Despite the recent pick-up in debt ratios and net interest payments, the impact of the recent turmoil on the financing conditions of the euro area corporate sector may remain limited in an environment of strong profitability and the still favourable financing conditions. It is too early to tell, however, whether the lending attitude of banks may be affected by recent developments.

**Chart 33 Debt ratios of non-financial corporations**



Sources: ECB, Eurostat and ECB calculations.  
 Note: Debt is reported from quarterly European sector accounts. It includes loans, debt securities issued and pension fund reserves. The latest quarter is estimated.

**Box 6**

**RECENT DEVELOPMENTS IN NON-FINANCIAL CORPORATIONS’ LEVERAGE RATIOS**

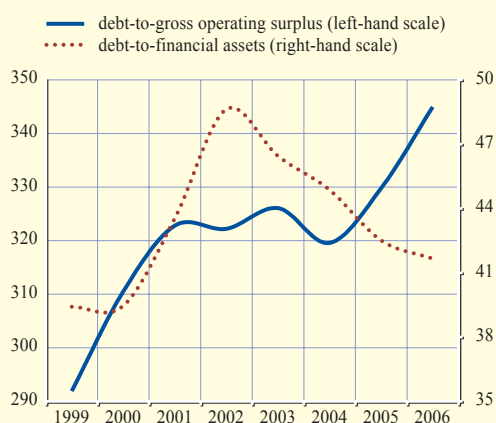
Over the past few years, measures of indebtedness, such as the debt-to-GDP or debt-to-gross operating surplus ratios (see Chart 33 in the main text) of euro area non-financial corporations (NFCs) have tended to rise, pointing to increasing indebtedness. This box provides an assessment of whether the increase in these ratios has been accompanied by a parallel increase in the assets of NFCs, which may indicate that the accumulation of debt has been accompanied by higher investments and/or by more favourable valuations of company balance sheets.

For the entire NFC sector, the only available information on assets refers to financial assets, as contained in the Euro Area Accounts (EAA).<sup>1</sup> While the debt-to-gross operating surplus ratio remained broadly stable in 2003 and 2004 and picked up strongly in the two subsequent years, the debt-to-financial assets ratio has recorded a downward trend since 2002 (see Chart A). This contrasts with the patterns observed in the early part of the decade, when both ratios evolved broadly in parallel.

<sup>1</sup> With respect to the composition of the financial assets held by NFCs, loans accounted for 35%, shares and other equity for 24%, debt securities for 22%, currency and deposits for 12% and others (mainly other accounts receivable) for 7% of the stock of financial assets in the first quarter of 2007.

**Chart A Indebtedness ratios of non-financial corporations**

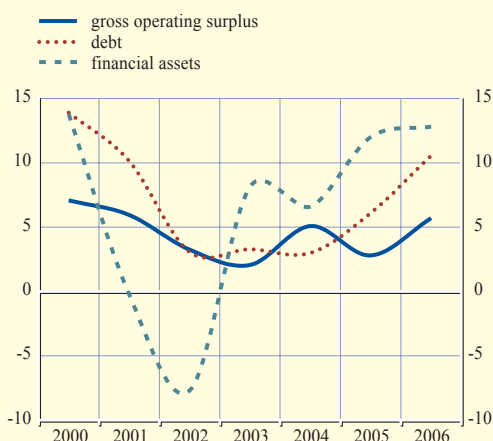
(percentages)



Sources: Euro Area Accounts and ECB calculations.

**Chart B Growth of debt, financial assets and gross operating surplus**

(annual growth rates)



Sources: Euro Area Accounts and ECB calculations.

The different behaviour observed in both ratios in the more recent period has clearly been a response to a different evolution in the growth of earnings on the one hand and financial assets on the other. Since 2003 financial assets have grown at a high rate, markedly above that observed for earnings (see Chart B), with the largest differences being registered in 2005 and 2006.

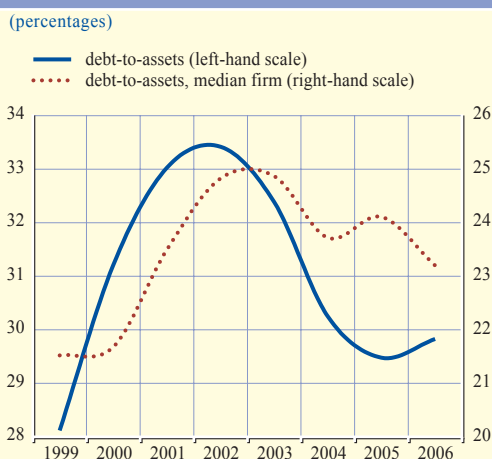
Looking at the entirety of NFC assets (i.e. including the capital stock and other assets, such as goodwill), the growth in the value of assets and of earnings can be expected to co-move in the long run, as the value of assets should be equal to the discounted value of future earnings. Hence, one would expect parallel developments in the debt-to-assets and debt-to-earnings ratios in the long run. In addition, assuming that, in the long run, the share of financial assets in the balance sheet of NFCs is constant, parallel developments can be expected in the ratio of debt to financial assets.

In the short run, several factors can result in the divergent trends between the ratios. First, as regards financial assets, their value may increase more rapidly than earnings on account of valuation effects, which were indeed pronounced in the period of stock market recovery which began in 2003. Second, the divergence may signal that firms have invested more in financial assets than in non-financial assets. In fact, there was a significant accumulation of financial assets in the period 2003-06. In particular, the high growth rate of financial assets in the last few years is partially attributable to merger and acquisitions (M&A) activity<sup>2</sup>, which can impact on the value of NFC financial assets both through an actual increase in the stock of financial assets and through valuation effects, as stock prices may have responded positively to these operations. In addition, there has also been an increase in investments in other financial instruments less affected by valuation effects, such as currency and deposits or loans granted by NFCs.

<sup>2</sup> For a deeper analysis of recent developments in M&A activity in the euro area see Box 4, entitled "Recent trends in merger and acquisition activity in the euro area", in the July 2006 issue of the Monthly Bulletin.

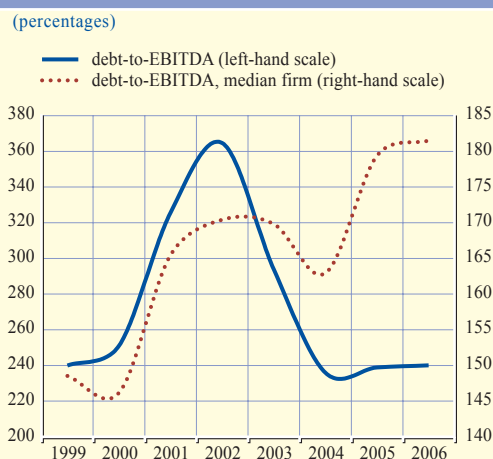


**Chart C Debt-to-assets ratio of listed non-financial companies**



Sources: Thomson Financial Datastream and ECB calculations.

**Chart D Debt-to-earnings ratio of listed non-financial companies**



Sources: Thomson Financial Datastream and ECB calculations.

With regard to potential differences in the evolution of the debt-to-financial assets and debt-to-total assets ratio, in the absence of harmonised data for the euro area as a whole some insights can be derived from the annual financial statements of listed non-financial corporations in the euro area. This comprehensive dataset, in which large companies predominate, makes it possible to construct indebtedness ratios with respect to total assets. The data show that the debt-to-total assets ratio decreased in the period 2003-05 (see Chart C) and in 2006 stood at around the same level as in 2000. The accumulation of both financial and non-financial assets contributed to this development. However, while the growth rate of total assets was closely linked to tangible assets between 2001 and 2004, in 2005 and 2006 it was more closely associated with the development of financial assets. As a result, the ratio of debt to financial assets (not shown in the chart) showed stronger reductions than the debt-to-total assets ratio in the period 2003-06. This suggests that the divergent trends observed for the debt to gross-operating surplus and debt-to-financial assets ratios presented in Chart A are in part due to the strong accumulation of financial assets during this period. Furthermore, Chart C suggests that the main role in the reduction of the debt-to-financial assets ratio observed at the aggregate level has been played by large companies rather than the median firm.<sup>3</sup>

Movements in the debt-to-earnings ratio for listed companies, where earnings are approximated by EBITDA<sup>4</sup>, were very similar to developments in the debt-to-assets ratio in the period under review (see Chart D). The increase in these companies' debt-to earnings ratio in 2005 and 2006 was fairly small by comparison with the increase in the debt-to-gross operating surplus ratio for the whole NFC sector. This is the result of a higher increase in earnings observed for large companies (which, as mentioned above, predominate in this database) in those years than for the NFC sector as a whole. Indeed, the increase in the ratio is more pronounced for the median firm than for the overall aggregate. This suggests that the increase observed in the EAA debt-

3 The median value is that which, when ordering indebtedness ratio observations from smaller to higher values, immediately follows the first 50% of the observations.

4 EBITDA (earnings before interest, taxes, depreciation and amortisation) is the closest correspondent measure from firms' balance sheets to gross operating surplus at the macroeconomic level.

to-earnings ratio in the last few years also reflects developments in small firms, which have recorded lower debt growth rates, but also lower earnings growth rates, than large firms.<sup>5</sup>

To sum up, there are indications that the increase, over the past couple of years, in the debt of NFCs with respect to earnings has been very modest for large listed companies, while for the entire NFC sector the ratio has risen to a larger extent. At the same time, the ratio of debt to financial assets has decreased in the case of euro area NFCs, which has probably facilitated NFCs' ability to receive credit in an environment of favourable asset price developments. Part of the reduction observed in this ratio is due to the accumulation of financial assets on the part of NFCs, but also to the increase in the value of assets on account of favourable financial market developments over the past couple of years.

<sup>5</sup> For evidence of more favourable earnings developments on the part of large listed firms relative to all firms, see also Box 5, entitled "The relationships between listed companies' earnings growth and output growth in the economy as a whole", in this issue of the Monthly Bulletin.

## 2.7 FINANCIAL FLOWS AND FINANCIAL POSITION OF THE HOUSEHOLD SECTOR

*The growth of household borrowing moderated further in the second quarter of 2007, reflecting the continued decline in the growth of loans for house purchase. In turn, this resulted from slower housing market dynamics and higher mortgage rates in the euro area, which more than offset the stimulative effects of improvements in labour market conditions and consumer confidence. Despite the continued moderation in borrowing growth, the indebtedness of the household sector increased further.*

### FINANCING CONDITIONS

Although the cost of household borrowing increased further, reflecting rises in key ECB interest rates, MFI interest rate statistics and the results of the July 2007 bank lending survey<sup>5</sup> suggest that financing conditions for the euro area household sector remained favourable in the second quarter of 2007 by historical standards.

MFI lending rates on loans for house purchase increased further in the second quarter of 2007 (see Chart 34). Increases of similar magnitudes were observed for loans with all periods of initial rate fixation, with increases ranging from 15 to 19 basis points on a quarterly average basis compared with the previous quarter. As a result, lending rates continued to display an inverted term structure, with rates on loans with an initial rate fixation period of over ten years remaining the lowest across all types of loan for house purchase. Indeed, the difference between the rate on loans with an initial rate fixation period of up to one year and that on loans with an initial rate fixation period of more than ten years increased slightly further.

The average MFI lending rate for consumer credit increased slightly in the second quarter of 2007 by comparison with the previous quarter, largely reflecting an increase of more than 20 basis points in the rate on loans with a period of rate fixation of up to one year. By contrast, the rate on loans with an initial rate fixation period of more than five years decreased marginally. As a result,

<sup>5</sup> See Box 1, entitled "The results of the July 2007 bank lending survey for the euro area", in the August 2007 issue of the Monthly Bulletin.

the spread between the rate on loans with an initial rate fixation period of more than five years and the rate on loans with an initial rate fixation period of up to one year narrowed further, reaching 23 basis points in June.

The spreads between MFI lending rates and market interest rates with comparable maturities narrowed in the second quarter of 2007 (compared with the previous quarter), as the rise in market rates exceeded that in lending rates. For instance, the spread between the average lending rate on loans for house purchase and two-year government bond yields declined slightly, reaching a historical low of less than 50 basis points in June. The spread between the average lending rate on consumer credit and the 12-month money market rate also decreased in the second quarter, following a rise in the previous quarter.

In the July 2007 bank lending survey, banks reported that, on balance, credit standards applied to the approval of loans to households remained broadly unchanged during the second quarter of 2007. This held for both consumer credit and loans for house purchase and followed a net easing of credit standards in previous quarters. According to the banks surveyed, these broadly unchanged credit standards reflected different influences. Competitive pressures from other banks continued to contribute to an easing of standards, while, in the case of loans for house purchase, housing market prospects and expectations regarding general economic activity led to tightening. In the case of consumer credit, the tightening impact came from banks' assessment of consumers' creditworthiness and perceived risk on collateral demanded.

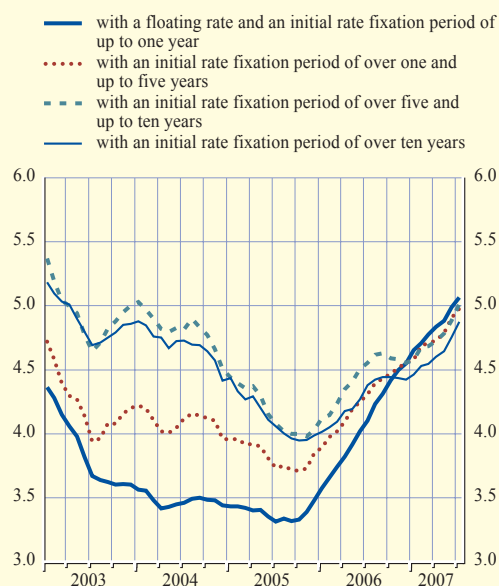
### FINANCIAL FLOWS

The annual growth rate of total loans granted to households by all institutional sectors declined further, to 8.3%, in the first quarter of 2007 (the most recent period for which data are available from the quarterly euro area sector accounts), from 8.7% in the previous quarter (see Chart 35). This moderation reflects a deceleration in the growth rates of loans from both MFIs and non-MFIs. At the same time, the rate of growth of loans to households by non-MFIs continued to exceed that of loans by MFIs in the first quarter of 2007. The data available up to July 2007 on MFI loans suggest that the annual growth rate of total loans to households declined further in the second quarter.

The growth rate of MFI loans to households continued to decline in July, reaching 7.0% in that month, having stood at 7.5% and 8.1% in the second and first quarters of 2007. This reflects lower contributions from both loans for house purchase and consumer credit. The gradual decline observed in recent quarters in the growth rate of loans for house purchase (which reached 8.1%

**Chart 34 MFI interest rates on loans to households for house purchase**

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

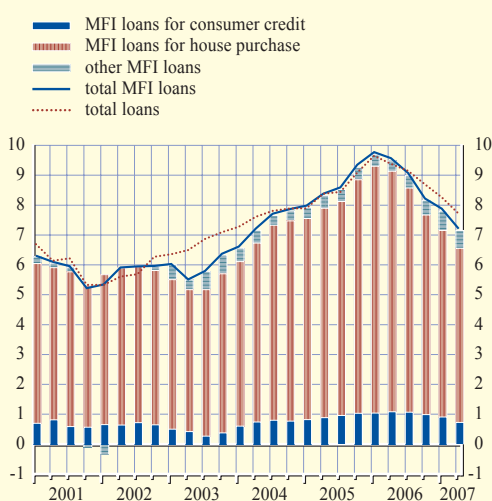


Source: ECB.

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

Chart 35 Total loans granted to households

(annual percentage changes; contributions in percentage points; end of quarter)

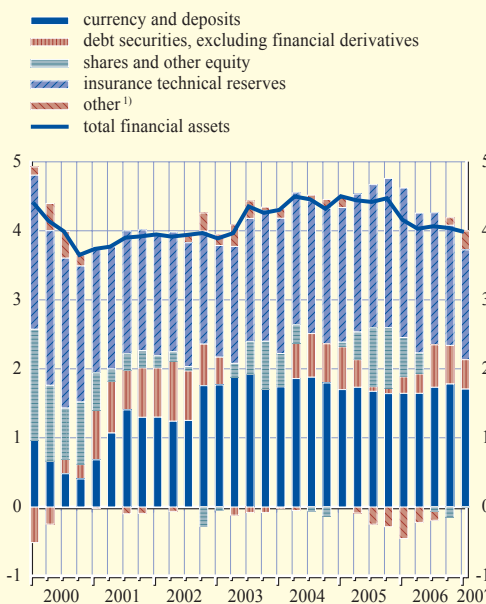


Source: ECB.

Note: Total loans comprise loans to households from all institutional sectors, including the rest of the world. For the second quarter of 2007 total loans to households have been estimated on the basis of transactions reported in money and banking statistics. For information on differences between MFI loans and total loans in terms of the calculation of growth rates, see the relevant technical notes.

Chart 36 Financial investment of households

(annual percentage changes; contributions in percentage points)



Source: ECB.

1) Includes loans, other accounts receivable and financial derivatives.

in July) is related to the slowdown in housing market dynamics in a number of euro area countries, as well as the impact of higher mortgage lending rates throughout the euro area in the context of increased key ECB interest rates. In the July 2007 bank lending survey, banks continued to report less favourable housing market prospects as being the main factor dampening households' demand for housing loans.

The annual growth rate of consumer credit declined to 5.8% in July, having stood at 6.5% in the second quarter and 7.1% in the first quarter. The annual growth rate of other lending to households was 3.2% in July, having stood at 3.7% in the second quarter. In the July 2007 bank lending survey, banks reported, on balance, continued positive demand for consumer credit and other lending in the second quarter of 2007, although the percentage of respondents sharing this assessment was lower than in the previous quarter. In particular, consumer spending on durable goods and consumer confidence were seen as having a less positive influence than in the previous quarter.

On the asset side of the euro area household sector's balance sheet, total financial investment grew at an annual rate of 4.0% in the first quarter of 2007, unchanged from the previous quarter (see Chart 36). This stable annual growth rate masks divergent developments in the contributions of individual instruments. In particular, lower contributions from investment in debt securities, insurance and pension products, and also, to some extent, deposits, were offset by a higher contribution from investment in shares and other assets. Although lower than in the previous quarter, the contributions of investment in currency and deposits and investment in insurance and

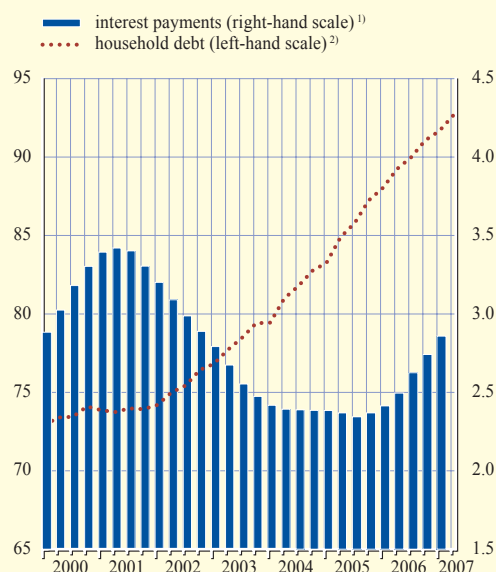
pension products, two asset classes at opposite ends of the maturity spectrum, continued to account for the bulk of the overall growth in financial investment by the household sector.

### FINANCIAL POSITION

As the household sector's borrowing remained strong relative to income developments, household indebtedness as measured by the debt-to-GDP ratio increased further, to 60.2%, in the second quarter of 2007, while the debt-to-income ratio increased to 92.7% (see Chart 37). In spite of this continued increase, the indebtedness of the household sector remained at a moderate level by international standards, particularly when compared with the United States or the United Kingdom. Households' total debt servicing burden (i.e. interest payments and principal repayments as a percentage of disposable income) increased slightly further. Since late 2005 – when interest rates on bank loans started to increase – developments in interest payments have ceased to provide a counterweight to the impact on this ratio of continuous increases in principal repayments.

**Chart 37 Household debt and interest payments**

(as percentage points of gross disposable income)



Sources: ECB and Eurostat.

Notes: Household debt comprises total loans to households from all institutional sectors, including the rest of the world. Interest payments do not include the full financing costs paid by households, as they exclude the fees of financial services.

1) Data for the second quarter of 2007 are not available.

2) Data for the last quarter shown have been partly estimated.

## 3 PRICES AND COSTS

HICP inflation is estimated to have remained at 1.8% in August 2007, unchanged from July and close to the levels observed over the past few months. In the coming months, inflation rates are likely to increase to levels above 2%. The short-term inflation profile is expected to continue to be heavily affected by past energy price developments, as strong base effects will have an upward impact on the annual growth rate of the overall HICP in the months ahead. In addition, pressures from food prices may increase, in relation to the recent surge in the prices of some agricultural commodities in world markets. According to the latest ECB staff macroeconomic projections, annual average HICP inflation is expected to be between 1.9% and 2.1% in 2007 and between 1.5% and 2.5% in 2008. Risks to the inflation projections are on the upside. Upside risks include increases in indirect taxes beyond those anticipated so far, further increases in oil prices and the prices of agricultural products, and – more fundamentally – stronger than expected wage developments and an increase in the pricing power in market segments with low competition.

### 3.1 CONSUMER PRICES

#### FLASH ESTIMATE FOR AUGUST 2007

According to Eurostat's flash estimate, HICP inflation was 1.8% in August 2007, unchanged from July (see Table 6). The estimate is, however, surrounded by uncertainty, given the preliminary nature of the data. A detailed breakdown of the HICP components will be available in mid-September.

#### HICP INFLATION UP TO JULY 2007

Overall euro area HICP inflation has been fluctuating between 1.8% and 1.9% since November 2006. In the first half of 2007, favourable base effects from the strong increases in energy prices observed a year earlier had a dampening impact on HICP inflation.<sup>1</sup> In July 2007 overall annual HICP inflation declined slightly to 1.8%, from 1.9% in June (see Chart 38). This was mainly due to a fall in the annual rate of change of the HICP energy component owing to a base effect, while HICP energy prices increased on a month-on-month basis, reflecting some recent oil price increases.

1 However, energy base effects are expected to have a strong upward impact on headline HICP inflation towards the end of 2007. For more information, see, for example, the box entitled "The role of base effects in driving recent and prospective developments in HICP inflation" in the January 2007 issue of the Monthly Bulletin.

**Table 6 Price developments**

(annual percentage changes, unless otherwise indicated)

	2005	2006	2007 Mar.	2007 Apr.	2007 May	2007 June	2007 July	2007 Aug.
<b>HICP and its components</b>								
Overall index <sup>1)</sup>	2.2	2.2	1.9	1.9	1.9	1.9	1.8	1.8
Energy	10.1	7.7	1.8	0.4	0.3	0.9	0.0	.
Unprocessed food	0.8	2.8	2.9	3.9	3.1	3.0	2.8	.
Processed food	2.0	2.1	1.9	1.9	1.9	2.0	1.9	.
Non-energy industrial goods	0.3	0.6	1.2	1.1	1.0	1.0	0.9	.
Services	2.3	2.0	2.4	2.5	2.6	2.6	2.6	.
<b>Other price indicators</b>								
Industrial producer prices	4.1	5.1	2.8	2.4	2.4	2.2	1.8	.
Oil prices (EUR per barrel)	44.6	52.9	47.3	50.2	50.3	52.6	55.2	52.4
Non-energy commodity prices	9.4	24.8	17.6	15.3	11.9	14.2	7.8	5.4

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

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



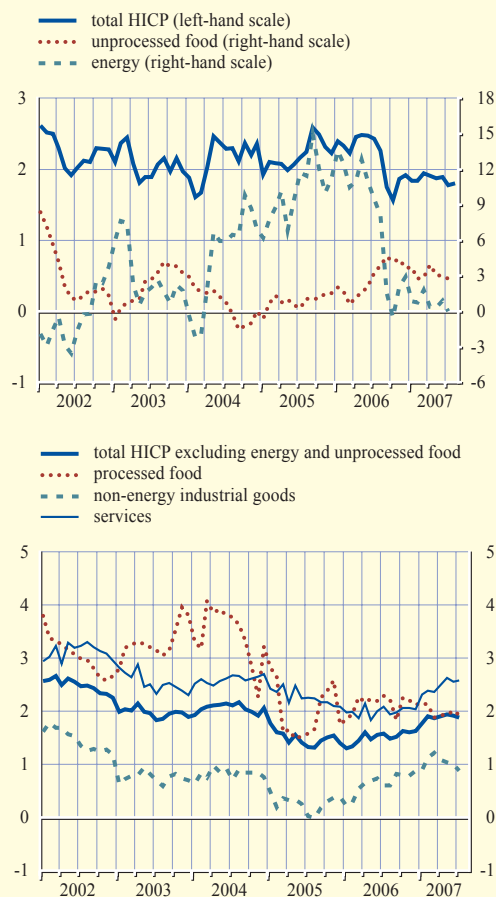
The annual rate of change in unprocessed food prices declined slightly further to 2.8% in July, confirming the trend of some deceleration from a peak in September 2006, notwithstanding some volatility in the spring of 2007 induced by unusual weather conditions.

Turning to the less volatile components of the HICP, the annual rate of change in processed food prices decreased slightly in July, despite a small increase in the “milk, eggs and cheese” sub-component. Anecdotal evidence reported strong hikes in the price of dairy and cereal products in a number of euro area countries, possibly related to the recent surge in the prices of certain agricultural commodities in world markets. However, this does not yet seem to have had any significant impact on euro area food prices at the consumer level (see Box 7).

Although capacity pressure in the manufacturing sector currently stands at a historically high level, some easing in the non-energy industrial goods component of the HICP has been observed since March, as a result of strong seasonal discounting in clothing and footwear prices, as well as lower import price pressures, most likely due to exchange rate developments. In July the annual growth rate of non-energy industrial goods prices declined further to 0.9%. By contrast, the annual growth rate of services prices in July was 2.6% for the third consecutive month, indicating the persistence of high rates following the gradual increase in services price inflation observed since the beginning of 2007. This acceleration partly reflects the impact of the rise in German VAT, but is also linked to demand pressures, as reported in corporate surveys, implying that services firms are better able to pass higher costs on to customers.

**Chart 38 Breakdown of HICP inflation: main components**

(annual percentage changes; monthly data)



Sources: Eurostat.

**Box 7**

**RECENT FOOD PRICE DEVELOPMENTS IN WORLD MARKETS AND THE EURO AREA**

In recent months the marked increases in the prices of agricultural products and food in world markets have received much attention. Against this background, this box reviews recent developments in food prices, both in world markets and with reference to the unprocessed and processed food components of the euro area HICP.

### Recent developments in world food prices

Food prices have increased significantly on world markets since 2001, although to a lesser extent than the prices of other raw materials. There has, however, been an acceleration in the momentum of prices in recent months, with food prices growing by about 30% in August compared with the same period last year. In terms of components, the increase has been broad-based across the three main sub-components (see Chart A).

The recent food price increases have mostly been driven by higher energy and fertiliser prices, low levels of inventories, shortfalls in certain crops – mainly caused by weather-related factors such as the drought in Australia – and strong increases in the demand for crops. The latter reflects mainly two factors. First, increasing wealth in most emerging economies, particularly China, has resulted in significant changes in food consumption patterns in these countries, leading to a higher consumption of high-protein foods such as meat and dairy products, and therefore a greater demand for the non-food use of agricultural commodities in the feeding of livestock. Second, the current high levels of energy prices and rising government incentives for the development of alternative fuels are supporting a substantial increase in demand for agricultural inputs for the production of biofuels, primarily ethanol and biodiesel. The price of corn, the main feedstock for ethanol production in the United States, rose at the beginning of the year to ten-year highs. As this encouraged US farmers to increase their corn production, they decreased the supply of other agricultural products, with a subsequent upward impact on the prices of these products in world markets.

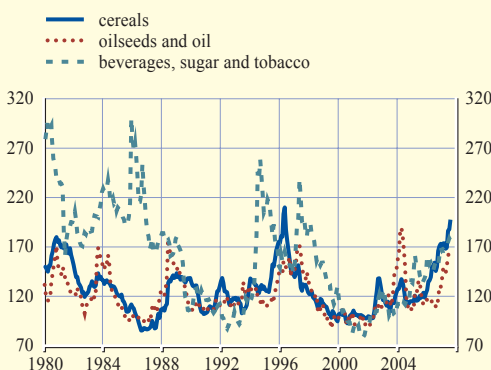
Despite the recent increases, food prices still remain below previous historical highs. Looking ahead, it is difficult at the current juncture to assess whether recent developments represent a change in the underlying trend observed in world agricultural prices. Although global demand is likely to remain buoyant, agricultural supply tends to respond more quickly to increased demand and prices than is the case in other commodity markets, such as oil and metals. The scope for price increases as seen in these markets may therefore be limited. Nevertheless, the risk of continued upward pressure on food prices remains dominant.

### Euro area food price developments and their contribution to euro area HICP inflation

Changes in world commodity prices can have direct and indirect effects on overall euro area HICP inflation. The direct effects are related to the import of unprocessed and processed food which is ready for consumption, while the indirect effects stem from the use of imported commodities as an input into domestic production and supply chains. The remainder of this box, by reviewing developments in euro area unprocessed and processed food prices and their contribution to overall HICP inflation, focuses on the direct effects of world food prices on euro area developments.

Chart A Developments in food and tropical beverage prices

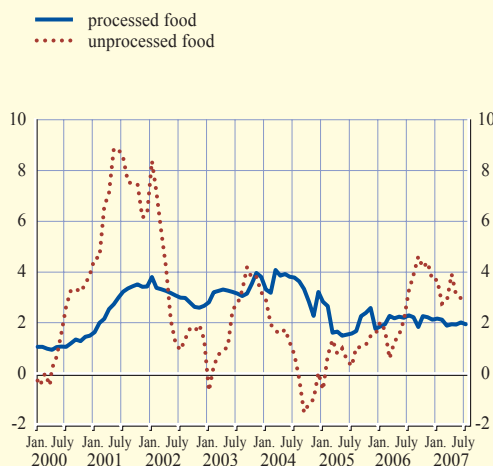
(index: 2000 = 100; in USD terms)



Sources: HWWI and ECB calculations.  
Note: Latest observation refers to August 2007.

**Chart B Growth in processed and unprocessed food components of euro area HICP**

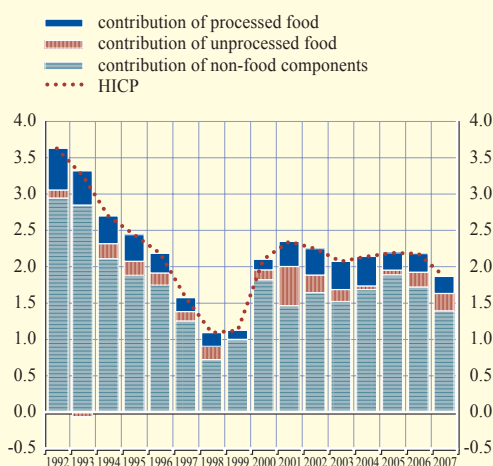
(annual percentage changes)



Source: Eurostat.  
Note: Data are available up to July 2007.

**Chart C Contributions to annual euro area HICP inflation**

(percentage points)



Sources: Eurostat and ECB calculations.  
Note: Data are available up to July 2007.

Following the spike in unprocessed food prices in 2001, which was caused to a large extent by the adverse impact of the spread of BSE and foot-and-mouth disease, prices since 2002 have occasionally been affected by unusual weather conditions in specific periods, but no overall trend can be observed (see Chart B). The gradual acceleration in unprocessed food prices observed during most of 2006 appears to have come to an end towards the end of last year, and developments in these prices appear to have normalised during the first half of 2007. Although the acceleration observed in 2006 was significant, it was far from unprecedented by historical standards, in terms of both annual growth and the associated contribution to overall HICP inflation (see Chart C).

As regards processed food prices, after gradually accelerating between 2000 and 2004, the annual growth rate has returned to levels close to the historical average. The greater stability of this component relates to a significant extent to the smaller impact that shocks such as extreme weather conditions have on processed food items as compared with unprocessed food items. However, specific shocks have also affected processed food items over recent years, notably occasional tobacco tax increases in some countries. Beyond these specific factors, no significant trend can be observed in the annual rate of change in processed food prices since 2005.

Although food prices appear to be among the most important factors affecting perceived inflation in the euro area,<sup>1</sup> their overall contribution to actual inflation is limited by their weight in the overall euro area HICP, which is approximately 11.9% for processed food and 7.6% for unprocessed food (in 2007). The direct contribution of unprocessed and processed food prices to overall headline inflation has thus been contained both in historical terms and during recent quarters. The annual rates of change in these components also appear to have been broadly in line with historical averages in 2007, up to July (see table). Moreover, no signs of sustained

<sup>1</sup> See, for example, the article entitled “Measured inflation and inflation perceptions in the euro area” in the May 2007 issue of the Monthly Bulletin.

**Recent developments in the unprocessed and processed food components of euro area HICP and their main sub-components**

(annual percentage changes, unless otherwise indicated)

	HICP weights (%)	Average annual growth						Average contribution to annual HICP inflation (percentage points)			
		2007	2005	2006	2007	May 07	June 07	July 07	2005	2006	2007
<b>Unprocessed food</b>	7.6	0.8	2.8	3.2	3.1	3.0	2.8	0.1	0.2	0.2	0.2
Meat	3.8	1.3	2.4	2.8	2.9	2.5	2.1	0.1	0.1	0.1	0.1
Fish	1.2	1.6	3.7	3.2	3.0	2.4	2.8	0.0	0.0	0.0	0.0
Fruit	1.2	-0.5	1.0	2.5	2.2	5.6	3.3	0.0	0.0	0.0	0.0
Vegetables	1.5	0.1	4.3	4.3	4.0	2.2	3.9	0.0	0.1	0.1	0.1
<b>Processed food</b>	11.9	2.0	2.1	2.0	1.9	2.0	1.9	0.2	0.3	0.2	0.2
Bread and cereals	2.5	0.8	1.4	2.3	2.4	2.4	2.5	0.0	0.0	0.1	0.1
Milk, cheese and eggs	2.1	-0.1	0.6	0.8	0.7	1.1	1.3	0.0	0.0	0.0	0.0
Sugar, jam, honey, chocolate and confectionery	1.0	0.0	0.9	0.9	1.0	0.9	0.9	0.0	0.0	0.0	0.0
Tobacco	2.5	7.8	3.9	5.0	4.9	4.8	4.3	0.2	0.1	0.1	0.1

Sources: Eurostat and ECB calculations.

Note: Averages for 2007 are based on data up to July 2007.

acceleration in the main sub-components of processed and unprocessed food prices have been observed during the period up to July 2007.

Overall, while international food commodity prices have risen strongly recently, this has not thus far been accompanied by a comparably strong rise in euro area food prices at the consumer level. This can be explained by various factors, including the relatively small share of agricultural products in euro area imports, the provisions of the EU's common agricultural policy which to some extent insulate euro area agricultural markets from external developments, and the gradual appreciation of the euro observed since 2001. However, anecdotal information and press reports have recently suggested the possibility of food price increases in August 2007. This relates, in particular, to significant increases in dairy and cereal products in a number of euro area countries in recent weeks, which may be related to some extent to supply and demand conditions and developments in international food commodity prices. This suggests some upward risks to euro area food prices looking ahead. However, uncertainty remains high with regard to the outlook for both world and domestic food prices. Food prices depend on a number of factors which are very difficult to predict, including technological advances and possible energy policy changes. Moreover, it is still unclear to what extent climate change may contribute to food price developments in the future.

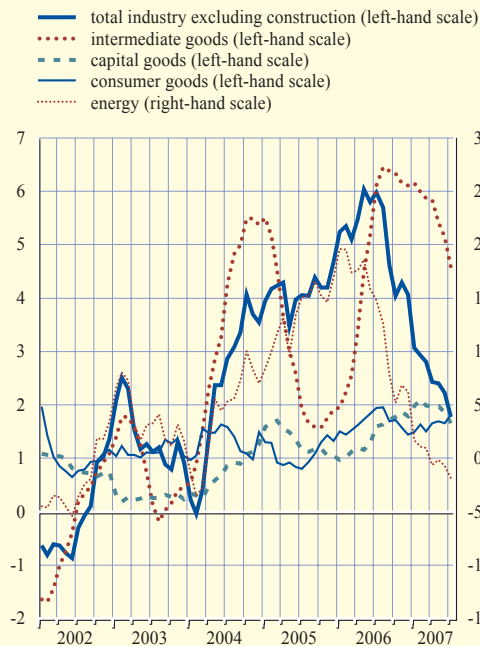
**3.2 INDUSTRIAL PRODUCER PRICES**

In July 2007 the annual rate of change in overall industrial producer prices (excluding construction) continued the downward movement observed since its peak of 6% in July 2006, falling further to 1.8%, from 2.2% in June (see Chart 39). The decline from mid-2006 was largely due to the sharp slowdown in industrial producer prices for energy over this period, which, in turn, mainly reflected base effects.

Excluding energy and construction, annual producer price inflation also declined over the same period, although less substantially (from 3.6% in August 2006 to 2.9% in July 2007) and remaining

**Chart 39 Breakdown of industrial producer prices**

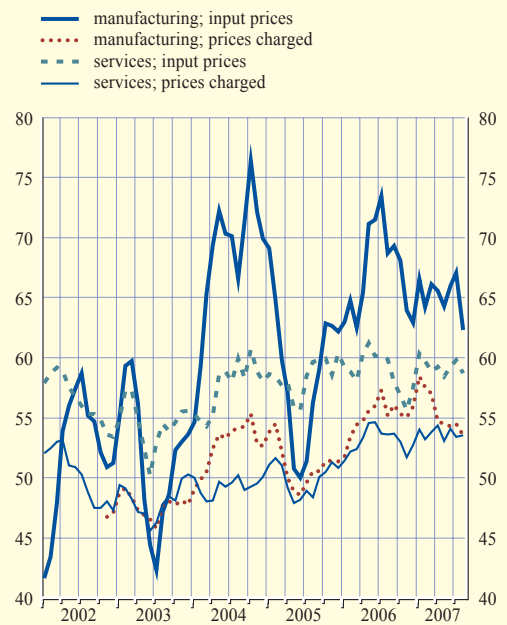
(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

**Chart 40 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.

at a relatively high level. This was mainly due to an easing in the annual rate of change in the producer prices of intermediate goods, although this rate also remained persistently high, reflecting the pass-through of a surge in industrial raw material prices (especially metals) in the first five months of 2007. Among the other non-energy producing sectors, the annual rate of change in the producer prices of capital goods also eased in July. Further down the production chain, the annual growth rate of overall consumer goods producer prices rose to 1.8% in July. This reflected an increase in the annual growth rate of non-durable goods, most likely linked to global food price pressures, which so far have mainly pushed up the prices of dairy products. Excluding the volatile food and tobacco components, the annual rate of change in the producer prices of consumer goods was broadly stable in July, having hovered around 1.3% since the beginning of 2007. Overall, while price pressures along the production chain appear to have eased, they are still considered to be rather elevated, and may become stronger in the light of short-term movements in food producer prices.

This assessment is supported by the latest information on price-setting from the NTC Economics Purchasing Managers' Survey (see Chart 40). Indeed, despite some easing, all price-related survey indicators continue to stand at high levels by historical standards. The latest data point to a recent decline in price pressures in the manufacturing sector, mainly owing to a fall in input costs. In August 2007 the input price index indicated a significant decrease in the rate of growth of non-wage input costs in the manufacturing sector, reaching its lowest level since December 2005. Input price inflation eased only marginally in the services sector as input price pressures were

**Table 7 Labour cost indicators**

(annual percentage changes, unless otherwise indicated)

	2005	2006	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
Negotiated wages	2.1	2.3	2.4	2.1	2.5	2.0	2.3
Total hourly labour costs	2.4	2.4	2.6	2.4	2.2	2.2	.
Compensation per employee	1.8	2.2	2.5	2.3	1.8	2.5	.
<i>Memo items:</i>							
Labour productivity	0.8	1.5	1.4	1.3	1.8	1.8	.
Unit labour costs	1.0	0.7	1.1	1.1	0.0	0.7	.

Sources: Eurostat, national data and ECB calculations.

reported by survey respondents to be underpinned by high oil prices and increased wage rates. In August the output price indicator decreased only slightly for the manufacturing sector, and increased marginally for the services sector.

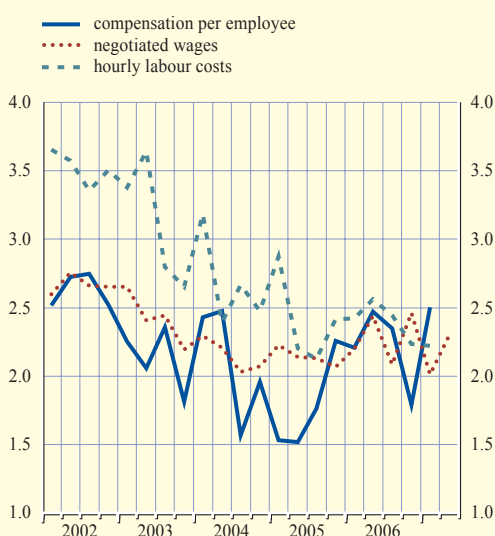
### 3.3 LABOUR COST INDICATORS

On the basis of the data available up to the second quarter of 2007, the picture emerging from labour cost indicators suggests a continuation of moderate wage developments, despite some temporary volatility owing to specific factors (see Table 7).

Negotiated wages in the euro area increased by 2.3% year on year in the second quarter of 2007, from 2.0% in the previous quarter (see Chart 41). This acceleration was largely driven by a significant one-off payment in the German metal industry in May. However, this assessment needs to be complemented by other labour cost indicators, which have not yet been published for the second quarter of 2007.

**Chart 41 Selected labour cost indicators**

(annual percentage changes; quarterly data)



Sources: Eurostat, national data and ECB calculations.

The annual growth rate of euro area hourly labour costs was unchanged at 2.2% in the first quarter of 2007, mainly reflecting a significant drop in Germany as growth rates in other countries edged up. The annual growth rate of compensation per employee increased to 2.5% in the first quarter of 2007, from 1.8% in the fourth quarter of 2006. This can be largely explained by specific temporary developments in the Italian public sector, as well as by sustained wage increases in business sectors in Italy and France. Combined with broadly unchanged labour productivity growth, the increase in the annual growth rate of compensation per employee resulted in an increase in the annual rate of growth of unit labour costs to 0.7% in the first quarter.



Looking at the available sectoral information, some acceleration in compensation per employee was recorded in all the main sectors in the first quarter of 2007 (see Chart 42), especially in construction and market services, where increases in labour productivity growth were also observed in that quarter. By contrast, hourly labour cost growth remained unchanged in industry in the first quarter, while decreasing in the construction sector and, to a lesser extent, in the market services sector. This may point to an increase in hours worked, especially in the construction sector.

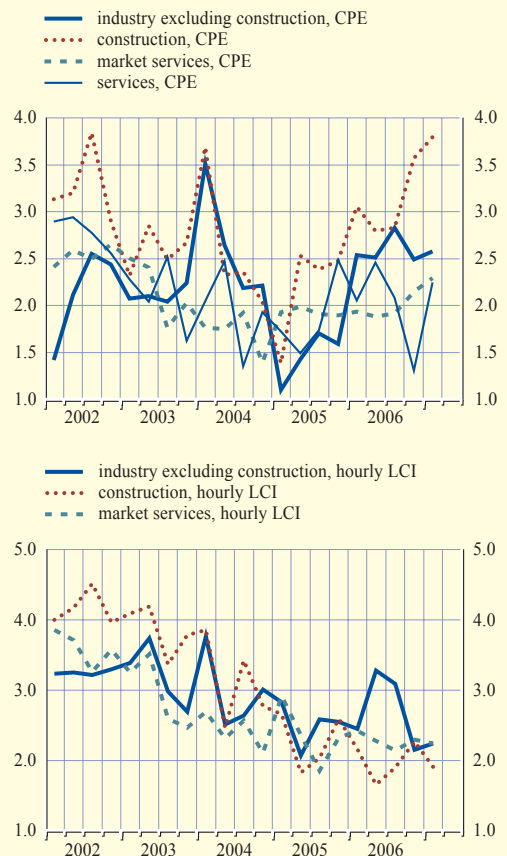
### 3.4 THE OUTLOOK FOR INFLATION

The short-term profile of annual HICP inflation is expected to continue to be heavily influenced by the volatility in energy prices observed last year. While base effects from the energy component played a dampening role in overall HICP inflation in the first half of 2007, they are expected to have an upward impact on headline HICP inflation in the coming months. In addition, anecdotal evidence suggests possible upward pressure on food prices in the coming months.

In the latest ECB staff macroeconomic projections for the euro area, annual average HICP inflation is expected to lie between 1.9% and 2.1% in 2007 and between 1.5% and 2.5% in 2008 (see the box entitled “ECB staff macroeconomic projections for the euro area”). This outlook remains subject to several upside risks. On the domestic side, risks are related in particular to higher indirect taxes. In addition, there are risks of stronger than expected wage dynamics, in the context of a tightening of labour market conditions. Indeed, labour shortages, which are increasingly mentioned in surveys as a source of concern in both the industry and services sectors, suggest that the moderate developments in wages observed in the past in the various labour cost indicators may not persist. Furthermore, if consumption remains sustained and capacity utilisation high, demand pressures may increase firms’ pricing power, especially in market segments with lower competition, and may lead to a higher than expected pass-through to consumer prices of the significant price pressures existing in the production chain. On the external side, annual HICP inflation could be affected by possible further rises in oil prices and the prices of agricultural products.

**Chart 42 Sectoral labour cost developments**

(annual percentage changes: quarterly data)



Sources: Eurostat and ECB calculations.  
Note: CPE stands for “compensation per employee” and LCI stands for “labour cost index”.

## 4 OUTPUT, DEMAND AND THE LABOUR MARKET

Despite the moderation in real GDP growth in the second quarter of 2007 (0.3% quarter on quarter according to Eurostat's latest estimate), economic growth in the first half of 2007 was broadly in line with potential growth. The latest available indicators confirm the continuing normalisation of euro area economic activity from the above-potential growth rates observed last year. In this regard, the most recent information about the supply side indicates a slowdown in industrial and construction production, but solid growth in the services sector and favourable labour market trends. The ECB staff macroeconomic projections for the euro area foresee average annual real GDP growth in a range between 2.2% and 2.8% in 2007, and between 1.8% and 2.8% in 2008. Risks to the economic outlook are on the downside. These downside risks relate mainly to a potentially broader impact from the ongoing reappraisal of risk in financial markets, global imbalances and protectionist pressures, as well as further oil and commodity price rises.

### 4.1 OUTPUT AND DEMAND DEVELOPMENTS

#### REAL GDP AND EXPENDITURE COMPONENTS

Following the strong economic activity last year, economic growth fell back to levels in line with potential in the first half of this year. In the current upswing, investment growth has so far remained the main contributor to euro area real GDP growth. As economic growth is moving to a more mature position in the cycle, consumption growth should strengthen further over time.

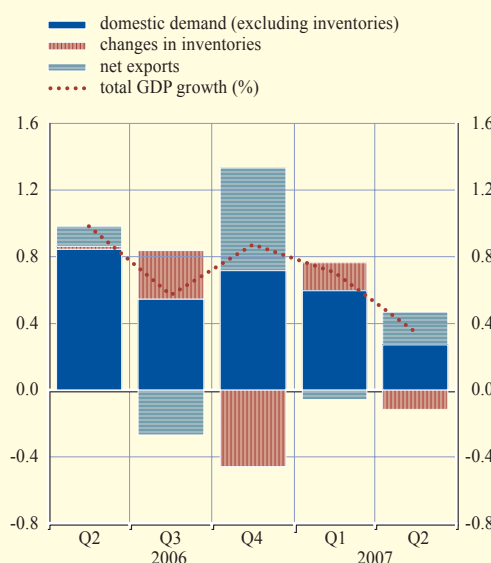
The normalisation of growth rates has been confirmed by Eurostat's latest release of national accounts data for the euro area. The moderation observed in the quarterly growth rate of euro area real GDP, which stood at 0.3% in the second quarter, should be considered against the strong growth of 0.7% observed in the first quarter (see Chart 43). Private consumption, which was stable in the first quarter of 2007 due to significant effects from the VAT increase in Germany, grew by 0.5% in the second quarter. Investment declined by 0.2%, following a substantial increase of 2.0% in the first quarter. Although the breakdown of investment for the second quarter has not yet been published, available information suggests that the fall was due mainly to lower residential investment. Both net trade and inventories provided a positive contribution to real GDP growth in the second quarter, of 0.1 and 0.2 percentage point respectively. Overall, the latest estimate of national accounts suggests that euro area economic growth remained strong in the first half of the year, albeit somewhat lower than in the previous year.

#### SECTORAL OUTPUT AND INDUSTRIAL PRODUCTION

While the acceleration of growth in the industrial sector was the main driver of GDP acceleration in 2006, this year, the services sector is progressively taking the lead.

Chart 43 Real GDP growth and contributions

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



Sources: Eurostat and ECB calculations.

Partly reflecting the acceleration in investment in the course of 2005, value added growth in the industrial sector has been growing at a higher rate than in the services sector since the beginning of 2006. In line with the normalisation of euro area economic activity and the progressive recovery of private consumption, value added growth remains buoyant in the services sector, while decelerating in the industrial sector. According to Eurostat's first estimate of national accounts, the contribution of the services sector to euro area total value added was 0.5 percentage point in the second quarter of 2007, compared with 0.4 percentage point in the previous quarter. Growth in the industrial sector, which contributed strongly (0.4 percentage point) to euro area total value added growth in the first quarter of 2007, decelerated in the second quarter and did not provide any significant contribution to euro area total value added growth.

Data on industrial production confirm this picture. Growth in industrial production (excluding construction) slowed in the second quarter of 2007 to a quarterly rate of 0.3%, after 0.8% in the first quarter. This deceleration has been common to all main industrial groupings, except for the energy sector, which rebounded strongly compared with previous quarters (see Chart 44). Industrial new orders (excluding heavy transport equipment) rose by 1.9% quarter on quarter in the second quarter of 2007, following an increase of 2.2% in the preceding quarter. From a longer-term perspective, industrial production growth, which accelerated continuously from the beginning of 2005 before peaking in the summer of 2006, has since eased, albeit with sustained resilience. Construction production has been expanding strongly since the beginning of 2006. However, owing to weather conditions, which are not adequately captured by seasonal adjustment, it has recently experienced some volatility, falling by 0.3% in the second quarter of 2007 after increasing by 1.5% in the first quarter. Furthermore, the bringing forward of German residential construction activities in 2006 to avoid the higher VAT rate from January 2007 onwards also weighed on recent construction developments. Construction production also slowed down in some other countries, such as Belgium, Spain and France, in the first half of 2007.

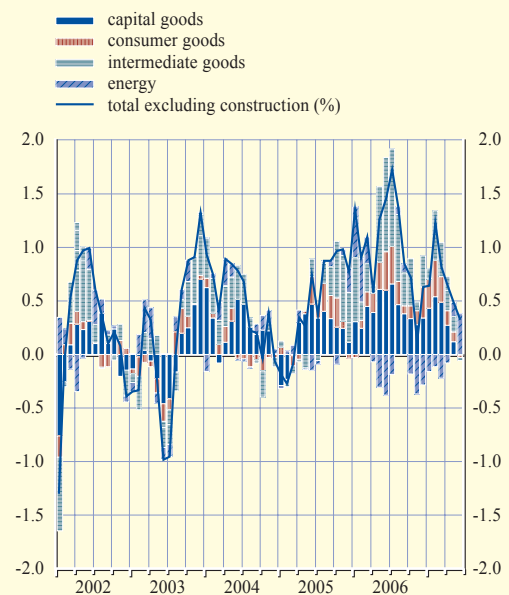
#### SURVEY DATA FOR THE INDUSTRIAL AND SERVICES SECTORS

Since the summer of 2006, survey indicators have been pointing to a normalisation of euro area economic activity from the above-potential growth rates previously observed.

Over the last 15 months, survey data have consistently pointed to some easing in the industrial sector, but to robust growth in the services sector. However, survey data available up to August 2007 remain at a high level, indicating that this strong growth will continue in the third quarter.

**Chart 44 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.

According to the European Commission Business and Consumer surveys, industrial confidence remained stable in August, while the Purchasing Manager Index (PMI) for the manufacturing sector posted a further small decrease (see Chart 45). As regards the services sector, both the Commission's confidence indicator and the PMI business activity index declined slightly in August. Overall, since the start of 2007, the surveys have provided some indication of a moderation in growth momentum in the industrial sector, while confidence in the services sector appears to have remained broadly unchanged.

### INDICATORS OF HOUSEHOLD SPENDING

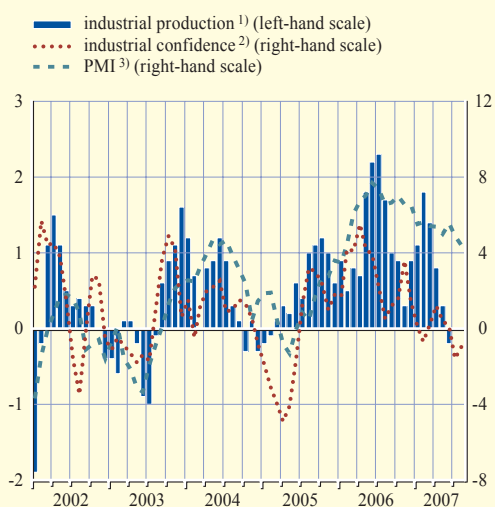
Private consumption growth in the euro area should strengthen further over time, in line with developments in real disposable income as employment conditions continue to improve.

The latest available information on household spending confirms the gradual recovery in private consumption growth, following the weak first quarter of 2007, which was affected by the VAT increase in Germany. Euro area private consumption increased by 0.5% quarter on quarter in the second quarter of the year, having stabilised in the previous quarter. According to the available data, private consumption growth in the second quarter was related mainly to the non-retail trade sector, while retail sales were practically flat for the second consecutive quarter. New car registrations were also slightly up in the second quarter, recovering somewhat from the decline of 3.5% observed in the previous quarter.

The positive outlook for private consumption is buttressed by developments in consumer confidence (see Chart 46). Euro area consumer confidence, as measured by the European

**Chart 45 Industrial production, industrial confidence and the PMI**

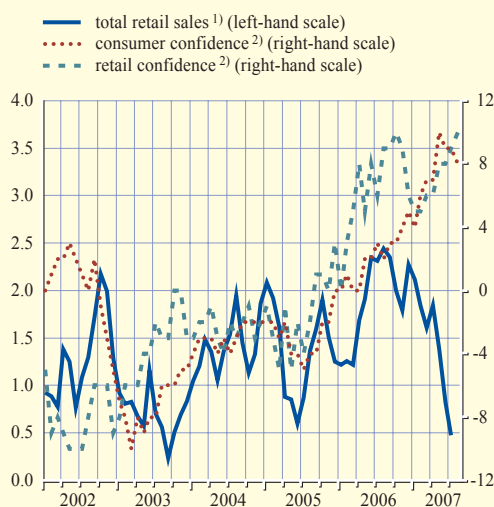
(monthly data; seasonally adjusted)



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

**Chart 46 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.

Commission survey, started to increase in mid-2005 and has stood above its long-term average level since mid-2006. Despite a mild decline over the last four months, consumer confidence in August remained close to the record peaks reached in 2000. The retail trade confidence indicator, which signals confidence developments among retailers, also increased further in August and is hovering around a historically high level.

#### 4.2 LABOUR MARKET

The labour market situation in the euro area has shown a clear improvement in recent years, and this favourable trend has been confirmed by the latest available data. Employment expectations remain at a high level and reinforce the assessment that labour market prospects are favourable. Survey indicators continue to detect some tightness in labour market conditions.

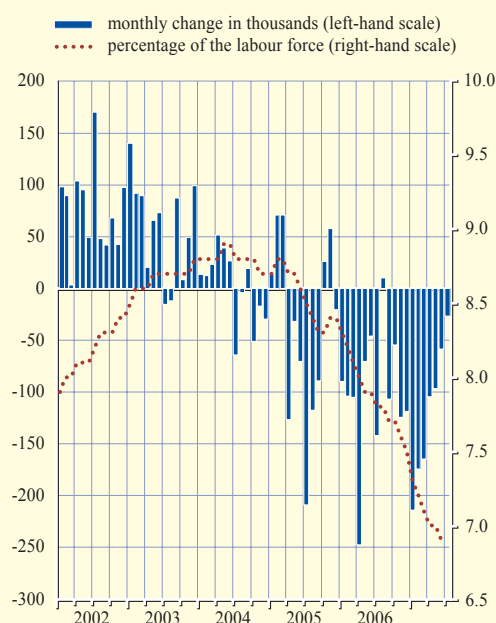
#### UNEMPLOYMENT

The euro area unemployment rate has been on a downward trend since mid-2004. In July 2007, it remained stable at 6.9% (see Chart 47). This level has not been seen in the euro area as a whole since the early 1980s. In July, the number of unemployed persons fell by about 27,000, significantly below the monthly average of 184,000 for the first three months of the year.

Survey data on production constraints in the industrial sector suggest that shortages of labour became more acute at the beginning of the third quarter of 2007, although these did not attain the

**Chart 47 Unemployment**

(monthly data; seasonally adjusted)



Source: Eurostat.

**Table 8 Employment growth**

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

	Annual rates		Quarterly rates				
	2005	2006	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1
Whole economy	0.8	1.4	0.5	0.5	0.2	0.3	0.4
<i>of which:</i>							
Agriculture and fishing	-1.4	-0.4	0.1	0.7	-2.0	-0.5	-0.2
Industry	-0.1	0.7	0.1	0.3	0.2	0.4	0.3
Excluding construction	-1.3	-0.2	-0.1	0.2	0.0	-0.1	-0.1
Construction	2.7	2.8	0.6	0.7	0.9	1.7	1.1
Services	1.3	1.8	0.7	0.5	0.4	0.3	0.5
Trade and transport	0.6	1.2	0.6	0.5	0.0	0.3	0.4
Finance and business	2.1	3.5	0.9	0.9	1.0	0.8	0.9
Public administration <sup>1)</sup>	1.4	1.4	0.7	0.3	0.3	0.0	0.3

Sources: Eurostat and ECB calculations.

1) Also includes education, health and other services.

extreme levels reported at the end of 2000. Although the historical data are more limited for the services sector, since mid-2006, the respondents to the European Commission's survey have increasingly mentioned the shortage of labour as a factor limiting production.

## EMPLOYMENT

Euro area employment growth improved substantially in 2006 compared with 2005 (see Table 8), and the available information points to favourable developments since the beginning of 2007.

Over the past year, employment developments reflected a combination of two factors. First, they partly mirrored the sectoral composition of value added growth, as the acceleration in employment growth has been stronger in industry than in the services sector. Second, these developments have also reflected differences in labour productivity growth, as employment growth has been stronger in the services sector, where labour productivity growth is lower than in the industrial sector. Overall, the labour market situation in the euro area has shown a clear improvement in recent years (see Box 8).

### Box 8

#### EURO AREA EMPLOYMENT IN 2006: A MORE BALANCED GROWTH

The labour market situation in the euro area has shown a clear improvement in recent years. In 2006, in particular, after years of subdued growth, employment increased by 1.4%, the highest rate since 2001. This positive evolution has translated into a sizeable reduction in the unemployment rate, which at the end of 2006 stood at 7.5% – a level not seen since the early 1980s – despite the simultaneous effect of the upward trend in participation.

This box summarises the characteristics of euro area employment growth in 2006, following the breakdown by age, gender, skill group, contract type and sector, used in the most recent EU Labour Force Survey.<sup>1</sup> The analysis shows that, relative to previous years, employment developments in the euro area in 2006 as a whole (i) were more evenly spread across age, gender and skill group, (ii) were led by a significant impulse in both permanent and full-time jobs and (iii) no further decline in the employment of low-skilled workers occurred. These developments suggest that, in addition to the positive impact of structural reforms implemented in labour markets – which had already become visible in certain groups in previous years – the increase in firms' confidence in terms of the sustainability of economic activity has contributed to the favourable employment creation in 2006.

#### Employment developments by gender, age and skill group

Although the increase in female employment continued last year and still accounts for the majority of total employment growth, the contribution of male employment also rose strongly in 2006 (see Chart A1). In the period 2003-05, females contributed, on average, 0.6 percentage point to overall employment growth, while the contribution from males was a mere

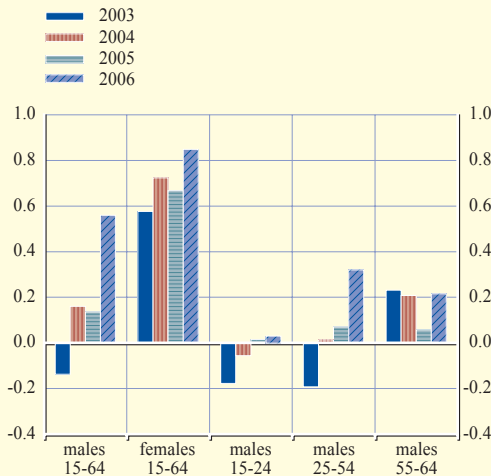
<sup>1</sup> Given that national accounts data are considered to provide more reliable information on employment developments at the current juncture, owing to methodological changes to the labour force survey in some euro area countries, the composition of employment used in this box is obtained using the EU Labour Force Survey. The shares of the different groups are subsequently applied to the national accounts data.



## Charts A Employment developments by categories between 2003 and 2006

(contributions to employment growth in percentage points)

### 1 By gender and age



### 2 By skills



Sources: Eurostat and ECB calculations.

0.05 percentage point. In 2006, however, the contribution of male employment rose to 0.6 percentage point, close to the 0.8 percentage point contribution from females. The bulk of the increase in the contribution from males was recorded in the prime age group (25-54), but the recovery of employment appears to be common to all age groups for males.

Turning to employment developments by skills (using the highest level of education attained as a proxy), it appears that developments in 2006 are also more balanced across skill categories than in the previous three years (see Chart A2), with all skill groups contributing positively to employment growth. The contribution of medium and high-skilled workers has been positive over the whole period 2003-05, and continued to account for most employment growth in 2006. However, a favourable development has been observed in the case of low-skilled workers, among whom employment growth has turned slightly positive after being the only group to have recorded negative growth in previous years. Overall, employment growth in 2006 appears to have been more widely balanced across gender, age and skill groups than in previous years, with most groups contributing positively to employment expansion in 2006.

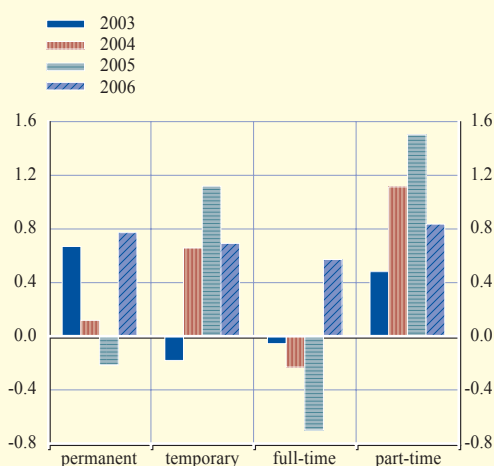
### Employment developments by type of contract

In relation to the composition of employment growth in terms of different types of contract, Chart B1 shows the contributions of both permanent versus temporary and full-time versus part-time jobs. Here, too, employment growth became more balanced across contract types in 2006. After some years of decline, employment in permanent and full-time jobs increased, while the continuous rise in the number of temporary and part-time workers slowed down. With respect to temporary jobs, which accounted for almost all employment growth in the period 2004-05, their contribution in 2006 was similar to that of permanent jobs (0.7 percentage point and 0.8 percentage point respectively). A very similar picture is found when comparing part-time and full-time jobs. The increasing contribution of both permanent and full-time jobs

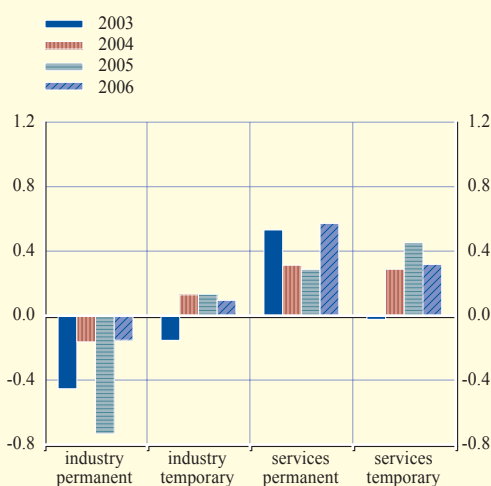
## Charts B Employment developments by type of contract between 2003 and 2006

(contributions to employment growth in percentage points)

### 1 Permanent versus temporary and full-time versus part-time jobs



### 2 Permanent versus temporary jobs by sectors



Sources: Eurostat and ECB calculations.

may provide further evidence that changes in employment growth patterns in 2006 are broadly based across different job categories.

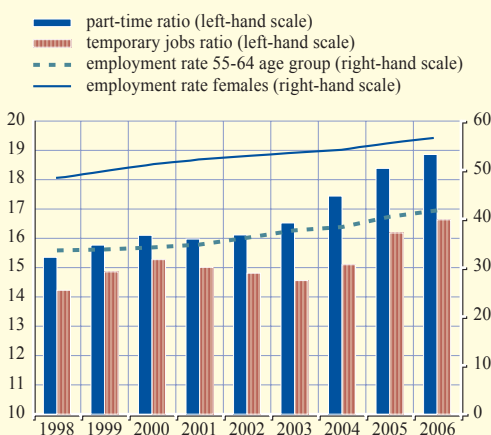
From a sectoral perspective, positive developments were recorded generally across all sectors. The most singular developments in 2006 were the substantial increase in permanent jobs in the services sector and the halt in the strong decline in permanent jobs in industry (see Chart B2). The rise in the number of temporary jobs continued in 2006 in all sectors of the economy.

### Long-term trends and outlook

Overall, however, the recoveries in certain sectors of the labour market in 2006 did not stop the ongoing trend increases in the employment rate of female and older workers, as well as in the temporary and part-time jobs ratios (see Chart C). The positive trends in these segments of the labour market can in part be related to past labour market reforms<sup>2</sup> and thereby forcefully demonstrate the benefits of making further progress with such reforms in the future.

## Chart C Employment rates of females and older workers and ratio of temporary and part-time jobs

(percentages)



Sources: Eurostat and ECB calculations.

Note: Employment rate = employment / population of the given category. Ratio of temporary (part-time) employment = number of temporary (part-time) employment / total employment.

<sup>2</sup> For further details, see the article entitled "Developments in the structural features of the euro area labour market over the last decade" in the January 2007 issue of the Monthly Bulletin.

Employment expectations have been on an upward trend since mid-2005 (see Chart 48). Both the European Commission's surveys on employment expectations and the PMI employment index are available up to August and confirm the favourable outlook prevailing in the labour market, pointing to further improvements in euro area employment at the beginning of the third quarter of 2007.

### 4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY

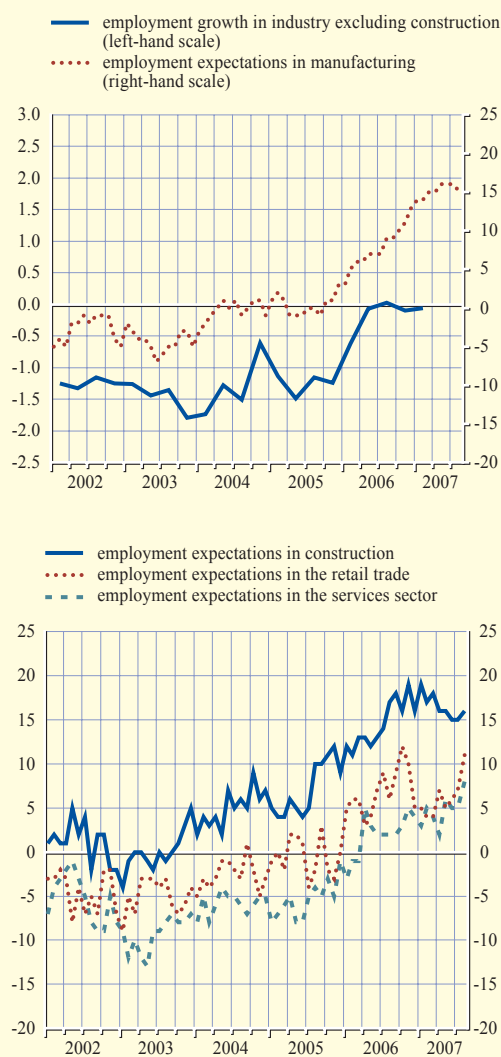
Overall, the available data suggest that economic activity in the euro area is continuing to expand at sustained rates. The good fundamentals of the euro area economy – notably the healthy financial situation of the corporate sector and the strong labour market – bode well for a smooth absorption of the financial market turbulence. Global economic activity is expected to remain robust and to provide support for euro area exports and investment. Consumption growth in the euro area should strengthen further over time, in line with developments in real disposable income as employment conditions continue to improve.

In line with this assessment, the latest ECB staff macroeconomic projections for the euro area foresee real GDP growth in a range between 2.2% and 2.8% in 2007 and between 1.8% and 2.8% in 2008 (see Box 9).

Risks to this favourable outlook are nevertheless on the downside. These downside risks relate mainly to a potentially broader impact from the ongoing reappraisal of risk in financial markets, global imbalances and protectionist pressures, as well as further oil and commodity price rises.

**Chart 48 Employment growth and employment expectations**

(annual percentage changes; percentage balances; seasonally adjusted)



Sources: Eurostat and European Commission Business and Consumer Surveys.  
Note: Percentage balances are mean-adjusted.

## Box 9

**ECB STAFF MACROECONOMIC PROJECTIONS FOR THE EURO AREA**

On the basis of the information available up to 24 August 2007, ECB staff have prepared projections for macroeconomic developments in the euro area.<sup>1</sup> Average annual real GDP growth is projected to be between 2.2% and 2.8% in 2007, and between 1.8% and 2.8% in 2008. The average rate of increase in the overall HICP is projected to be between 1.9% and 2.1% in 2007, and between 1.5% and 2.5% in 2008.

**Technical assumptions about interest rates, exchange rates, oil prices and fiscal policies**

The technical assumptions about interest rates and both oil and non-energy commodity prices are based on market expectations, with a cut-off date of 14 August 2007. With regard to short-term interest rates as measured by the three-month EURIBOR, market expectations are measured by forward rates, reflecting a snapshot of the yield curve at the cut-off date. This implies an overall average level of 4.3% for 2007 and 4.5% for 2008. The market expectations for euro area ten-year nominal government bond yields imply a flat profile at their mid-August level of 4.5%. The baseline also includes the assumption that bank lending spreads will rise slightly over the projection horizon, reflecting the recent episode of heightened risk consciousness in financial markets. On the basis of the path implied by futures markets in the two-week period ending on the cut-off date, annual average oil prices are assumed to be USD 68.1 per barrel in 2007 and USD 71.9 per barrel in 2008. The average annual increase in non-energy commodity prices in US dollars is assumed to be 20.0% in 2007 and 5.7% in 2008.

The technical assumption is made that bilateral exchange rates remain unchanged over the projection horizon at the average levels prevailing in the two-week period ending on the cut-off date. This implies a EUR/USD exchange rate of 1.37 and an effective exchange rate of the euro that is, on average, 3.1% higher in 2007 than the average for 2006 and 0.5% higher in 2008 than the average for 2007.

Fiscal policy assumptions are based on national budget plans in the individual euro area countries. They include all policy measures that have already been approved by parliament or that have been specified in detail and are very likely to pass the legislative process.

**Assumptions with regard to the international environment**

In the baseline projection, the external environment of the euro area is expected to remain favourable over the projection horizon. While the projections for real GDP growth in the United States and Japan are somewhat lower than in recent years, real GDP growth in emerging Asia is expected to remain well above the global average, and growth in most other large economies is also projected to remain dynamic.

<sup>1</sup> The ECB staff macroeconomic projections complement the Eurosystem staff macroeconomic projections that are produced jointly by experts from the ECB and the euro area NCBs on a biannual basis. The techniques used are consistent with those of the Eurosystem staff projections as described in "A guide to Eurosystem staff macroeconomic projection exercises", ECB, June 2001. To reflect the uncertainty surrounding the projections, ranges are used to present the results for each variable. The ranges are based on the differences between actual outcomes and previous projections carried out over a number of years. The width of the ranges is twice the average absolute value of these differences. At this juncture, however, owing to financial market developments, the uncertainty surrounding the projections is presumably larger than usual.

**Table A Macroeconomic projections for the euro area**(average annual percentage changes)<sup>1), 2)</sup>

	2006	2007	2008
HICP	2.2	1.9-2.1	1.5-2.5
Real GDP	2.9	2.2-2.8	1.8-2.8
Private consumption	1.9	1.4-1.8	1.5-2.7
Government consumption	1.9	1.3-2.3	1.2-2.2
Gross fixed capital formation	5.2	3.6-5.2	1.4-4.6
Exports (goods and services)	8.2	4.6-7.4	3.9-7.1
Imports (goods and services)	7.9	3.7-6.7	3.6-7.0

1) The projections for real GDP and its components refer to working-day-adjusted data. The projections for exports and imports include intra-euro area trade.

2) The figures reported include Slovenia already for 2006, with the exception of the HICP, where they include Slovenia only from 2007. The September 2007 projections include, for the first time, Cyprus and Malta as part of the euro area in the projection ranges for 2008. The annual percentage changes for 2008 are computed using a euro area composition that includes data for Cyprus and Malta for both 2007 and 2008. The weights of Cyprus, Malta and Slovenia in euro area GDP are approximately 0.2%, 0.1% and 0.3% respectively.

Overall, annual growth in world real GDP outside the euro area is projected to average about 5.6% in 2007 and 5.3% in 2008. Growth in the euro area's external export markets is projected to be about 5.5% in 2007 and 6.9% in 2008.

### Real GDP growth projections

Eurostat's first estimate of euro area real GDP growth in the second quarter of 2007 indicates quarter-on-quarter growth of 0.3%, following 0.7% in the first quarter of this year. Real GDP is projected to expand over the horizon at quarterly growth rates of around 0.5-0.6%. Against this background, growth in average annual real GDP is projected to be between 2.2% and 2.8% in 2007, and between 1.8% and 2.8% in 2008. Among the driving factors, export growth is expected to continue to support economic activity, as foreign demand is assumed to continue to grow at a robust pace. Robust growth in exports and rising profits are expected to support investment growth, although the pace of the latter is expected to moderate as the cycle matures and financing conditions tighten. Growth in private consumption is expected to be supported by favourable labour market trends.

### Price and cost projections

The average rate of increase in the overall HICP is projected to be between 1.9% and 2.1% in 2007, and between 1.5% and 2.5% in 2008. In line with the oil price assumptions, as derived from current oil futures prices, the positive contribution from energy and non-oil commodity prices to consumer price developments is expected to decline considerably in comparison with recent years. In addition, the contribution from indirect taxes anticipated thus far is currently assumed to be zero in 2008, against 0.5 percentage point in 2007. At the same time, the projections are based on the expectation that wage growth will be slightly higher over the projection horizon than in 2006. Since growth in labour productivity is projected to remain roughly stable, it implies an increase in unit labour cost growth. The upward effects of higher unit labour costs are, however, dampened in the baseline projection by the expectation of slightly declining growth in profit margins.

### Comparison with the June 2007 projections

Compared with the Eurosystem staff macroeconomic projections published in the June 2007 issue of the Monthly Bulletin, the range projected for real GDP growth in 2007 has been adjusted slightly downwards, reflecting the effects of somewhat higher oil prices and slightly tighter financing conditions. The range projected for real GDP growth in 2008 remains unchanged.

The new ranges projected for the annual rate of increase in the overall HICP in 2007 and 2008 are within the ranges of the June 2007 projections.

**Table B Comparison with the June 2007 projections**

(average annual percentage changes)

	2006	2007	2008
Real GDP – June 2007	2.9	2.3-2.9	1.8-2.8
Real GDP – September 2007	2.9	2.2-2.8	1.8-2.8
HICP – June 2007	2.2	1.8-2.2	1.4-2.6
HICP – September 2007	2.2	1.9-2.1	1.5-2.5



## 5 FISCAL DEVELOPMENTS

*The fiscal outlook for the euro area remains in line with previous expectations of a progressive unwinding of budgetary imbalances, in the context of a generally favourable macroeconomic environment. However, the latest information points to risks of a pro-cyclical relaxation of fiscal policies in some countries, in the form of increases in government expenditure and/or unfunded tax cuts. Lessons from the past indicate that euro area governments are well advised to follow prudent fiscal strategies and use the current economic good times to achieve progress with fiscal consolidation and reach medium-term budgetary objectives as soon as possible and by 2010 at the latest. This should offer an important buffer against an unwinding of revenue windfalls, while leaving a safety margin to account for the uncertainty involved in assessing the cyclical position in real time.*

### FISCAL DEVELOPMENTS AND OUTLOOK FOR 2007

Latest quarterly government finance statistics are broadly consistent with the further decline in the euro area general government deficit in 2007 expected in spring 2007 by the European Commission and other international institutions. While euro area data for the first quarter of 2007 appear to show early signs of a moderation in revenue dynamics, on balance, government revenues continued to grow at a solid pace, in excess of the growth rate of government expenditure (see Chart 49). Recent expenditure data include the effect of sizeable temporary spending effects in late 2006.

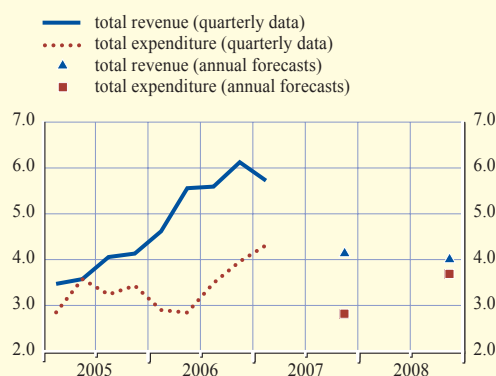
Most euro area countries currently appear to be on track to achieve the budgetary targets (in some cases insufficiently ambitious) that they set in their latest stability programme updates in late 2006 and early 2007, despite spending slippages and tax cuts in some countries. These budgetary developments are expected to be mainly driven by the favourable macroeconomic environment supporting ongoing strong revenue collection and moderate spending growth. The fiscal stance for the euro area, in terms of the change in the cyclically adjusted primary budget balance, is foreseen to tighten moderately. However, net of temporary effects, it would remain broadly neutral. Reflecting the increasing primary surpluses, the government debt ratio for the euro area is also set to continue on its downward path. As for the euro area countries still subject to the excessive deficit procedure, in Italy the government deficit is expected to fall below 3% of GDP in 2007, while in Portugal it would remain above this reference value.

### BUDGETARY PLANS FOR 2008 AND BEYOND

Most euro area countries are currently preparing their draft budgets for 2008 as well as updating their medium-term plans. As the information on budgetary plans is not yet complete, however, an assessment of the outlook for public finances in the euro area can only be tentative at this stage. The following discussion of budgetary plans for 2008 is restricted to the largest euro area countries.

Chart 49 Quarterly government finance statistics and forecasts

(annual percentage changes)



Sources: ECB calculations based on Eurostat and national data, European Commission.

Note: The chart shows the evolution of total revenue and total expenditure in terms of four-quarter moving sums for the period from Q1 2005 to Q1 2007, plus the forecasts for 2007 and 2008 from the European Commission Spring 2007 Forecasts.

In Germany, the Ministry of Finance released in July the draft federal budget and announced the budgetary mid-term fiscal plan for the federal government as well as budget balance projections for general government. The German government has revised projections for the 2007 general government deficit down from 1.2% to about 0.5% of GDP. The Ministry of Finance projects that the general government deficit will remain at 0.5% of GDP in 2008 and decline slightly to 0-0.5% in 2009, reach its medium-term objective of a balanced budget in 2010 and move into surplus in 2011. According to this draft budget, federal government revenue is expected to exceed the previous 2007 budget revenue plans considerably in 2007 as well as in 2008 to 2010. About half of the higher revenues at the federal level is scheduled to be spent rather than being used for faster deficit and debt reduction. The latest information would suggest better budgetary outcomes in 2007 and 2008.

In France, the new government announced a tax reduction package in June. The government estimates the negative impact of the reform on tax revenues at 0.1% of GDP in 2007, 0.6% in 2008 and 0.8% in 2009. Further changes to the tax system are envisaged, although the details and timing are still unclear. The French government has indicated that it now expects a general government deficit of around 2.4% of GDP in 2007, falling to 2.3% in 2008. France's medium-term objective of a balanced budget would not be achieved until 2012, although efforts would be made to achieve this earlier, possibly by 2010, if economic growth were to exceed expectations.

In Italy, the government presented its Economic and Financial Planning Document (DPEF) for the period 2008-11. The DPEF includes the effects of a bill providing around 0.4% of GDP of extra public funding in 2007 for recipients of low pensions, as well as families and young people. Some of these expenses will be structural. These extra expenditures are envisaged to be only partly financed by higher than expected revenues. Overall, the government now targets a deficit of 2.5% of GDP in 2007, falling to 2.2% in 2008 and 1.5% in 2009. On current targets, Italy's medium-term objective of a balanced budget would not be reached until 2011.

### NEED TO AVOID PAST MISTAKES

The current budgetary situation shares common features with the previous (1999-2000) economic upswing, because fiscal plans and targets again appear to reflect the expectation that the observed strong government revenue performance may prove permanent in nature. Also in 1999-2000 the general expectation was for the bright economic and fiscal outlook to persist, which in turn encouraged governments to lower taxes and raise expenditures on a permanent basis without offsetting structural spending measures. The year 2000 in fact constituted a turning point for economic growth, with the subsequent losses of government revenue and extra expenditure needs leading to a substantial deterioration of public finances in the euro area, which at this point in time has still to be fully corrected (see Table 9).

**Table 9 General government budget balance ratios and real GDP growth in the euro area for the period 2000-02**

Year	Forecast (autumn 2000)			Outcome (spring 2007)		
	Budget balance	Cycl. adj. primary balance	Real GDP	Budget balance	Cycl. adj. primary balance	Real GDP
2000	-0.7	3.4	3.5	-1.0	2.9	3.9
2001	-0.5	3.1	3.1	-1.9	1.2	1.9
2002	-0.4	3.2	3.0	-2.6	0.7	0.9

Source: European Commission, autumn 2000 and spring 2007.

Note: Figures are adjusted for the proceeds from the sale of UMTS licences.

Against the background of the current positive economic environment, it is therefore of crucial importance that past mistakes are avoided and that all euro area governments apply the lessons learned from the 1999-2000 episode. First, they should use the current window of opportunity to rapidly redress budgetary imbalances in order to achieve sound medium-term fiscal positions. This will allow them to let automatic budgetary stabilisers operate when the next economic downturn arrives as well as to prepare for the budgetary consequences of ageing populations by reducing government debt ratios at an appropriate pace. Second, governments should not engage in expansionary discretionary fiscal policies, be they in the form of unfunded extra permanent spending and/or tax cuts. To avoid the mistakes of the past, 2007 budgetary targets, which in some countries are not ambitious, should at least be attained, and revenue windfalls be used in full for faster deficit and debt reduction. Budget plans for 2008 should reflect the ongoing need for further consolidation in a number of countries by providing concrete deficit-reduction measures, preferably on the expenditure side. Countries scaling back their plans for fiscal consolidation in view of unexpectedly positive revenue buoyancy risk repeating the 1999-2000 experience, when lack of prudence led to excessive deficit ratios within a short period of time.

In particular, the countries still in excessive deficit should do their utmost to bring their deficits below the 3% of GDP reference value by the deadlines set by the ECOFIN Council at the latest. As for the countries that are not in excessive deficit but have not yet reached their medium-term budgetary objectives, their budget plans should ensure sufficient progress in the present economic good times, i.e. by at least the agreed minimum 0.5% of GDP structural consolidation benchmark. Euro area countries that have already reached their medium-term objectives are well advised to avoid expansionary fiscal policies that would put their budgetary achievement at risk and give rise to a pro-cyclical fiscal stance.

Euro area Finance Ministers acknowledged the appropriateness of the above fiscal policy guidelines in their agreement at the informal Eurogroup meeting in Berlin on 20 April 2007. It is now crucial that this agreement is put into practice in full and that all countries achieve their medium-term objective of sound budgetary positions as soon as possible and by 2010 at the latest.

Medium to long-term considerations also call for substantial consolidation to cope with high government debt ratios, low potential growth rates and large implicit government liabilities stemming from population ageing. Budget plans for 2008 and beyond should, therefore, continue to envisage consolidation as part of a comprehensive medium-term strategy that enhances fiscal sustainability and the quality of public finances. The containment of spending commitments and the reform of social security systems should not only facilitate the attainment of deficit and debt targets but also allow for lower tax burdens to improve incentives to work, invest and innovate and the efficient allocation of production factors. A further challenge in this regard is how to best increase the efficiency and transparency of tax systems in euro area countries, also in view of the experience of some central and eastern European countries with so-called “flat tax” systems (see Box 10).

## Box 10

## FLAT TAXES IN CENTRAL AND EASTERN EUROPE

Over 20 countries in the world, including five central and eastern European Member States and seven EU neighbouring countries, have introduced a so-called “flat tax” (initially the three Baltic countries in 1994-1995, followed since 2001 by a second wave of countries including Russia, Serbia, Ukraine, Slovakia, Georgia, Romania, the former Yugoslav Republic of Macedonia, Montenegro and Albania – see table). The “flat tax” concept is usually associated with the academic works of Hall and Rabushka,<sup>1</sup> who consider a single tax rate applied to both personal and corporate income beyond a given threshold or “basic allowance”. In practice, however, none of the aforementioned countries has adopted a pure flat tax system. The actual tax reforms have departed from the “single tax rate” principle and given rise to a variety of tax schedules. In particular, they differ in the level of the basic income allowance to be exempted from taxation, the level of statutory tax rates for personal and corporate income and the definition of tax bases, for instance regarding the tax treatment of dividends.

1 Hall, R. E., and Rabushka, A. (1983), “Low Tax, Simple Tax, Flat Tax” (New York: McGraw Hill); 1985, “The Flat Tax” (Stanford: Hoover Institution Press).

## Flat taxes in selected EU Member States and neighbouring countries

Country	Flat rate adopted	Personal income tax rate (in %)			Corporate income tax rate (in %)		
		Before reform	After reform	2007	Before reform	After reform	2007
Estonia	1994	16-33	26	22 <sup>1)</sup>	35	26	22 <sup>1)</sup>
Lithuania	1994	18-33	33	27 <sup>2)</sup>	29	29	15
Latvia	1995	25-10 <sup>3)</sup>	25	25	25	25	15
Russia	2001	12-30	13	13	15	35 <sup>4)</sup>	24
Serbia	2003	10-20	14	14	20	14	14
Ukraine	2004	10-40	13	15	30	25	25
Slovakia	2004	10-38	19	19	25	19	19
Georgia	2005	12-20	12	12	20	20	20
Romania	2005	18-40	16	16	25	16	16
FYR Macedonia	2007	15-24	12	12 <sup>5)</sup>	15	12	12 <sup>5)</sup>
Montenegro	2007	16-24	15	15 <sup>6)</sup>	15-20	9	9
Albania	2007	5-30	10	10 <sup>7)</sup>	20	10	10
<b>Comparison with the three largest euro area countries in 2007:</b>							
		Personal income tax rate (in %)			Corporate income tax rate (in %)		
Germany			15-42			38.70 <sup>8)</sup>	
France			5.5-40			33.33	
Italy			23-43			33	

Sources: Keen, M., Kim, Y. and Varsano, R. (2006), “The ‘Flat Tax(es)’: Principles and Evidence”, IMF Working Paper WP/06/218; Nicodème, G. (2007), “Flat tax: Does one rate fit all?”, *Intereconomics: Review of European Economic Policy*, 42(3), 138-142; European Commission’s “Taxes in Europe” database; World Bank; national finance ministries; Federation of International Trade Associations.

Note: In italics: non-EU countries.

1) To be reduced gradually to 20% by 2009.

2) To be reduced to 24% in 2008.

3) Regressive schedule.

4) Including the 5% tax levied by municipalities.

5) To be reduced to 10% in 2008.

6) To be reduced to 9% by 2010.

7) As of 1 July 2007.

8) All-in rate combining the nominal rate of 25% plus a local profit rate and surcharges; to be reduced to 29.83% in 2008.

This box takes a closer look at the main theoretical arguments regarding the introduction of flat taxes and describes the recent experiences with such reforms in the aforementioned countries.

According to the academic literature, a key argument in favour of introducing a flat tax lies in its simplicity: a characteristic which is expected to improve transparency, cut administrative costs and increase compliance. This positive outcome is especially expected in countries previously affected by recurrent tax avoidance. In addition, flat taxes are sometimes intended to reduce tax distortions and thereby improve economic efficiency. In particular, flat taxes on corporate and personal income can reinforce incentives to work, invest and innovate if they reduce the tax burden compared with the pre-reform level. It has also been argued that such reforms could be self-financing if they indeed contribute to higher investment, employment and output growth.

As single tax rates are more visible than progressive tax schedules, they also facilitate cross-country comparisons. In a context of increased international economic integration and capital and labour mobility, especially within the EU, this may lead countries to set flat tax rates at a low level in order to attract mobile production factors and tax bases. This puts a constraint on the high-tax countries. In this regard, the academic literature points to a potential “race to the bottom” in tax rates that could erode tax revenues and result in the underprovision of some public goods, such as effective public administration and high-quality infrastructures and education systems – while these are also crucial assets to attract mobile production factors.

Furthermore, flat taxes raise equity issues as they affect the personal income distribution. Several recent academic studies<sup>2</sup>, simulating the adoption of flat tax systems in European countries, come to the conclusion that although flat taxes could improve economic efficiency in certain cases, this would be at the expense of vertical equity. However, a counterargument to this finding is that redistribution objectives may be better achieved through appropriately designed government transfer schemes.

In practice, empirical reports provide mixed results on the impact of flat tax systems. The expectations of greater simplicity have not always been fulfilled. Some country studies<sup>3</sup> find positive effects of flat taxes in terms of simplicity and compliance. Other country case studies<sup>4</sup> show that simplicity in tax systems has increased only marginally, whereas the complexity associated with various exemptions and the fiscal treatment of certain categories of income remains. These findings suggest that complexity does not necessarily stem as much from progressive tax rates as from the definition of the tax base and options for exemptions.

On incentives to work, invest and innovate, empirical investigations for the Baltic countries, Georgia, Romania, Russia, Slovakia and Ukraine do not find clear-cut evidence that flat taxes indeed have the beneficial consequences expected. The new, flat statutory tax rates for personal and corporate income are not always low. In most countries of the second wave of tax reforms,

2 For instance, Fuest, C., Peichl, A. and Schaefer, T. (2007), “Is a flat tax politically feasible in a grown-up welfare state?”, FIFO-CPE Discussion Paper, 07-6, and several papers published in the *IB Review*, Institute of Macroeconomic Analysis and Development, 40(1-2): 69-153.

3 Vanasaun, I. (2006), “Experience of flat income tax: The Estonian case”, *IB Review*, 40(1-2): 101-106; Saavedra, P., Marcincin, A., and Valachy, J. (2007), “Flat income tax reforms”, in Grey, C., Lane, T. and Varoudakis, A. (2007), “Fiscal Policy and Economic Growth. Lessons for Eastern Europe and Central Asia”, World Bank.

4 Keen, M., Kim, Y. and Varsano, R. (2006), “The ‘Flat Tax(es)’: Principles and Evidence”, IMF Working Paper WP/06/218.

the personal income flat tax rate was set at or just below the lowest of the pre-reform marginal tax rates, but in Lithuania and Latvia it was fixed at the level of the highest marginal rate (see table). Nor has econometric analysis found evidence of enhanced work incentives, at least in the case of Russia.<sup>5</sup> The statutory flat tax rates on corporate income are in most cases below those of the largest euro area countries. However, this comparison is blurred by significant differences in tax base definitions.

Furthermore, there is no clear evidence that the introduction of flat taxes has been self-financing, although reports do not point to dramatic deteriorations in tax revenues either. In Slovakia, personal and corporate income tax revenue dropped (by respectively 0.8% and 0.2% of GDP) in the first year of the reform but improved thereafter.

As for economic growth, although central and eastern European countries have recorded high real GDP growth rates, this favourable result may be independent from the introduction of flat taxes. Empirical analyses remain cautious in establishing causality, as the tax reforms were generally part of a comprehensive set of far-reaching fiscal and structural reforms that may have played a stronger role than flat taxes alone.

Regarding distributional effects, empirical investigations do not always find clear signs of a reduction in the degree of tax progressivity, especially when flat taxes only concern part of the total tax system and do not cover social security contributions. On the one hand, in the countries where the personal income flat tax rate is higher than the lowest pre-reform marginal tax rate, the basic allowance was not always increased and was in certain cases reduced (Latvia), implying that the taxes paid by the poorest taxpayers have increased and progressivity has declined. On the other hand, the adoption of a flat tax in Slovakia appears to have reinforced tax progressivity, through the increased role of tax credits and allowances.<sup>6</sup>

This overview of the theoretical arguments and empirical evidence for central and eastern European countries leads to the following conclusions. First, flat taxes do not per se suffice to simplify tax systems, as complexity is mostly attributable to the definition of the tax base and, in particular, exemptions and loopholes. Better practices in this regard, as well as fighting tax fraud, and modernising and strengthening tax administration, would contribute to increasing transparency and improving tax compliance. Second, the fact that, in most countries, the introduction of a flat tax was accompanied by major structural reforms makes it difficult to isolate the impact of flat taxes on macroeconomic outcomes as well as tax revenues. Third, the flat tax rates on personal income tend to be lower than the top marginal tax rates under the previous system, and statutory corporate income tax rates in flat-tax countries are usually lower than in the euro area. While cross-country comparisons are affected by differences in the definitions of tax bases, they point to accrued downward pressure on tax rates, particularly on high personal income earners and corporations. This more competitive context represents a challenge for euro area countries and highlights the importance of carefully assessing the efficiency and quality of taxation and public expenditure.

5 Gaddy, C. G. and Gale, W. G. (2005), "Demythologizing the Russian flat tax", *Tax Notes International*, 983-988; Ivanova, A., Keen, M. and Klemm, A. (Eds.) (2005), "The Russian flat tax reform", IMF Working Paper WP/05/16.

6 World Bank (2005), "The Quest for Equitable Growth in the Slovak Republic. Earning Your Way Out of Poverty: Assessing the Distributional Effects of Recent Slovak Reforms of the Tax and Benefit Systems", World Bank Living Standards Assessment: Policy Note 2, Report No. 32433-SK.



## 6 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

### 6.1 EXCHANGE RATES

After a period of broad stability in the middle of 2006, the euro largely followed an appreciation trend between the end of 2006 and April 2007. Since then, movements of the euro have not exhibited any clear trend, notwithstanding some considerable short-term volatility. On 5 September the euro stood in effective terms 3.1% higher than its 2006 average.

#### EFFECTIVE EXCHANGE RATE OF THE EURO

Between the end of 2006 and late April 2007 the appreciation of the euro was relatively broad-based, supported to some extent by the changing assessment by market participants of the relative cyclical position of the euro area relative to its main trading partners. Since May this appreciation trend appears to have come to an end, with the euro trading largely sideways, amid some considerable short-term volatility. On 5 September 2007 the nominal effective exchange rate – as measured against the currencies of 24 of the euro area’s important trading partners – was broadly unchanged compared with the level at the end of May and 3.1% higher than its average level in 2006 (see Chart 50). The broad stability of the euro in effective terms over the past three months masks some more pronounced movements in bilateral rates, with the euro appreciating strongly vis-à-vis the Hungarian forint, the Korean won and the Australian dollar, while depreciating especially vis-à-vis the Japanese yen and, to a lesser extent, the Norwegian krone and the Czech koruna. In terms of the indicators of the international price and cost competitiveness of the euro area, in August 2007, based on developments in consumer and producer prices, the real effective exchange rate of the euro was around 3% above its average 2006 level (see Chart 51).

#### US DOLLAR/EURO

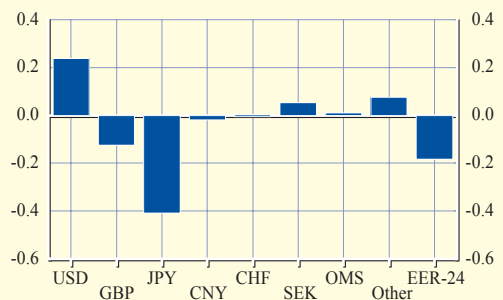
The US dollar broadly mirrored developments in the nominal effective exchange rates of the euro over recent months. After a period of appreciation against the US currency between late 2006 and the end of April 2007, the euro traded broadly sideways, amidst some considerable short-term fluctuations. Over the past three months, the euro appreciated again initially, reaching an all-time high of USD 1.383 on 24 July. Subsequently, the euro lost some of these gains, experiencing a particularly strong decline in the first half of August. In recent months, the exchange rate of

Chart 50 Euro effective exchange rate and its decomposition <sup>1)</sup>

(daily data)



Contributions to EER changes <sup>2)</sup>  
From 31 May to 5 September 2007  
(in percentage points)



Source: ECB.

Note: The shaded area refers to the period from 31 May 2007 to 5 September 2007.

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.

the euro vis-à-vis the US dollar has been influenced by periodic revisions in market participants' assessments of the relative cyclical outlook in the two economic areas. More recently, such considerations have played less of a role, as concerns about liquidity conditions in global money and credit markets have gained prominence. In particular, such concerns have led to a general increase in investors' risk aversion and overall volatility, with the implied volatility on the USD/EUR currency pair having risen from their historical lows. Consequently, the US dollar may have benefited from flight-to-safety considerations by international investors. In addition, concerns about the exposure of European banks to the US sub-prime mortgage sector were reported to have weighed on the single currency. The weakening of the euro vis-à-vis the US dollar seen in the first half of August was reversed in the second half of the month, as financial markets showed some signs of stabilising. On 5 September the euro traded at USD 1.36, i.e. 1.0% above its level at the end of May and 8.2% stronger than its 2006 average (see Chart 52).

### JAPANESE YEN/EURO

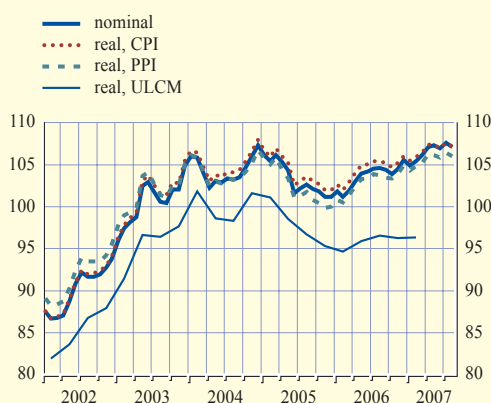
Over recent months, the euro initially continued its appreciation trend vis-à-vis the Japanese yen, which had been in place since mid-2005, reaching on 13 July a historical high of JPY 168.68. Since then, the euro has depreciated sharply against the Japanese currency, losing almost 7% in the context of a broad-based strengthening of the Japanese yen. Movements in the exchange rate of the Japanese yen over recent months were to a large extent driven by developments in the attitude of international investors towards carry trades. In particular, the strengthening of the euro vis-à-vis the Japanese yen up to mid-July was reportedly related to the attractiveness of the Japanese yen as a funding currency for carry trades, given the low level of Japanese interest rates, low implied volatilities combined with low investor risk aversion. The market turbulence in early March 2007 led only to a temporary correction of the corresponding depreciation trend of the Japanese yen, with initial gains quickly reversed. The more recent turbulence in global financial markets in August appears to have had a more significant impact on the Japanese yen, as suggested by the magnitude of the movement in exchange rates. This may be related to the more significant increase in the riskiness of carry trades during the recent episode, as measured by the implied volatility of Japanese yen exchange rates, with the implied volatility on the JPY/EUR currency pair rising well above historical averages. At the same time, risk reversals calculated from options prices indicate a considerable shift in market expectations in favour of a strengthening of the Japanese currency. On 5 September the euro stood at JPY 157.11, i.e. 3.9% lower than its level at the end of May and 7.6% higher than its 2006 average (see Chart 52).

### EU MEMBER STATES' CURRENCIES

As was the case in 2006, most currencies participating in ERM II remained stable and continued to trade at, or close to, their respective central rates in the first eight months of 2007 (see Chart 53). The Slovak koruna, whose central rate was revalued in March, continued to trade on the strong

**Chart 51 Euro nominal and real effective exchange rates <sup>1)</sup>**

(monthly/quarterly data; index: Q1 1999 = 100)

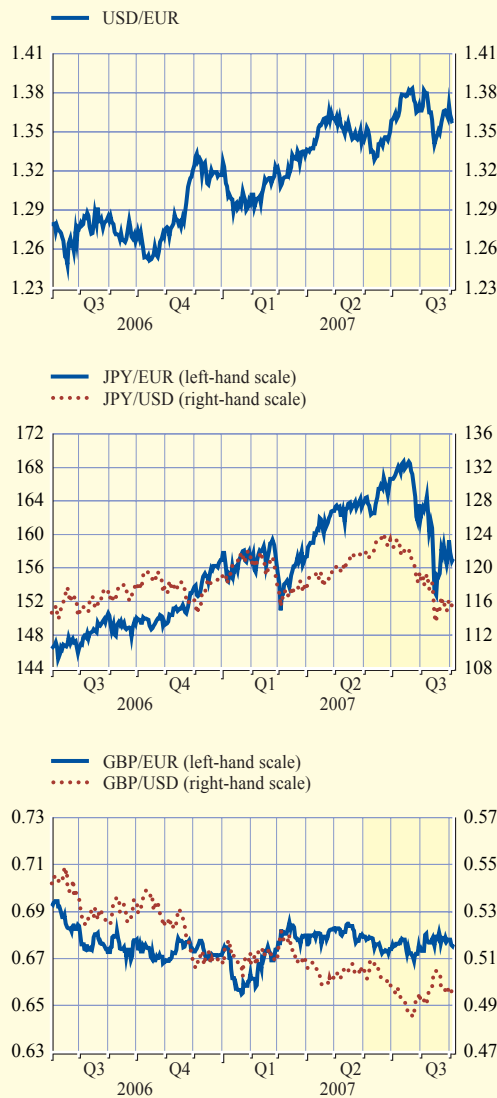


Source: ECB.

1) An upward movement of the EER-24 indices represents an appreciation of the euro. The latest observations for monthly data are for August 2007. In the case of the ULCM-based real EER-24, the latest observation is for the first quarter of 2007 and is partly based on estimates.

Chart 52 Patterns in exchange rates

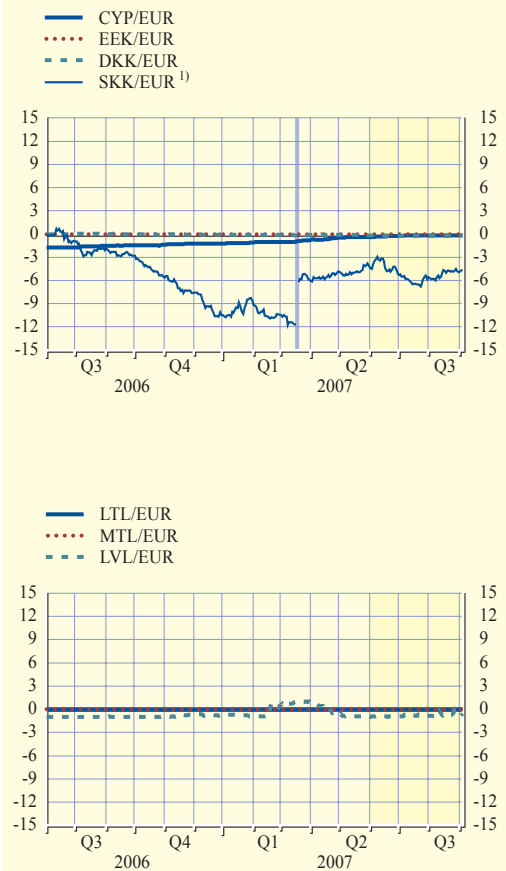
(daily data)



Source: ECB.  
Note: The shaded area refers to the period from 31 May 2007 to 5 September 2007.

Chart 53 Patterns in exchange rates in ERM II

(daily data; deviation from the central parity 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.

side of its new central rate. Some weakening of the euro vis-à-vis the Slovak currency in the course of June and July was partly reversed in August, with the Slovak koruna trading on 5 September at SKK 33.78, i.e. 4.7% stronger than its central rate, and slightly stronger than its level at the end of May. The Latvian lats continued to trade close to the stronger end of the intervention band of  $\pm 1\%$  that was set unilaterally by Latvijas Banka, notwithstanding some increased volatility in August. On 5 September the Latvian lats traded 0.6% higher than its ERM II central rate, broadly unchanged from its level at the end of May.

With regard to the currencies of other EU Member States not participating in ERM II, between the end of May and 5 September 2007, the euro depreciated slightly vis-à-vis the pound sterling. After experiencing some more pronounced swings in early 2007, the euro entered a period of broad stability vis-à-vis the British currency in March 2007. After some moderate depreciation of the euro from May to July, the single currency subsequently appreciated again, trading on 5 September at GBP 0.68, i.e. 0.6% weaker than at the end of May. At the same time, the euro appreciated between the end of May and 5 September by 2.2% and 1.1% vis-à-vis the Hungarian forint and the Swedish krona respectively, and depreciated against the Czech koruna (by 2.4%).

### OTHER CURRENCIES

Over recent months, the euro initially continued to appreciate vis-à-vis the Swiss franc, continuing a trend in place since the middle of 2006. Starting towards the end of July, the euro lost some of these gains in the context of a broader strengthening of the Swiss currency. This strengthening has reportedly been related to the environment of heightened risk aversion and volatility and the associated more general unwinding of carry trades, with the Swiss franc serving in some cases as a funding currency. Between the end of May and 5 September, the euro remained broadly unchanged vis-à-vis the Swiss franc. Over the same period, the euro depreciated by 2.6% vis-à-vis the Norwegian krone. Meanwhile, the euro strengthened vis-à-vis the currencies of some of the main Asian trading partners (by 2.1% against the Korean won, by 0.8% against both the Hong Kong dollar and the Singapore dollar). It also strengthened vis-à-vis the Australian dollar (by 1.7%).

## 6.2 BALANCE OF PAYMENTS

*In the second quarter of 2007 both extra-euro area exports and imports continued to grow moderately. This notwithstanding, the goods surplus continued to rise in the 12-month period up to June 2007, also translating into a surplus in the euro area current account for the same period. In the financial account, combined direct and portfolio investment recorded large net inflows in this period, as opposed to net outflows in the corresponding period 12 months earlier.*

### TRADE AND THE CURRENT ACCOUNT

In the first half of 2007 both extra-euro area exports and imports of goods and services grew at a moderate pace after the exceptionally strong growth rates witnessed at the end of last year. In more detail, the value of extra-euro area exports expanded by 0.9% (quarter-on-quarter in seasonally adjusted terms) in both the first and second quarters of 2007 compared with 3.8% in the last quarter of 2006. The deceleration in exports in the first half of the year mainly reflected a similar development in goods exports and can be primarily construed as a normalisation of trade dynamics. Imports of goods and services moved broadly in line with developments in exports, posting moderate growth rates of 0.4% and 1.1% in the first and second quarters of 2007 respectively (see Table 10).

The breakdown of trade in goods into volumes and prices, only available up to May 2007, suggests that the slowdown in the growth of the value of goods exports in the course of 2007 results from the decline in the growth of export volumes. Export volumes decelerated markedly at the beginning of this year and are likely to have remained virtually flat in the second quarter of 2007 which, to some extent, may be seen as a normalisation after a period of strong growth at the end of 2006. Somewhat weaker foreign demand in the first two quarters of 2007 coupled with the appreciation of the euro contributed to the slowdown in extra-euro area exports. Meanwhile, goods export

**Table 10 Main items of the euro area balance of payments**

(seasonally adjusted, unless otherwise indicated)

			Three-month moving average figures ending				12-month cumulated figures ending	
	2007 May	2007 June	2006 Sep.	2006 Dec.	2007 Mar.	2007 June	2006 June	2007 June
<i>EUR billions</i>								
<b>Current account</b>	-7.8	5.9	-1.5	2.2	1.5	-1.2	-24.1	3.2
Goods balance	4.1	7.0	1.4	5.2	5.1	5.3	18.7	50.9
Exports	120.9	126.0	116.8	121.9	121.9	123.2	1,306.1	1,451.5
Imports	116.9	119.0	115.4	116.7	116.8	117.9	1,287.4	1,400.6
Services balance	2.7	3.9	2.9	2.7	3.6	3.3	37.5	37.2
Exports	37.5	38.9	35.7	36.3	37.8	38.0	421.3	443.4
Imports	34.7	35.1	32.8	33.6	34.2	34.8	383.8	406.2
Income balance	-10.3	-0.1	0.7	0.8	-0.9	-3.7	-11.1	-9.4
Current transfers balance	-4.4	-4.9	-6.4	-6.4	-6.3	-6.0	-69.2	-75.5
<b>Financial account<sup>1)</sup></b>	1.1	-40.5	17.0	-15.3	-4.0	-7.2	102.2	-28.4
Combined net direct and portfolio investment	-8.5	25.4	-7.2	20.3	32.7	2.7	-46.1	145.3
Net direct investment	-13.4	-44.8	-14.6	-19.8	-8.1	-27.6	-202.2	-210.3
Net portfolio investment	5.0	70.2	7.4	40.1	40.7	30.3	156.1	355.7
Equities	10.8	80.7	8.4	18.3	29.0	26.9	191.9	247.8
Debt instruments	-5.8	-10.5	-0.9	21.8	11.7	3.4	-35.8	107.9
Bonds and notes	-11.5	3.4	4.3	32.4	16.2	1.7	-19.9	163.6
Money market instruments	5.7	-13.9	-5.2	-10.6	-4.4	1.6	-15.9	-55.6
<i>Percentage changes over previous period</i>								
<b>Goods and services</b>								
Exports	-1.2	4.1	2.2	3.8	0.9	0.9	12.4	9.7
Imports	-0.5	1.6	2.4	1.5	0.4	1.1	16.7	8.1
<b>Goods</b>								
Exports	-1.3	4.2	3.0	4.4	0.0	1.0	12.8	11.1
Imports	-0.9	1.8	3.1	1.1	0.1	0.9	18.6	8.8
<b>Services</b>								
Exports	-0.7	3.9	-0.3	1.9	4.0	0.7	11.3	5.3
Imports	0.6	0.9	0.2	2.7	1.7	1.6	11.1	5.8

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.

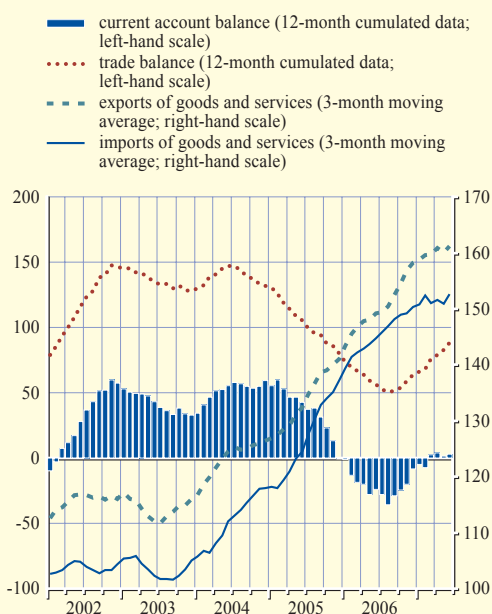
prices continued to rise at a moderate pace in the second quarter after posting an increase of 0.7% in the first quarter of 2007.

On the imports side, the volume-price breakdown of extra-euro area goods trade suggests that the moderate pace of expansion in the value of imports reflects the ongoing deceleration of import volumes. These developments mirror the slowdown in manufacturing activity in recent months. Meanwhile, somewhat higher increases in prices of goods imports are likely in the second quarter (after being almost flat in the first quarter), given the pick-up in world oil prices.

Taking a longer-term perspective, the 12-month cumulated current account up to June 2007 recorded a surplus of €3.2 billion (less than 0.1% of GDP), compared with a deficit of €24.1 billion a year earlier (see Chart 54). This shift largely resulted from developments in the goods balance which – in 12-month cumulated terms – rose by €32.2 billion compared with the previous year. By contrast, the balances for services and income remained broadly unchanged, while the deficit in current transfers increased by €6.3 billion.

**Chart 54 The euro area current account and trade balances**

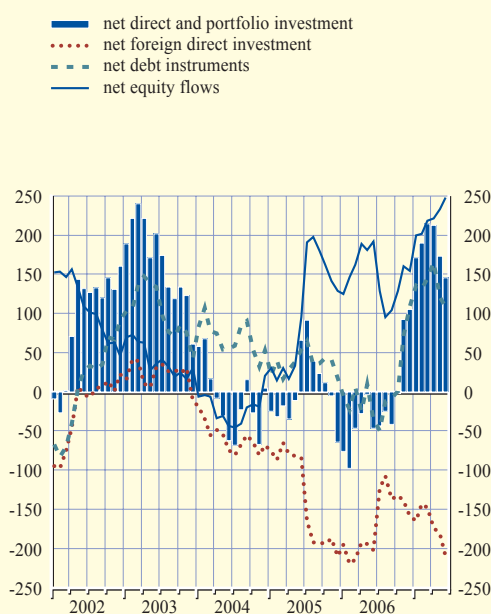
(EUR billions; monthly data; seasonally adjusted)



Source: ECB.

**Chart 55 Euro area combined direct and portfolio investment**

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



Source: ECB.

## FINANCIAL ACCOUNT

In the second quarter of 2007 the combined direct and portfolio investment of the euro area recorded monthly average net inflows of €2.7 billion, as opposed to a monthly average of €32.7 billion in the first quarter. This decline is mostly attributable to larger net outflows in direct investment and, to a lesser extent, to smaller net inflows in portfolio investment.

The higher net outflows in direct investment in the second quarter were mainly driven by higher net investment abroad by euro area companies in the form of equity capital and reinvested earnings while a reduction of net inter-company loans between euro area affiliates and their foreign parent companies also contributed to this development. As regards portfolio investment, average monthly net inflows in the second quarter mainly declined owing to somewhat lower net purchases of debt instruments by non-residents.

In the 12-month period to June 2007 cumulated net inflows in combined direct and portfolio investment amounted to €145.3 billion, compared with net outflows of €46.1 billion a year earlier. The switch in the direction of net capital flows reflected significantly higher net inflows in portfolio investment – amounting to €355.7 billion – compared with the previous 12-month period (see Chart 55).

The developments in cumulated portfolio investment flows continued to be driven mainly by increasing net inflows in bonds and notes that were almost entirely accounted for by higher net purchases of euro area bonds and notes by non-residents. These amounted to €510.4 billion in the 12-month period to June 2007 compared with €237.6 billion a year earlier. It appears that investment in fixed income instruments may have become more attractive in the last 12 months



due to higher interest rates worldwide compared with the previous 12-month period, which may contribute to explaining the overall increased demand for long-term debt in the euro area.

By contrast, the higher cumulated net inflows in equity securities were mainly attributable to lower net purchases of foreign equity by euro area residents. These developments may be underpinned by favourable expected relative earnings growth performance of euro area enterprises and, subsequently, attractive expected equity return differentials between the euro area and the United States.

# EURO AREA STATISTICS





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1) For further information, please contact us at: [statistics@ecb.europa.eu](mailto:statistics@ecb.europa.eu). See the ECB Statistical Data Warehouse on the Statistics section of the ECB website (<http://sdw.ecb.europa.eu>) 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.europa.eu/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 <sup>9</sup>
(p)	provisional
s.a.	seasonally adjusted
n.s.a.	non-seasonally adjusted



# EURO AREA OVERVIEW

## Summary of economic indicators for the euro area

(annual percentage changes, unless otherwise indicated)

### 1. Monetary developments and interest rates

	M1 <sup>1)</sup>	M2 <sup>1)</sup>	M3 <sup>1),2)</sup>	M3 <sup>1),2)</sup> 3-month moving average (centred)	MFI loans to euro area residents excluding MFIs and general government <sup>1)</sup>	Securities other than shares issued in euro by non-MFI corporations <sup>1)</sup>	3-month interest rate (EURIBOR, % per annum, period averages)	10-year government bond yield (% per annum, period averages)
	1	2	3	4	5	6	7	8
2005	10.4	7.9	7.4	-	8.1	12.6	2.18	3.44
2006	8.6	8.7	8.4	-	10.9	15.8	3.08	3.86
2006 Q3	7.6	8.4	8.1	-	11.2	15.0	3.22	3.97
Q4	6.8	8.7	9.0	-	11.2	16.6	3.59	3.86
2007 Q1	7.0	9.1	10.2	-	10.6	15.9	3.82	4.08
Q2	6.2	9.2	10.6	-	10.5	18.4	4.07	4.42
2007 Mar.	7.0	9.5	11.0	10.5	10.6	17.3	3.89	4.02
Apr.	6.0	8.8	10.3	10.6	10.4	17.9	3.98	4.25
May	5.9	9.3	10.6	10.6	10.4	19.0	4.07	4.37
June	6.1	9.5	10.9	11.1	10.8	19.0	4.15	4.66
July	6.9	10.4	11.7	.	10.9	.	4.22	4.63
Aug.	.	.	.	.	.	.	4.54	4.43

### 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	1.5	1.3	81.2	0.8	8.6
2006	2.2	5.1	2.4	2.8	4.0	83.3	1.4	7.9
2006 Q4	1.8	4.1	2.2	3.3	4.0	84.2	1.5	7.6
2007 Q1	1.9	2.9	2.2	3.2	3.8	84.6	1.4	7.2
Q2	1.9	2.4	.	2.5	2.6	84.5	.	7.0
2007 Mar.	1.9	2.8	-	-	4.2	-	-	7.1
Apr.	1.9	2.4	-	-	2.9	84.8	-	7.0
May	1.9	2.4	-	-	2.6	-	-	7.0
June	1.9	2.2	-	-	2.2	-	-	6.9
July	1.8	1.8	-	-	.	84.2	-	6.9
Aug.	1.8	.	-	-	.	-	-	.

### 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 <sup>3)</sup> (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	0.4	28.6	-158.8	263.5	325.8	103.6	104.4	1.2556
2006 Q3	-3.6	7.5	-43.9	22.3	325.0	104.5	105.3	1.2743
Q4	22.5	17.8	-59.4	120.4	325.8	104.6	105.3	1.2887
2007 Q1	2.8	7.6	-24.2	122.2	331.6	105.5	105.9	1.3106
Q2	-4.2	18.7	-82.7	90.8	325.3	107.1	107.2	1.3481
2007 Mar.	11.1	9.6	-5.9	65.6	331.6	106.1	106.4	1.3242
Apr.	-3.7	4.3	-24.5	15.6	330.0	107.1	107.4	1.3516
May	-12.1	4.2	-13.4	5.0	327.4	107.3	107.4	1.3511
June	11.6	10.1	-44.8	70.2	325.3	106.9	106.9	1.3419
July	.	.	.	.	328.8	107.6	107.6	1.3716
Aug.	.	.	.	.	.	107.1	107.1	1.3622

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

## I.1 Consolidated financial statement of the Eurosystem

(EUR millions)

### 1. Assets

	2007 10 August	2007 17 August	2007 24 August	2007 31 August
<b>Gold and gold receivables</b>	172,067	172,041	172,025	172,000
<b>Claims on non-euro area residents in foreign currency</b>	145,162	144,501	143,452	144,162
<b>Claims on euro area residents in foreign currency</b>	23,659	24,541	24,899	26,385
<b>Claims on non-euro area residents in euro</b>	17,188	17,438	18,123	17,458
<b>Lending to euro area credit institutions in euro</b>	503,553	460,010	465,203	400,116
Main refinancing operations	292,500	310,001	274,999	209,998
Longer-term refinancing operations	150,003	150,003	190,002	190,001
Fine-tuning reverse operations	61,050	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	0	0	202	110
Credits related to margin calls	0	6	0	7
<b>Other claims on euro area credit institutions in euro</b>	13,005	12,804	12,827	11,825
<b>Securities of euro area residents in euro</b>	94,168	91,606	92,336	93,275
<b>General government debt in euro</b>	37,148	37,148	37,148	37,145
<b>Other assets</b>	247,148	247,614	250,871	255,168
<b>Total assets</b>	1,253,098	1,207,703	1,216,884	1,157,534

### 2. Liabilities

	2007 10 August	2007 17 August	2007 24 August	2007 31 August
<b>Banknotes in circulation</b>	644,090	641,910	636,097	637,187
<b>Liabilities to euro area credit institutions in euro</b>	256,769	210,527	209,353	132,614
Current accounts (covering the minimum reserve system)	256,675	210,273	209,055	132,296
Deposit facility	94	254	298	318
Fixed-term deposits	0	0	0	0
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	0	0	0	0
<b>Other liabilities to euro area credit institutions in euro</b>	187	189	191	189
<b>Debt certificates issued</b>	0	0	0	0
<b>Liabilities to other euro area residents in euro</b>	44,407	48,737	63,530	73,187
<b>Liabilities to non-euro area residents in euro</b>	19,084	19,107	19,517	20,859
<b>Liabilities to euro area residents in foreign currency</b>	134	133	208	134
<b>Liabilities to non-euro area residents in foreign currency</b>	18,412	18,232	17,130	19,410
<b>Counterpart of special drawing rights allocated by the IMF</b>	5,517	5,517	5,517	5,517
<b>Other liabilities</b>	79,174	77,524	79,512	82,536
<b>Revaluation accounts</b>	117,010	117,010	117,010	117,010
<b>Capital and reserves</b>	68,314	68,817	68,819	68,891
<b>Total liabilities</b>	1,253,098	1,207,703	1,216,884	1,157,534

Source: ECB.



**1.2 Key ECB interest rates**

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

	With effect from <sup>b)</sup>	Deposit facility		Main refinancing operations			Marginal lending facility	
				Fixed rate tenders	Variable rate tenders	Change	Level	Change
		Fixed rate	Minimum bid rate	Level				
		1	2	3	4	5	6	7
1999	1 Jan.	2.00	-	3.00	-	-	4.50	-
	4 <sup>2)</sup>	2.75	0.75	3.00	-	...	3.25	-1.25
	22	2.00	-0.75	3.00	-	...	4.50	1.25
	9 Apr.	1.50	-0.50	2.50	-	-0.50	3.50	-1.00
	5 Nov.	2.00	0.50	3.00	-	0.50	4.00	0.50
2000	4 Feb.	2.25	0.25	3.25	-	0.25	4.25	0.25
	17 Mar.	2.50	0.25	3.50	-	0.25	4.50	0.25
	28 Apr.	2.75	0.25	3.75	-	0.25	4.75	0.25
	9 June	3.25	0.50	4.25	-	0.50	5.25	0.50
	28 <sup>3)</sup>	3.25	...	-	4.25	...	5.25	...
	1 Sep.	3.50	0.25	-	4.50	0.25	5.50	0.25
	6 Oct.	3.75	0.25	-	4.75	0.25	5.75	0.25
2001	11 May	3.50	-0.25	-	4.50	-0.25	5.50	-0.25
	31 Aug.	3.25	-0.25	-	4.25	-0.25	5.25	-0.25
	18 Sep.	2.75	-0.50	-	3.75	-0.50	4.75	-0.50
	9 Nov.	2.25	-0.50	-	3.25	-0.50	4.25	-0.50
2002	6 Dec.	1.75	-0.50	-	2.75	-0.50	3.75	-0.50
2003	7 Mar.	1.50	-0.25	-	2.50	-0.25	3.50	-0.25
	6 June	1.00	-0.50	-	2.00	-0.50	3.00	-0.50
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
	13 June	3.00	0.25	-	4.00	0.25	5.00	0.25

Source: ECB.

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

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

(EUR millions; interest rates in percentages per annum)

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

Date of settlement	Bids (amount)	Number of participants	Allotment (amount)	Variable rate tenders			Running for (...) days
				Minimum bid rate	Marginal rate <sup>4)</sup>	Weighted average rate	
	1	2	3	4	5	6	7
Main refinancing operations							
2007 9 May	353,181	325	276,000	3.75	3.81	3.82	6
15	360,720	307	281,000	3.75	3.82	3.82	8
23	364,192	359	295,500	3.75	3.82	3.82	7
30	360,182	331	284,500	3.75	3.82	3.83	7
6 June	331,056	322	279,000	3.75	3.75	3.77	7
13	363,785	344	282,000	4.00	4.06	4.07	7
20	365,298	361	288,000	4.00	4.06	4.07	7
27	340,137	341	313,500	4.00	4.07	4.08	7
4 July	357,489	334	298,000	4.00	4.03	4.05	7
11	382,686	352	292,000	4.00	4.06	4.06	7
18	375,272	376	301,500	4.00	4.06	4.06	7
25	370,371	358	315,500	4.00	4.06	4.07	7
1 Aug.	373,286	329	298,000	4.00	4.04	4.06	7
8	391,978	319	292,500	4.00	4.06	4.07	7
15	426,994	344	310,000	4.00	4.08	4.10	7
22	439,747	355	275,000	4.00	4.08	4.09	7
29	352,724	320	210,000	4.00	4.08	4.09	7
5 Sep.	426,352	356	256,000	4.00	4.15	4.19	7
Longer-term refinancing operations							
2006 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
31 May	72,697	147	50,000	-	4.06	4.07	91
28 June	66,319	139	50,000	-	4.11	4.12	91
26 July	78,703	144	50,000	-	4.20	4.20	98
24 Aug.	125,787	146	40,000	-	4.49	4.61	91
30	119,755	168	50,000	-	4.56	4.62	91

#### 2. Other tender operations

Date of settlement	Type of operation	Bids (amount)	Number of participants	Allotment (amount)	Fixed rate tenders	Variable rate tenders			Running for (...) days
					Fixed rate	Minimum bid rate	Marginal rate <sup>4)</sup>	Weighted average rate	
	1	2	3	4	5	6	7	8	9
2006 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
14 May	Collection of fixed-term deposits	2,460	7	2,460	3.75	-	-	-	1
12 June	Collection of fixed-term deposits	12,960	11	6,000	3.75	-	-	-	1
10 July	Reverse transaction	17,385	18	2,500	-	4.00	4.06	4.07	1
9 Aug.	Reverse transaction	94,841	49	94,841	4.00	-	-	-	1
10	Reverse transaction	110,035	62	61,050	-	4.00	4.05	4.08	3
13	Reverse transaction	84,452	59	47,665	-	4.00	4.06	4.07	1
14	Reverse transaction	45,967	41	7,700	-	4.00	4.07	4.07	1
6 Sep.	Reverse transaction	90,895	46	42,245	-	4.00	4.06	4.13	1

Source: ECB.

- 1) The amounts shown may differ slightly from those in Section 1.1 due to operations allotted but not settled.
- 2) With effect from April 2002, split tender operations, i.e. operations with one-week maturity conducted as standard tenders in parallel with a main refinancing operation, are classified as main refinancing operations. For split tender operations conducted before this month, see Table 2 in Section 1.3.
- 3) On 8 June 2000 the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders. The minimum bid rate refers to the minimum interest rate at which counterparties may place their bids.
- 4) In liquidity-providing (absorbing) operations, the marginal rate refers to the lowest (highest) rate at which bids were accepted.

## 1.4 Minimum reserve and liquidity statistics

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

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

Reserve base as at <sup>1)</sup>	Total	Liabilities to which a 2% reserve coefficient is applied		Liabilities to which a 0% reserve coefficient is applied		
		Deposits (overnight, up to 2 years <sup>†</sup> agreed maturity and notice period)	Debt securities up to 2 years <sup>†</sup> agreed maturity	Deposits (over 2 years <sup>†</sup> agreed maturity and notice period)	Repos	Debt securities over 2 years <sup>†</sup> agreed maturity
	1	2	3	4	5	6
2005	14,040.7	7,409.5	499.2	1,753.5	1,174.9	3,203.6
2006	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
Mar.	16,253.0	8,634.2	657.4	2,009.8	1,358.8	3,592.8
Apr.	16,456.1	8,764.2	677.6	2,021.0	1,387.2	3,606.1
May	16,718.7	8,886.3	701.9	2,044.3	1,439.8	3,646.4
June	16,753.3	8,940.5	677.6	2,066.6	1,383.5	3,685.1

### 2. Reserve maintenance

Maintenance period ending on:	Required reserves	Credit institutions' current accounts	Excess reserves	Deficiencies	Interest rate on minimum reserves
	1	2	3	4	5
2005	152.0	153.0	1.0	0.0	2.07
2006	172.5	173.2	0.7	0.0	3.30
2007 Q1	179.8	180.6	0.8	0.0	3.55
2007 17 Apr.	181.8	182.6	0.8	0.0	3.81
14 May	182.2	183.2	1.0	0.0	3.82
12 June	185.3	186.2	0.9	0.0	3.80
10 July	188.3	189.6	1.2	0.0	4.06
7 Aug.	191.3	192.0	0.7	0.0	4.06
11 Sep.	191.9	.	.	.	.

### 3. Liquidity

Maintenance period ending on:	Liquidity-providing factors						Liquidity-absorbing factors					Credit institutions' current accounts	Base money
	Monetary policy operations of the Eurosystem						Banknotes in circulation	Central government deposits with the Eurosystem	Other factors (net)				
	Eurosystem's net assets in gold and foreign currency	Main refinancing operations	Longer-term refinancing operations	Marginal lending facility	Other liquidity-providing operations	Deposit facility				Other liquidity-absorbing operations <sup>2)</sup>			
1	2	3	4	5	6	7	8	9	10	11	12		
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 Q1	321.6	288.7	134.6	0.0	0.0	0.5	0.8	606.2	47.1	-90.0	180.6	787.2	
2007 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	
14 May	326.1	281.6	150.0	0.3	0.0	0.5	0.1	620.0	51.3	-97.2	183.2	803.8	
12 June	326.4	284.9	150.0	0.3	0.0	0.2	0.2	625.2	49.1	-99.4	186.2	811.7	
10 July	323.0	295.4	150.0	0.2	0.1	0.3	0.0	631.3	53.9	-106.4	189.6	821.2	
7 Aug.	316.7	301.7	150.0	0.1	0.0	0.4	0.0	639.7	52.3	-115.8	192.0	832.1	

Source: ECB.

1) End of period.

2) 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 <sup>1)</sup>

(EUR billions; outstanding amounts at end of period)

#### 1. Assets

	Total	Loans to euro area residents				Holdings of securities other than shares issued by euro area residents				Money market fund shares/ units <sup>2)</sup>	Holdings of shares/ other equity issued by euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	MFIs	Total	General government	Other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Eurosystem														
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	1,558.2	695.7	19.7	0.6	675.3	217.0	187.5	2.5	27.0	-	17.2	351.4	14.7	262.4
2007 Q1	1,576.7	693.3	19.7	0.6	673.0	238.0	205.5	2.1	30.4	-	17.4	359.6	14.8	253.6
2007 Apr.	1,588.8	700.1	19.1	0.6	680.4	243.5	210.2	2.2	31.1	-	17.7	355.8	15.3	256.4
May	1,629.8	724.7	18.1	0.6	705.9	248.1	213.5	2.1	32.5	-	17.8	354.0	15.3	269.8
June	1,651.5	751.5	17.7	0.6	733.1	249.8	213.2	2.2	34.3	-	17.8	354.1	15.4	263.0
July <sup>(p)</sup>	1,669.8	762.7	17.7	0.6	744.3	254.5	216.8	2.2	35.5	-	17.5	357.5	15.6	262.0
MFIs excluding the Eurosystem														
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	25,973.9	14,904.2	810.5	9,160.3	4,933.4	3,555.2	1,276.5	645.8	1,632.8	83.5	1,194.5	4,330.1	172.6	1,733.9
2007 Q1	27,107.8	15,340.0	801.4	9,441.0	5,097.6	3,661.0	1,282.2	685.8	1,693.0	92.4	1,244.5	4,684.7	195.1	1,890.1
2007 Apr.	27,479.0	15,500.4	802.3	9,526.0	5,172.2	3,671.1	1,258.8	706.3	1,706.0	96.9	1,314.3	4,802.2	199.6	1,894.5
May	27,847.8	15,613.6	797.8	9,600.2	5,215.7	3,746.4	1,291.6	733.9	1,720.9	95.0	1,352.8	4,901.2	200.6	1,938.1
June	28,062.4	15,778.6	798.1	9,711.6	5,268.9	3,763.6	1,284.4	758.2	1,721.0	96.1	1,277.0	4,872.5	201.5	2,073.1
July <sup>(p)</sup>	28,137.1	15,879.6	799.6	9,809.4	5,270.6	3,773.4	1,257.4	775.1	1,740.9	97.1	1,263.2	4,924.0	198.1	2,001.8

#### 2. Liabilities

	Total	Currency in circulation	Deposits of euro area residents				Money market fund shares/ units <sup>3)</sup>	Debt securities issued <sup>4)</sup>	Capital and reserves	External liabilities	Remaining liabilities
			Total	Central government	Other general government/ other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11
Eurosystem											
2005	1,404.9	582.7	385.4	24.4	14.5	346.5	-	0.1	202.9	27.6	206.2
2006	1,558.2	647.0	431.6	33.7	15.9	382.0	-	0.1	208.6	35.3	235.6
2007 Q1	1,576.7	632.7	455.6	44.8	17.5	393.3	-	0.3	216.3	39.5	232.4
2007 Apr.	1,588.8	641.6	455.5	42.0	19.8	393.7	-	0.1	213.6	43.1	234.9
May	1,629.8	644.9	482.3	47.2	21.3	413.8	-	0.1	211.4	42.5	248.6
June	1,651.5	652.6	495.2	51.2	23.3	420.7	-	0.1	207.0	51.0	245.6
July <sup>(p)</sup>	1,669.8	660.0	511.9	53.3	22.2	436.4	-	0.1	209.5	43.9	244.4
MFIs excluding the Eurosystem											
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	25,973.9	-	13,257.2	124.2	7,890.6	5,242.4	697.7	4,247.6	1,449.7	3,991.1	2,330.5
2007 Q1	27,107.8	-	13,595.8	139.0	8,047.1	5,409.7	758.7	4,424.8	1,529.7	4,255.7	2,543.1
2007 Apr.	27,479.0	-	13,693.8	131.6	8,098.1	5,464.1	779.2	4,447.9	1,546.8	4,407.7	2,603.6
May	27,847.8	-	13,850.8	152.6	8,164.2	5,534.0	797.5	4,502.3	1,547.6	4,519.8	2,629.7
June	28,062.4	-	14,029.5	170.2	8,265.3	5,594.0	795.6	4,521.0	1,554.9	4,450.5	2,710.8
July <sup>(p)</sup>	28,137.1	-	14,041.1	125.3	8,312.7	5,603.2	812.7	4,548.8	1,571.8	4,492.0	2,670.6

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<sup>1)</sup>**

(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											
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	19,743.5	9,991.1	830.2	9,161.0	2,112.3	1,464.0	648.3	829.9	4,681.5	187.3	1,941.4
2007 Q1	20,649.7	10,262.7	821.1	9,441.6	2,175.6	1,487.7	687.9	857.6	5,044.2	209.9	2,099.5
2007 Apr.	20,919.1	10,348.0	821.4	9,526.6	2,177.5	1,469.0	708.5	916.8	5,157.9	214.9	2,104.0
May	21,217.6	10,416.7	815.9	9,600.8	2,241.1	1,505.1	736.0	928.0	5,255.2	215.9	2,160.7
June	21,398.4	10,528.1	815.9	9,712.2	2,258.0	1,497.6	760.4	880.4	5,226.6	216.9	2,288.3
July <sup>(p)</sup>	21,456.4	10,627.4	817.3	9,810.0	2,251.5	1,474.2	777.3	865.8	5,281.4	213.6	2,216.7
Transactions											
2005	1,608.6	708.9	12.8	696.0	156.2	76.2	80.0	53.2	448.5	1.4	240.4
2006	1,998.2	877.3	-14.4	891.6	10.6	-96.8	107.4	98.5	802.0	6.4	203.5
2007 Q1	884.7	254.0	-8.2	262.2	63.2	19.0	44.2	20.8	394.4	0.5	151.8
2007 Apr.	307.1	92.5	0.4	92.1	3.7	-17.0	20.7	57.0	151.4	1.0	1.6
May	269.8	69.4	-5.5	74.9	60.5	36.4	24.1	6.3	77.3	1.0	55.3
June	197.0	119.0	-0.4	119.4	19.8	-5.7	25.5	-46.8	-20.7	1.0	124.7
July <sup>(p)</sup>	87.1	102.1	1.4	100.7	-7.1	-23.8	16.7	-10.2	77.4	-3.3	-71.8

**2. Liabilities**

	Total	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Money market fund shares/ units <sup>2)</sup>	Debt securities issued <sup>3)</sup>	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities
Outstanding amounts										
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	19,743.5	592.2	157.9	7,906.5	614.1	2,587.9	1,276.5	4,026.5	2,566.1	15.7
2007 Q1	20,649.7	588.4	183.8	8,064.6	666.3	2,701.6	1,341.8	4,295.3	2,775.4	32.5
2007 Apr.	20,919.1	594.7	173.6	8,117.9	682.3	2,710.9	1,345.1	4,450.8	2,838.5	5.2
May	21,217.6	597.6	199.8	8,185.6	702.5	2,749.0	1,316.4	4,562.3	2,878.4	26.2
June	21,398.4	604.9	221.4	8,288.6	699.6	2,765.9	1,347.4	4,501.5	2,956.4	12.7
July <sup>(p)</sup>	21,456.4	612.9	178.5	8,334.9	715.6	2,772.6	1,366.4	4,535.9	2,915.0	24.7
Transactions										
2005	1,608.6	64.4	10.9	495.7	-3.0	213.5	96.2	448.0	333.8	-50.8
2006	1,998.2	59.4	-15.2	683.7	27.0	285.6	57.3	601.6	253.4	45.4
2007 Q1	884.7	-4.2	24.8	143.3	54.5	117.5	39.0	292.5	196.8	20.6
2007 Apr.	307.1	6.3	-10.2	58.0	18.0	19.0	-4.0	191.2	46.6	-17.9
May	269.8	2.8	26.2	65.4	15.6	32.3	-28.3	91.7	45.4	18.7
June	197.0	7.3	21.6	102.4	-2.6	17.4	35.4	-57.0	78.8	-6.2
July <sup>(p)</sup>	87.1	8.0	-43.4	48.6	16.7	9.6	20.2	53.1	-41.5	15.8

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 <sup>1)</sup>

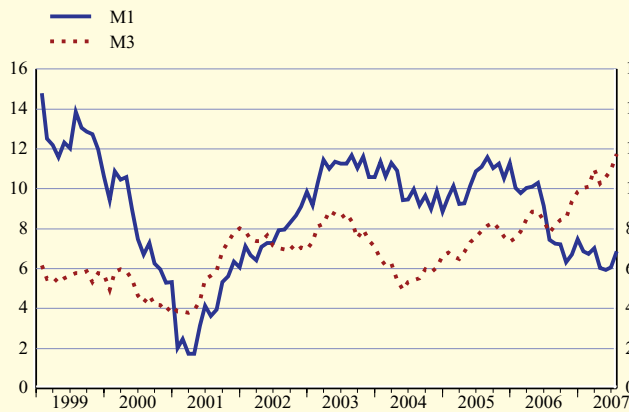
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

### 1. Monetary aggregates <sup>2)</sup> and counterparts

	M1		M2	M3-M2	M3	M3 3-month moving average (centred)	Longer-term financial liabilities	Credit to general government	Credit to other euro area residents		Net external assets <sup>3)</sup>
	1	2	3	4	5	6	7	8	Loans		11
									9	10	
<b>Outstanding amounts</b>											
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	3,676.6	2,953.1	6,629.7	1,102.1	7,731.8	-	5,428.7	2,321.2	10,658.5	9,167.4	632.9
2007 Q1	3,746.8	3,064.9	6,811.8	1,190.3	8,002.0	-	5,590.4	2,301.4	10,978.1	9,444.7	766.4
2007 Apr.	3,740.1	3,106.4	6,846.5	1,190.3	8,036.9	-	5,621.4	2,277.1	11,095.8	9,516.8	731.5
May	3,768.7	3,127.9	6,896.6	1,217.3	8,113.9	-	5,640.3	2,313.9	11,212.4	9,592.8	726.6
June	3,784.4	3,170.8	6,955.2	1,227.6	8,182.8	-	5,710.3	2,300.4	11,321.0	9,683.5	720.2
July <sup>(p)</sup>	3,805.7	3,228.2	7,033.9	1,240.0	8,274.0	-	5,751.2	2,285.9	11,434.3	9,782.4	741.9
<b>Transactions</b>											
2005	337.0	138.9	475.9	8.5	484.4	-	401.5	94.5	835.5	700.4	0.1
2006	255.5	309.9	565.4	130.2	695.6	-	427.0	-114.1	1,105.0	896.5	200.2
2007 Q1	63.6	105.4	169.0	91.1	260.1	-	136.3	-23.7	298.7	258.8	141.4
2007 Apr.	-5.5	43.9	38.4	1.1	39.5	-	35.5	-22.5	122.9	79.2	-32.9
May	27.9	20.6	48.4	21.4	69.8	-	14.0	37.0	109.4	76.8	-5.0
June	14.6	43.8	58.4	8.8	67.2	-	75.3	-12.1	118.4	98.6	-2.2
July <sup>(p)</sup>	21.9	58.5	80.4	12.5	92.9	-	46.2	-14.9	120.5	101.8	25.5
<b>Growth rates</b>											
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 Dec.	7.5	11.7	9.3	13.2	9.9	9.8	8.5	-4.7	11.6	10.8	200.2
2007 Mar.	7.0	12.7	9.5	20.1	11.0	10.5	8.9	-4.9	10.9	10.6	341.2
2007 Apr.	6.0	12.4	8.8	19.4	10.3	10.6	8.9	-5.6	10.8	10.4	315.8
May	5.9	13.6	9.3	18.6	10.6	10.6	8.5	-3.1	11.1	10.4	297.5
June	6.1	13.9	9.5	19.8	10.9	11.1	9.1	-3.6	11.5	10.8	262.0
July <sup>(p)</sup>	6.9	15.0	10.4	19.8	11.7	.	9.0	-3.7	11.6	10.9	282.1

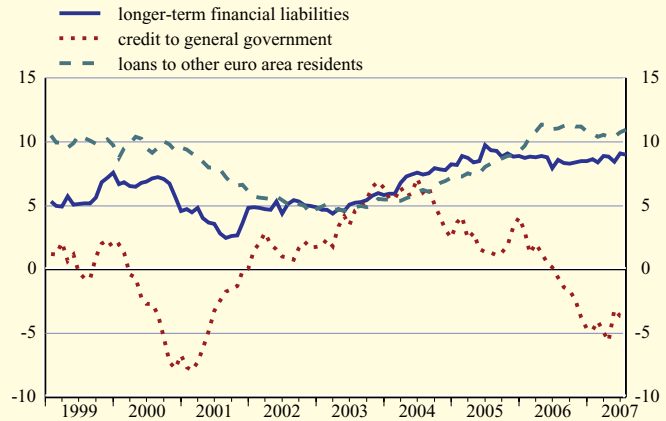
### C1 Monetary aggregates <sup>1)</sup>

(annual growth rates; seasonally adjusted)



### C2 Counterparts <sup>1)</sup>

(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 <sup>1)</sup>

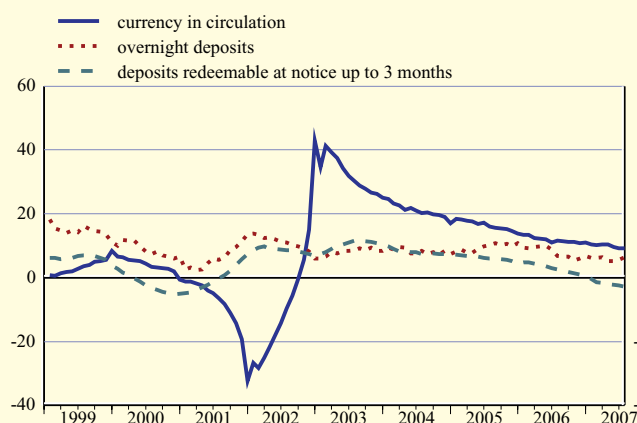
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

### 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											
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	579.0	3,097.6	1,401.7	1,551.4	272.0	631.4	198.7	2,396.2	102.4	1,654.6	1,275.6
2007 Q1	592.1	3,154.7	1,528.2	1,536.8	280.3	670.0	239.9	2,461.4	107.8	1,682.7	1,338.5
2007 Apr.	597.4	3,142.7	1,573.3	1,533.0	271.6	676.3	242.4	2,467.7	108.7	1,694.0	1,351.0
May	597.8	3,170.9	1,595.6	1,532.3	270.5	691.8	255.0	2,488.9	108.6	1,716.2	1,326.7
June	599.2	3,185.3	1,645.0	1,525.8	285.0	700.9	241.6	2,516.3	109.4	1,736.3	1,348.3
July <sup>(p)</sup>	604.7	3,201.1	1,709.2	1,519.0	291.6	707.8	240.7	2,525.8	110.7	1,752.1	1,362.7
Transactions											
2005	63.2	273.8	69.1	69.8	-5.9	-2.0	16.4	198.4	-4.3	111.2	96.1
2006	57.5	198.0	300.8	9.2	31.2	28.8	70.2	216.3	15.5	137.8	57.5
2007 Q1	12.6	51.0	120.9	-15.4	8.4	40.9	41.8	68.3	4.6	26.7	36.7
2007 Apr.	5.3	-10.8	47.6	-3.6	-8.6	8.4	1.4	17.1	1.0	12.3	5.1
May	0.4	27.5	21.3	-0.8	-1.1	10.9	11.5	16.4	-0.1	21.6	-23.9
June	1.3	13.3	49.6	-5.8	13.0	9.5	-13.7	28.3	0.9	20.2	25.9
July <sup>(p)</sup>	5.5	16.4	65.2	-6.8	6.6	7.4	-1.5	13.0	1.2	16.4	15.6
Growth rates											
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 Dec.	11.0	6.8	27.2	0.6	13.0	4.7	54.5	9.9	17.8	9.1	4.7
2007 Mar.	10.5	6.4	32.3	-1.7	19.3	12.2	51.9	11.0	20.6	8.1	5.3
2007 Apr.	10.5	5.2	31.2	-2.0	13.5	13.2	52.4	10.8	20.4	7.9	5.7
May	9.6	5.3	34.7	-2.3	10.3	13.8	48.0	10.7	18.4	8.3	3.9
June	9.2	5.5	35.1	-2.5	14.5	14.5	48.5	11.0	17.6	8.8	5.5
July <sup>(p)</sup>	9.2	6.4	37.5	-2.9	14.7	14.9	47.0	10.7	17.0	9.1	5.3

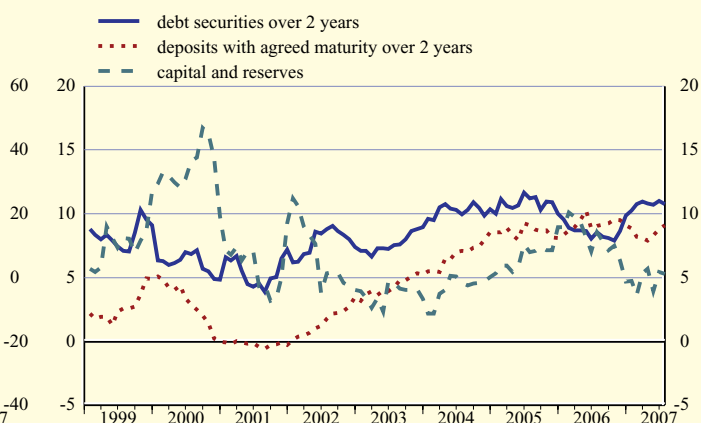
### C3 Components of monetary aggregates <sup>1)</sup>

(annual growth rates; seasonally adjusted)



### C4 Components of longer-term financial liabilities <sup>1)</sup>

(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 <sup>1), 2)</sup>

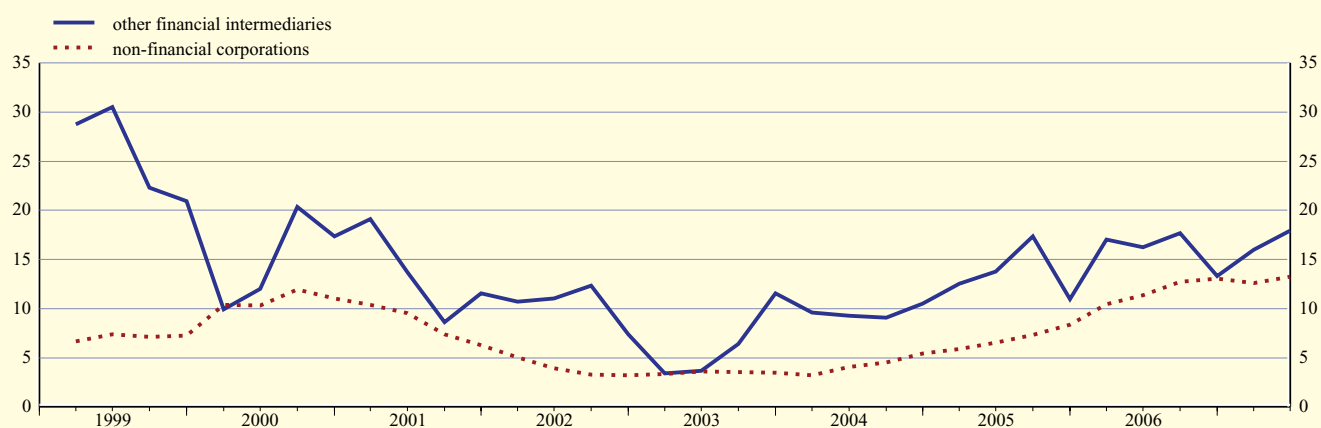
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 1. Loans to financial intermediaries and non-financial corporations <sup>3)</sup>

	Insurance corporations and pension funds		Other financial intermediaries <sup>4)</sup>		Non-financial corporations			
	Total		Total		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	Up to 1 year 2	3	Up to 1 year 4	5	6	7	8
Outstanding amounts								
2005	64.6	41.6	620.4	370.2	3,409.1	1,037.7	594.0	1,777.3
2006	82.8	55.2	696.0	420.6	3,844.5	1,137.9	707.1	1,999.5
2007 Q1	98.5	71.7	774.5	488.6	3,957.4	1,172.1	738.8	2,046.5
2007 Apr.	105.6	79.4	794.5	502.5	3,998.4	1,188.7	749.4	2,060.3
May	109.0	82.4	789.0	492.3	4,047.4	1,196.8	765.3	2,085.4
June	110.4	83.5	802.5	502.6	4,107.2	1,225.3	775.5	2,106.4
July <sup>(p)</sup>	112.0	84.7	813.9	505.8	4,167.5	1,241.2	791.3	2,135.0
Transactions								
2005	15.0	9.8	60.8	29.2	262.7	56.8	54.3	151.6
2006	18.1	13.9	81.9	57.7	446.2	100.5	123.1	222.6
2007 Q1	15.8	16.6	71.1	67.9	105.6	31.2	29.5	44.9
2007 Apr.	7.2	7.8	22.0	15.1	44.1	17.7	11.2	15.1
May	3.3	2.9	-5.8	-10.8	49.4	7.9	16.5	25.1
June	1.5	1.1	13.2	9.8	66.8	34.2	10.7	21.9
July <sup>(p)</sup>	1.7	1.2	12.6	4.3	61.0	15.8	15.8	29.3
Growth rates								
2005 Dec.	30.6	31.2	11.0	8.7	8.3	5.8	9.9	9.3
2006 Dec.	28.0	33.3	13.3	15.6	13.1	9.7	20.8	12.4
2007 Mar.	20.4	26.1	16.0	19.6	12.6	9.9	18.7	12.1
2007 Apr.	20.2	26.7	16.3	18.2	12.4	9.4	18.9	11.9
May	25.5	33.9	14.5	14.2	12.8	10.3	19.4	12.0
June	30.6	40.6	17.9	20.4	13.3	11.3	19.8	12.1
July <sup>(p)</sup>	24.6	31.9	20.7	24.3	13.6	11.5	19.3	12.8

### C5 Loans to financial intermediaries and non-financial corporations <sup>2)</sup>

(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<sup>1), 2)</sup>**

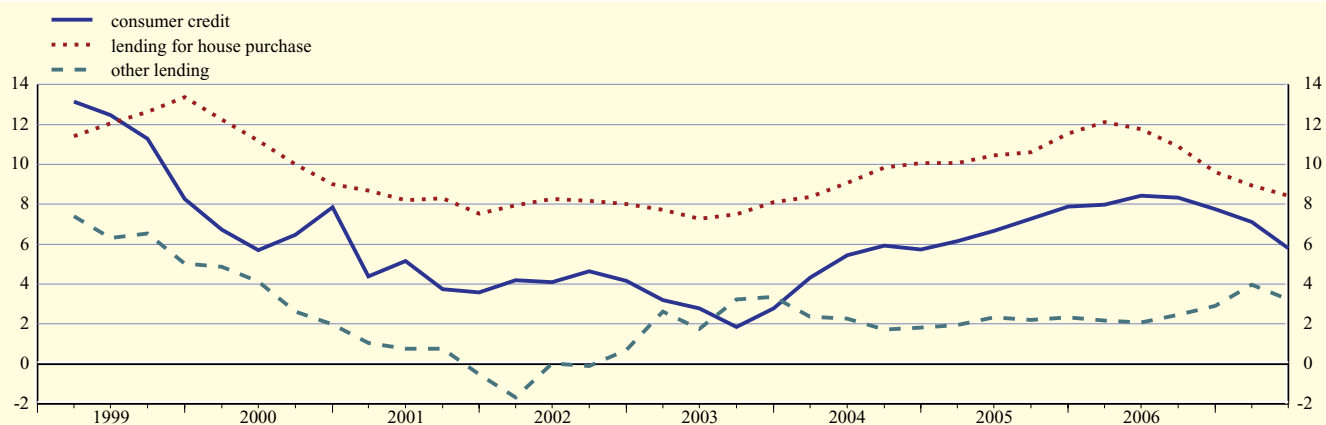
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

**2. Loans to households<sup>3)</sup>**

	Total	Consumer credit				Lending for house purchase				Other lending			
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	
	1	2	3	4	5	6	7	8	9	10	11	12	13
Outstanding amounts													
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	4,537.0	586.6	135.3	202.7	248.5	3,212.0	15.6	72.1	3,124.4	738.4	146.2	101.5	490.7
2007 Q1	4,610.6	590.2	132.0	202.4	255.8	3,272.0	16.1	71.9	3,184.0	748.4	147.5	102.4	498.4
2007 Apr.	4,627.6	593.7	133.3	202.2	258.2	3,286.3	15.7	71.9	3,198.6	747.6	146.4	102.7	498.4
May	4,654.8	595.7	133.0	203.5	259.2	3,311.7	15.9	72.2	3,223.6	747.4	145.2	102.6	499.6
June	4,691.5	601.8	134.9	205.1	261.8	3,337.0	16.3	72.1	3,248.6	752.7	150.1	103.9	498.6
July <sup>(p)</sup>	4,716.0	605.9	136.2	205.3	264.4	3,359.4	15.7	72.4	3,271.3	750.7	146.4	104.4	499.9
Transactions													
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	345.4	42.7	8.2	4.8	29.6	281.8	1.5	4.6	275.7	20.9	1.4	3.8	15.7
2007 Q1	69.8	2.1	-3.2	-0.6	5.9	58.9	0.6	0.2	58.1	8.8	0.7	0.7	7.4
2007 Apr.	18.8	4.1	1.4	-0.1	2.8	15.1	-0.4	0.0	15.5	-0.4	-1.0	0.4	0.2
May	28.0	2.3	-0.2	1.3	1.2	25.4	0.1	0.3	25.0	0.3	-1.2	0.2	1.3
June	38.0	6.6	2.0	1.8	2.8	25.7	0.4	-0.1	25.4	5.7	4.9	1.4	-0.7
July <sup>(p)</sup>	25.5	4.1	1.4	0.2	2.5	22.9	-0.2	0.4	22.8	-1.5	-3.7	0.6	1.6
Growth rates													
2005 Dec.	9.4	7.9	7.5	6.1	9.8	11.5	5.1	7.5	11.7	2.3	2.6	1.3	2.4
2006 Dec.	8.2	7.7	6.5	2.4	13.3	9.6	9.7	6.8	9.7	2.9	1.0	3.9	3.3
2007 Mar.	7.9	7.1	5.8	1.5	12.8	9.0	13.6	6.4	9.0	4.0	1.7	4.1	4.6
2007 Apr.	7.6	7.0	6.1	0.8	12.9	8.6	12.2	6.5	8.6	3.8	1.1	5.1	4.3
May	7.4	6.0	4.2	0.3	11.9	8.6	12.9	6.2	8.6	3.6	1.3	4.9	4.0
June	7.2	5.8	4.5	0.8	10.8	8.4	10.3	3.8	8.5	3.2	0.5	5.5	3.7
July <sup>(p)</sup>	7.0	5.8	5.0	0.7	10.7	8.1	8.8	3.6	8.2	3.2	0.5	5.9	3.5

**C6 Loans to households<sup>2)</sup>**

(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. 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.

## 2.4 MFI loans, breakdown <sup>1), 2)</sup>

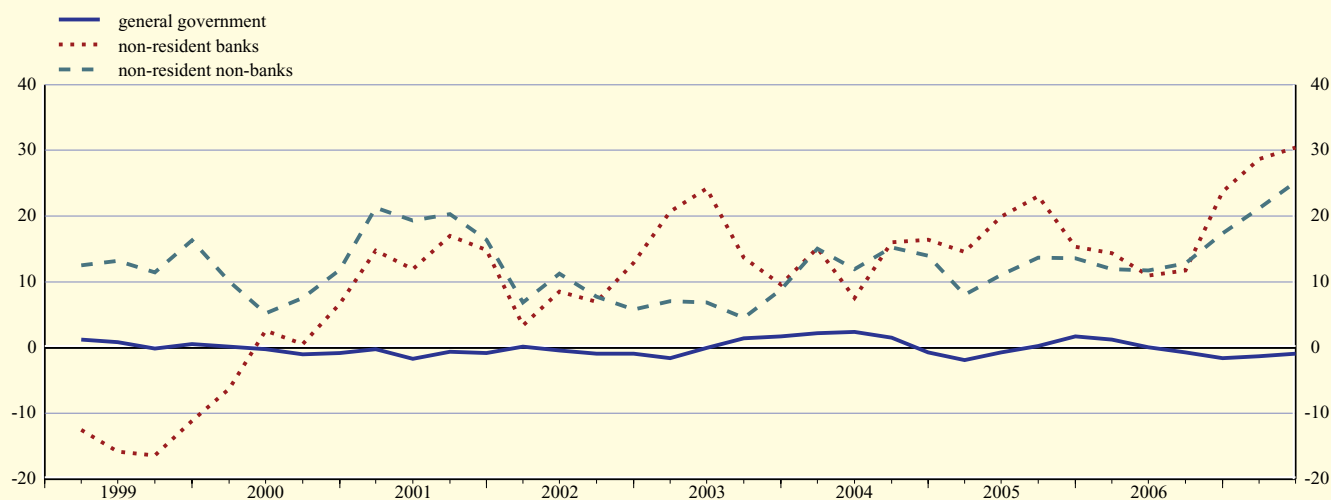
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

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

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks <sup>3)</sup>	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
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 Q2	809.0	106.5	234.5	436.0	32.0	2,611.3	1,839.9	771.5	66.5	705.0
Q3	803.6	101.2	230.1	436.6	35.7	2,735.9	1,919.9	816.1	66.5	749.6
Q4	810.5	104.1	232.5	448.1	25.8	2,924.3	2,061.0	863.4	63.2	800.2
2007 Q1	801.4	97.2	225.2	447.8	31.2	3,169.7	2,265.1	904.6	60.0	844.6
Q2 <sup>(p)</sup>	798.1	96.6	218.8	449.9	32.8	3,282.2	2,338.9	943.3	60.6	882.7
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 Q2	-6.8	-11.6	-6.4	8.3	2.9	56.3	42.8	13.5	3.6	9.9
Q3	-3.3	-3.1	-4.3	0.4	3.6	120.2	75.8	44.3	-0.7	45.0
Q4	7.4	3.7	2.4	11.2	-9.8	224.8	173.1	51.7	-2.7	54.4
2007 Q1	-8.2	-6.9	-6.3	-0.3	5.3	272.7	222.0	50.8	-3.1	53.8
Q2 <sup>(p)</sup>	-3.5	-0.9	-5.5	1.2	1.7	131.2	84.3	46.0	0.6	45.4
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 June	0.0	-14.1	-6.3	7.4	12.2	11.2	10.9	11.7	7.3	12.1
Sep.	-0.7	-13.3	-7.9	6.5	9.1	12.1	11.8	12.8	2.9	13.8
Dec.	-1.6	-14.0	-5.8	5.1	-11.6	21.8	23.7	17.4	-4.2	19.4
2007 Mar.	-1.3	-15.2	-6.1	4.6	6.8	26.4	28.7	21.1	-4.4	23.5
June <sup>(p)</sup>	-0.9	-6.9	-5.9	2.9	2.5	28.9	30.4	25.1	-8.7	28.3

### C7 Loans to government and non-euro area residents <sup>2)</sup>

(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 <sup>1), 2)</sup>**

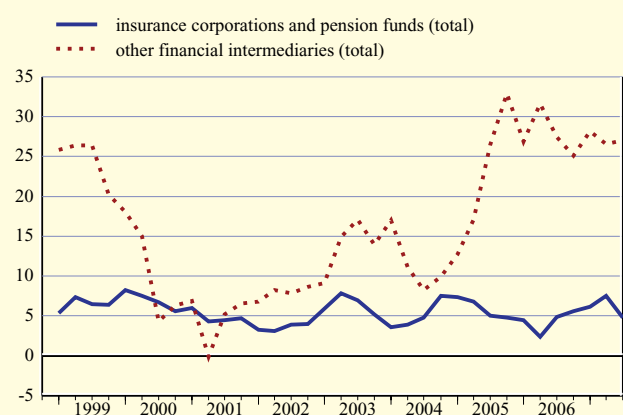
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

**1. Deposits by financial intermediaries**

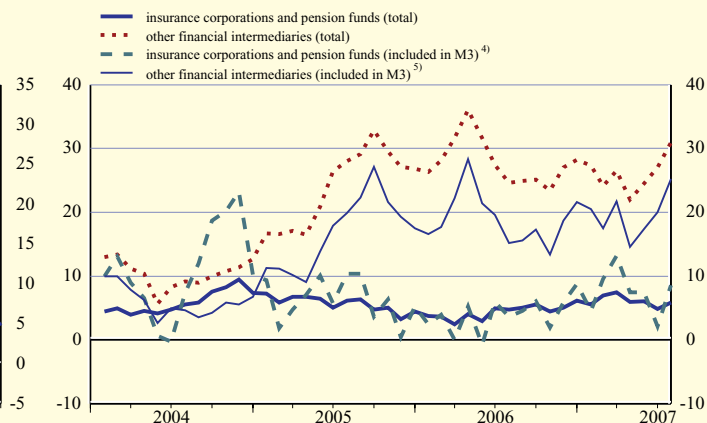
	Insurance corporations and pension funds							Other financial intermediaries <sup>3)</sup>						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
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	650.0	70.2	57.1	495.4	1.0	1.4	24.9	1,140.3	283.1	251.8	469.4	10.6	0.2	125.1
2007 Q1	658.8	72.3	58.4	503.0	1.1	1.2	22.9	1,250.9	318.6	267.7	501.9	11.4	0.3	151.0
2007 Apr.	666.2	70.2	63.2	506.3	1.0	1.2	24.4	1,264.7	307.2	276.8	517.2	11.3	0.3	151.8
May	659.4	65.5	60.1	508.7	0.9	1.2	23.0	1,291.4	315.6	274.3	538.1	11.4	0.3	151.7
June	656.4	65.1	58.0	512.2	0.8	1.2	19.1	1,334.0	320.5	288.1	559.0	11.5	0.2	154.6
July <sup>(p)</sup>	670.9	72.8	61.2	514.0	0.9	1.2	20.8	1,359.4	321.0	294.5	576.5	13.4	0.3	153.8
Transactions														
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	37.9	2.7	5.5	25.6	-0.2	0.0	4.4	249.2	45.5	67.8	130.5	0.3	0.1	4.9
2007 Q1	8.6	2.1	1.0	7.6	0.1	-0.2	-2.0	111.0	35.8	16.2	32.4	0.7	0.0	26.0
2007 Apr.	7.0	-2.6	4.9	3.3	-0.1	0.0	1.5	16.3	-10.7	10.0	16.1	0.0	0.0	0.8
May	-6.8	-4.7	-3.1	2.5	-0.1	0.0	-1.4	25.6	8.1	-3.0	20.4	0.1	0.0	0.0
June	-3.0	-0.4	-2.2	3.4	0.0	0.0	-3.9	41.5	5.1	14.0	21.0	0.0	0.0	1.4
July <sup>(p)</sup>	14.5	7.7	3.3	1.8	0.1	0.0	1.7	26.7	0.7	6.8	18.0	1.9	0.0	-0.7
Growth rates														
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 Dec.	6.2	4.0	10.7	5.4	-16.3	-3.4	21.2	28.2	19.5	36.8	38.9	2.9	-	4.0
2007 Mar.	7.5	10.4	15.9	5.9	-2.9	-14.3	16.0	26.5	15.6	37.6	34.4	4.1	-	12.4
2007 Apr.	6.0	2.9	25.5	5.6	-11.0	-13.9	-13.0	22.0	9.9	25.5	34.5	8.5	-	7.2
May	6.1	-1.6	31.0	5.7	-19.9	-14.6	-10.2	24.6	13.3	33.1	36.2	-2.1	-	4.3
June	4.8	-5.5	21.0	5.7	-20.5	-13.6	-13.7	27.0	13.3	35.6	38.2	5.9	-	10.5
July <sup>(p)</sup>	5.9	10.9	18.0	5.2	-11.7	-10.1	-16.6	30.9	19.9	39.4	39.5	36.0	-	12.7

**C8 Total deposits by sector <sup>2)</sup>**

(annual growth rates)


**C9 Total deposits and deposits included in M3 by sector <sup>2)</sup>**

(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 <sup>1), 2)</sup>

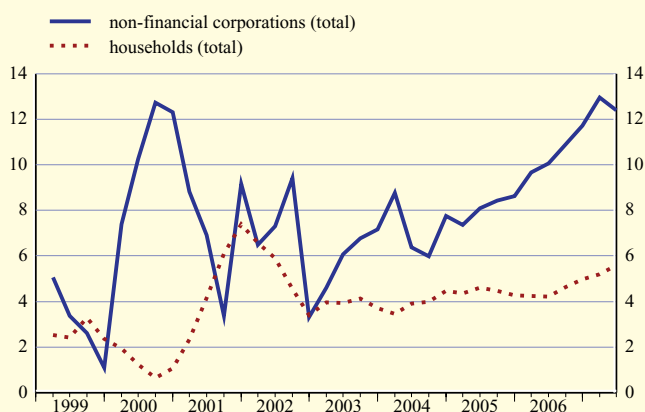
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

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

	Non-financial corporations							Households <sup>3)</sup>						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>Outstanding amounts</b>														
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	1,343.1	851.8	355.3	69.4	40.5	1.3	24.8	4,552.6	1,751.2	669.0	606.8	1,355.7	99.8	70.0
2007 Q1	1,349.0	833.0	379.3	68.9	39.4	1.3	27.0	4,589.5	1,727.5	745.0	593.1	1,342.2	105.4	76.4
2007 Apr.	1,348.8	833.3	382.8	68.9	37.9	1.3	24.5	4,616.5	1,746.3	765.1	587.0	1,336.5	105.7	76.0
May	1,370.9	844.4	392.0	68.6	37.7	1.3	26.9	4,631.6	1,749.5	783.2	581.2	1,333.4	105.5	78.8
June	1,386.0	861.4	392.4	68.5	36.1	1.3	26.4	4,678.4	1,785.8	802.3	577.2	1,329.3	106.2	77.7
July <sup>(p)</sup>	1,381.6	840.3	411.6	68.0	34.7	1.5	25.6	4,681.0	1,767.6	832.8	572.3	1,318.9	106.8	82.6
<b>Transactions</b>														
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	141.2	85.7	55.7	3.9	-4.2	0.1	0.2	215.2	65.7	137.5	-23.1	2.5	15.4	17.2
2007 Q1	3.3	-19.8	23.5	-0.6	-1.4	-0.7	2.2	25.1	-29.1	70.9	-14.8	-13.9	5.5	6.4
2007 Apr.	1.3	1.0	4.2	0.2	-1.5	0.0	-2.6	27.9	19.0	20.8	-6.1	-5.6	0.3	-0.4
May	21.6	10.8	8.9	-0.4	-0.2	0.0	2.4	14.8	3.1	17.9	-5.9	-3.0	-0.2	2.8
June	15.2	17.1	0.4	-0.1	-1.7	0.0	-0.5	47.2	36.3	19.4	-4.0	-4.2	0.7	-1.0
July <sup>(p)</sup>	-3.7	-20.8	19.6	-0.4	-1.4	0.1	-0.8	2.9	-18.1	30.7	-4.8	-10.3	0.7	4.8
<b>Growth rates</b>														
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 Dec.	11.7	11.2	18.4	5.7	-9.4	5.9	0.6	5.0	3.9	25.8	-3.7	0.2	18.2	32.6
2007 Mar.	13.0	12.0	22.6	-2.2	-16.1	-29.8	25.4	5.2	2.9	35.0	-4.8	-1.9	22.1	38.7
2007 Apr.	11.7	11.1	21.0	-3.1	-17.9	-36.0	14.3	5.1	2.2	37.8	-5.4	-2.2	22.1	40.4
May	11.7	9.4	25.5	-4.0	-17.8	-36.2	10.7	5.3	2.5	39.0	-6.0	-2.2	20.2	39.1
June	12.4	10.0	26.2	-4.5	-18.0	-29.5	20.0	5.6	3.2	40.2	-6.3	-2.5	19.2	32.9
July <sup>(p)</sup>	12.6	8.5	31.3	-4.0	-19.7	-26.3	9.2	5.4	2.6	41.1	-6.6	-3.1	18.4	31.2

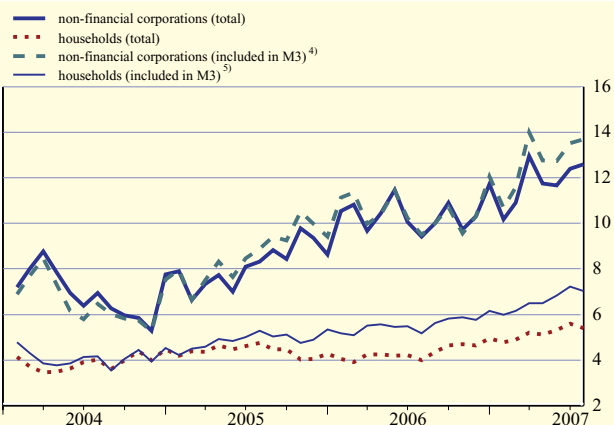
### C10 Total deposits by sector <sup>2)</sup>

(annual growth rates)



### C11 Total deposits and deposits included in M3 by sector <sup>2)</sup>

(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 <sup>1), 2)</sup>**

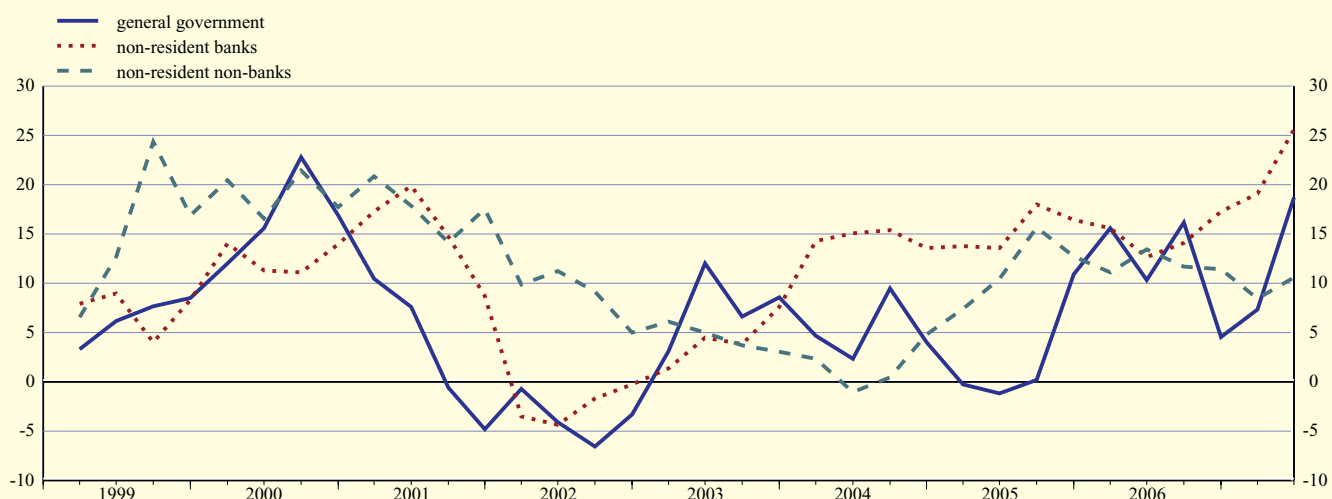
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

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

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks <sup>3)</sup>	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2004	282.2	137.7	30.5	69.6	44.4	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 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	329.0	124.2	45.4	91.8	67.6	3,429.0	2,557.1	871.9	128.6	743.3
2007 Q1	337.8	139.0	42.1	88.8	67.9	3,663.9	2,778.3	885.6	132.4	753.2
Q2 <sup>(p)</sup>	380.7	170.2	43.8	95.2	71.5	3,820.0	2,903.4	916.6	136.7	780.0
Transactions										
2004	11.0	2.7	1.8	2.7	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 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	-6.7	-24.0	3.8	6.1	7.4	100.7	104.0	-5.5	-4.8	-0.7
2007 Q1	7.8	14.1	-3.3	-3.3	0.2	256.6	237.2	18.3	3.6	14.7
Q2 <sup>(p)</sup>	42.9	31.2	1.8	6.3	3.6	176.2	140.7	35.5	4.3	31.2
Growth rates										
2004 Dec.	-4.0	2.0	-5.6	4.1	9.3	11.0	13.5	-4.8	7.2	4.4
2005 Dec.	10.9	8.1	25.4	16.6	0.6	15.4	16.4	12.7	21.6	11.2
2006 June	10.3	2.7	13.0	18.8	17.5	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.	4.5	-16.5	18.4	10.8	51.3	15.8	17.2	11.4	2.2	13.2
2007 Mar.	7.3	-6.3	10.4	12.3	38.6	16.4	19.1	8.4	3.1	9.4
June <sup>(p)</sup>	18.7	22.2	10.6	12.1	25.5	21.7	25.5	10.6	6.4	11.3

**C12 Deposits by government and non-euro area residents <sup>2)</sup>**

(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.

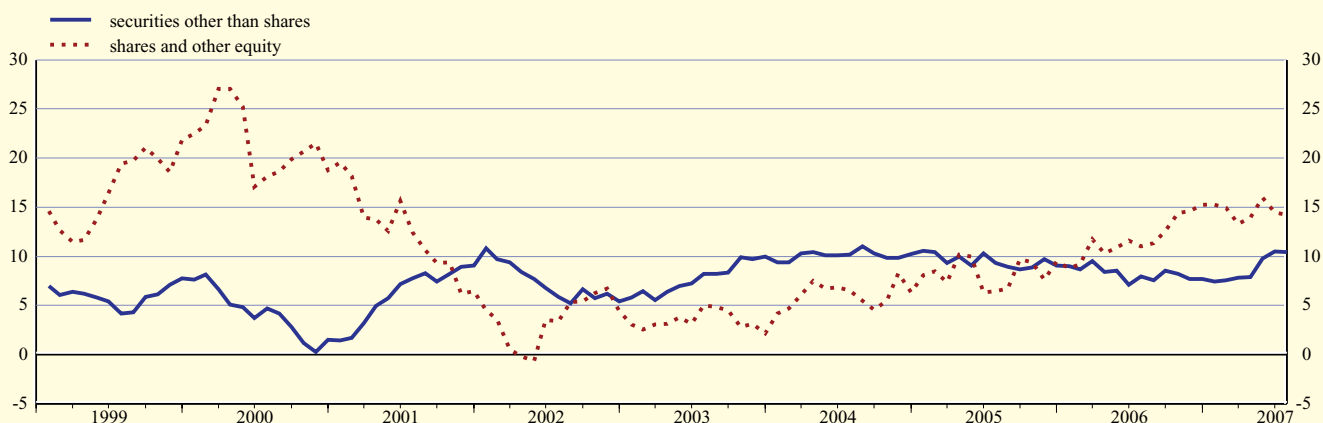
## 2.6 MFI holdings of securities, breakdown <sup>1), 2)</sup>

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

	Securities other than shares							Shares and other equity				
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts												
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	4,663.8	1,560.5	72.3	1,260.4	16.2	615.7	30.1	1,108.6	1,490.3	377.3	817.2	295.8
2007 Q1	4,842.7	1,616.6	76.5	1,266.6	15.6	651.7	34.1	1,181.7	1,576.5	399.7	844.8	332.0
2007 Apr.	4,863.2	1,629.4	76.6	1,243.4	15.4	672.0	34.4	1,192.1	1,654.0	410.8	903.6	339.7
May	4,984.0	1,641.8	79.1	1,275.8	15.8	699.1	34.8	1,237.6	1,703.7	438.2	914.6	351.0
June	5,005.7	1,641.2	79.7	1,268.8	15.6	724.0	34.2	1,242.2	1,623.6	409.9	867.1	346.5
July <sup>(p)</sup>	5,044.1	1,652.1	88.8	1,241.9	15.5	739.2	35.9	1,270.7	1,608.8	410.4	852.8	345.7
Transactions												
2005	356.3	85.7	2.0	52.3	-0.9	71.9	7.7	137.6	109.1	26.5	53.4	29.2
2006	336.8	122.7	10.6	-122.7	0.5	100.4	6.5	218.7	194.4	58.8	97.0	38.6
2007 Q1	190.1	55.6	5.2	2.7	-0.8	37.0	7.6	82.9	78.5	20.6	20.7	37.2
2007 Apr.	33.0	13.4	1.4	-22.7	0.2	19.8	0.9	20.2	72.6	9.2	57.0	6.4
May	109.7	15.7	0.5	31.5	0.3	24.2	-0.1	37.7	42.7	27.3	6.4	9.1
June	24.5	0.2	0.6	-6.2	-0.1	26.0	-0.6	4.6	-79.7	-28.0	-46.9	-4.8
July <sup>(p)</sup>	46.8	10.8	9.4	-26.7	0.0	14.7	2.1	36.6	-10.2	0.1	-10.2	-0.1
Growth rates												
2005 Dec.	9.0	6.3	3.6	4.2	-4.5	16.0	43.8	18.2	9.4	9.4	8.0	13.6
2006 Dec.	7.7	8.5	16.5	-8.9	3.0	19.3	25.7	24.2	15.2	18.7	13.7	15.2
2007 Mar.	7.8	7.9	18.4	-10.2	-3.3	21.3	40.6	25.2	13.3	21.0	6.4	24.1
2007 Apr.	7.9	8.4	15.8	-11.7	-4.1	22.6	36.6	25.9	13.9	20.7	6.6	28.6
May	9.8	7.6	19.9	-8.1	-2.6	24.9	39.0	28.8	16.0	22.6	8.0	32.2
June	10.5	8.8	26.1	-8.6	-7.1	27.5	43.8	28.7	14.4	18.6	7.5	30.1
July <sup>(p)</sup>	10.4	8.6	33.4	-9.3	-7.0	27.6	47.5	27.9	14.2	20.2	6.0	31.9

## C13 MFI holdings of securities <sup>2)</sup>

(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 <sup>1), 2)</sup>**

(EUR billions)

**1. Write-offs/write-downs of loans to households <sup>3)</sup>**

	Consumer credit				Lending for house purchase				Other lending			
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12
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	-3.9	-1.5	-0.9	-1.6	-2.7	-0.1	-0.1	-2.4	-6.7	-1.1	-2.0	-3.6
2007 Q1	-1.0	-0.3	-0.3	-0.5	-0.7	-0.1	0.0	-0.6	-1.9	-0.4	-0.3	-1.2
2007 Apr.	-0.3	0.0	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.3	0.0	-0.1	-0.2
May	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.6	0.0	-0.3	-0.2
June	-0.3	-0.1	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.5	0.0	-0.1	-0.4
July <sup>(p)</sup>	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.3	-0.1	-0.1	-0.2

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

	Non-financial corporations				Non-euro area residents		
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year
	1	2	3	4	5	6	7
2005	-19.3	-7.4	-5.6	-6.2	-1.2	-0.3	-0.9
2006	-13.2	-3.5	-4.6	-5.1	-0.8	-0.1	-0.7
2007 Q1	-2.8	-0.5	-0.7	-1.7	-0.1	0.0	-0.1
2007 Apr.	-0.5	-0.1	-0.2	-0.2	0.0	0.0	0.0
May	-1.4	-0.2	-0.8	-0.4	-0.7	0.0	-0.7
June	-1.1	-0.1	-0.4	-0.6	-0.4	0.0	-0.4
July <sup>(p)</sup>	-0.5	-0.1	-0.1	-0.3	0.0	0.0	0.0

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

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
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	-8.6	1.2	-0.4	-7.9	-0.2	-0.4	-0.3	-0.7	31.5	7.1	16.3	8.0
2007 Q1	-4.2	-1.5	-0.2	0.2	0.0	-0.5	-0.1	-2.1	7.4	0.7	6.7	0.0
2007 Apr.	0.6	0.3	-0.1	-0.6	-0.1	0.5	0.0	0.5	6.0	1.9	2.9	1.2
May	-1.3	-0.5	0.1	-1.4	0.0	-0.2	0.0	0.6	7.2	0.2	4.8	2.3
June	-3.2	-0.4	0.0	-1.7	0.0	-0.2	0.0	-0.7	-0.5	-0.3	-0.6	0.4
July <sup>(p)</sup>	-1.7	-0.4	0.1	0.6	0.0	0.7	-0.1	-2.6	-3.0	0.4	-2.6	-0.7

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 <sup>1),2)</sup>

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

### 1. Deposits

	MFIs <sup>3)</sup>							Non-MFIs						
	All currencies (outstanding amount)	Euro <sup>4)</sup>	Non-euro currencies				All currencies (outstanding amount)	Euro <sup>4)</sup>	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
By euro area residents														
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 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	5,242.4	90.7	9.3	5.6	0.4	1.5	1.2	8,014.8	96.4	3.6	2.2	0.3	0.1	0.6
2007 Q1	5,409.7	90.6	9.4	5.6	0.5	1.4	1.2	8,186.1	96.3	3.7	2.3	0.3	0.1	0.6
Q2 <sup>(p)</sup>	5,594.0	90.5	9.5	5.7	0.4	1.3	1.2	8,435.5	96.3	3.7	2.3	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 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	2,557.1	45.3	54.7	35.1	2.3	2.7	11.5	871.9	50.7	49.3	32.0	1.3	2.0	10.4
2007 Q1	2,778.3	46.4	53.6	34.3	2.5	2.5	11.2	885.6	51.1	48.9	31.8	1.6	2.2	9.4
Q2 <sup>(p)</sup>	2,903.4	45.1	54.9	34.5	2.6	2.5	11.9	916.6	51.0	49.0	32.6	1.3	1.9	9.2

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

	All currencies (outstanding amount)	Euro <sup>4)</sup>	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 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	4,485.5	80.5	19.5	10.0	1.6	1.9	3.5
2007 Q1	4,673.7	80.7	19.3	9.8	1.7	1.9	3.5
Q2 <sup>(p)</sup>	4,794.8	80.2	19.8	10.1	1.6	1.9	3.7

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) For non-euro area residents, the term "MFIs" refers to institutions of a similar type to euro area MFIs.
- 4) Including items expressed in the national denominations of the euro.

**2.8 Currency breakdown of selected MFI balance sheet items <sup>1),2)</sup>**

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

**3. Loans**

	MFIs <sup>3)</sup>							Non-MFIs						
	All currencies (outstanding amount)	Euro <sup>4)</sup>	Non-euro currencies				All currencies (outstanding amount)	Euro <sup>4)</sup>	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
To euro area residents														
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 Q2	4,730.2	-	-	-	-	-	9,591.3	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	4,933.4	-	-	-	-	-	9,970.8	96.4	3.6	1.6	0.2	1.1	0.5	
2007 Q1	5,097.6	-	-	-	-	-	10,242.4	96.4	3.6	1.7	0.2	1.1	0.5	
Q2 <sup>(p)</sup>	5,268.9	-	-	-	-	-	10,509.7	96.2	3.8	1.8	0.2	1.1	0.6	
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 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	2,061.0	50.7	49.3	28.9	2.0	2.3	11.0	863.4	39.3	60.7	43.2	1.1	4.0	8.6
2007 Q1	2,265.1	51.7	48.3	27.7	2.2	2.5	10.8	904.6	41.3	58.7	41.8	1.0	4.1	8.1
Q2 <sup>(p)</sup>	2,338.9	50.0	50.0	28.6	2.1	2.4	11.8	943.3	39.7	60.3	43.1	1.1	3.8	8.0

**4. Holdings of securities other than shares**

	Issued by MFIs <sup>3)</sup>							Issued by non-MFIs						
	All currencies (outstanding amount)	Euro <sup>4)</sup>	Non-euro currencies				All currencies (outstanding amount)	Euro <sup>4)</sup>	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Issued by euro area residents														
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 Q2	1,585.3	95.8	4.2	1.9	0.3	0.4	1.3	2,002.8	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	1,632.8	95.6	4.4	2.3	0.2	0.3	1.3	1,922.3	97.6	2.4	1.3	0.3	0.1	0.7
2007 Q1	1,693.0	95.5	4.5	2.3	0.3	0.3	1.4	1,968.0	97.5	2.5	1.3	0.3	0.1	0.8
Q2 <sup>(p)</sup>	1,721.0	95.4	4.6	2.2	0.3	0.3	1.5	2,042.6	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 Q2	439.9	53.5	46.5	26.8	0.9	0.5	15.0	537.7	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	581.5	38.2	61.8	35.6	4.7	0.8	15.4
Q4	514.4	52.2	47.8	28.8	0.7	0.4	14.5	594.2	38.9	61.1	36.5	4.9	0.8	14.2
2007 Q1	545.3	52.7	47.3	28.5	0.6	0.5	14.4	636.3	38.2	61.8	36.9	4.4	0.6	14.8
Q2 <sup>(p)</sup>	581.8	52.0	48.0	28.4	0.7	0.5	14.6	660.3	37.8	62.2	37.2	4.2	0.7	15.0

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

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

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

(EUR billions; outstanding amounts at end of period)

### 1. Assets

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
2005 Q4	4,791.4	291.5	1,848.4	109.6	1,738.8	1,684.7	505.3	176.1	285.4
2006 Q1	5,199.6	316.0	1,905.5	139.9	1,765.6	1,898.2	569.3	177.3	333.3
Q2	5,138.0	316.9	1,908.6	145.2	1,763.3	1,777.9	601.0	180.3	353.3
Q3	5,359.0	317.5	1,985.0	178.4	1,806.6	1,874.4	631.3	181.5	369.2
Q4	5,551.3	320.6	2,005.8	170.6	1,835.2	2,022.0	670.6	187.9	344.3
2007 Q1 <sup>(p)</sup>	5,714.7	333.0	2,030.8	180.3	1,850.5	2,069.1	718.0	188.9	374.9

### 2. Liabilities

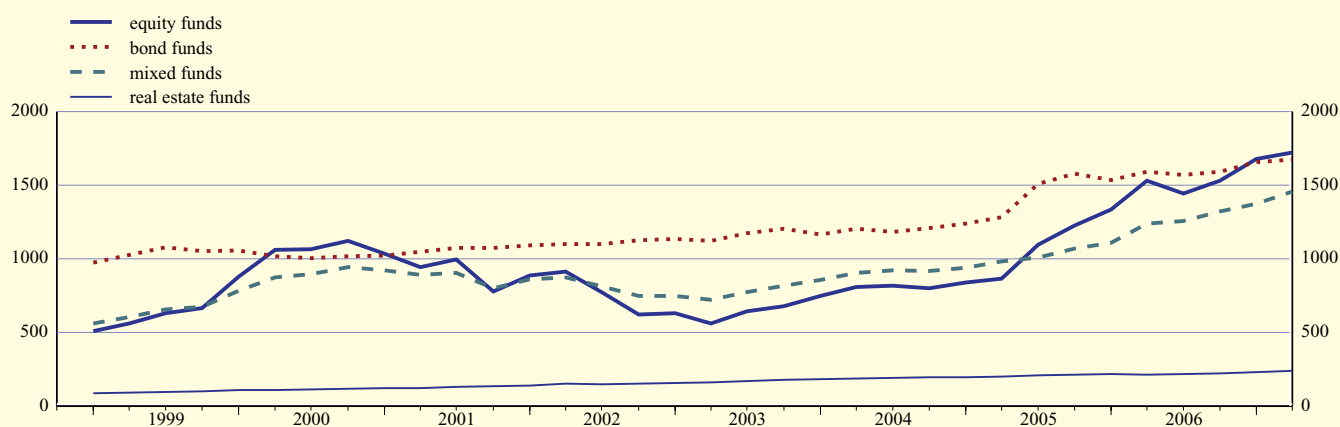
	Total 1	Deposits and loans taken 2	Investment fund shares 3	Other liabilities 4
2005 Q4	4,791.4	61.8	4,519.0	210.5
2006 Q1	5,199.6	73.6	4,871.3	254.7
Q2	5,138.0	76.4	4,789.6	272.0
Q3	5,359.0	75.9	4,999.5	283.7
Q4	5,551.3	77.8	5,217.0	256.4
2007 Q1 <sup>(p)</sup>	5,714.7	81.6	5,350.2	282.9

### 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 Q4	4,791.4	1,337.3	1,538.1	1,109.8	216.2	590.0	3,661.3	1,130.1
2006 Q1	5,199.6	1,532.0	1,592.6	1,239.4	214.0	621.5	3,999.0	1,200.5
Q2	5,138.0	1,443.3	1,569.3	1,257.0	217.4	650.9	3,913.3	1,224.7
Q3	5,359.0	1,533.4	1,594.2	1,321.3	221.2	688.9	4,085.5	1,273.5
Q4	5,551.3	1,680.7	1,657.0	1,375.8	231.8	606.0	4,252.1	1,299.2
2007 Q1 <sup>(p)</sup>	5,714.7	1,723.0	1,674.8	1,459.0	238.4	619.4	4,376.0	1,338.8

### CI4 Total assets of investment funds

(EUR billions)



Source: ECB.

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

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

(EUR billions; outstanding amounts at end of period)

**1. Funds by investment policy**

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
Equity funds									
2005 Q4	1,337.3	50.9	45.9	5.7	40.3	1,146.7	60.3	-	33.5
2006 Q1	1,532.0	55.2	51.5	6.3	45.2	1,309.7	71.1	-	44.6
Q2	1,443.3	52.3	51.4	6.5	44.9	1,221.7	69.3	-	48.6
Q3	1,533.4	53.8	76.1	33.2	42.9	1,284.3	66.8	-	52.3
Q4	1,680.7	56.1	66.0	22.7	43.3	1,429.5	74.3	-	54.8
2007 Q1 <sup>(p)</sup>	1,723.0	59.3	65.8	25.7	40.1	1,461.7	78.0	-	58.4
Bond funds									
2005 Q4	1,538.1	100.0	1,251.8	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	1,594.2	105.5	1,288.5	86.8	1,201.8	41.6	48.2	-	110.3
Q4	1,657.0	108.3	1,343.6	91.1	1,252.5	45.4	49.8	-	110.0
2007 Q1 <sup>(p)</sup>	1,674.8	112.3	1,356.6	94.7	1,261.9	44.5	52.5	-	108.9
Mixed funds									
2005 Q4	1,109.8	60.9	441.1	26.9	414.1	315.9	202.0	0.1	89.9
2006 Q1	1,239.4	67.9	465.4	38.6	426.7	349.6	238.5	0.1	117.9
Q2	1,257.0	72.0	484.1	40.3	443.8	318.6	253.6	0.2	128.6
Q3	1,321.3	68.4	510.6	45.2	465.4	332.3	272.3	0.3	137.4
Q4	1,375.8	71.0	519.4	43.4	476.0	364.0	292.8	0.4	128.2
2007 Q1 <sup>(p)</sup>	1,459.0	73.5	530.2	45.1	485.1	380.4	322.0	0.3	152.5
Real estate funds									
2005 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	6.2	180.3	10.4
Q4	231.8	17.6	6.1	1.7	4.4	2.2	7.0	187.0	11.9
2007 Q1 <sup>(p)</sup>	238.4	18.9	6.7	1.9	4.8	2.3	9.6	188.4	12.6

**2. Funds by type of investor**

	Total 1	Deposits 2	Holdings of securities other than shares 3	Holdings of shares/ other equity 4	Holdings of investment fund shares 5	Fixed assets 6	Other assets 7
2005 Q4	3,661.3	242.9	1,277.9	1,372.7	381.1	150.1	236.7
2006 Q1	3,999.0	263.4	1,334.4	1,551.3	427.5	150.2	272.2
Q2	3,913.3	257.1	1,321.4	1,449.8	452.2	151.2	281.6
Q3	4,085.5	260.6	1,374.1	1,531.3	470.9	151.2	297.3
Q4	4,252.1	265.4	1,402.4	1,650.2	498.2	155.2	280.6
2007 Q1 <sup>(p)</sup>	4,376.0	275.3	1,420.5	1,694.0	528.6	155.6	302.0
Special investors' funds							
2005 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	1,299.2	55.2	603.4	371.8	172.4	32.7	63.7
2007 Q1 <sup>(p)</sup>	1,338.8	57.7	610.3	375.1	189.3	33.3	73.0

Source: ECB.



## EURO AREA ACCOUNTS

### 3.1 Integrated economic and financial accounts by institutional sector

(EUR billions)

Uses	Euro area	Households	Non-financial corporations	Financial corporations	General government	Rest of the world
2007 Q1						
<b>External account</b>						
Exports of goods and services						467.7
<i>Trade balance</i> <sup>1)</sup>						-14.6
<b>Generation of income account</b>						
Gross value added (basic prices)						
Taxes less subsidies on products						
Gross domestic product (market prices)						
Compensation of employees	980.2	101.2	617.8	49.7	211.5	
Other taxes less subsidies on production	19.5	5.3	7.7	3.2	3.3	
Consumption of fixed capital	312.9	84.9	176.4	10.9	40.8	
<i>Net operating surplus and mixed income</i> <sup>1)</sup>	561.8	275.6	257.2	29.0	0.0	
<b>Allocation of primary income account</b>						
Net operating surplus and mixed income						3.9
Compensation of employees						
Taxes less subsidies on production						
Property income	742.3	44.8	292.2	342.3	63.1	119.6
Interest	428.0	42.7	71.8	250.5	63.1	73.8
Other property income	314.3	2.1	220.4	91.8	0.0	45.9
<i>Net national income</i> <sup>1)</sup>	1,811.7	1,468.5	76.8	47.5	218.9	
<b>Secondary distribution of income account</b>						
Net national income						
Current taxes on income, wealth, etc.	219.2	185.4	26.1	7.4	0.3	1.4
Social contributions	374.6	374.6				0.7
Social benefits other than social transfers in kind	379.8	1.4	15.2	23.8	339.5	1.0
Other current transfers	181.2	66.6	22.3	46.3	46.0	11.3
Net non-life insurance premiums	43.8	32.7	9.5	0.9	0.7	1.7
Non-life insurance claims	44.1			44.1		0.8
Other	93.3	33.8	12.8	1.3	45.4	8.8
<i>Net disposable income</i> <sup>1)</sup>	1,788.6	1,306.7	43.2	50.2	388.4	
<b>Use of income account</b>						
Net disposable income						
Final consumption expenditure	1,627.1	1,207.7			419.4	
Individual consumption expenditure	1,464.1	1,207.7			256.5	
Collective consumption expenditure	162.9				162.9	
Adjustment for the change in net equity of households in pension fund reserves	14.2	0.1	3.0	11.1	0.0	0.0
<i>Net saving/current external account</i> <sup>1)</sup>	161.5	113.2	40.2	39.2	-31.0	2.3
<b>Capital account</b>						
Net saving / current external account						
Gross capital formation	476.7	152.0	270.7	10.3	43.6	
Gross fixed capital formation	440.4	148.2	238.9	10.1	43.2	
Changes in inventories and acquisitions less disposals of valuables	36.4	3.8	31.8	0.3	0.4	
Consumption of fixed capital						
Acquisitions less disposals of non-produced non-financial assets	0.4	-0.2	0.3	0.1	0.1	-0.4
Capital transfers	37.9	7.9	1.4	2.3	26.2	7.2
Capital taxes	5.7	5.5	0.2	0.0	0.0	0.0
Other capital transfers	32.2	2.4	1.2	2.3	26.2	7.2
<i>Net lending (+)/net borrowing (-) (from capital account)</i> <sup>1)</sup>	2.2	55.8	-41.9	38.7	-50.4	-2.2
Statistical discrepancy	0.0	7.8	-7.8	0.0	0.0	0.0

Sources: ECB and Eurostat.

1) For the calculation of the balancing items, see the Technical notes.

**3.1 Integrated economic and financial accounts by institutional sector (cont'd)**

(EUR billions)

Resources	Euro area	Households	Non-financial corporations	Financial corporations	General government	Rest of the world
<b>2007 Q1</b>						
<b>External account</b>						
Imports of goods and services						453.1
<i>Trade balance</i>						
<b>Generation of income account</b>						
Gross value added (basic prices)	1,874.5	467.0	1,059.1	92.8	255.6	
Taxes less subsidies on products	243.9					
Gross domestic product (market prices) <sup>2)</sup>	2,118.4					
Compensation of employees						
Other taxes less subsidies on production						
Consumption of fixed capital						
<i>Net operating surplus and mixed income</i>						
<b>Allocation of primary income account</b>						
Net operating surplus and mixed income	561.8	275.6	257.2	29.0	0.0	
Compensation of employees	982.4	982.4				1.8
Taxes less subsidies on production	263.4				263.4	0.1
Property income	746.5	255.3	111.8	360.8	18.7	115.5
Interest	422.3	66.9	39.3	309.8	6.3	79.6
Other property income	324.3	188.4	72.5	50.9	12.4	35.9
<i>Net national income</i>						
<b>Secondary distribution of income account</b>						
Net national income	1,811.7	1,468.5	76.8	47.5	218.9	
Current taxes on income, wealth, etc.	219.9				219.9	0.6
Social contributions	374.3	1.1	18.4	35.0	319.9	1.0
Social benefits other than social transfers in kind	378.0	378.0				2.8
Other current transfers	159.3	87.1	11.6	45.1	15.4	33.1
Net non-life insurance premiums	44.1			44.1		1.4
Non-life insurance claims	43.4	34.0	8.2	0.8	0.3	1.5
Other	71.9	53.1	3.4	0.2	15.2	30.2
<i>Net disposable income</i>						
<b>Use of income account</b>						
Net disposable income	1,788.6	1,306.7	43.2	50.2	388.4	
Final consumption expenditure						
Individual consumption expenditure						
Collective consumption expenditure						
Adjustment for the change in net equity of households in pension fund reserves	14.3	14.3				0.0
<i>Net saving/current external account</i>						
<b>Capital account</b>						
Net saving / current external account	161.5	113.2	40.2	39.2	-31.0	2.3
Gross capital formation						
Gross fixed capital formation						
Changes in inventories and acquisitions less disposals of valuables						
Consumption of fixed capital	312.9	84.9	176.4	10.9	40.8	
Acquisitions less disposals of non-produced non-financial assets						
Capital transfers	42.8	17.5	14.0	1.5	9.7	2.3
Capital taxes	5.7				5.7	0.0
Other capital transfers	37.0	17.5	14.0	1.5	4.0	2.3
<i>Net lending (+)/net borrowing (-) (from capital account)</i>						
Statistical discrepancy						

Sources: ECB and Eurostat.

2) Gross domestic product is equal to gross value added of all domestic sectors plus net taxes (taxes less subsidies) on products.



### 3.1 Integrated economic and financial accounts by institutional sector (cont'd)

(EUR billions)

Assets	Euro area	Households	Non-financial corporations	MFIs	Other financial inter- mediaries	Insurance corporations and pension funds	General govern- ment	Rest of the world
2007 Q1								
<b>Opening balance sheet, financial assets</b>								
Total financial assets		16,918.5	13,408.5	19,715.4	9,371.1	5,956.0	2,688.7	13,215.5
Monetary gold and special drawing rights (SDRs)				180.9				
Currency and deposits		5,333.8	1,577.0	2,154.6	1,238.3	730.4	504.1	3,519.6
Short-term debt securities		30.3	112.1	90.6	256.2	212.7	22.7	693.2
Long-term debt securities		1,431.5	189.0	3,249.6	1,864.6	1,903.8	203.5	2,026.3
Loans		23.6	1,676.6	10,858.8	1,283.5	361.6	361.0	1,405.8
<i>of which long-term</i>		19.6	926.5	8,267.8	953.7	298.9	316.7	.
Shares and other equity		4,926.5	7,243.9	1,722.9	4,487.9	2,323.6	1,057.2	4,880.7
Quoted shares		1,213.0	1,780.7	659.8	2,357.9	820.4	380.2	.
Unquoted shares and other equity		2,067.7	5,057.8	800.0	1,509.6	462.6	544.0	.
Mutual fund shares		1,645.8	405.4	263.2	620.4	1,040.7	133.0	.
Insurance technical reserves		4,918.1	131.0	1.9	0.0	143.6	3.1	182.8
Other accounts receivable and financial derivatives		254.7	2,479.0	1,456.1	240.6	280.1	537.1	507.1
<i>Net financial worth</i>								
<b>Financial account, transactions in financial assets</b>								
Total transactions in financial assets		157.0	194.3	839.4	231.1	100.9	34.7	646.1
Monetary gold and special drawing rights (SDRs)				-0.4				0.4
Currency and deposits		17.5	29.2	211.9	110.9	26.8	15.2	269.9
Short-term debt securities		14.8	7.7	10.1	52.4	14.7	3.0	22.7
Long-term debt securities		15.7	-15.3	135.3	-10.8	40.2	3.2	138.3
Loans		-1.0	33.4	308.8	18.4	-4.1	-4.4	79.7
<i>of which long-term</i>		-1.1	23.1	148.9	32.4	1.9	1.1	.
Shares and other equity		17.2	67.7	53.0	41.1	17.3	-0.3	125.6
Quoted shares		-6.7	-5.8	19.4	21.6	-2.5	-0.1	.
Unquoted shares and other equity		25.4	60.7	24.3	-20.6	2.7	-3.7	.
Mutual fund shares		-1.4	12.9	9.2	40.1	17.1	3.5	.
Insurance technical reserves		66.2	2.4	0.0	0.0	3.8	0.0	6.2
Other accounts receivable and financial derivatives		26.7	69.2	120.8	19.2	2.1	18.0	3.4
<i>Changes in net financial worth due to transactions</i>								
<b>Other changes account, financial assets</b>								
Total other changes in financial assets		164.2	164.0	26.4	74.6	22.6	19.3	65.6
Monetary gold and special drawing rights (SDRs)				4.6				
Currency and deposits		-2.0	-1.9	-17.6	-0.9	-0.1	0.9	-18.5
Short-term debt securities		-1.3	0.1	0.6	14.8	0.2	0.2	-12.6
Long-term debt securities		11.0	2.0	-9.6	-13.5	-14.3	0.5	-7.0
Loans		-0.1	7.5	8.0	7.5	-6.4	0.0	33.5
<i>of which long-term</i>		-0.1	4.3	11.2	7.0	-0.6	0.0	.
Shares and other equity		155.7	177.4	45.4	50.2	37.9	18.5	44.5
Quoted shares		47.8	100.7	31.9	38.4	24.0	11.0	.
Unquoted shares and other equity		97.7	74.3	11.5	7.5	5.9	6.9	.
Mutual fund shares		10.1	2.4	2.0	4.3	8.0	0.6	.
Insurance technical reserves		1.3	-0.3	0.0	0.0	-0.4	0.0	1.0
Other accounts receivable and financial derivatives		-0.3	-20.7	-4.9	16.4	5.6	-0.8	24.6
<i>Other changes in net financial worth</i>								
<b>Closing balance sheet, financial assets</b>								
Total financial assets		17,239.7	13,766.8	20,581.3	9,676.9	6,079.4	2,742.7	13,926.7
Monetary gold and special drawing rights (SDRs)				185.0				
Currency and deposits		5,349.3	1,604.2	2,348.9	1,348.3	757.0	520.2	3,771.0
Short-term debt securities		43.8	119.8	101.3	323.3	227.6	26.0	703.3
Long-term debt securities		1,458.2	175.6	3,375.3	1,840.4	1,929.7	207.1	2,157.6
Loans		22.4	1,717.5	11,175.6	1,309.4	351.2	356.6	1,519.0
<i>of which long-term</i>		18.4	953.9	8,427.8	993.2	300.2	317.7	.
Shares and other equity		5,099.4	7,489.0	1,821.3	4,579.1	2,378.9	1,075.4	5,050.9
Quoted shares		1,254.2	1,875.6	711.1	2,417.9	841.9	391.2	.
Unquoted shares and other equity		2,190.8	5,192.8	835.8	1,496.5	471.3	547.2	.
Mutual fund shares		1,654.5	420.7	274.4	664.8	1,065.8	137.1	.
Insurance technical reserves		4,985.7	133.1	1.9	0.0	147.1	3.1	190.0
Other accounts receivable and financial derivatives		281.0	2,527.6	1,571.9	276.3	287.9	554.3	535.1
<i>Net financial worth</i>								

Source: ECB.

## 3.1 Integrated economic and financial accounts by institutional sector (cont'd)

(EUR billions)

Liabilities	Euro area	Households	Non-financial corporations	MFIs	Other financial intermediaries	Insurance corporations and pension funds	General government	Rest of the world
2007 Q1								
<b>Opening balance sheet, liabilities</b>								
Total liabilities		5,409.2	21,609.4	20,073.1	9,326.3	6,066.9	6,712.9	11,894.9
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	12,151.6	210.8	3.9	345.6	2,345.9
Short-term debt securities			267.6	325.2	70.2	0.1	560.7	194.0
Long-term debt securities			425.5	2,500.6	1,251.7	26.1	4,357.0	2,307.5
Loans		5,021.3	6,250.1		1,260.5	155.8	1,075.5	2,207.7
<i>of which long-term</i>		4,709.8	4,214.2		610.8	79.6	944.1	.
Shares and other equity			12,070.1	3,209.7	6,311.3	656.3	4.8	4,390.6
Quoted shares			4,458.0	1,056.0	299.1	320.8	0.0	.
Unquoted shares and other equity			7,612.1	1,215.3	867.8	335.5	4.8	.
Mutual fund shares				938.4	5,144.4			.
Insurance technical reserves		32.7	325.8	53.3	0.5	4,967.7	0.6	
Other accounts payable and financial derivatives		355.2	2,270.3	1,832.7	221.2	257.1	368.8	449.3
<i>Net financial worth</i> <sup>1)</sup>	-1,139.6	11,509.3	-8,200.9	-357.7	44.8	-111.0	-4,024.2	
<b>Financial account, transactions in liabilities</b>								
Total transactions in liabilities		93.4	244.0	802.0	231.7	99.0	85.2	648.3
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	413.6	3.8	0.0	-7.4	271.3
Short-term debt securities			15.9	33.2	-2.7	-0.1	49.3	29.8
Long-term debt securities			-4.8	97.2	81.2	0.0	38.5	94.4
Loans		75.1	143.2		37.1	19.4	7.0	148.9
<i>of which long-term</i>		77.1	93.9		-0.3	1.5	-20.3	.
Shares and other equity			59.7	77.9	104.9	3.1	0.0	76.1
Quoted shares			6.9	5.2	8.3	0.5	0.0	.
Unquoted shares and other equity			52.8	-0.6	8.3	2.6	0.0	.
Mutual fund shares				73.2	88.3			.
Insurance technical reserves		0.0	1.0	0.6	-0.1	77.2	0.0	
Other accounts payable and financial derivatives		18.3	28.9	179.5	7.6	-0.6	-2.2	27.8
<i>Changes in net financial worth due to transactions</i> <sup>1)</sup>	2.2	63.6	-49.7	37.4	-0.6	1.9	-50.4	-2.2
<b>Other changes account, liabilities</b>								
Total other changes in liabilities		10.6	396.0	65.3	44.6	17.6	-20.3	18.5
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	-5.2	0.1	0.0	0.0	-35.0
Short-term debt securities			0.3	-1.4	0.0	0.0	2.6	0.3
Long-term debt securities			2.8	-4.2	-1.5	-0.1	-30.5	2.6
Loans		7.0	29.7		4.3	-2.5	-2.9	14.6
<i>of which long-term</i>		5.7	17.4		1.6	-0.7	-3.1	.
Shares and other equity			354.5	72.4	64.4	14.0	0.1	24.2
Quoted shares			197.1	38.9	36.1	7.2	0.0	.
Unquoted shares and other equity			157.4	35.7	-2.6	6.8	0.1	.
Mutual fund shares				-2.3	30.9			.
Insurance technical reserves		0.0	0.0	0.0	0.0	1.7	0.0	
Other accounts payable and financial derivatives		3.6	8.6	3.7	-22.7	4.5	10.4	11.9
<i>Other changes in net financial worth</i> <sup>1)</sup>	-42.6	153.7	-232.0	-38.8	30.0	5.0	39.6	47.1
<b>Closing balance sheet, liabilities</b>								
Total liabilities		5,513.2	22,249.3	20,940.4	9,602.6	6,183.6	6,777.7	12,561.7
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	12,560.0	214.7	3.9	338.2	2,582.2
Short-term debt securities			283.9	357.1	67.5	0.1	612.6	224.0
Long-term debt securities			423.6	2,593.5	1,331.3	26.1	4,364.9	2,404.5
Loans		5,103.4	6,422.9		1,302.0	172.6	1,079.5	2,371.2
<i>of which long-term</i>		4,792.6	4,325.5		612.1	80.4	920.7	.
Shares and other equity			12,484.3	3,360.0	6,480.6	673.4	4.9	4,490.8
Quoted shares			4,662.0	1,100.2	343.5	328.5	0.0	.
Unquoted shares and other equity			7,822.3	1,250.5	873.5	344.9	4.9	.
Mutual fund shares				1,009.3	5,263.6			.
Insurance technical reserves		32.7	326.8	53.9	0.4	5,046.6	0.6	
Other accounts payable and financial derivatives		377.1	2,307.8	2,015.9	206.1	261.0	377.1	489.0
<i>Net financial worth</i> <sup>1)</sup>	-1,180.0	11,726.5	-8,482.6	-359.1	74.3	-104.1	-4,035.0	

Source: ECB.

### 3.2 Euro area non-financial accounts

(EUR billions; four-quarter cumulated flows)

Uses	2003	2004	2005	2005 Q2- 2006 Q1	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1
<b>Generation of income account</b>								
Gross value added (basic prices)								
Taxes less subsidies on products								
Gross domestic product (market prices)								
Compensation of employees	3,657.2	3,762.4	3,865.4	3,897.8	3,936.9	3,974.8	4,008.8	4,050.7
Other taxes less subsidies on production	110.7	123.1	131.2	131.6	133.6	134.1	130.1	129.0
Consumption of fixed capital	1,074.5	1,121.3	1,172.2	1,183.2	1,195.5	1,207.9	1,219.3	1,232.5
<i>Net operating surplus and mixed income</i> <sup>1)</sup>	1,847.6	1,943.6	1,991.1	2,017.7	2,028.6	2,060.2	2,110.6	2,147.0
<b>Allocation of primary income account</b>								
Net operating surplus and mixed income								
Compensation of employees								
Taxes less subsidies on production								
Property income	2,276.2	2,324.8	2,521.9	2,590.8	2,673.9	2,745.9	2,838.6	2,933.6
Interest	1,265.8	1,241.0	1,313.2	1,358.6	1,414.3	1,483.4	1,551.9	1,616.9
Other property income	1,010.4	1,083.8	1,208.7	1,232.2	1,259.6	1,262.5	1,286.7	1,316.7
<i>Net national income</i> <sup>1)</sup>	6,356.9	6,628.4	6,830.7	6,909.2	6,986.5	7,074.5	7,179.6	7,273.9
<b>Secondary distribution of income account</b>								
Net national income								
Current taxes on income, wealth, etc.	856.8	882.6	932.4	948.2	972.6	991.5	1,023.5	1,035.1
Social contributions	1,388.2	1,427.5	1,468.8	1,483.1	1,499.0	1,515.3	1,529.5	1,541.2
Social benefits other than social transfers in kind	1,407.5	1,452.3	1,493.8	1,505.4	1,516.0	1,526.5	1,537.6	1,543.9
Other current transfers	658.2	683.2	703.8	700.4	701.1	703.3	705.2	707.2
Net non-life insurance premiums	174.0	175.9	177.2	176.7	175.6	175.3	174.1	174.4
Non-life insurance claims	174.6	176.4	178.1	177.2	176.0	175.3	174.1	174.8
Other	309.7	330.9	348.5	346.6	349.5	352.7	356.9	357.9
<i>Net disposable income</i> <sup>1)</sup>	6,286.8	6,551.1	6,745.5	6,825.4	6,902.8	6,988.8	7,091.7	7,188.2
<b>Use of income account</b>								
Net disposable income								
Final consumption expenditure	5,844.8	6,054.5	6,276.6	6,340.0	6,401.9	6,458.8	6,519.0	6,578.9
Individual consumption expenditure	5,223.7	5,410.6	5,616.3	5,676.4	5,732.3	5,785.0	5,838.2	5,891.6
Collective consumption expenditure	621.1	643.9	660.3	663.6	669.6	673.8	680.9	687.3
Adjustment for the change in net equity of households in pension funds reserves	54.7	58.3	60.2	60.4	60.8	61.1	61.3	62.3
<i>Net saving</i> <sup>1)</sup>	442.2	496.8	469.2	485.6	501.1	530.3	572.9	609.5
<b>Capital account</b>								
Net saving								
Gross capital formation	1,485.4	1,568.1	1,646.2	1,689.0	1,716.2	1,757.3	1,790.5	1,828.2
Gross fixed capital formation	1,482.7	1,555.1	1,627.6	1,655.0	1,682.8	1,713.3	1,758.2	1,800.1
Changes in inventories and acquisitions less disposals of valuables	2.7	13.0	18.6	34.0	33.4	44.0	32.3	28.1
Consumption of fixed capital								
Acquisitions less disposals of non-produced non-financial assets	0.6	-1.1	0.1	0.9	1.4	1.6	1.3	1.1
Capital transfers	181.3	164.6	172.7	160.4	156.9	170.2	185.7	186.2
Capital taxes	35.9	29.8	24.0	24.3	23.6	22.3	22.2	22.8
Other capital transfers	145.5	134.8	148.8	136.1	133.2	148.0	163.6	163.4
<i>Net lending (+)/net borrowing (-) (from capital account)</i> <sup>1)</sup>	42.9	67.9	9.0	-7.1	-8.5	-8.0	13.6	28.1

Sources: ECB and Eurostat.

1) For the calculation of the balancing items, see the Technical notes.

**3.2 Euro area non-financial accounts (cont'd)**

(EUR billions; four-quarter cumulated flows)

Resources	2003	2004	2005	2005 Q2- 2006 Q1	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1
<b>Generation of income account</b>								
Gross value added (basic prices)	6,690.0	6,950.5	7,159.9	7,230.3	7,294.6	7,377.1	7,468.8	7,559.2
Taxes less subsidies on products	760.9	796.6	838.0	857.5	873.7	884.1	902.6	922.5
Gross domestic product (market prices) <sup>2)</sup>	7,450.8	7,747.1	7,997.9	8,087.8	8,168.2	8,261.2	8,371.4	8,481.6
Compensation of employees								
Other taxes less subsidies on production								
Consumption of fixed capital								
<i>Net operating surplus and mixed income</i>								
<b>Allocation of primary income account</b>								
Net operating surplus and mixed income	1,847.6	1,943.6	1,991.1	2,017.7	2,028.6	2,060.2	2,110.6	2,147.0
Compensation of employees	3,664.3	3,769.5	3,871.3	3,903.4	3,942.6	3,980.7	4,014.8	4,057.0
Taxes less subsidies on production	880.6	933.3	980.7	999.3	1,017.7	1,028.7	1,043.4	1,060.3
Property income	2,240.6	2,306.8	2,509.6	2,579.6	2,671.6	2,750.9	2,849.4	2,943.3
Interest	1,234.5	1,206.7	1,285.7	1,334.4	1,392.8	1,465.9	1,536.6	1,600.4
Other property income	1,006.1	1,100.1	1,223.9	1,245.2	1,278.8	1,285.0	1,312.9	1,342.9
<i>Net national income</i>								
<b>Secondary distribution of income account</b>								
Net national income	6,356.9	6,628.4	6,830.7	6,909.2	6,986.5	7,074.5	7,179.6	7,273.9
Current taxes on income, wealth, etc.	858.7	885.4	935.9	951.9	977.1	996.0	1,028.1	1,039.6
Social contributions	1,387.2	1,426.5	1,468.3	1,482.7	1,498.6	1,514.9	1,529.1	1,540.7
Social benefits other than social transfers in kind	1,401.2	1,445.0	1,486.5	1,498.1	1,508.8	1,519.2	1,530.2	1,536.6
Other current transfers	593.6	611.3	622.9	620.5	620.6	620.7	620.5	624.8
Net non-life insurance premiums	174.6	176.4	178.1	177.2	176.0	175.3	174.1	174.8
Non-life insurance claims	171.3	173.6	175.7	174.9	173.5	172.8	171.7	172.2
Other	247.7	261.3	269.0	268.4	271.1	272.7	274.7	277.8
<i>Net disposable income</i>								
<b>Use of income account</b>								
Net disposable income	6,286.8	6,551.1	6,745.5	6,825.4	6,902.8	6,988.8	7,091.7	7,188.2
Final consumption expenditure								
Individual consumption expenditure								
Collective consumption expenditure								
Adjustment for the change in net equity of households in pension funds reserves	54.9	58.5	60.4	60.6	61.0	61.3	61.5	62.5
<i>Net saving</i>								
<b>Capital account</b>								
Net saving	442.2	496.8	469.2	485.6	501.1	530.3	572.9	609.5
Gross capital formation								
Gross fixed capital formation								
Changes in inventories and acquisitions less disposals of valuables								
Consumption of fixed capital	1,074.5	1,121.3	1,172.2	1,183.2	1,195.5	1,207.9	1,219.3	1,232.5
Acquisitions less disposals of non-produced non-financial assets								
Capital transfers	193.5	181.3	186.7	174.4	169.3	182.9	199.1	201.6
Capital taxes	35.9	29.8	24.0	24.3	23.6	22.3	22.2	22.8
Other capital transfers	157.6	151.5	162.7	150.0	145.7	160.6	176.9	178.8
<i>Net lending (+)/net borrowing (-) (from capital account)</i>								

Sources: ECB and Eurostat.

2) Gross domestic product is equal to gross value added of all domestic sectors plus net taxes (taxes less subsidies) on products.

### 3.3 Households

(EUR billions; four-quarter cumulated flows; outstanding amounts at end-of-period)

	2003	2004	2005	2005 Q2- 2006 Q1	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1
<b>Income, saving and changes in net worth</b>								
Compensation of employees (+)	3,664.3	3,769.5	3,871.3	3,903.4	3,942.6	3,980.7	4,014.8	4,057.0
Gross operating surplus and mixed income (+)	1,231.3	1,284.9	1,330.3	1,346.0	1,363.7	1,383.0	1,407.7	1,429.3
Interest receivable (+)	237.8	228.8	226.5	229.4	234.9	242.3	250.0	257.0
Interest payable (-)	123.4	123.2	126.3	129.7	135.3	143.6	151.2	159.3
Other property income receivable (+)	611.3	642.7	691.7	703.9	713.9	717.4	723.4	730.0
Other property income payable (-)	8.7	9.2	9.2	9.2	9.2	9.3	9.3	9.3
Current taxes on income and wealth (-)	702.5	706.7	739.6	750.7	764.5	772.1	789.8	796.4
Net social contributions (-)	1,384.4	1,423.7	1,464.7	1,479.0	1,494.7	1,511.0	1,525.2	1,536.8
Net social benefits (+)	1,396.4	1,440.0	1,481.3	1,492.8	1,503.3	1,513.7	1,524.7	1,531.0
Net current transfers receivable (+)	65.1	65.0	69.2	69.1	68.1	66.9	68.8	71.9
<b>= Gross disposable income</b>	4,987.2	5,168.2	5,330.5	5,375.9	5,422.8	5,468.1	5,513.8	5,574.3
Final consumption expenditure (-)	4,306.6	4,461.6	4,621.9	4,670.3	4,714.6	4,755.5	4,799.1	4,843.1
Changes in net worth in pension funds (+)	54.6	58.1	60.0	60.1	60.6	60.8	61.1	62.0
<b>= Gross saving</b>	735.2	764.6	768.7	765.8	768.7	773.4	775.8	793.3
Consumption of fixed capital (-)	288.0	303.3	318.0	321.1	324.4	327.7	330.7	334.3
Net capital transfers receivable (+)	12.6	19.0	20.8	18.4	17.3	23.4	25.2	24.8
Other changes in net worth <sup>1)</sup> (+)	229.2	285.9	617.7	712.0	499.0	351.1	447.5	326.7
<b>= Changes in net worth <sup>1)</sup></b>	689.0	766.2	1,089.2	1,175.0	960.6	820.2	917.8	810.5
<b>Investment, financing and changes in net worth</b>								
Net acquisition of non-financial assets (+)	482.3	512.0	537.1	549.1	559.2	573.4	586.8	601.6
Consumption of fixed capital (-)	288.0	303.3	318.0	321.1	324.4	327.7	330.7	334.3
Financial investment (+)								
Currency and deposits	220.6	246.0	239.2	245.8	250.2	270.4	282.4	277.8
<i>of which M3 deposits <sup>2)</sup></i>	166.1	168.5	207.7	214.5	215.7	226.1	242.1	251.6
Short-term debt securities	-34.5	6.6	-19.0	-2.1	3.8	13.0	16.3	20.1
Long-term debt securities	23.9	71.1	30.0	37.7	39.1	83.0	72.2	49.2
Shares and other equity	89.8	-18.6	128.8	85.4	46.0	-9.6	-23.5	-2.3
Quoted shares	29.5	-51.1	9.1	-24.6	-24.9	-35.1	-14.9	-3.7
Unquoted shares and other equity	-19.0	36.8	61.0	66.8	44.0	36.0	17.1	34.1
Mutual fund shares	79.3	-4.3	58.7	43.3	26.9	-10.5	-25.7	-32.7
<i>of which money market fund shares</i>	14.4	-19.4	-10.1	-11.5	-9.0	-10.0	-4.9	1.6
Life insurance and pension fund reserves	231.0	251.2	298.2	309.1	298.1	294.5	272.2	255.2
Financing (-)								
Loans	262.8	312.2	388.7	418.1	417.4	414.8	404.5	391.1
<i>of which from euro area MFIs</i>	211.6	277.4	357.5	379.6	382.6	371.0	345.4	336.9
Other changes in financial assets (+)								
Shares and other equity	266.9	240.8	507.5	606.2	420.7	310.5	396.2	299.7
Life insurance and pension fund reserves	29.0	58.2	135.9	115.1	63.4	44.9	34.8	16.8
Remaining net flows (+)	-69.2	14.6	-61.7	-32.2	22.0	-17.5	15.6	17.7
<b>= Changes in net worth <sup>1)</sup></b>	689.0	766.2	1,089.2	1,175.0	960.6	820.2	917.8	810.5
<b>Financial balance sheet</b>								
Financial assets (+)								
Currency and deposits	4,569.8	4,807.4	5,053.3	5,075.0	5,166.8	5,197.2	5,333.8	5,349.3
<i>of which M3 deposits <sup>2)</sup></i>	3,405.1	3,576.6	3,787.0	3,813.3	3,887.9	3,911.3	4,025.1	4,073.0
Short-term debt securities	25.5	33.0	14.7	25.9	33.5	36.7	30.3	43.8
Long-term debt securities	1,292.6	1,350.9	1,372.1	1,415.6	1,413.6	1,435.5	1,431.5	1,458.2
Shares and other equity	3,695.2	3,917.5	4,553.8	4,802.0	4,681.7	4,797.1	4,926.5	5,099.4
Quoted shares	797.0	849.5	1,039.0	1,140.9	1,071.1	1,154.1	1,213.0	1,254.2
Unquoted shares and other equity	1,415.3	1,575.9	1,877.6	1,987.7	1,984.6	2,017.5	2,067.7	2,190.8
Mutual fund shares	1,483.0	1,492.1	1,637.2	1,673.4	1,626.0	1,625.5	1,645.8	1,654.5
<i>of which money market fund shares</i>	263.8	249.0	235.3	213.4	216.0	211.1	186.4	195.1
Life insurance and pension fund reserves	3,541.0	3,850.3	4,284.4	4,383.1	4,423.2	4,509.7	4,591.4	4,655.1
Remaining net assets	184.8	218.0	174.3	169.6	192.6	192.3	217.1	224.2
Liabilities (-)								
Loans	3,960.3	4,276.8	4,650.8	4,733.1	4,839.1	4,920.5	5,021.3	5,103.4
<i>of which from euro area MFIs</i>	3,521.2	3,809.0	4,191.6	4,280.8	4,384.5	4,459.3	4,537.7	4,611.3
<b>= Net financial wealth</b>	9,348.6	9,900.2	10,801.8	11,138.1	11,072.4	11,248.1	11,509.3	11,726.5

Sources: ECB and Eurostat.

1) Excluding changes in net worth due to other changes in non-financial assets such as revaluations of residential property.

2) Deposit liabilities of MFIs and central government (e.g. post offices or treasuries) vis-à-vis households which are part of M3 (see glossary).

## 3.4 Non-financial corporations

(EUR billions; four-quarter cumulated flows; outstanding amounts at end-of-period)

	2003	2004	2005	2005 Q2- 2006 Q1	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1
<b>Income and saving</b>								
Gross value added (basic prices) (+)	3,781.5	3,928.2	4,034.5	4,075.7	4,106.6	4,155.2	4,217.1	4,269.4
Compensation of employees (-)	2,304.5	2,371.7	2,430.2	2,450.5	2,475.1	2,499.1	2,524.7	2,554.0
Other taxes less subsidies on production (-)	59.1	66.4	72.4	72.1	74.1	74.4	73.2	71.9
= <b>Gross operating surplus (+)</b>	1,417.9	1,490.0	1,531.9	1,553.1	1,557.4	1,581.7	1,619.2	1,643.5
Consumption of fixed capital (-)	608.7	632.8	661.3	667.2	674.0	681.2	688.0	695.7
= <b>Net operating surplus (+)</b>	809.3	857.3	870.5	886.0	883.4	900.5	931.2	947.9
Property income receivable (+)	318.0	363.4	410.3	423.1	433.5	445.9	461.9	471.6
Interest receivable	124.2	118.4	125.1	131.0	137.5	145.0	151.2	154.5
Other property income receivable	193.8	244.9	285.2	292.1	296.0	300.9	310.7	317.1
Interest and rents payable (-)	228.0	226.0	233.6	240.0	247.3	257.2	267.8	278.6
= <b>Net entrepreneurial income (+)</b>	899.3	994.6	1,047.2	1,069.0	1,069.5	1,089.2	1,125.4	1,140.9
Distributed income (-)	690.6	748.3	828.6	843.2	858.6	861.7	881.0	896.1
Taxes on income and wealth payable (-)	116.7	131.6	147.4	150.1	156.8	166.7	180.4	186.5
Social contributions receivable (+)	73.5	73.6	74.0	73.9	74.1	74.3	74.5	75.1
Social benefits payable (-)	59.9	60.5	62.0	62.0	62.1	62.3	62.3	62.4
Net other current transfers payable (-)	43.1	48.3	47.9	45.6	46.1	46.3	45.6	45.4
Changes in net worth of households in pension funds (-)	13.0	12.8	11.8	11.9	12.0	12.1	12.1	12.1
= <b>Net saving</b>	49.5	66.7	23.6	30.1	7.9	14.4	18.5	13.5
<b>Investment, financing and saving</b>								
Net acquisition of non-financial assets (+)	167.5	190.0	206.0	230.6	239.8	255.1	260.3	269.1
Gross fixed capital formation (+)	775.3	815.0	850.9	866.8	882.5	897.2	919.3	940.8
Consumption of fixed capital (-)	608.7	632.8	661.3	667.2	674.0	681.2	688.0	695.7
Net acquisition of other non-financial assets (+)	0.9	7.8	16.5	31.0	31.3	39.1	29.1	24.0
Financial investment (+)								
Currency and deposits	115.2	83.5	152.6	161.0	168.8	164.3	175.2	188.2
<i>of which M3 deposits <sup>1)</sup></i>	63.0	73.8	99.3	103.9	108.9	116.8	138.5	157.7
Debt securities	-33.5	-56.9	-20.4	-4.6	13.9	-0.7	22.1	3.8
Loans	141.6	61.0	138.5	99.8	104.5	108.5	129.2	156.9
Shares and other equity	176.8	177.7	162.3	179.1	228.0	191.0	206.7	233.0
Remaining net assets (+)	7.2	70.4	31.3	90.6	119.5	163.4	169.9	139.1
Financing (-)								
Debt	294.9	216.1	403.0	467.6	576.6	630.5	657.1	670.8
Loans	217.2	196.0	395.0	462.4	555.8	593.1	605.5	618.6
<i>of which from euro area MFIs</i>	102.8	163.9	262.7	334.2	371.8	422.7	446.2	442.7
Debt securities	62.6	6.7	-4.6	-7.6	8.6	25.4	39.6	42.1
Pension fund reserves	15.0	13.5	12.6	12.7	12.2	12.0	12.0	10.0
Shares and other equity	185.3	188.6	184.9	209.0	238.6	171.6	207.3	222.1
Quoted shares	19.1	11.9	101.3	96.1	113.5	39.7	32.4	41.1
Unquoted shares and other equity	166.1	176.7	83.6	112.9	125.1	131.9	174.9	181.0
Net capital transfers receivable (-)	45.0	54.3	58.9	49.8	51.4	65.2	80.5	83.7
= <b>Net saving</b>	49.5	66.7	23.6	30.1	7.9	14.4	18.5	13.5
<b>Financial balance sheet</b>								
Financial assets								
Currency and deposits	1,194.2	1,262.2	1,417.4	1,428.8	1,472.2	1,512.8	1,577.0	1,604.2
<i>of which M3 deposits <sup>1)</sup></i>	984.2	1,042.9	1,147.3	1,131.9	1,167.0	1,199.4	1,277.4	1,284.5
Debt securities	395.9	310.4	285.9	297.1	307.7	296.0	301.0	295.4
Loans	1,337.8	1,389.5	1,524.3	1,544.2	1,577.6	1,608.0	1,676.6	1,717.5
Shares and other equity	4,842.9	5,340.7	6,250.1	6,696.2	6,611.0	6,905.4	7,243.9	7,489.0
Remaining net assets (+)	281.0	316.8	288.2	316.5	358.5	350.6	339.7	352.9
Liabilities								
Debt	6,068.3	6,237.2	6,646.2	6,802.7	7,003.0	7,127.2	7,269.0	7,457.2
Loans	5,151.3	5,268.4	5,667.8	5,816.8	5,997.2	6,116.0	6,250.1	6,422.9
<i>of which from euro area MFIs</i>	3,034.4	3,152.2	3,409.1	3,525.4	3,640.2	3,731.6	3,844.5	3,957.0
Debt securities	628.6	667.5	664.6	669.1	686.3	688.7	693.1	707.4
Pension fund reserves	288.5	301.2	313.8	316.8	319.5	322.6	325.8	326.8
Shares and other equity	8,077.2	8,977.0	10,468.5	11,207.0	11,016.2	11,364.5	12,070.1	12,484.3
Quoted shares	2,732.2	2,987.3	3,681.2	4,088.5	3,947.3	4,091.8	4,458.0	4,662.0
Unquoted shares and other equity	5,345.1	5,989.7	6,787.2	7,118.5	7,068.8	7,272.7	7,612.1	7,822.3

Sources: ECB and Eurostat.

1) Deposit liabilities of MFIs and central government (e.g. post offices or treasuries) vis-à-vis non-financial corporations which are part of M3 (see glossary).

### 3.5 Insurance corporations and pension funds

(EUR billions; four-quarter cumulated flows; outstanding amounts at end-of-period)

	2003	2004	2005	2005 Q2- 2006 Q1	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1
<b>Financial account, financial transactions</b>								
Financial investment (+)								
Currency and deposits	29.9	49.8	27.4	16.6	38.2	49.6	68.5	85.1
<i>of which M3 deposits<sup>1)</sup></i>	7.0	12.4	7.0	0.1	7.8	8.2	12.4	17.9
Short-term debt securities	10.8	22.6	21.3	15.2	0.2	-8.8	-0.5	11.9
Long-term debt securities	140.7	132.6	140.7	135.0	133.2	137.7	129.0	133.5
Loans	11.7	6.6	-7.8	8.1	15.4	18.1	13.5	-4.7
Shares and other equity	59.0	46.3	120.3	141.1	139.4	146.7	133.0	103.2
Quoted shares	9.5	14.0	21.4	17.8	17.0	16.1	18.3	12.8
Unquoted shares and other equity	5.2	-1.0	14.1	17.3	22.5	27.8	25.0	23.7
Mutual fund shares	44.3	33.3	84.9	106.1	99.9	102.7	89.7	66.7
<i>of which money market fund shares</i>	6.8	3.3	-0.8	-0.7	-4.0	-5.3	2.6	3.6
Remaining net assets (+)	-2.4	12.4	23.8	17.5	6.5	3.2	-5.2	8.2
Financing (-)								
Debt securities	5.0	-1.8	0.1	-0.5	-0.4	-0.4	4.1	4.0
Loans	12.3	4.6	9.5	22.5	23.9	32.6	27.8	26.9
Shares and other equity	11.4	12.7	10.4	10.1	9.3	12.5	7.9	10.6
Insurance technical reserves	237.0	261.2	331.0	339.8	329.7	328.0	306.9	295.5
Net equity of households in life insurance and pension fund reserves	210.3	229.5	289.8	303.5	293.5	288.4	263.7	249.8
Prepayments of insurance premiums and reserves for outstanding claims	26.8	31.6	41.2	36.3	36.2	39.6	43.2	45.7
<b>= Changes in net financial worth due to transactions</b>	<b>-16.2</b>	<b>-6.4</b>	<b>-25.2</b>	<b>-38.4</b>	<b>-29.6</b>	<b>-26.3</b>	<b>-8.4</b>	<b>0.2</b>
<b>Other changes account</b>								
Other changes in financial assets (+)								
Shares and other equity	107.2	109.4	200.8	231.0	125.3	121.1	183.8	149.4
Other net assets	-10.2	161.1	42.2	22.7	-17.3	3.7	-46.5	-52.4
Other changes in liabilities (-)								
Shares and other equity	98.2	20.6	118.2	129.5	88.6	91.6	56.3	42.1
Insurance technical reserves	33.7	85.2	145.6	118.7	68.7	53.9	48.5	32.2
Net equity of households in life insurance and pension fund reserves	34.2	65.4	151.6	126.0	69.4	53.7	47.7	29.8
Prepayments of insurance premiums and reserves for outstanding claims	-0.5	19.8	-5.9	-7.4	-0.8	0.2	0.8	2.4
<b>= Other changes in net financial worth</b>	<b>-34.9</b>	<b>164.8</b>	<b>-20.8</b>	<b>5.6</b>	<b>-49.2</b>	<b>-20.6</b>	<b>32.5</b>	<b>22.6</b>
<b>Financial balance sheet</b>								
Financial assets (+)								
Currency and deposits	580.0	630.7	661.1	671.2	685.8	705.3	730.4	757.0
<i>of which M3 deposits<sup>1)</sup></i>	121.1	132.6	141.6	136.9	139.7	143.3	153.4	154.7
Short-term debt securities	69.2	205.8	212.8	215.8	214.0	214.1	212.7	227.6
Long-term debt securities	1,488.4	1,659.9	1,820.3	1,834.7	1,851.6	1,916.0	1,903.8	1,929.7
Loans	364.1	359.4	356.8	369.1	370.9	370.9	361.6	351.2
Shares and other equity	1,530.1	1,685.8	2,006.9	2,126.3	2,100.9	2,209.5	2,323.6	2,378.9
Quoted shares	526.0	574.7	698.2	734.5	705.8	754.2	820.4	841.9
Unquoted shares and other equity	305.7	336.3	395.8	421.9	423.6	438.7	462.6	471.3
Mutual fund shares	698.4	774.8	912.8	969.9	971.5	1,016.6	1,040.7	1,065.8
<i>of which money market fund shares</i>	65.8	69.0	83.4	83.1	87.2	87.5	87.3	89.7
Remaining net assets (+)	89.7	109.7	161.2	164.9	162.1	166.9	162.8	170.1
Liabilities (-)								
Debt securities	23.4	21.9	22.0	22.1	22.3	23.0	26.3	26.1
Loans	125.8	119.2	127.7	147.3	151.9	161.6	155.8	172.6
Shares and other equity	430.2	463.5	592.0	620.7	585.4	636.3	656.3	673.4
Insurance technical reserves	3,789.4	4,135.7	4,612.3	4,718.9	4,772.1	4,873.0	4,967.7	5,046.6
Net equity of households in life insurance and pension fund reserves	3,208.5	3,503.4	3,944.8	4,042.5	4,089.4	4,175.8	4,256.2	4,322.1
Prepayments of insurance premiums and reserves for outstanding claims	580.9	632.3	667.5	676.4	682.8	697.3	711.5	724.5
<b>= Net financial wealth</b>	<b>-247.3</b>	<b>-88.9</b>	<b>-135.0</b>	<b>-127.0</b>	<b>-146.4</b>	<b>-111.4</b>	<b>-111.0</b>	<b>-104.1</b>

Source: ECB.

1) Deposit liabilities of MFIs and central government (e.g. post offices or treasuries) vis-à-vis insurance corporations and pension funds which are part of M3 (see glossary).





## FINANCIAL MARKETS

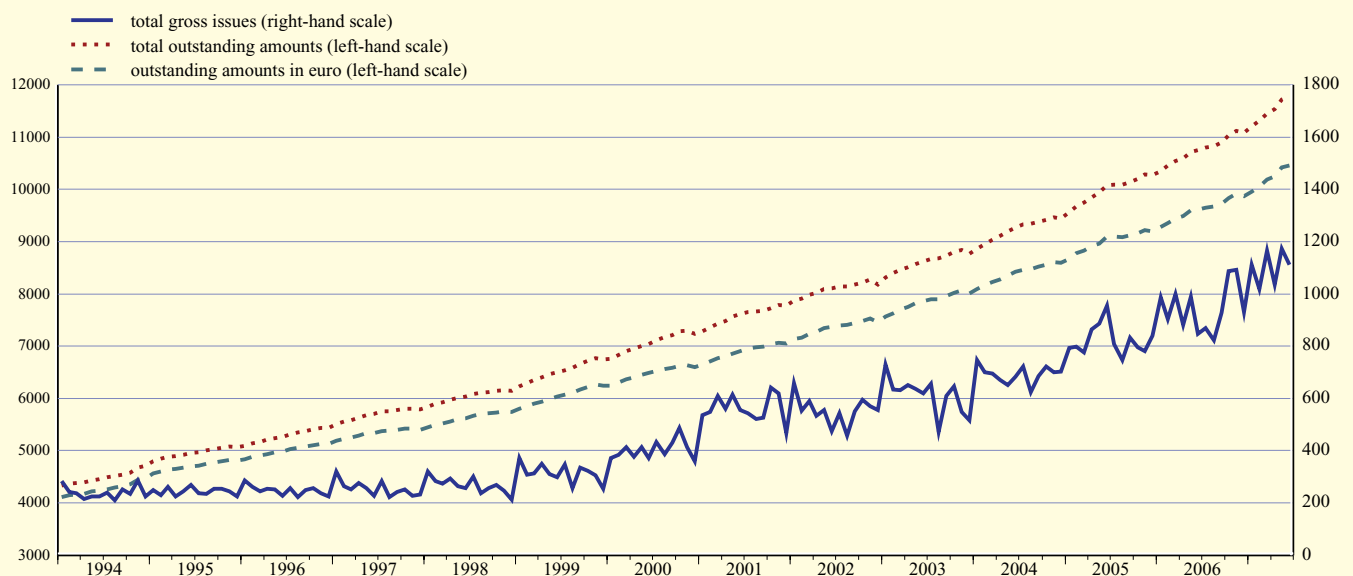
### 4.1 Securities, other than shares, by original maturity, residency of the issuer and currency

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

	Total in euro <sup>1)</sup>			By euro area residents								
	Outstanding amounts	Gross issues	Net issues	In euro			In all currencies			Annual growth rates	Seasonally adjusted <sup>2)</sup>	
				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
<b>Total</b>												
2006 June	11,352.7	895.8	64.2	9,618.3	793.4	23.2	10,750.8	846.7	32.1	6.6	26.4	7.0
July	11,370.6	883.9	17.4	9,652.4	820.2	33.5	10,799.1	868.2	43.6	7.0	56.5	6.8
Aug.	11,403.0	837.9	31.8	9,673.9	779.9	21.0	10,828.9	822.8	24.6	7.2	74.2	7.0
Sep.	11,523.6	1,004.1	120.2	9,724.4	882.0	50.2	10,897.6	927.9	57.0	7.3	63.0	6.9
Oct.	11,618.9	1,106.3	93.1	9,827.7	1,023.0	101.4	11,032.8	1,086.0	122.1	7.9	112.4	8.0
Nov.	11,757.4	1,134.6	137.7	9,919.1	1,036.6	90.8	11,124.1	1,092.7	107.3	8.2	94.6	8.2
Dec.	11,733.2	976.9	-25.1	9,864.2	885.0	-56.1	11,079.2	929.7	-60.2	7.8	51.5	8.6
2007 Jan.	11,832.2	1,145.7	98.9	9,961.4	1,052.1	97.3	11,206.3	1,111.7	115.8	7.9	74.3	8.9
Feb.	11,935.6	1,038.2	103.5	10,051.4	951.8	90.2	11,316.0	1,017.9	116.9	8.1	88.2	9.1
Mar.	12,161.2	1,251.8	224.5	10,182.3	1,112.8	129.6	11,452.5	1,165.4	135.7	8.4	101.4	9.8
Apr.	12,201.4	1,039.0	39.9	10,254.9	980.6	72.4	11,535.9	1,035.5	89.4	8.6	80.6	9.1
May	12,414.8	1,215.5	214.2	10,416.0	1,113.1	161.9	11,723.9	1,173.8	183.1	9.0	137.2	9.8
June	12,539.0	1,210.0	123.1	10,453.1	1,057.6	36.0	11,777.2	1,112.9	49.1	9.1	43.1	9.6
<b>Long-term</b>												
2006 June	10,325.8	200.1	60.1	8,734.1	168.2	64.4	9,729.5	193.5	80.8	6.7	54.2	7.2
July	10,364.4	193.1	38.8	8,758.5	158.8	24.7	9,769.4	177.7	36.0	7.1	54.0	7.0
Aug.	10,380.7	90.5	16.5	8,769.8	71.6	11.4	9,787.6	88.2	21.1	7.5	66.3	7.3
Sep.	10,474.4	218.5	94.0	8,824.6	156.7	55.2	9,857.0	175.7	62.9	7.5	57.7	7.2
Oct.	10,575.4	224.8	98.7	8,894.9	173.9	68.2	9,949.4	206.5	86.0	8.1	94.4	8.2
Nov.	10,710.4	226.0	134.2	8,989.5	167.2	93.9	10,043.0	193.4	108.5	8.3	93.7	8.9
Dec.	10,731.5	171.2	18.4	9,008.2	132.7	15.8	10,069.5	152.8	12.9	8.1	59.3	9.0
2007 Jan.	10,808.0	231.3	76.3	9,058.6	176.6	50.3	10,140.9	200.4	61.3	8.1	67.3	9.2
Feb.	10,900.8	230.9	92.9	9,135.0	183.1	76.6	10,231.1	216.7	98.0	8.3	75.8	9.4
Mar.	11,032.4	271.7	131.6	9,225.4	206.7	90.2	10,324.5	227.5	95.3	8.4	72.2	9.6
Apr.	11,091.3	180.9	58.6	9,274.2	154.5	48.5	10,379.3	176.2	62.1	8.6	70.2	9.0
May	11,277.9	265.8	188.2	9,409.4	198.1	136.8	10,534.6	223.8	151.3	9.1	107.6	9.2
June	11,371.4	251.1	92.1	9,466.6	182.4	55.8	10,606.7	207.9	68.4	8.9	38.2	8.7

### 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	10,270	4,122	926	612	4,327	283	9,875	6,988	325	1,032	1,435	95
2006	11,079	4,566	1,156	645	4,408	305	11,334	8,377	414	1,118	1,339	85
2006 Q3	10,898	4,448	1,063	636	4,452	298	2,619	1,928	79	265	329	18
Q4	11,079	4,566	1,156	645	4,408	305	3,108	2,365	144	336	241	23
2007 Q1	11,453	4,762	1,236	657	4,489	309	3,295	2,446	126	285	415	23
Q2	11,777	4,872	1,303	692	4,601	308	3,322	2,358	106	451	389	18
2007 Mar.	11,453	4,762	1,236	657	4,489	309	1,165	824	57	133	144	8
Apr.	11,536	4,811	1,249	666	4,501	310	1,036	749	29	133	119	7
May	11,724	4,873	1,290	678	4,574	308	1,174	825	50	155	138	5
June	11,777	4,872	1,303	692	4,601	308	1,113	784	27	163	132	6
	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	60	1,023	686	31
2006 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
2007 Q1	1,128	621	12	106	385	4	2,650	2,132	16	271	222	8
Q2	1,170	628	11	120	407	5	2,714	2,072	10	413	210	9
2007 Mar.	1,128	621	12	106	385	4	938	724	5	128	78	3
Apr.	1,157	638	12	113	389	5	859	659	5	124	68	3
May	1,189	652	12	120	401	5	950	727	3	144	73	3
June	1,170	628	11	120	407	5	905	685	3	145	69	3
	Long-term <sup>1)</sup>											
2005	9,324	3,639	919	522	3,966	278	2,078	942	280	89	706	61
2006	10,069	3,996	1,143	551	4,079	301	2,159	1,002	355	95	653	54
2006 Q3	9,857	3,887	1,051	540	4,085	294	442	196	63	16	158	9
Q4	10,069	3,996	1,143	551	4,079	301	553	279	130	31	97	16
2007 Q1	10,325	4,141	1,223	551	4,105	304	645	314	110	13	192	14
Q2	10,607	4,244	1,293	572	4,194	304	608	286	96	39	179	8
2007 Mar.	10,325	4,141	1,223	551	4,105	304	228	99	52	5	66	5
Apr.	10,379	4,173	1,237	552	4,112	305	176	89	24	9	51	3
May	10,535	4,221	1,278	558	4,173	303	224	98	47	12	65	2
June	10,607	4,244	1,293	572	4,194	304	208	99	24	18	64	3
	Of which long-term fixed rate											
2005	6,725	2,020	459	412	3,616	217	1,230	414	91	54	622	48
2006	7,048	2,136	535	420	3,719	237	1,289	476	137	61	576	39
2006 Q3	6,975	2,112	508	415	3,708	233	275	94	22	11	140	8
Q4	7,048	2,136	535	420	3,719	237	280	117	44	20	90	10
2007 Q1	7,164	2,212	561	421	3,728	243	402	172	39	9	169	13
Q2	7,305	2,255	575	433	3,798	244	338	132	28	24	147	7
2007 Mar.	7,164	2,212	561	421	3,728	243	130	53	11	3	58	5
Apr.	7,189	2,223	567	419	3,737	244	103	43	12	5	39	3
May	7,267	2,234	575	424	3,791	244	116	38	11	7	57	2
June	7,305	2,255	575	433	3,798	244	119	51	5	11	50	2
	Of which long-term variable rate											
2005	2,266	1,351	456	93	306	61	718	432	188	27	58	12
2006	2,603	1,507	601	117	314	64	716	405	214	31	51	15
2006 Q3	2,490	1,450	537	110	333	60	134	77	40	4	13	2
Q4	2,603	1,507	601	117	314	64	231	124	86	11	5	6
2007 Q1	2,712	1,560	654	117	320	61	201	114	69	4	13	1
Q2	2,843	1,604	709	127	343	59	217	111	67	15	23	1
2007 Mar.	2,712	1,560	654	117	320	61	83	36	41	1	5	1
Apr.	2,745	1,574	661	120	329	61	62	37	12	4	9	0
May	2,800	1,591	695	121	334	59	82	37	36	4	5	0
June	2,843	1,604	709	127	343	59	73	37	19	7	9	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

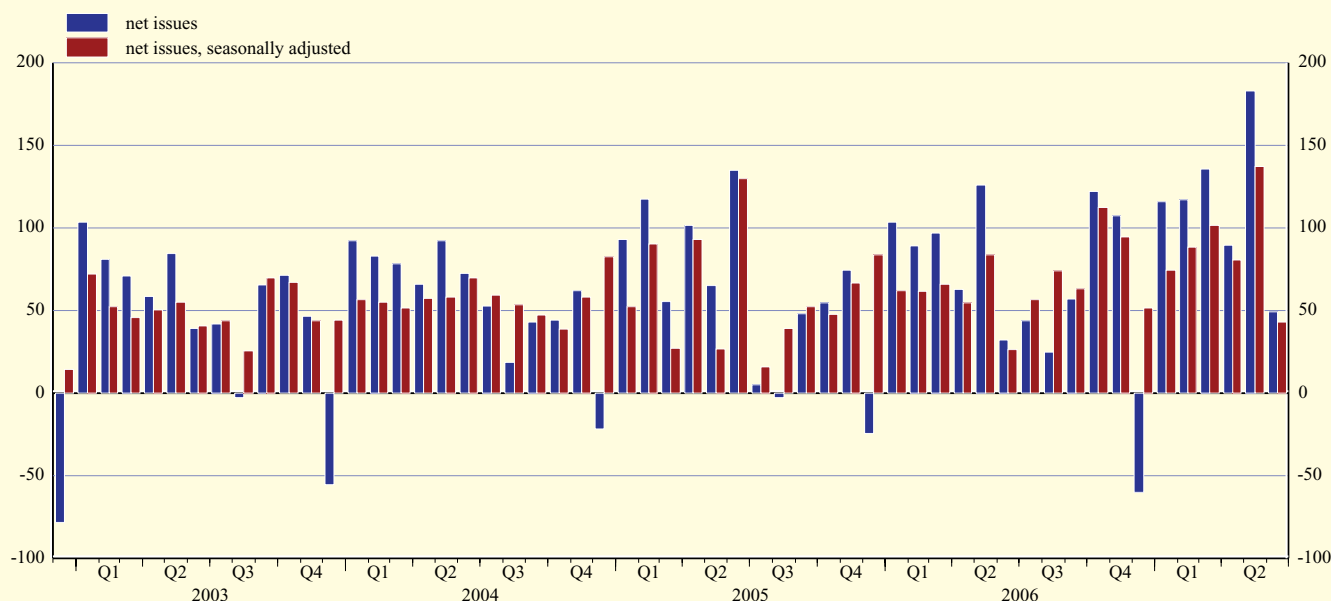
(EUR billions unless otherwise indicated; transactions during the period; nominal values)

### 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	721.6	319.9	176.1	21.6	171.5	32.4	724.4	323.8	172.8	21.4	173.8	32.6
2006	804.8	419.0	236.7	36.4	90.3	22.4	806.5	424.5	233.1	36.6	90.0	22.4
2006 Q3	125.2	78.7	34.8	-2.4	14.5	-0.4	193.7	99.2	55.4	3.2	32.7	3.2
Q4	169.2	98.1	95.8	10.0	-41.4	6.7	258.5	133.5	67.8	14.2	38.1	5.0
2007 Q1	368.5	187.9	81.3	13.0	82.5	3.9	264.0	123.2	98.4	10.7	29.1	2.6
Q2	321.7	104.7	69.2	35.6	112.2	-0.1	260.9	112.9	56.0	27.4	65.5	-0.9
2007 Mar.	135.7	48.7	42.1	8.9	33.2	2.9	101.4	30.3	41.0	7.4	19.8	3.0
Apr.	89.4	50.2	15.2	9.5	13.3	1.3	80.6	39.3	22.1	5.6	11.9	1.7
May	183.1	60.2	40.1	12.0	72.5	-1.7	137.2	56.4	36.4	5.7	39.8	-1.1
June	49.1	-5.7	13.9	14.2	26.4	0.3	43.1	17.2	-2.5	16.0	13.8	-1.4
	Long-term											
2005	713.9	296.5	176.5	21.9	186.3	32.7	715.0	298.2	173.3	21.6	189.1	32.8
2006	755.5	346.5	231.3	33.0	121.4	23.3	755.5	348.4	227.9	32.8	123.2	23.3
2006 Q3	119.9	62.4	33.5	2.6	21.5	0.0	177.9	74.0	54.4	5.0	41.1	3.5
Q4	207.4	96.3	95.1	12.2	-3.3	7.2	247.4	121.3	67.2	9.7	43.9	5.5
2007 Q1	254.6	142.2	81.5	1.0	26.6	3.3	215.4	108.3	98.5	7.6	-1.1	2.1
Q2	281.9	100.3	70.6	21.5	90.0	-0.6	216.0	96.1	57.3	15.0	49.0	-1.3
2007 Mar.	95.3	42.4	41.4	3.0	5.5	3.0	72.2	26.3	40.5	3.2	-0.7	2.9
Apr.	62.1	34.6	15.7	2.3	8.6	0.8	70.2	34.7	22.9	2.3	9.0	1.3
May	151.3	46.6	40.0	5.5	60.9	-1.8	107.6	37.2	36.1	2.1	33.3	-1.1
June	68.4	19.0	14.8	13.7	20.4	0.4	38.2	24.2	-1.7	10.6	6.6	-1.5

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

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



Source: ECB.

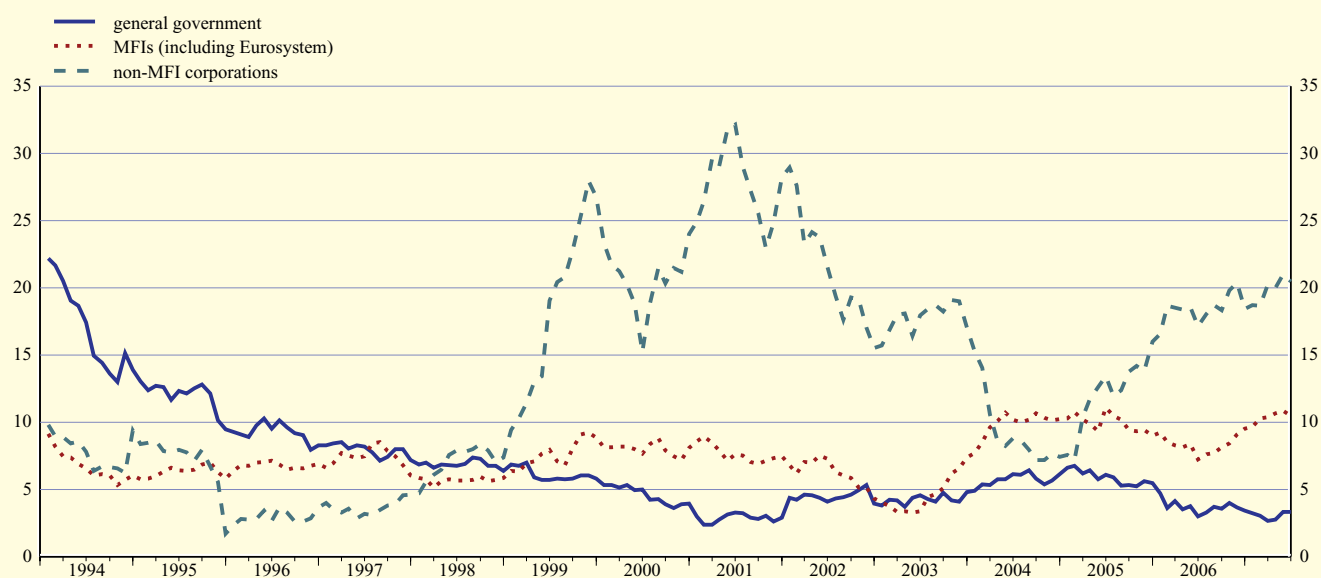
### 4.3 Growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup>

(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 June	6.6	8.1	23.9	4.5	1.8	12.4	7.0	9.4	25.6	6.3	0.9	10.3
July	7.0	8.3	25.6	4.7	2.2	11.8	6.8	9.1	25.0	5.0	1.1	10.5
Aug.	7.2	8.4	27.2	3.4	2.5	12.2	7.0	9.2	23.7	2.7	2.0	9.4
Sep.	7.3	9.0	26.4	4.3	2.2	10.4	6.9	9.1	22.8	5.0	1.7	8.1
Oct.	7.9	9.6	29.0	4.0	2.6	9.5	8.0	10.2	27.0	5.1	2.3	8.5
Nov.	8.2	10.0	29.5	5.2	2.5	8.8	8.2	9.4	28.4	4.6	3.2	7.0
Dec.	7.8	10.2	25.7	6.0	2.1	7.9	8.6	11.0	25.7	5.6	3.2	5.6
2007 Jan.	7.9	10.5	26.1	5.3	1.9	7.4	8.9	12.0	27.2	5.6	2.7	4.4
Feb.	8.1	10.7	26.1	5.4	2.1	5.8	9.1	12.3	28.5	8.2	2.3	2.1
Mar.	8.4	10.4	28.1	6.5	2.4	6.7	9.8	11.8	33.4	8.0	3.1	5.1
Apr.	8.6	10.6	27.8	6.8	2.6	7.3	9.1	10.9	28.7	8.2	2.9	6.1
May	9.0	10.5	29.7	6.6	3.5	5.1	9.8	11.5	30.7	8.4	3.7	3.3
June	9.1	10.7	27.4	8.8	3.8	3.4	9.6	10.5	29.0	12.0	4.3	1.2
Long-term												
2006 June	6.7	7.2	23.7	6.4	2.3	12.8	7.2	8.6	24.9	7.1	1.9	10.6
July	7.1	7.6	25.5	6.0	2.7	12.0	7.0	8.0	24.4	5.5	2.2	10.5
Aug.	7.5	7.7	26.9	5.5	3.1	12.5	7.3	8.2	23.1	4.3	3.2	9.3
Sep.	7.5	8.1	26.1	5.7	3.1	10.9	7.2	8.6	22.0	5.8	2.6	8.5
Oct.	8.1	8.4	28.7	5.2	3.6	10.0	8.2	9.3	26.5	4.9	3.2	9.0
Nov.	8.3	9.1	29.2	5.7	3.3	9.4	8.9	10.4	28.1	3.7	3.9	7.6
Dec.	8.1	9.5	25.3	6.4	3.1	8.4	9.0	10.5	25.6	5.5	4.3	6.2
2007 Jan.	8.1	9.6	25.8	6.3	2.9	7.6	9.2	11.3	27.1	7.0	3.6	4.8
Feb.	8.3	10.3	25.9	5.7	2.8	6.0	9.4	12.4	28.7	7.1	2.6	2.6
Mar.	8.4	10.4	27.8	6.2	2.4	6.9	9.6	12.1	33.7	6.5	2.1	5.2
Apr.	8.6	10.7	27.8	5.7	2.4	7.4	9.0	12.0	29.1	6.4	1.7	5.8
May	9.1	10.9	29.7	4.9	3.2	5.1	9.2	11.3	31.1	6.2	2.5	2.8
June	8.9	10.5	27.6	7.0	3.3	3.4	8.7	10.4	29.6	8.4	2.3	0.6

### 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.

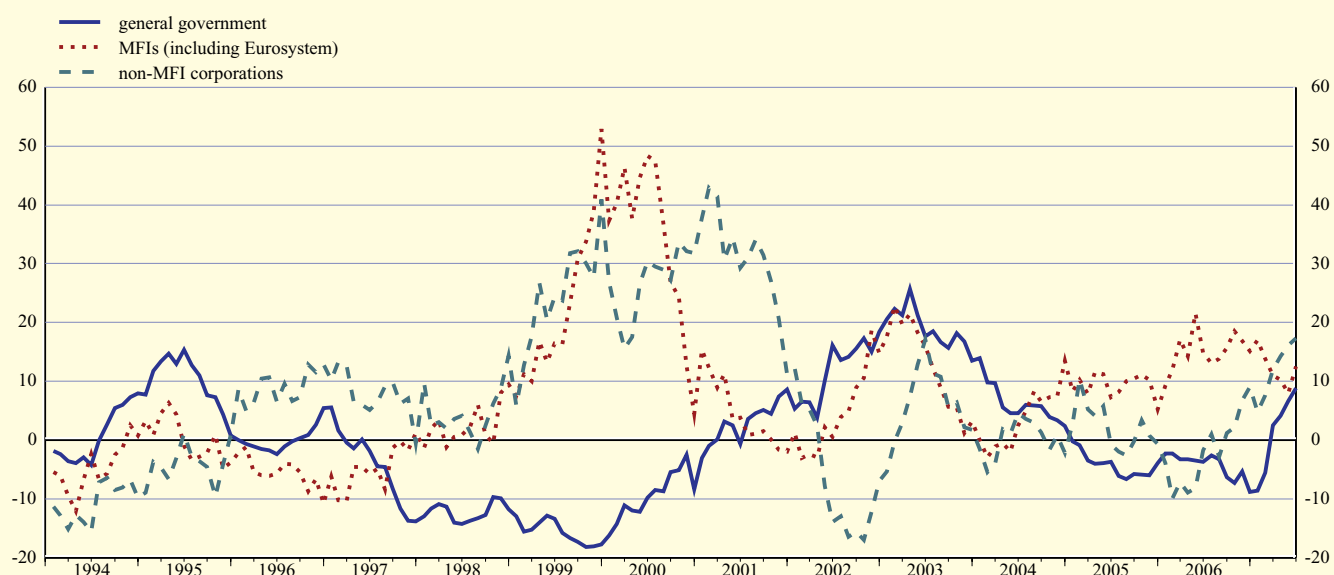
**4.3 Growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup> (cont'd)**

(percentage changes)

	Long-term fixed rate						Long-term variable rate					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			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	0.3	5.5	15.0	19.5	18.6	35.8	22.1	9.9	4.8
2006	4.5	4.7	13.8	1.1	3.1	13.4	16.4	11.8	41.3	27.4	5.2	4.5
2006 Q3	4.4	4.6	14.9	1.0	2.8	13.8	14.8	10.0	38.1	30.3	4.1	6.4
Q4	5.1	5.4	19.5	1.8	3.1	11.1	15.5	11.0	36.3	26.9	5.5	4.7
2007 Q1	5.3	6.3	19.5	3.8	2.9	7.9	15.0	12.1	32.2	21.6	1.4	4.1
Q2	5.5	7.5	18.7	3.9	2.6	7.7	16.5	12.1	37.6	18.4	5.6	-0.8
2007 Jan.	5.2	5.7	18.9	4.1	3.1	8.4	14.7	12.2	32.2	21.2	0.2	4.9
Feb.	5.5	6.7	20.8	3.6	3.0	6.6	14.7	12.3	30.5	20.8	1.0	3.6
Mar.	5.2	7.1	19.2	4.3	2.2	8.2	16.0	12.0	36.0	20.3	3.6	2.3
Apr.	5.3	7.6	18.7	3.7	2.2	9.0	16.4	12.3	36.4	19.6	5.6	1.8
May	5.7	7.3	19.9	3.3	3.0	7.4	16.6	12.1	38.9	16.0	5.9	-3.3
June	5.6	8.0	16.0	5.0	3.0	5.3	16.8	11.9	38.7	18.8	6.8	-3.6
	In euro											
2005	4.3	0.9	9.2	-0.2	5.4	15.3	18.9	17.3	35.2	22.0	10.3	5.4
2006	3.8	3.1	11.3	0.3	3.2	13.6	15.2	10.1	37.8	30.4	5.4	3.6
2006 Q3	3.7	3.1	11.2	-0.2	2.9	13.7	13.3	8.0	33.5	34.1	4.1	5.1
Q4	4.3	4.1	14.8	0.1	3.3	11.1	14.5	9.5	33.4	29.8	5.6	3.8
2007 Q1	4.7	5.5	15.3	1.7	3.2	7.9	13.7	10.8	28.7	22.8	1.5	3.6
Q2	4.8	6.8	15.5	1.5	2.9	7.6	15.8	11.2	35.1	19.2	5.8	-1.3
2007 Jan.	4.7	5.0	15.0	2.1	3.5	8.3	13.3	10.6	28.8	22.4	0.2	4.3
Feb.	4.8	5.8	15.8	1.5	3.3	6.6	13.5	11.2	27.1	21.9	1.1	3.3
Mar.	4.5	6.3	15.5	1.6	2.5	8.1	15.0	11.3	32.1	21.3	3.8	1.9
Apr.	4.7	7.1	15.6	1.2	2.5	8.9	15.7	11.4	33.9	20.7	5.8	1.4
May	5.1	6.7	16.5	0.9	3.3	7.2	16.0	11.1	36.7	16.9	6.1	-3.9
June	5.0	7.2	13.3	2.9	3.2	5.3	16.2	10.9	37.0	18.9	7.1	-4.2

**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 <sup>1)</sup>

(EUR billions, unless otherwise indicated; market values)

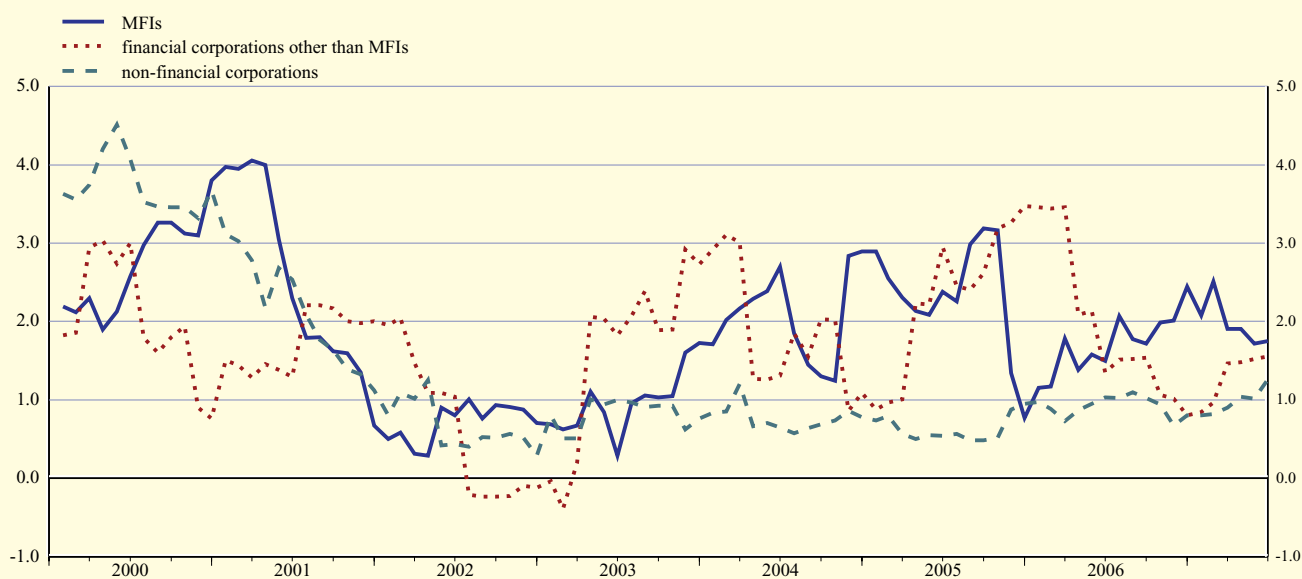
##### 1. Outstanding amounts and annual growth rates

(outstanding amounts as end-of-period)

	Total			MFIs		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 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	4,294.5	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.	6,223.4	105.0	1.1	1,081.2	2.5	633.4	1.0	4,508.8	0.8
Mar.	6,423.5	105.1	1.1	1,099.9	1.9	644.6	1.5	4,678.9	0.9
Apr.	6,671.7	105.3	1.2	1,156.5	1.9	670.5	1.5	4,844.7	1.0
May	6,944.3	105.4	1.2	1,161.3	1.7	684.0	1.5	5,099.0	1.0
June	6,862.0	105.7	1.4	1,115.5	1.8	671.8	1.6	5,074.8	1.3

##### 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 <sup>1)</sup>

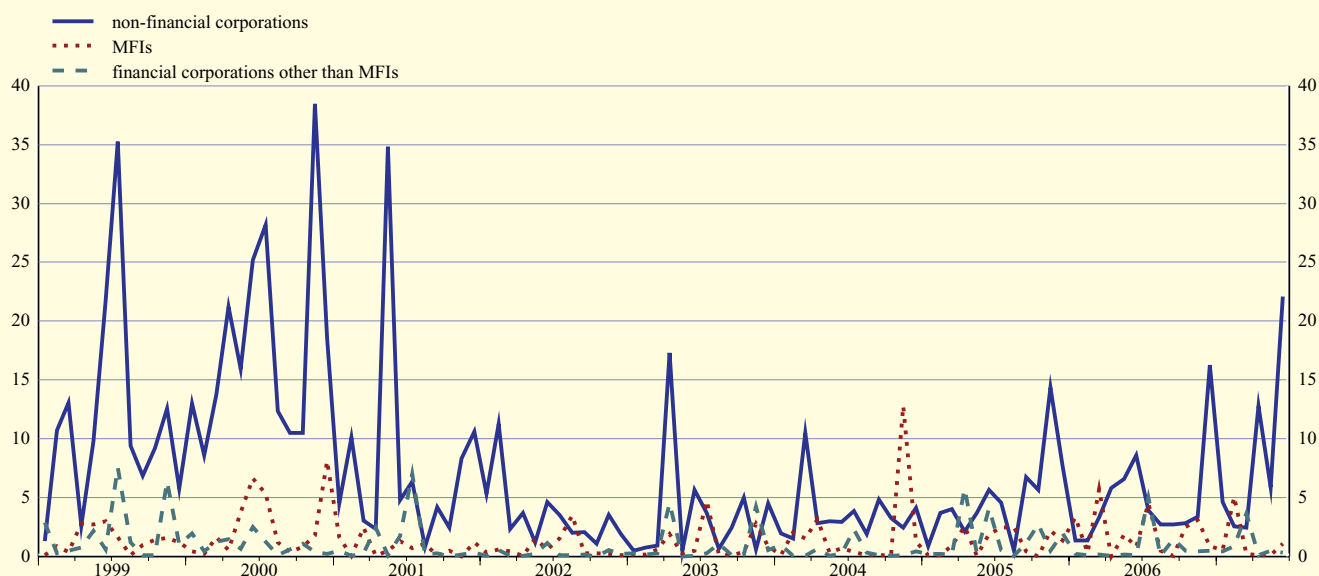
(EUR billions; market values)

##### 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 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	1.1
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.	5.5	3.9	1.6	0.5	0.1	0.4	0.4	0.0	0.4	4.6	3.8	0.8
Feb.	8.4	2.0	6.4	5.0	0.0	5.0	0.9	0.0	0.9	2.5	2.0	0.5
Mar.	6.3	1.7	4.6	0.2	0.0	0.2	3.6	0.4	3.3	2.4	1.4	1.1
Apr.	13.0	0.4	12.6	0.1	0.3	-0.2	0.1	0.0	0.1	12.8	0.2	12.6
May	6.4	1.8	4.5	0.1	0.0	0.1	0.5	0.0	0.5	5.8	1.8	4.0
June	23.4	1.6	21.8	1.0	0.0	1.0	0.3	0.0	0.3	22.1	1.6	20.5

#### 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 <sup>1)</sup>

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

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

	Deposits from households						Deposits from non-financial corporations				Repos
	Overnight <sup>2)</sup>	With agreed maturity			Redeemable at notice <sup>2),3)</sup>		Overnight <sup>2)</sup>	With agreed maturity			
		Up to 1 year	Over 1 and up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 1 year	Over 1 and up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9	10	11
2006 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.	1.00	3.37	3.64	2.72	2.35	3.07	1.64	3.48	3.80	4.15	3.47
Mar.	1.02	3.51	3.65	2.68	2.39	3.14	1.71	3.67	3.84	3.72	3.64
Apr.	1.04	3.59	3.68	2.78	2.42	3.20	1.75	3.74	4.01	3.87	3.70
May	1.06	3.62	3.51	2.72	2.43	3.25	1.78	3.74	3.80	3.72	3.73
June	1.08	3.78	3.79	2.64	2.42	3.32	1.77	3.94	4.10	4.16	3.90
July	1.10	3.86	3.90	2.83	2.45	3.40	1.81	4.02	4.26	4.50	3.95

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

	Bank overdrafts <sup>2)</sup>	Consumer credit				Lending for house purchase					Other lending by initial rate fixation		
		By initial rate fixation			Annual percentage rate of charge <sup>4)</sup>	By initial rate fixation				Annual percentage rate of charge <sup>4)</sup>	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 and up to 10 years	Over 10 years				
	1	2	3	4	5	6	7	8	9	10	11	12	13
2006 Aug.	9.92	7.73	6.38	8.15	8.07	4.21	4.37	4.60	4.40	4.59	4.65	5.27	4.94
Sep.	10.05	7.72	6.24	8.09	7.94	4.30	4.37	4.61	4.45	4.66	4.76	5.30	4.98
Oct.	10.03	7.50	5.99	8.17	7.76	4.42	4.45	4.58	4.47	4.73	4.93	5.18	4.80
Nov.	10.07	7.66	6.12	8.15	7.81	4.49	4.50	4.58	4.47	4.76	4.97	5.26	4.91
Dec.	10.03	7.56	6.05	7.97	7.71	4.56	4.58	4.56	4.49	4.80	4.93	5.24	4.82
2007 Jan.	10.14	7.63	6.68	8.39	8.25	4.68	4.60	4.60	4.50	4.83	5.13	5.43	4.92
Feb.	10.31	7.69	6.83	8.27	8.28	4.71	4.71	4.70	4.61	4.90	5.27	5.38	5.14
Mar.	10.22	7.51	6.68	8.34	8.14	4.79	4.76	4.71	4.62	4.94	5.26	5.60	5.20
Apr.	10.29	7.77	6.69	8.24	8.15	4.85	4.73	4.75	4.67	5.00	5.28	5.57	5.21
May	10.32	8.10	6.73	8.30	8.27	4.88	4.80	4.81	4.74	5.02	5.38	5.65	5.32
June	10.38	8.07	6.66	8.24	8.25	5.00	4.93	4.90	4.82	5.15	5.49	5.77	5.37
July	10.38	8.01	6.77	8.34	8.36	5.07	4.93	5.02	4.90	5.26	5.54	5.82	5.40

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

	Bank overdrafts <sup>2)</sup>	Other loans up to EUR 1 million by initial rate fixation			Other loans over EUR 1 million by initial rate fixation		
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years
2006 Aug.	5.56	4.70	5.09	4.60	3.98	4.33	4.49
Sep.	5.69	4.75	5.02	4.54	4.04	4.41	4.47
Oct.	5.76	4.91	5.17	4.57	4.24	4.38	4.45
Nov.	5.82	5.00	5.25	4.68	4.31	4.62	4.58
Dec.	5.80	5.08	5.24	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.	6.03	5.21	5.44	4.86	4.50	4.69	4.71
Mar.	6.04	5.30	5.45	4.88	4.65	4.81	4.87
Apr.	6.12	5.37	5.47	4.88	4.69	4.99	4.90
May	6.12	5.43	5.57	4.95	4.71	5.10	5.12
June	6.17	5.53	5.70	5.03	4.88	5.28	5.17
July	6.29	5.58	5.75	5.08	4.88	5.01	5.15

Source: ECB.

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

2) For this instrument category, new business and outstanding amounts coincide. End-of-period.

3) 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.

4) The annual percentage rate of charge covers the total cost of a loan. The total cost comprises an interest rate component and a component of other (related) charges, such as the cost of inquiries, administration, preparation of documents, guarantees, etc.

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

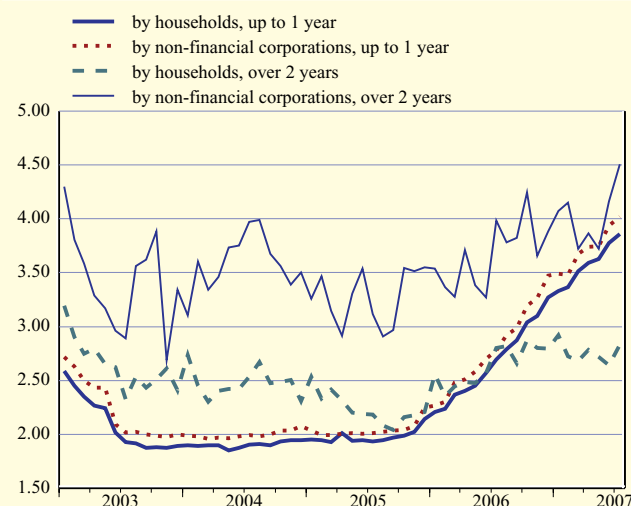
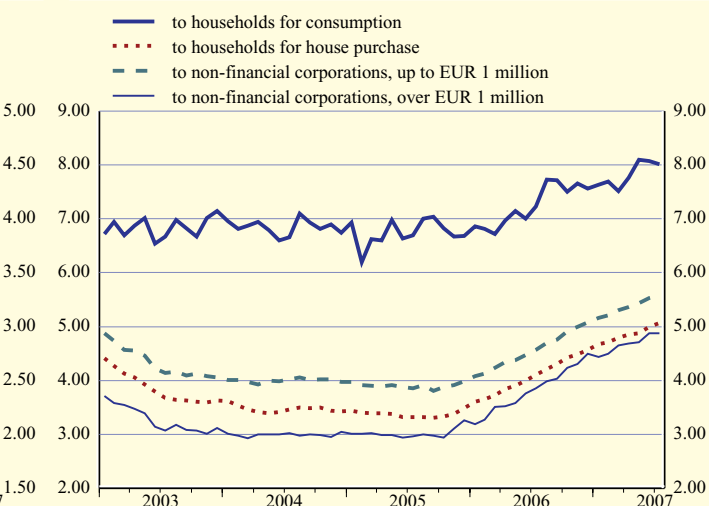
(percentages per annum; outstanding amounts as end-of-period, new business as period average, unless otherwise indicated)

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

	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight <sup>1)</sup>	With agreed maturity		Redeemable at notice <sup>1),2)</sup>		Overnight <sup>1)</sup>	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9
2006 Aug.	0.85	2.52	3.05	2.23	2.63	1.32	2.93	3.68	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.	1.00	3.07	3.12	2.35	3.07	1.64	3.49	3.92	3.41
Mar.	1.02	3.16	3.05	2.39	3.14	1.71	3.61	3.93	3.54
Apr.	1.04	3.23	3.06	2.42	3.20	1.75	3.67	3.93	3.59
May	1.06	3.30	3.03	2.43	3.25	1.78	3.72	3.96	3.66
June	1.08	3.39	3.04	2.42	3.32	1.77	3.87	3.99	3.79
July	1.10	3.49	3.02	2.45	3.40	1.81	3.92	4.00	3.85

**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 Aug.	4.72	4.23	4.60	8.19	6.71	5.82	4.85	4.33	4.48
Sep.	4.82	4.27	4.62	8.30	6.81	5.87	4.93	4.40	4.53
Oct.	4.90	4.29	4.65	8.35	6.81	5.88	5.07	4.51	4.57
Nov.	4.98	4.33	4.68	8.33	6.81	5.91	5.14	4.59	4.63
Dec.	5.01	4.34	4.70	8.41	6.81	5.93	5.23	4.66	4.68
2007 Jan.	5.05	4.38	4.72	8.53	6.83	5.95	5.30	4.76	4.77
Feb.	5.11	4.46	4.79	8.66	6.95	5.96	5.37	4.83	4.83
Mar.	5.14	4.45	4.79	8.62	6.88	5.95	5.43	4.90	4.84
Apr.	5.14	4.48	4.80	8.67	6.96	5.97	5.50	4.94	4.87
May	5.16	4.48	4.82	8.71	6.95	5.97	5.50	4.98	4.90
June	5.21	4.53	4.86	8.68	6.94	6.01	5.62	5.09	4.96
July	5.29	4.55	4.89	8.80	6.96	6.09	5.69	5.15	5.01

**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.

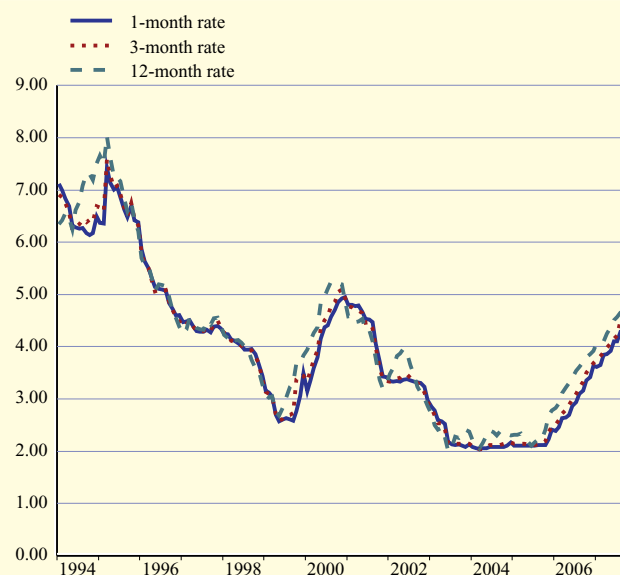
## 4.6 Money market interest rates

(percentages per annum; period averages)

	Euro area <sup>1,2)</sup>					United States	Japan
	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)	3-month deposits (LIBOR)	3-month deposits (LIBOR)
	1	2	3	4	5	6	7
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 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
Q2	3.86	3.96	4.07	4.20	4.38	5.36	0.69
2006 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
May	3.79	3.92	4.07	4.20	4.37	5.36	0.67
June	3.96	4.10	4.15	4.28	4.51	5.36	0.73
July	4.06	4.11	4.22	4.36	4.56	5.36	0.77
Aug.	4.05	4.31	4.54	4.59	4.67	5.48	0.92

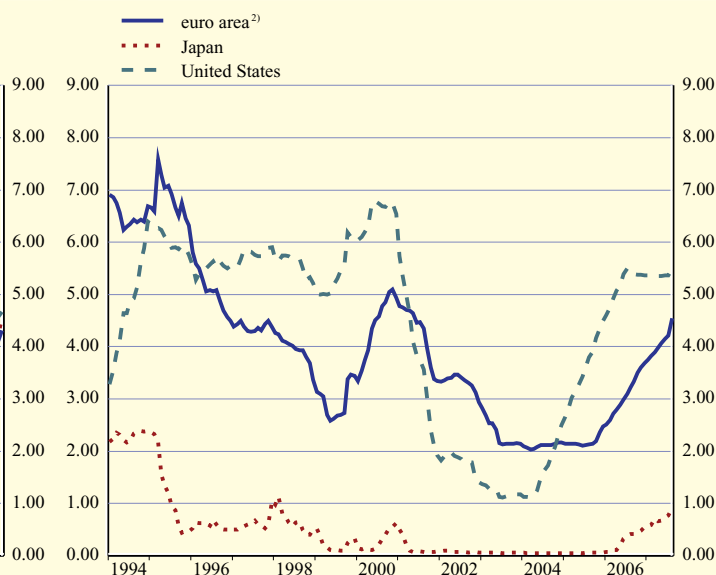
### C23 Euro area money market rates <sup>2)</sup>

(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.

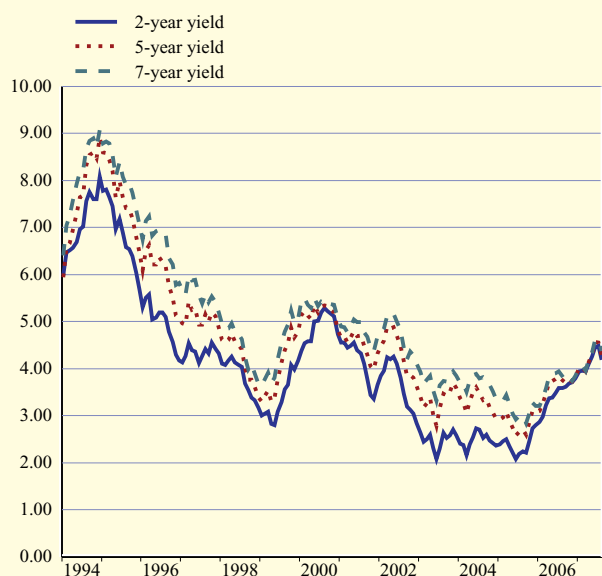
## 4.7 Government bond yields

(percentages per annum; period averages)

	Euro area <sup>1,2)</sup>					United States	Japan
	2 years	3 years	5 years	7 years	10 years	10 years	10 years
	1	2	3	4	5	6	7
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 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
Q2	4.27	4.30	4.34	4.38	4.42	4.84	1.74
2006 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	3.98	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
May	4.26	4.28	4.31	4.34	4.37	4.75	1.67
June	4.45	4.51	4.57	4.62	4.66	5.11	1.89
July	4.48	4.52	4.55	4.59	4.63	5.01	1.89
Aug.	4.19	4.23	4.27	4.38	4.43	4.68	1.65

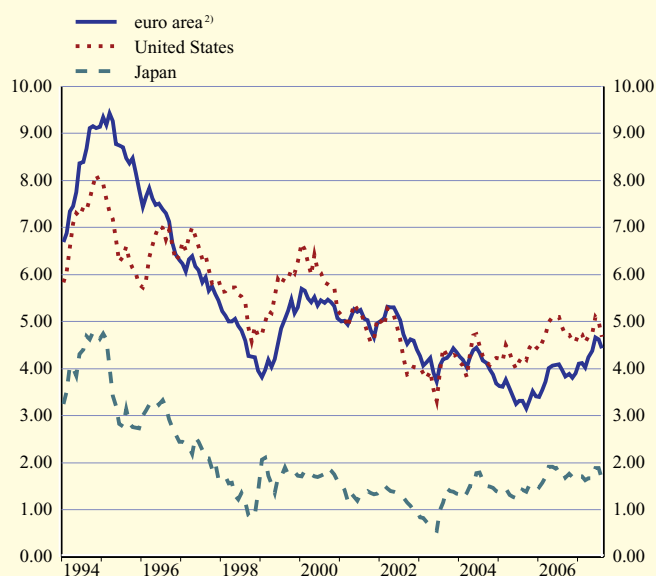
### C25 Euro area government bond yields <sup>2)</sup>

(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.

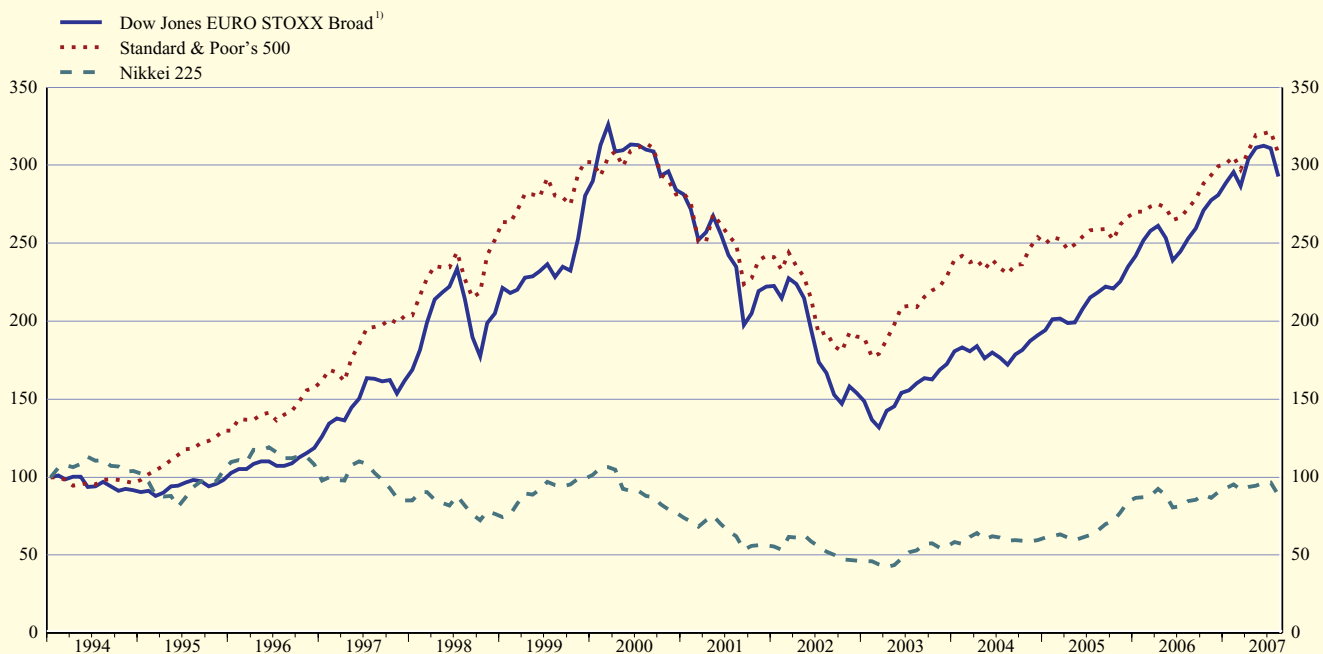
## 4.8 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX indices <sup>1)</sup>												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	16,124.0
2006 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	16,201.2
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
Q2	429.0	4,416.2	549.6	246.8	373.0	454.1	434.2	512.5	376.6	556.0	475.8	536.7	1,496.6	17,678.7
2006 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
May	431.7	4,444.8	545.5	248.5	374.4	454.1	439.8	514.4	374.5	559.2	476.2	547.7	1,511.3	17,577.7
June	433.4	4,470.2	571.9	244.2	380.4	471.1	429.4	529.0	393.1	568.2	473.8	529.9	1,514.5	18,001.4
July	431.3	4,449.0	585.9	242.6	384.7	491.4	418.7	529.3	399.8	563.1	467.1	513.1	1,520.9	17,986.8
Aug.	406.4	4,220.6	550.8	227.8	362.5	444.5	393.5	479.0	390.0	544.4	469.2	495.4	1,454.6	16,461.0

## 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 <sup>1)</sup>

	Total					Total (s.a., percentage change on previous period)						Memo item: Administered prices <sup>2)</sup>		
	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 <sup>3)</sup>	100.0	100.0	82.8	59.2	40.8	100.0	11.9	7.6	30.0	9.6	40.8	86.2	13.8	
	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	2.2	
2004	97.9	2.1	2.1	1.8	2.6	-	-	-	-	-	-	2.0	3.2	
2005	100.0	2.2	1.5	2.1	2.3	-	-	-	-	-	-	2.1	2.8	
2006	102.2	2.2	1.5	2.3	2.0	-	-	-	-	-	-	2.1	3.0	
2006 Q2	102.4	2.5	1.5	2.8	2.0	0.8	0.5	0.5	0.3	3.9	0.5	2.4	3.1	
Q3	102.5	2.1	1.5	2.3	2.0	0.5	0.4	1.8	0.2	0.6	0.6	2.0	3.1	
Q4	102.8	1.8	1.6	1.6	2.1	0.1	0.8	0.7	0.3	-4.2	0.6	1.6	2.9	
2007 Q1	102.9	1.9	1.9	1.6	2.4	0.5	0.4	0.0	0.3	1.0	0.7	1.7	2.8	
Q2	104.4	1.9	1.9	1.5	2.6	0.8	0.4	0.8	0.2	3.3	0.7	1.8	2.4	
2007 Mar.	103.5	1.9	1.9	1.7	2.4	0.3	0.1	0.0	0.1	1.5	0.2	1.8	2.5	
Apr.	104.2	1.9	1.9	1.5	2.5	0.3	0.1	0.9	0.0	1.4	0.3	1.8	2.6	
May	104.4	1.9	1.9	1.4	2.6	0.2	0.1	-0.3	0.1	0.9	0.3	1.8	2.4	
June	104.5	1.9	1.9	1.5	2.6	0.2	0.2	0.3	0.0	0.5	0.2	1.8	2.3	
July	104.3	1.8	1.9	1.2	2.6	0.2	0.1	0.4	0.0	0.5	0.2	1.7	2.1	
Aug. <sup>4)</sup>	.	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 <sup>3)</sup>	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 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
Q2	2.5	2.0	3.3	1.0	1.0	0.5	2.7	2.0	2.6	-1.9	2.9	3.6
2007 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
Apr.	2.7	1.9	3.9	1.0	1.1	0.4	2.7	2.1	2.6	-2.2	2.7	3.7
May	2.4	1.9	3.1	0.9	1.0	0.3	2.8	2.0	2.8	-1.8	2.9	3.6
June	2.4	2.0	3.0	1.0	1.0	0.9	2.8	2.0	2.4	-1.8	3.0	3.5
July	2.3	1.9	2.8	0.7	0.9	0.0	2.7	1.9	2.5	-1.7	3.0	3.5

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.europa.eu/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 <sup>1)</sup>	Residential property prices <sup>2)</sup>	World market prices of raw materials <sup>3)</sup>		Oil prices <sup>4)</sup> (EUR per barrel)
	Total (index 2000 = 100)	Total		Industry excluding construction and energy						Energy			Total	Total excluding energy	
		Manu- facturing	Total	Interme- diate goods	Capital goods	Consumer goods									
						Total	Durable	Non-durable							
% of total <sup>5)</sup>	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	2.2	7.0	-4.0	-4.5	25.1
2004	105.7	2.3	2.5	2.0	3.5	0.7	1.3	0.7	1.4	3.9	3.2	7.4	18.4	10.8	30.5
2005	110.1	4.1	3.2	1.8	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	3.8	6.5	19.7	24.8	52.9
2006 Q2	115.8	5.8	3.9	2.6	4.4	1.2	1.7	1.6	1.8	17.3	4.0	6.9 <sup>6)</sup>	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	4.3	-	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	3.9	6.0 <sup>6)</sup>	3.9	23.0	47.3
2007 Q1	117.3	2.9	2.5	3.4	6.0	2.0	1.5	1.9	1.5	1.3	.	-	-5.5	15.7	44.8
Q2	118.5	2.4	2.6	3.2	5.5	1.9	1.7	1.8	1.7	-0.5	.	-	-3.1	13.8	51.0
2007 Mar.	117.7	2.8	2.6	3.4	5.9	2.0	1.5	1.9	1.4	1.0	-	-	-2.3	17.6	47.3
Apr.	118.2	2.4	2.6	3.4	5.8	2.0	1.7	1.8	1.6	-0.7	-	-	-5.6	15.3	50.2
May	118.6	2.4	2.6	3.2	5.4	2.0	1.7	1.7	1.7	-0.1	-	-	-3.9	11.9	50.3
June	118.7	2.2	2.6	3.1	5.1	1.9	1.7	1.8	1.6	-0.7	-	-	0.3	14.2	52.6
July	119.0	1.8	2.3	2.9	4.6	1.7	1.8	1.7	1.8	-1.9	-	-	-1.7	7.8	55.2
Aug.	.	.	.	.	.	.	.	.	.	.	-	-	-3.4	5.4	52.4

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

	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 <sup>5)</sup>	100.0	100.0	73.1	26.9	34.6	9.1	56.3	
	1	2	3	4	5	6	7	8
2003	110.9	3.1	2.9	3.8	3.2	3.9	2.9	2.4
2004	113.9	2.7	2.3	3.2	3.0	3.1	2.4	2.2
2005	116.6	2.4	2.5	1.9	2.5	2.3	2.4	2.1
2006	119.4	2.4	2.7	1.8	2.7	2.0	2.3	2.3
2006 Q2	119.1	2.6	2.8	2.0	3.3	1.7	2.3	2.4
Q3	119.7	2.4	2.7	2.1	3.1	1.9	2.1	2.1
Q4	120.4	2.2	2.4	1.9	2.2	2.3	2.3	2.5
2007 Q1	121.0	2.2	2.3	2.1	2.2	1.9	2.2	2.0
Q2	.	.	.	.	.	.	.	2.3

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	Public administration, education, health and other services
	1	2	3	4	5	6	7	8
Unit labour costs <sup>1)</sup>								
2003	106.5	1.8	6.0	0.4	3.3	1.9	1.7	2.9
2004	107.8	1.2	-8.4	-0.4	3.4	0.3	2.5	2.6
2005	108.9	1.0	8.1	-0.8	3.6	0.5	1.6	1.9
2006	109.7	0.7	4.2	-1.5	1.2	0.2	2.0	2.2
2006 Q1	109.6	0.8	5.3	-1.5	1.4	0.4	2.1	2.4
Q2	109.9	1.1	5.0	-1.2	0.2	0.8	1.4	3.3
Q3	109.8	1.1	5.4	-1.2	1.2	0.1	2.5	2.6
Q4	109.5	0.0	1.3	-2.1	2.1	-0.3	2.1	0.7
2007 Q1	110.4	0.7	-0.6	-1.4	1.0	-0.3	2.8	2.2
Compensation per employee								
2003	107.6	2.1	2.3	2.1	2.6	1.9	2.5	2.1
2004	109.8	2.1	2.2	2.6	2.6	1.5	1.9	2.3
2005	111.8	1.8	3.3	1.5	2.2	1.6	2.2	1.9
2006	114.2	2.2	3.0	2.6	3.1	2.0	1.6	2.1
2006 Q1	113.3	2.2	2.2	2.5	3.1	2.0	1.6	2.3
Q2	114.2	2.5	2.4	2.5	2.8	2.3	1.1	3.2
Q3	114.5	2.3	4.0	2.8	2.8	1.7	1.8	2.5
Q4	114.9	1.8	3.5	2.5	3.6	2.0	2.0	0.5
2007 Q1	116.2	2.5	3.8	2.6	3.8	1.6	2.7	2.5
Labour productivity <sup>2)</sup>								
2003	101.0	0.3	-3.4	1.8	-0.7	0.0	0.9	-0.8
2004	101.9	0.9	11.6	3.1	-0.7	1.2	-0.6	-0.3
2005	102.7	0.8	-4.4	2.3	-1.4	1.1	0.6	0.0
2006	104.2	1.5	-1.2	4.2	1.8	1.7	-0.4	-0.1
2006 Q1	103.4	1.4	-3.0	4.1	1.7	1.6	-0.5	-0.1
Q2	104.0	1.4	-2.4	3.8	2.6	1.5	-0.2	-0.1
Q3	104.3	1.3	-1.4	4.0	1.6	1.6	-0.7	-0.1
Q4	104.9	1.8	2.2	4.7	1.4	2.3	-0.1	-0.2
2007 Q1	105.3	1.8	4.4	4.0	2.8	1.9	-0.2	0.3

**5. Gross domestic product deflators**

	Total (s.a. index 2000 = 100)	Total	Domestic demand			Exports <sup>3)</sup>	Imports <sup>3)</sup>	
			Total	Private consumption	Government consumption			Gross fixed capital formation
	1	2	3	4	5	6	7	8
2003	107.4	2.2	2.1	2.1	2.4	1.2	-1.2	-1.7
2004	109.5	2.0	2.2	2.1	2.3	2.4	1.1	1.6
2005	111.6	1.9	2.3	2.1	2.6	2.3	2.7	3.8
2006	113.7	1.9	2.4	2.2	2.1	2.6	2.7	4.0
2006 Q2	113.5	2.0	2.7	2.4	3.0	2.6	3.1	5.0
Q3	114.0	2.0	2.4	2.1	2.1	2.7	2.7	3.6
Q4	114.6	1.8	1.8	1.9	0.5	2.8	2.0	2.0
2007 Q1	115.3	2.2	1.9	1.7	1.5	3.0	1.6	0.6
Q2	116.0	2.2	2.0	1.8	0.7	2.9	1.4	0.9

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 <sup>1)</sup>		
		Total	Private consumption	Government consumption	Gross fixed capital formation	Changes in inventories <sup>2)</sup>	Total	Exports <sup>1)</sup>	Imports <sup>1)</sup>
	1	2	3	4	5	6	7	8	9
	<i>Current prices (EUR billions, seasonally adjusted)</i>								
2003	7,488.9	7,332.9	4,294.4	1,531.2	1,506.1	1.2	156.0	2,638.5	2,482.5
2004	7,772.3	7,613.8	4,448.0	1,586.8	1,572.7	6.3	158.6	2,841.1	2,682.6
2005	8,047.6	7,931.3	4,610.2	1,649.8	1,654.3	17.0	116.3	3,049.7	2,933.4
2006	8,437.3	8,337.7	4,799.2	1,716.4	1,787.6	34.5	99.6	3,388.6	3,289.0
2006 Q2	2,099.3	2,076.1	1,195.0	429.4	444.4	7.4	23.2	837.5	814.3
Q3	2,121.2	2,102.8	1,206.3	430.5	451.3	14.8	18.3	851.4	833.0
Q4	2,150.5	2,111.6	1,215.1	432.6	462.3	1.5	38.9	879.9	841.0
2007 Q1	2,179.7	2,143.7	1,220.3	438.9	475.1	9.4	36.0	889.1	853.1
Q2	2,199.3	2,160.7	1,234.2	440.9	476.9	8.7	38.5	902.1	863.5
	<i>percentage of GDP</i>								
2006	100.0	98.8	56.9	20.3	21.2	0.4	1.2	-	-
	<i>Chain-linked volumes (prices of the previous year, seasonally adjusted <sup>3)</sup>)</i>								
	<i>quarter-on-quarter percentage changes</i>								
2006 Q2	1.0	0.9	0.4	0.2	2.7	-	-	1.6	1.3
Q3	0.6	0.9	0.5	0.5	0.7	-	-	1.1	1.9
Q4	0.9	0.3	0.5	0.4	1.7	-	-	3.1	1.6
2007 Q1	0.7	0.8	0.0	0.8	2.0	-	-	0.8	0.9
Q2	0.3	0.2	0.5	0.1	-0.2	-	-	1.1	0.6
	<i>annual percentage changes</i>								
2003	0.8	1.5	1.2	1.8	1.2	-	-	1.1	3.1
2004	2.0	1.9	1.6	1.3	2.3	-	-	6.9	6.7
2005	1.5	1.7	1.5	1.3	2.6	-	-	4.3	5.1
2006	2.8	2.6	1.8	1.9	5.0	-	-	8.0	7.8
2006 Q2	2.9	2.6	1.8	1.6	5.7	-	-	8.1	7.5
Q3	2.8	3.0	1.7	1.8	5.0	-	-	6.9	7.6
Q4	3.3	2.5	2.1	2.2	5.9	-	-	9.2	7.2
2007 Q1	3.2	2.8	1.4	2.0	7.4	-	-	6.7	5.9
Q2	2.5	2.1	1.5	1.9	4.3	-	-	6.2	5.1
	<i>contributions to quarter-on-quarter percentage changes of GDP in percentage points</i>								
2006 Q2	1.0	0.9	0.2	0.0	0.6	0.0	0.1	-	-
Q3	0.6	0.8	0.3	0.1	0.2	0.3	-0.3	-	-
Q4	0.9	0.3	0.3	0.1	0.4	-0.5	0.6	-	-
2007 Q1	0.7	0.8	0.0	0.2	0.4	0.2	-0.1	-	-
Q2	0.3	0.2	0.3	0.0	0.0	-0.1	0.2	-	-
	<i>contributions to annual percentage changes of GDP in percentage points</i>								
2003	0.8	1.4	0.7	0.4	0.3	0.1	-0.6	-	-
2004	2.0	1.8	0.9	0.3	0.5	0.2	0.2	-	-
2005	1.5	1.7	0.8	0.3	0.5	0.0	-0.2	-	-
2006	2.8	2.6	1.0	0.4	1.0	0.1	0.2	-	-
2006 Q2	2.9	2.6	1.0	0.3	1.2	0.0	0.3	-	-
Q3	2.8	2.9	1.0	0.4	1.0	0.5	-0.1	-	-
Q4	3.3	2.5	1.2	0.4	1.2	-0.4	0.9	-	-
2007 Q1	3.2	2.8	0.8	0.4	1.5	0.0	0.4	-	-
Q2	2.5	2.0	0.8	0.4	0.9	-0.1	0.5	-	-

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 Tables 7.1.2 and 7.3.1.

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	6,728.1	150.8	1,394.7	390.8	1,427.4	1,831.1	1,533.3	760.9
2004	6,977.5	153.8	1,430.4	412.5	1,478.7	1,908.0	1,594.1	794.8
2005	7,209.5	142.5	1,458.3	438.2	1,516.8	1,997.5	1,656.1	838.1
2006	7,535.7	138.2	1,522.9	481.1	1,569.1	2,105.6	1,718.7	901.6
2006 Q2	1,875.0	34.1	377.7	119.1	389.7	524.1	430.2	224.4
Q3	1,897.2	34.9	383.3	122.1	395.3	530.1	431.7	223.9
Q4	1,917.8	35.1	388.3	124.8	399.6	536.2	433.8	232.7
2007 Q1	1,941.8	35.3	396.1	128.3	401.9	541.9	438.3	237.9
Q2	1,961.1	35.8	400.7	128.1	405.1	549.1	442.3	238.2
<i>percentage of value added</i>								
2006	100.0	1.8	20.2	6.4	20.8	27.9	22.8	-
<i>Chain-linked volumes (prices of the previous year, seasonally adjusted<sup>1)</sup>)</i>								
<i>quarter-on-quarter percentage changes</i>								
2006 Q2	1.0	0.1	0.9	2.9	1.2	1.2	0.3	0.5
Q3	0.6	-0.3	0.9	1.0	0.7	0.6	0.2	0.5
Q4	0.7	0.8	1.0	1.3	0.8	0.8	0.3	2.0
2007 Q1	0.8	1.7	1.2	1.9	0.5	0.8	0.4	-0.3
Q2	0.5	-0.5	0.6	-1.6	0.6	0.9	0.4	-0.6
<i>annual percentage changes</i>								
2003	0.7	-6.1	0.2	0.1	0.7	1.6	0.9	1.6
2004	2.1	10.4	2.4	0.8	2.5	1.6	1.5	1.6
2005	1.5	-5.9	0.7	1.3	1.6	2.6	1.4	1.6
2006	2.7	-1.6	3.7	4.4	2.8	3.0	1.2	3.4
2006 Q2	2.8	-1.4	3.7	4.6	2.9	3.3	1.3	3.6
Q3	2.9	-2.4	4.1	4.8	3.0	3.1	1.2	2.5
Q4	3.3	0.4	4.6	5.3	3.7	3.4	1.3	3.8
2007 Q1	3.2	2.3	4.0	7.3	3.2	3.5	1.3	2.7
Q2	2.6	1.7	3.6	2.6	2.6	3.1	1.3	1.6
<i>contributions to quarter-on-quarter percentage changes of value added in percentage points</i>								
2006 Q2	1.0	0.0	0.2	0.2	0.2	0.3	0.1	-
Q3	0.6	0.0	0.2	0.1	0.2	0.2	0.0	-
Q4	0.7	0.0	0.2	0.1	0.2	0.2	0.1	-
2007 Q1	0.8	0.0	0.2	0.1	0.1	0.2	0.1	-
Q2	0.5	0.0	0.1	-0.1	0.1	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	0.2	0.5	0.0	0.5	0.4	0.3	-
2005	1.5	-0.1	0.1	0.1	0.3	0.7	0.3	-
2006	2.7	0.0	0.8	0.3	0.6	0.8	0.3	-
2006 Q2	2.8	0.0	0.8	0.3	0.6	0.9	0.3	-
Q3	2.9	0.0	0.8	0.3	0.6	0.9	0.3	-
Q4	3.3	0.0	0.9	0.3	0.8	1.0	0.3	-
2007 Q1	3.2	0.0	0.8	0.5	0.7	1.0	0.3	-
Q2	2.6	0.0	0.7	0.2	0.5	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
	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			
% of total <sup>1)</sup>	100.0	82.9	82.9	75.0	74.0	30.0	22.4	21.5	3.6	17.9	8.9	17.1
	1	2	3	4	5	6	7	8	9	10	11	12
2004	2.1	102.5	2.2	2.2	2.1	2.4	3.4	0.6	0.1	0.7	2.2	-0.5
2005	1.2	103.9	1.3	1.3	1.1	0.9	2.8	0.4	-1.0	0.7	1.3	-0.2
2006	3.8	108.1	4.0	4.4	4.4	5.0	5.8	2.5	4.2	2.2	0.8	4.1
2006 Q3	4.1	108.7	4.2	4.5	4.4	5.8	5.6	1.7	5.0	1.2	1.5	3.9
Q4	4.2	109.4	4.0	5.0	4.9	5.4	6.7	3.3	5.5	2.9	-3.3	6.9
2007 Q1	4.6	110.3	3.8	5.8	5.9	6.4	7.1	3.9	4.3	3.9	-7.4	10.8
Q2	2.9	110.7	2.6	3.1	3.1	2.9	4.4	2.2	1.2	2.3	-0.5	2.5
2007 Jan.	3.5	109.7	3.2	5.5	5.7	5.4	7.0	4.1	3.5	4.2	-8.4	9.7
Feb.	5.0	110.3	4.1	6.0	6.1	7.1	7.5	3.2	4.8	2.9	-7.1	11.8
Mar.	5.2	111.0	4.2	5.8	6.0	6.5	6.8	4.5	4.5	4.5	-6.7	11.0
Apr.	3.0	110.0	2.9	3.9	4.0	3.7	5.2	2.8	1.6	3.0	-2.9	3.3
May	2.3	111.1	2.6	2.9	2.8	2.5	3.9	2.0	0.3	2.3	2.0	1.7
June	3.4	110.9	2.2	2.6	2.5	2.6	4.1	1.7	1.7	1.7	-0.6	2.5
<i>month-on-month percentage changes (s.a.)</i>												
2007 Jan.	-0.4	-	-0.7	-0.1	-0.2	-0.9	0.3	-0.3	-1.8	-0.1	-4.2	0.2
Feb.	0.9	-	0.6	0.5	0.5	0.7	0.8	0.1	0.7	0.0	0.7	0.8
Mar.	0.9	-	0.6	0.4	0.7	0.5	0.2	0.9	0.2	1.0	0.9	0.6
Apr.	-1.8	-	-0.9	-1.1	-1.6	-1.1	-1.0	-2.0	-0.9	-0.9	0.6	-1.2
May	0.9	-	1.0	0.8	1.0	0.9	1.1	0.7	1.8	0.6	2.8	0.1
June	0.8	-	-0.1	-0.1	0.0	0.2	-0.1	-0.3	-0.2	-0.3	0.5	0.6

### 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 <sup>2)</sup> (current prices)		Manufacturing (current prices)		Current prices	Constant prices						Total (s.a., thousands) <sup>3)</sup>	Total
	Total (s.a. index 2000 = 100)	Total	Total (s.a. index 2000 = 100)	Total	Total	Total (s.a. index 2000 = 100)	Total	Food, beverages, tobacco	Non-food				
									Textiles, clothing, footwear	Household equipment			
% of total <sup>1)</sup>	100.0	100.0	100.0	100.0	100.0	100.0	43.7	56.3	10.6	14.8	12	13	
	1	2	3	4	5	6	7	8	9	10	11	12	13
2004	104.0	7.3	106.3	5.1	2.3	105.3	1.6	1.2	1.7	1.9	3.3	926	1.0
2005	109.2	3.9	110.8	3.6	2.2	106.7	1.3	0.6	1.7	2.3	1.2	941	1.6
2006	119.2	9.2	118.9	7.3	3.4	108.9	2.1	0.7	2.7	2.9	4.9	966	2.6
2006 Q3	120.4	9.1	119.9	6.5	3.8	109.3	2.4	1.3	2.8	3.5	5.1	939	-1.8
Q4	122.9	7.4	121.9	7.6	3.4	109.6	2.3	-0.2	3.5	3.1	7.0	985	5.1
2007 Q1	125.7	8.1	124.5	7.6	2.6	109.6	1.6	0.3	2.4	4.2	4.2	951	-1.7
Q2	130.6	10.6	126.0	6.4	2.0	109.7	0.8	-0.3	1.7	3.0	2.3	952	-1.9
2007 Feb.	125.1	6.4	124.0	7.3	2.0	109.5	1.2	-0.7	2.6	4.7	3.9	938	-3.7
Mar.	127.8	7.6	126.0	5.8	3.8	110.2	2.7	2.0	3.1	5.8	5.0	972	0.8
Apr.	127.4	10.4	124.0	9.4	2.8	110.1	1.6	0.5	2.5	6.8	2.8	917	-5.8
May	129.4	7.6	126.4	5.1	1.0	109.2	-0.1	-0.5	0.0	-1.8	0.8	967	-0.8
June	135.0	13.7	127.7	5.1	2.3	109.8	1.0	-0.8	2.5	4.0	3.4	971	0.7
July	.	.	.	.	1.7	109.9	0.5	-1.7	2.0	.	.	.	.
<i>month-on-month percentage changes (s.a.)</i>													
2007 Feb.	-	0.7	-	0.4	0.4	-	0.4	0.2	0.7	1.0	0.4	-	-0.4
Mar.	-	2.2	-	1.6	0.8	-	0.6	0.7	0.4	0.1	0.9	-	3.6
Apr.	-	-0.3	-	-1.6	-0.1	-	-0.1	-0.1	0.1	1.5	-1.0	-	-5.6
May	-	1.5	-	1.9	-0.6	-	-0.8	-0.8	-0.7	-3.5	-0.4	-	5.4
June	-	4.3	-	1.0	0.7	-	0.6	-0.1	1.0	2.8	1.4	-	0.4
July	-	.	-	.	0.2	-	0.1	0.2	-0.1	.	.	-	.

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

1) In 2000.

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

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

**5.2 Output and demand**(percentage balances,<sup>1)</sup> unless otherwise indicated; seasonally adjusted)**5. Business and Consumer Surveys**

	Economic sentiment indicator <sup>2)</sup> (long-term average = 100)	Manufacturing industry					Consumer confidence indicator <sup>3)</sup>				
		Industrial confidence indicator				Capacity utilisation <sup>4)</sup> (percentages)	Total <sup>5)</sup>	Financial situation over next 12 months	Economic situation over next 12 months	Unemployment situation over next 12 months	Savings over next 12 months
		Total <sup>5)</sup>	Order books	Stocks of finished products	Production expectations						
	1	2	3	4	5	6	7	8	9	10	11
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 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
Q2	111.6	6	8	4	15	84.5	-2	-1	0	2	-7
2007 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
May	112.1	6	8	5	14	-	-1	-1	2	1	-6
June	111.7	6	7	4	15	-	-2	-1	2	2	-7
July	111.0	5	5	5	14	84.2	-2	-1	1	0	-7
Aug.	110.0	5	7	5	13	-	-3	-2	-1	2	-7
	Construction confidence indicator			Retail trade confidence indicator				Services confidence indicator			
	Total <sup>5)</sup>	Order books	Employment expectations	Total <sup>5)</sup>	Present business situation	Volume of stocks	Expected business situation	Total <sup>5)</sup>	Business climate	Demand in recent months	Demand in the months ahead
	12	13	14	15	16	17	18	19	20	21	22
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 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
Q2	0	-6	6	1	4	13	14	22	19	22	25
2007 Mar.	0	-9	9	0	2	15	13	22	18	22	28
Apr.	1	-6	7	0	3	17	15	23	19	24	25
May	0	-7	7	2	5	11	13	23	20	23	25
June	1	-5	6	2	4	12	13	21	18	20	25
July	0	-7	6	3	8	14	13	21	16	21	26
Aug.	-2	-10	7	4	10	14	15	20	16	21	23

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 <sup>1)</sup>

(annual percentage changes, unless otherwise indicated)

### 1. Employment

	Whole economy		By employment status		By economic activity					
	Millions (s.a.)		Employees	Self-employed	Agriculture, hunting, forestry and fishing	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other services
% of total <sup>2)</sup>	100.0	100.0	84.7	15.3	4.3	17.5	7.6	24.8	15.3	30.5
	1	2	3	4	5	6	7	8	9	10
2003	136.139	0.4	0.5	0.1	-2.7	-1.5	0.8	0.7	0.7	1.7
2004	137.340	0.9	0.8	1.5	-1.1	-1.3	1.4	1.0	2.1	1.7
2005	138.439	0.8	1.0	0.0	-1.4	-1.3	2.7	0.6	2.1	1.4
2006	140.386	1.4	1.5	1.0	-0.4	-0.2	2.8	1.2	3.5	1.4
2006 Q1	139.620	1.1	1.2	0.7	0.3	-0.6	2.1	0.8	2.9	1.3
Q2	140.286	1.5	1.6	1.4	1.2	-0.1	2.0	1.5	3.6	1.4
Q3	140.617	1.5	1.6	0.9	-1.0	0.1	3.0	1.3	3.9	1.3
Q4	141.021	1.5	1.5	1.0	-1.9	-0.3	4.0	1.3	3.6	1.4
2007 Q1	141.554	1.4	1.6	0.1	-1.6	0.0	4.8	1.0	3.7	0.9
	<i>quarter-on-quarter percentage changes (s.a.)</i>									
2006 Q1	0.717	0.5	0.4	1.0	0.1	-0.1	0.6	0.6	0.9	0.7
Q2	0.666	0.5	0.4	0.6	0.7	0.2	0.7	0.5	0.9	0.3
Q3	0.331	0.2	0.4	-0.4	-2.0	0.0	0.9	0.0	1.0	0.3
Q4	0.404	0.3	0.3	0.1	-0.5	-0.1	1.7	0.3	0.8	0.0
2007 Q1	0.533	0.4	0.4	0.1	-0.2	-0.1	1.1	0.4	0.9	0.3

### 2. Unemployment

(seasonally adjusted)

	Total		By age <sup>3)</sup>				By gender <sup>4)</sup>			
	Millions	% of labour force	Adult		Youth		Male		Female	
			Millions	% of labour force	Millions	% of labour force	Millions	% of labour force	Millions	% of labour force
% of total <sup>2)</sup>	100.0		75.4		24.6		48.0		52.0	
	1	2	3	4	5	6	7	8	9	10
2003	12.539	8.7	9.344	7.4	3.195	17.6	5.983	7.3	6.556	10.4
2004	12.882	8.8	9.661	7.5	3.221	17.9	6.193	7.5	6.690	10.5
2005	12.660	8.6	9.569	7.4	3.090	17.4	6.140	7.4	6.520	10.1
2006	11.732	7.9	8.841	6.7	2.891	16.5	5.627	6.7	6.105	9.3
2006 Q2	11.791	7.9	8.921	6.8	2.870	16.4	5.698	6.8	6.094	9.3
Q3	11.567	7.8	8.703	6.6	2.863	16.4	5.536	6.6	6.031	9.2
Q4	11.322	7.6	8.486	6.4	2.836	16.2	5.368	6.4	5.954	9.0
2007 Q1	10.816	7.2	8.082	6.1	2.734	15.8	5.108	6.1	5.709	8.7
Q2	10.460	7.0	7.833	5.9	2.628	15.2	4.915	5.9	5.545	8.4
2007 Feb.	10.813	7.2	8.071	6.1	2.742	15.8	5.104	6.1	5.709	8.7
Mar.	10.649	7.1	7.959	6.0	2.690	15.5	5.006	6.0	5.642	8.6
Apr.	10.544	7.0	7.894	6.0	2.650	15.4	4.958	5.9	5.586	8.5
May	10.448	7.0	7.826	5.9	2.621	15.2	4.905	5.8	5.542	8.4
June	10.389	6.9	7.778	5.9	2.611	15.2	4.881	5.8	5.508	8.4
July	10.362	6.9	7.751	5.8	2.611	15.2	4.873	5.8	5.490	8.3

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 <sup>1)</sup>

(as a percentage of GDP)

### 1. Euro area – revenue

	Total		Current revenue								Capital revenue		Memo: fiscal burden <sup>2)</sup>	
	1	2	Direct taxes		Indirect taxes	Received by EU institutions	Social contributions		Sales	Capital taxes	13			
			Households	Corporations			Employers	Employees						
1998	46.5	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	40.9
2005	45.1	44.7	11.6	8.6	2.7	13.7	0.3	15.5	8.1	4.5	2.2	0.4	0.3	41.2
2006	45.7	45.4	12.2	8.8	3.1	13.9	0.3	15.5	8.1	4.5	2.1	0.3	0.3	41.9

### 2. Euro area – expenditure

	Total		Current expenditure						Capital expenditure			Memo: primary expenditure <sup>3)</sup>		
	1	2	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social payments		Subsidies	Paid by EU institutions	Investment		Capital transfers	Paid by EU institutions
							7	8						
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	47.6	43.7	10.4	5.0	3.1	25.2	22.5	1.8	0.5	3.8	2.5	1.4	0.0	44.4
2005	47.7	43.7	10.4	5.1	3.0	25.2	22.5	1.7	0.5	3.9	2.5	1.4	0.0	44.7
2006	47.3	43.2	10.3	5.0	2.9	25.0	22.3	1.7	0.5	4.1	2.5	1.6	0.0	44.4

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

	Deficit (-)/surplus (+)					Primary deficit (-)/surplus (+)	Government consumption <sup>4)</sup>						Collective consumption	Individual consumption
	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)		
1998	-2.3	-2.2	-0.2	0.1	0.1	2.3	19.7	10.6	4.7	4.8	1.9	2.3	8.2	11.6
1999	-1.4	-1.7	-0.1	0.1	0.4	2.7	19.9	10.6	4.8	4.8	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	-0.4	-0.3	0.1	0.3	20.4	10.4	5.0	5.2	1.9	2.1	8.3	12.2
2005	-2.6	-2.2	-0.3	-0.2	0.2	0.4	20.5	10.4	5.1	5.2	1.9	2.2	8.2	12.3
2006	-1.6	-1.6	-0.1	-0.2	0.3	1.3	20.4	10.3	5.0	5.2	1.9	2.1	8.0	12.4

### 4. Euro area countries – deficit (-)/surplus (+)<sup>5)</sup>

	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 <sup>1)</sup>

(as a percentage of GDP)

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

	Total	Financial instruments				Holders				
		Currency and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors <sup>2)</sup>				Other creditors <sup>3)</sup>
						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	13.6	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	25.3	11.9	11.2	23.3
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	49.8	39.3	19.3	10.2	9.8	29.9
2004	69.6	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	17.3	10.4	7.8	34.9
2006	68.8	2.5	11.3	4.1	50.9	32.7	17.6	7.6	7.5	36.1

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

	Total	Issued by <sup>4)</sup>				Original maturity			Residual maturity			Currencies	
		Central gov.	State gov.	Local gov.	Social security funds	Up to 1 year	Over 1 year	Variable interest rate	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Euro or participating currencies <sup>5)</sup>	Other currencies
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	64.5	6.6	13.6	27.9	30.4	69.7	2.1
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	56.9	6.6	5.1	0.6	7.8	61.4	4.9	14.3	26.1	28.8	68.0	1.1
2004	69.6	57.4	6.7	5.1	0.4	7.8	61.8	4.6	14.3	26.5	28.8	68.5	1.1
2005	70.5	57.9	6.8	5.3	0.5	7.9	62.5	4.9	14.4	26.1	30.0	69.2	1.2
2006	68.8	56.2	6.6	5.4	0.6	7.5	61.3	4.6	13.7	25.1	30.0	67.9	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 <sup>1)</sup>**

(as a percentage of GDP)

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

	Total	Source of change				Financial instruments				Holders			
		Borrowing requirement <sup>2)</sup>	Valuation effects <sup>3)</sup>	Other changes in volume <sup>4)</sup>	Aggregation effect <sup>5)</sup>	Currency and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors <sup>6)</sup>	MFIs	Other financial corporations	Other creditors <sup>7)</sup>
		1	2	3	4	5	6	7	8	9	10	11	12
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 (+) <sup>8)</sup>	Deficit-debt adjustment <sup>9)</sup>											
			Total	Transactions in main financial assets held by general government							Valuation effects	Exchange rate effects	Other changes in volume	Other <sup>10)</sup>
				Total	Currency and deposits	Loans	Securities <sup>11)</sup>	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	-2.6	0.5	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 <sup>1)</sup>

(as a percentage of GDP)

### 1. Euro area – quarterly revenue

	Total		Current revenue					Capital revenue		Memo: fiscal burden <sup>2)</sup>
	1	2	Direct taxes	Indirect taxes	Social contributions	Sales	Property income	8	Capital taxes	
2001 Q1	42.3	41.8	10.5	12.7	15.2	1.8	0.8	0.4	0.2	38.6
Q2	46.9	46.5	13.4	13.0	15.6	2.0	1.6	0.4	0.2	42.3
Q3	43.5	43.1	11.6	12.4	15.5	1.9	0.9	0.4	0.3	39.8
Q4	49.1	48.6	13.5	13.9	16.3	2.9	1.1	0.5	0.3	44.0
2002 Q1	41.9	41.5	10.1	12.7	15.4	1.7	0.8	0.4	0.2	38.5
Q2	45.6	45.1	12.6	12.7	15.5	2.0	1.6	0.5	0.3	41.1
Q3	43.5	43.1	11.2	12.8	15.5	1.9	0.8	0.4	0.3	39.7
Q4	49.2	48.6	13.4	14.1	16.3	3.0	0.9	0.6	0.3	44.1
2003 Q1	41.9	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	42.9	42.4	10.8	12.7	15.5	1.9	0.7	0.5	0.2	39.3
Q4	49.3	48.3	13.2	14.2	16.3	2.9	0.8	1.0	0.3	43.9
2004 Q1	41.4	41.0	9.6	12.8	15.4	1.7	0.6	0.5	0.3	38.1
Q2	45.1	44.3	12.2	13.1	15.4	2.0	0.9	0.8	0.6	41.2
Q3	42.7	42.2	10.6	12.7	15.4	1.9	0.7	0.5	0.3	39.0
Q4	49.4	48.4	13.0	14.4	16.2	2.9	0.8	1.0	0.4	44.1
2005 Q1	42.1	41.6	9.9	12.9	15.4	1.7	0.6	0.5	0.2	38.5
Q2	44.9	44.3	11.9	13.3	15.3	2.0	1.0	0.6	0.3	40.8
Q3	43.4	42.8	11.0	12.9	15.3	1.9	0.7	0.7	0.3	39.6
Q4	49.6	48.8	13.5	14.4	16.2	3.0	0.9	0.8	0.3	44.4
2006 Q1	42.7	42.2	10.3	13.3	15.3	1.7	0.8	0.5	0.3	39.2
Q2	46.1	45.6	12.6	13.7	15.4	2.0	1.2	0.5	0.3	41.9
Q3	43.8	43.3	11.5	13.0	15.4	1.9	0.8	0.5	0.3	40.1
Q4	50.0	49.3	14.3	14.4	16.0	2.9	0.9	0.7	0.3	45.0
2007 Q1	42.4	42.0	10.3	13.5	14.9	1.6	0.9	0.5	0.3	39.0

### 2. Euro area – quarterly expenditure and deficit/surplus

	Total		Current expenditure						Capital expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
	1	2	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social		Investment	Capital transfers			
							benefits	Subsidies					
2001 Q1	45.6	42.3	10.0	4.2	4.0	24.1	20.8	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	42.5	10.0	4.6	3.8	24.1	20.8	1.4	3.7	2.5	1.2	-2.6	1.2
Q4	51.1	46.2	11.0	5.7	3.6	25.9	22.1	1.7	4.9	3.2	1.7	-2.0	1.5
2002 Q1	46.2	42.8	10.3	4.3	3.7	24.5	21.2	1.3	3.5	2.0	1.5	-4.3	-0.6
Q2	46.6	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	46.9	43.2	10.0	4.7	3.5	24.9	21.5	1.4	3.7	2.5	1.2	-3.3	0.2
Q4	50.9	46.5	11.1	5.7	3.3	26.4	22.7	1.6	4.4	2.8	1.6	-1.7	1.6
2003 Q1	46.9	43.4	10.3	4.5	3.5	25.1	21.5	1.3	3.5	1.9	1.6	-4.9	-1.5
Q2	47.4	43.8	10.4	4.8	3.4	25.2	21.8	1.3	3.6	2.4	1.2	-1.4	2.0
Q3	47.1	43.4	10.2	4.8	3.3	25.1	21.7	1.3	3.7	2.5	1.2	-4.2	-0.9
Q4	51.3	46.4	11.0	5.7	3.1	26.5	22.9	1.5	4.8	3.3	1.6	-1.9	1.2
2004 Q1	46.5	43.1	10.3	4.6	3.2	25.0	21.4	1.2	3.3	1.9	1.4	-5.0	-1.8
Q2	46.6	43.3	10.4	4.8	3.1	24.9	21.6	1.2	3.3	2.3	1.0	-1.5	1.6
Q3	46.2	42.8	10.0	4.7	3.2	25.0	21.6	1.3	3.4	2.5	1.0	-3.4	-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	-1.4	1.6
2005 Q1	47.1	43.3	10.3	4.7	3.1	25.2	21.4	1.2	3.8	1.9	1.9	-5.0	-1.9
Q2	46.5	43.1	10.3	5.0	3.2	24.6	21.5	1.1	3.4	2.4	1.0	-1.6	1.6
Q3	45.9	42.5	9.9	4.8	2.9	24.8	21.4	1.2	3.4	2.5	0.9	-2.5	0.5
Q4	50.7	45.9	11.1	5.8	2.8	26.3	22.7	1.4	4.8	3.1	1.6	-1.2	1.6
2006 Q1	45.7	42.5	10.1	4.5	3.0	25.0	21.3	1.2	3.1	1.9	1.2	-3.0	0.0
Q2	46.1	42.7	10.3	4.9	3.1	24.4	21.3	1.1	3.4	2.4	1.0	0.0	3.1
Q3	46.3	42.1	9.9	4.7	2.9	24.6	21.2	1.2	4.3	2.5	1.7	-2.6	0.3
Q4	50.8	45.3	10.7	5.8	2.7	26.1	22.4	1.4	5.5	3.3	2.2	-0.8	1.9
2007 Q1	44.8	41.5	9.9	4.5	2.9	24.2	20.6	1.2	3.3	2.0	1.2	-2.4	0.6

Source: ECB calculations based on Eurostat and national data.

1) 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

(as a percentage of GDP)

### 1. Euro area – Maastricht debt by financial instrument<sup>1)</sup>

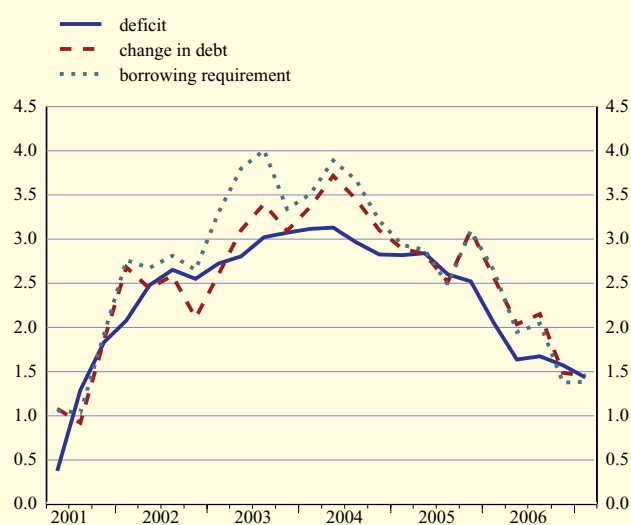
	Total 1	Financial instruments			
		Currency and deposits 2	Loans 3	Short-term securities 4	Long-term securities 5
2004 Q2	71.2	2.2	12.1	5.5	51.5
Q3	71.1	2.3	12.0	5.5	51.3
Q4	69.6	2.2	11.9	5.0	50.6
2005 Q1	71.0	2.2	11.9	5.2	51.7
Q2	71.7	2.3	11.6	5.2	52.5
Q3	71.3	2.4	11.7	5.2	52.0
Q4	70.5	2.4	11.7	4.7	51.6
2006 Q1	70.9	2.5	11.7	4.9	51.7
Q2	71.0	2.5	11.6	4.9	52.0
Q3	70.5	2.5	11.6	4.7	51.6
Q4	68.8	2.5	11.3	4.1	50.9
2007 Q1	69.1	2.4	11.3	4.8	50.5

### 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 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	-3.4	-1.6	-1.2	-1.4	0.0	0.2	0.1	-0.3	-0.2	2.1
Q4	-3.1	-1.4	-4.5	-3.3	-2.5	0.1	-0.2	-0.6	0.0	-1.2	-3.0
2005 Q1	7.3	-5.0	2.3	2.2	1.3	0.1	0.3	0.5	0.1	0.0	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	-1.9	-2.5	-2.4	0.0	0.3	-0.3	0.0	0.5	0.5
Q4	-0.6	-1.2	-1.8	-0.5	-0.1	0.0	-0.3	-0.1	-0.1	-1.2	-0.5
2006 Q1	4.9	-3.0	2.0	1.3	1.1	0.1	0.6	-0.5	-0.3	0.9	5.2
Q2	3.3	0.0	3.2	3.2	2.5	0.1	0.4	0.2	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	-0.8	1.0
Q4	-3.0	-0.8	-3.8	-2.3	-1.4	-0.6	-0.1	-0.2	-0.1	-1.5	-2.9
2007 Q1	4.7	-2.4	2.3	1.7	1.0	0.1	0.6	0.0	-0.4	0.9	5.0

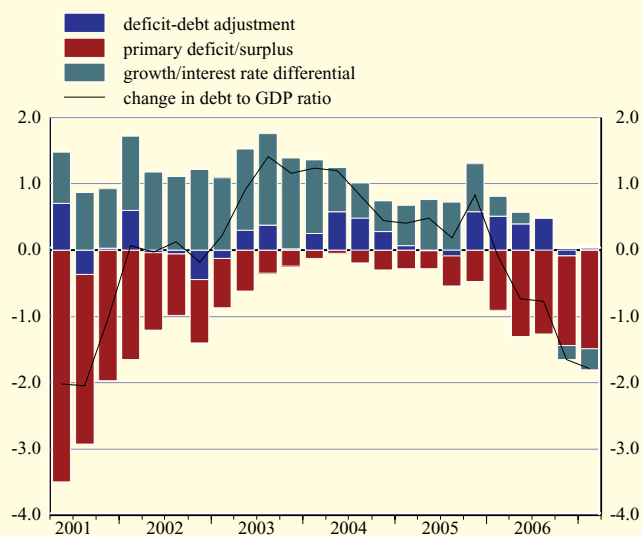
### C28 Deficit, borrowing requirement and change in debt

(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 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

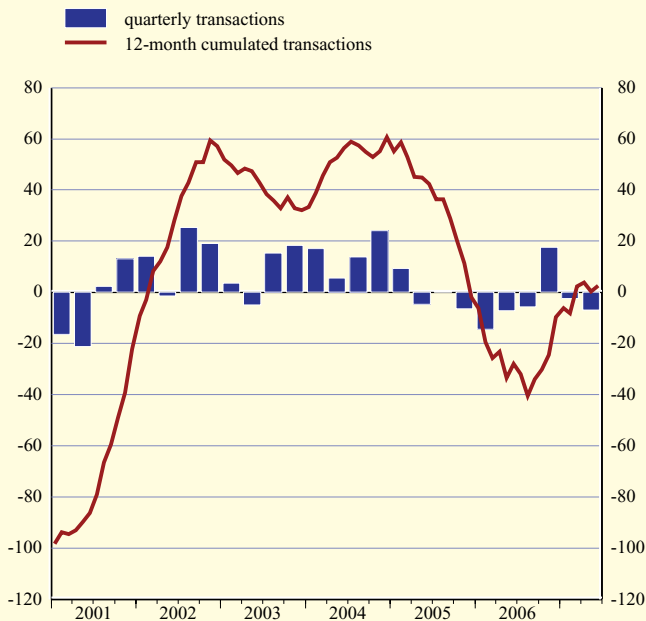
(EUR billions; net transactions)

### 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	-9.7	28.6	35.8	1.4	-75.5	10.1	0.4	117.1	-158.8	263.5	-1.9	15.5	-1.3	-117.5
2006 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	17.7	17.8	8.5	6.7	-15.4	4.8	22.5	-45.8	-59.4	120.4	-0.1	-104.2	-2.4	23.3
2007 Q1	-2.4	7.6	5.6	5.4	-21.0	5.2	2.8	-12.0	-24.2	122.2	-17.2	-91.4	-1.4	9.2
Q2	-7.0	18.7	13.2	-22.1	-16.8	2.8	-4.2	-21.7	-82.7	90.8	-13.1	-12.2	-4.4	25.9
2006 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.	-0.8	5.6	2.6	-0.9	-8.1	0.5	-0.3	5.1	-10.0	30.8	6.3	-22.1	0.1	-4.8
Nov.	4.8	7.2	2.1	2.7	-7.3	0.9	5.7	-11.0	-12.9	58.9	-2.0	-54.4	-0.6	5.3
Dec.	13.7	5.0	3.8	4.9	0.0	3.4	17.1	-39.9	-36.5	30.7	-4.4	-27.7	-1.9	22.8
2007 Jan.	-6.1	-4.4	0.2	-0.3	-1.7	2.3	-3.7	43.1	-7.4	33.5	-4.6	24.5	-3.0	-39.3
Feb.	-5.7	2.3	2.3	1.5	-11.9	1.2	-4.5	-11.0	-11.0	23.0	-8.4	-14.2	-0.5	15.5
Mar.	9.4	9.6	3.1	4.2	-7.4	1.6	11.1	-44.0	-5.9	65.6	-4.2	-101.7	2.2	33.0
Apr.	-4.3	4.3	3.0	-4.3	-7.3	0.6	-3.7	17.7	-24.5	15.6	-4.1	32.5	-1.8	-14.0
May	-14.0	4.2	3.9	-17.3	-4.9	1.9	-12.1	1.1	-13.4	5.0	-1.9	12.3	-0.7	11.0
June	11.4	10.1	6.3	-0.4	-4.6	0.2	11.6	-40.5	-44.8	70.2	-7.1	-56.9	-1.9	28.9
<i>12-month cumulated transactions</i>														
2007 June	2.6	51.5	37.1	-9.0	-77.1	14.8	17.4	-28.4	-210.3	355.7	-22.4	-140.0	-11.4	11.0

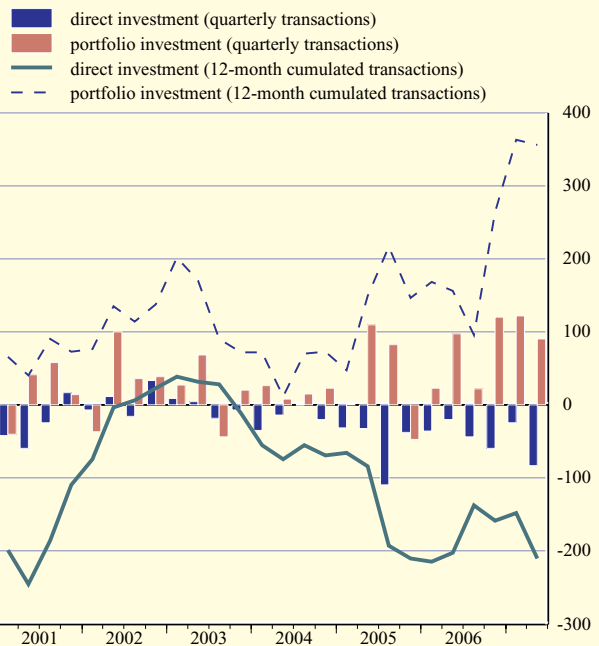
### C30 B.o.p. current account balance

(EUR billions)



### C31 B.o.p. net direct and portfolio investment

(EUR billions)



Source: ECB.

**7.1 Balance of payments**

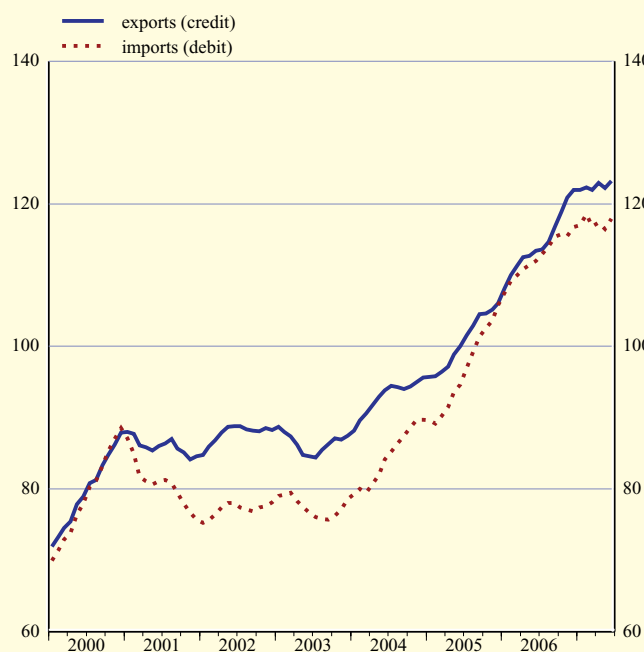
(EUR billions; transactions)

**2. Current and capital accounts**

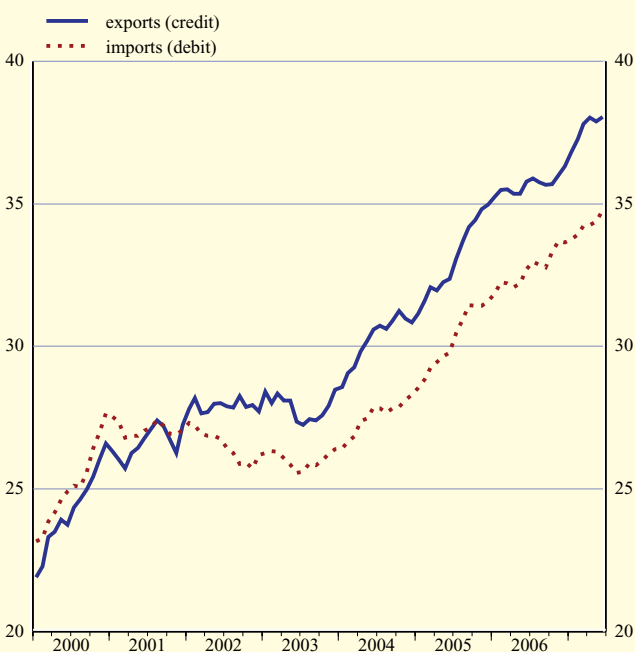
	Current account											Capital account	
	Total			Goods		Services		Income		Current transfers		Credit	Debit
	Credit	Debit	Net	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	
2004	1,866.8	1,806.0	60.7	1,129.3	1,028.9	366.4	333.8	288.9	302.7	82.1	140.7	24.6	8.1
2005	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	2,343.0	2,352.8	-9.7	1,389.0	1,360.4	429.3	393.6	438.1	436.7	86.6	162.1	23.7	13.6
2006 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	637.2	619.5	17.7	373.2	355.4	110.2	101.7	126.1	119.3	27.7	43.1	8.8	4.0
2007 Q1	609.3	611.7	-2.4	359.5	351.9	103.6	98.0	119.4	114.0	26.8	47.8	7.7	2.5
Q2	636.3	643.3	-7.0	371.7	353.0	114.1	100.9	133.1	155.2	17.5	34.3	4.9	2.2
2007 Apr.	200.9	205.2	-4.3	119.2	114.8	35.4	32.4	41.4	45.7	5.0	12.3	1.4	0.7
May	209.0	223.1	-14.0	123.2	118.9	37.7	33.7	41.3	58.6	6.9	11.8	2.6	0.7
June	226.3	215.0	11.4	129.3	119.2	41.0	34.7	50.4	50.9	5.6	10.2	0.9	0.7
	Seasonally adjusted												
2006 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	618.5	611.8	6.7	365.7	350.2	109.0	100.9	119.8	117.4	24.0	43.3	.	.
2007 Q1	629.1	624.7	4.4	365.8	350.4	113.4	102.7	128.1	130.8	21.8	40.8	.	.
Q2	627.7	631.2	-3.5	369.5	353.7	114.1	104.3	123.1	134.2	21.0	39.0	.	.
2006 Oct.	200.9	200.1	0.9	119.5	115.3	35.6	34.1	37.6	35.6	8.2	15.1	.	.
Nov.	202.5	203.1	-0.6	122.1	115.0	36.6	33.9	37.9	39.9	5.9	14.2	.	.
Dec.	215.1	208.6	6.5	124.2	119.9	36.8	33.0	44.2	41.9	9.9	13.9	.	.
2007 Jan.	203.8	201.6	2.1	119.7	116.1	37.1	34.5	42.2	41.5	4.8	9.6	.	.
Feb.	213.3	217.1	-3.8	123.0	119.6	37.9	34.4	40.3	44.0	12.1	19.1	.	.
Mar.	212.0	206.0	6.0	123.1	114.8	38.4	33.9	45.5	45.3	5.0	12.1	.	.
Apr.	204.9	206.5	-1.6	122.6	117.9	37.7	34.5	38.7	39.4	5.9	14.6	.	.
May	206.3	214.2	-7.8	120.9	116.9	37.5	34.7	39.1	49.5	8.8	13.1	.	.
June	216.5	210.6	5.9	126.0	119.0	38.9	35.1	45.3	45.3	6.3	11.2	.	.

**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	421.9	426.7	129.2	72.4	18.4	16.3	38.1	99.5	100.4	89.4	135.8	149.0
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	121.9	116.8	41.3	25.6	5.2	4.9	8.1	19.1	27.9	23.4	39.4	43.9
2007 Q1	4.0	1.9	115.5	112.1	31.9	18.8	5.0	5.0	9.5	18.7	27.8	25.0	41.3	44.6

### 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	-322.6	-265.8	-34.7	-231.1	-56.8	-1.0	-55.8	163.8	136.7	4.2	132.5	27.0	0.3	26.7
2006 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	-80.2	-59.1	-16.1	-43.0	-21.1	-0.7	-20.3	20.8	13.7	0.9	12.8	7.1	0.0	7.1
2007 Q1	-76.9	-53.3	-5.0	-48.3	-23.6	2.1	-25.7	52.7	21.3	0.8	20.5	31.4	-0.8	32.3
Q2	-113.3	-82.7	-5.1	-77.6	-30.5	-1.5	-29.1	30.5	33.6	0.6	33.0	-3.1	1.1	-4.2
2006 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.	-20.4	-11.8	-5.8	-6.0	-8.6	0.1	-8.7	10.4	5.1	1.1	4.0	5.3	1.5	3.8
Nov.	-12.8	-17.0	-1.9	-15.1	4.1	-0.2	4.3	-0.1	0.1	-0.2	0.3	-0.2	-1.7	1.5
Dec.	-47.0	-30.3	-8.5	-21.9	-16.6	-0.7	-15.9	10.4	8.5	0.0	8.5	2.0	0.1	1.9
2007 Jan.	-22.7	-22.2	-2.7	-19.5	-0.4	2.3	-2.8	15.3	8.1	0.3	7.8	7.2	-1.0	8.1
Feb.	-30.8	-10.9	5.7	-16.6	-19.9	-0.3	-19.6	19.9	11.6	4.2	7.4	8.3	0.2	8.0
Mar.	-23.4	-20.2	-8.0	-12.2	-3.2	0.1	-3.4	17.6	1.6	-3.7	5.2	16.0	-0.1	16.1
Apr.	-30.1	-19.1	-1.3	-17.8	-11.1	-0.4	-10.7	5.6	4.9	-0.1	5.0	0.7	0.6	0.1
May	-32.9	-28.0	-3.0	-25.1	-4.9	0.1	-5.1	19.5	24.5	0.6	24.0	-5.0	0.5	-5.5
June	-50.2	-35.6	-0.9	-34.8	-14.5	-1.2	-13.3	5.4	4.2	0.2	4.0	1.2	0.0	1.2

Source: ECB.



**7.1 Balance of payments**

(EUR billions; transactions)

**5. Portfolio investment by instrument and sector of holder**

	Equity				Debt instruments											
	Assets				Liabilities	Bonds and notes				Money market instruments						
	Eurosysteem	MFIs excluding Eurosysteem	Non-MFIs			Eurosysteem	MFIs excluding Eurosysteem	Non-MFIs		Eurosysteem	MFIs excluding Eurosysteem	Non-MFIs		Liabilities		
			General gov.		General gov.			General gov.								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
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	-25.2	-110.1	-6.1	289.7	-2.4	-168.7	-123.1	-1.1	464.4	-2.0	-48.6	-14.4	0.1	4.1	
2006 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	-12.0	-16.0	-1.8	83.0	-2.9	-39.6	-45.7	-0.8	185.2	-1.4	-18.5	-4.3	4.0	-7.4	
2007 Q1	0.0	-20.8	0.5	-0.8	107.3	-0.7	-50.5	-37.7	-1.2	137.4	0.7	-23.3	-13.3	-5.5	22.7	
Q2	0.0	-5.5	-3.4	-	89.6	-0.4	-55.1	-46.4	-	107.0	-0.1	-15.1	-9.3	-	29.4	
2006 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	-4.9	-5.3	-	23.7	-1.8	-15.4	-21.2	-	53.5	-0.3	-5.8	-6.2	-	14.4	
Nov.	0.0	0.1	-10.2	-	26.9	-0.5	-25.5	-11.5	-	71.1	-0.4	-9.6	4.2	-	14.2	
Dec.	0.0	-7.3	-0.5	-	32.4	-0.6	1.3	-13.0	-	60.6	-0.8	-3.1	-2.4	-	-36.1	
2007 Jan.	0.0	-5.6	-1.3	-	44.2	-0.1	-32.0	-10.1	-	34.3	0.5	-7.7	-7.9	-	19.3	
Feb.	0.0	-19.0	-9.2	-	38.3	-0.1	-16.3	-9.7	-	37.7	0.1	-5.2	-2.2	-	8.6	
Mar.	0.0	3.8	11.0	-	24.8	-0.6	-2.3	-17.9	-	65.4	0.2	-10.4	-3.2	-	-5.2	
Apr.	0.0	1.0	-12.9	-	1.1	0.0	-22.8	-3.4	-	39.5	0.0	-3.2	0.2	-	16.2	
May	0.0	-9.2	6.8	-	13.2	-0.2	-27.1	-20.7	-	36.4	0.0	-7.4	-2.6	-	15.6	
June	0.0	2.7	2.8	-	75.3	-0.2	-5.2	-22.3	-	31.1	-0.1	-4.5	-6.9	-	-2.4	

**6. Other investment by sector**

	Total		Eurosysteem		General government		MFIs (excluding Eurosysteem)						Other sectors			
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Total		Long-term		Short-term		Assets	Liabilities		
							Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			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	-758.3	773.9	-2.9	18.6	3.3	-3.0	1.2	-523.6	492.2	-134.2	84.1	-389.5	408.1	-235.1	25.0	261.8
2006 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	-281.0	176.8	-1.1	4.7	-5.5	-3.2	-3.2	-210.6	98.6	-73.6	28.2	-136.9	70.3	-63.8	18.1	76.8
2007 Q1	-414.2	322.8	-5.3	6.1	3.8	5.2	1.4	-290.4	266.7	-76.6	29.7	-213.9	237.0	-122.2	-39.2	48.5
Q2	-223.4	211.2	-3.3	9.9	-15.6	-15.6	-0.1	-122.1	173.7	-83.1	53.0	-39.0	120.7	-82.5	-10.7	27.8
2006 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.	-106.9	84.8	-0.5	-1.1	-2.4	-4.1	-2.1	-78.5	64.3	-42.1	5.5	-36.5	58.8	-25.4	3.2	23.7
Nov.	-151.4	97.0	0.5	3.2	-3.8	-4.3	1.6	-106.4	71.3	-10.8	27.9	-95.6	43.4	-41.7	-8.5	21.0
Dec.	-22.7	-5.0	-1.1	2.5	0.7	5.2	-2.7	-25.6	-37.0	-20.8	-5.1	-4.8	-31.9	3.3	23.4	32.1
2007 Jan.	-154.3	178.8	-1.4	3.8	1.0	1.3	-4.8	-100.6	154.6	-31.9	10.4	-68.7	144.2	-53.2	-33.3	25.1
Feb.	-130.7	116.5	-3.6	-0.4	0.1	1.5	4.4	-90.0	81.5	-7.9	8.6	-82.1	72.9	-37.3	-7.7	31.1
Mar.	-129.2	27.4	-0.3	2.7	2.6	2.4	1.7	-99.8	30.6	-36.7	10.8	-63.1	19.8	-31.8	1.8	-7.6
Apr.	-154.2	186.7	0.8	2.1	1.1	-2.3	0.5	-125.6	163.8	-17.0	9.1	-108.6	154.7	-30.4	-6.9	20.2
May	-63.4	75.6	-2.5	-0.8	-4.8	-5.0	-0.3	-27.2	76.5	-25.1	38.2	-2.1	38.3	-28.9	-1.3	0.2
June	-5.9	-51.1	-1.6	8.6	-11.9	-8.2	-0.3	30.7	-66.7	-41.0	5.7	71.8	-72.3	-23.1	-2.6	7.3

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	
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	-0.5	0.0	-3.3	0.0	
2007 Q1	-5.3	0.0	6.1	0.1	0.0	3.9	-1.3	5.2	-0.2	0.0	1.5	-0.1	

	MFIs (excluding Eurosystem)				Other sectors								
	Assets		Liabilities		Assets					Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities	
						Total	Loans	Currency and deposits					
13	14	15	16	17	18	19	20	21	22	23	24		
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	-519.6	-4.1	489.2	3.0	-6.9	-217.7	-242.7	25.0	-10.6	15.1	239.9	6.8	
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	-210.9	0.4	98.2	0.4	-1.7	-61.8	-79.8	18.1	-0.3	3.4	70.5	2.9	
2007 Q1	-282.2	-8.3	264.7	2.0	-2.4	-111.6	-72.4	-39.2	-8.2	-2.0	45.2	5.3	

### 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	-1.3	4.2	-0.5	5.2	-10.4	6.1	-2.8	0.0	-19.4	5.7	0.0	0.2
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	-2.4	1.1	-0.2	1.6	-4.9	-2.0	2.5	0.0	-4.0	-1.3	0.0	0.0
2007 Q1	-1.4	0.4	0.0	0.8	-2.6	1.4	-5.0	0.4	-5.5	6.1	0.0	0.0

Source: ECB.

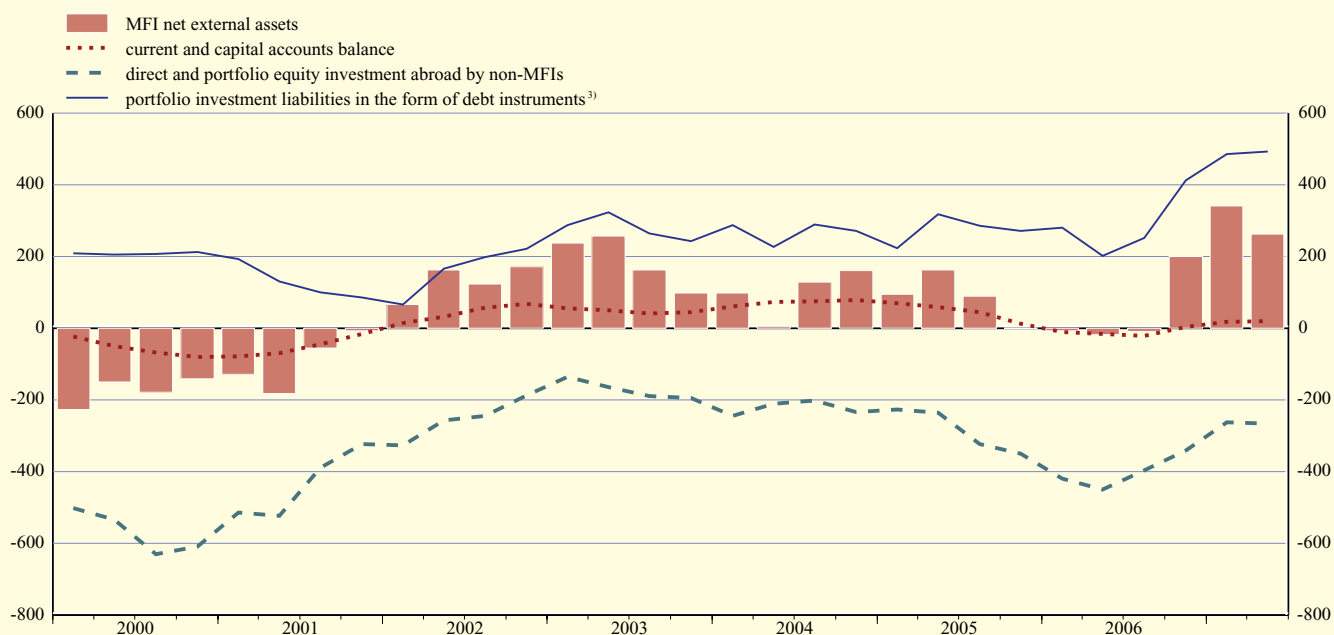
7.2 Monetary presentation of the balance of payments <sup>1)</sup>

(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 <sup>2)</sup>	Debt instruments <sup>3)</sup>						
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	161.2
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	2.8	-286.9	163.4	-247.1	228.8	413.0	-231.5	262.8	-1.9	-118.6	184.8	200.4
2006 Q2	-5.5	-105.4	91.5	-19.0	26.3	101.5	-56.9	67.7	-2.1	-34.2	63.8	60.2
Q3	-2.9	-63.3	29.8	-38.7	20.2	78.1	-25.1	45.6	7.9	-47.4	4.3	2.1
Q4	23.1	-63.3	20.9	-65.7	66.9	158.7	-69.4	73.4	-0.1	23.0	167.4	176.1
2007 Q1	2.8	-74.1	53.6	-50.5	88.6	147.2	-118.5	49.9	-17.2	9.2	90.9	102.0
Q2	-4.2	-106.7	29.4	-59.1	78.8	109.2	-98.1	27.7	-13.1	25.9	-10.1	-18.0
2006 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	3.9
Aug.	-4.6	-0.7	-1.1	-15.1	-8.4	11.1	5.4	3.8	-2.5	1.2	-11.0	-19.0
Sep.	2.0	-42.9	20.4	-8.9	4.0	59.4	-18.5	36.6	7.1	-40.6	18.6	17.2
Oct.	-0.2	-14.7	8.9	-32.6	13.2	51.6	-27.8	21.5	6.4	-5.5	20.9	25.8
Nov.	5.8	-10.7	1.6	-17.4	31.4	80.3	-45.5	22.5	-2.0	5.1	71.3	69.2
Dec.	17.4	-37.9	10.3	-15.7	22.3	26.8	3.9	29.4	-4.4	23.3	75.3	81.1
2007 Jan.	-3.7	-22.3	16.2	-19.3	34.2	47.2	-52.2	20.3	-4.6	-39.3	-23.6	-22.9
Feb.	-4.5	-36.2	19.6	-21.1	42.9	41.7	-37.2	35.5	-8.4	15.5	48.0	40.6
Mar.	11.1	-15.6	17.7	-10.1	11.5	58.3	-29.1	-5.9	-4.2	33.0	66.5	84.3
Apr.	-3.7	-28.4	5.1	-16.2	-1.2	34.6	-29.3	20.7	-4.1	-14.0	-36.4	-39.9
May	-12.1	-30.1	19.0	-16.5	11.5	38.2	-33.7	-0.1	-1.9	11.0	-14.8	-14.4
June	11.6	-48.1	5.4	-26.4	68.4	36.5	-35.0	7.0	-7.1	28.9	41.2	36.3
	<i>12-month cumulated transactions</i>											
2007 June	18.8	-307.3	133.7	-214.0	254.5	493.2	-311.0	196.5	-22.4	10.6	252.6	262.2

C34 Main b.o.p. transactions underlying the developments in MFI net external assets <sup>1)</sup>

(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 27 (outside the euro area)						Canada	Japan	Switzerland	United States	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions					
2006 Q2 to 2007 Q1	1	2	3	4	5	6	7	8	9	10	11	12
<b>Credits</b>												
<b>Current account</b>	2,407.1	910.8	49.3	76.1	469.3	255.4	60.8	31.6	55.3	156.8	389.7	862.9
Goods	1,418.2	515.1	32.4	51.5	227.8	203.3	0.1	17.8	34.1	80.2	199.0	572.0
Services	435.4	156.4	9.0	11.9	104.7	25.5	5.4	6.5	11.1	42.5	79.2	139.8
Income	465.9	174.9	7.4	12.1	125.2	23.9	6.4	6.8	9.9	28.2	104.2	141.9
of which: investment income	449.8	169.5	7.3	12.0	123.4	23.7	3.0	6.7	9.9	21.8	102.7	139.2
Current transfers	87.5	64.5	0.5	0.7	11.7	2.6	49.0	0.6	0.2	5.8	7.3	9.1
<b>Capital account</b>	25.5	20.8	0.0	0.0	0.8	0.1	19.8	0.0	0.4	0.4	0.9	2.9
<b>Debits</b>												
<b>Current account</b>	2,404.7	794.1	40.2	73.5	384.2	199.0	97.3	24.2	88.5	148.4	338.4	1,011.1
Goods	1,378.6	404.8	27.4	47.2	171.7	158.4	0.0	11.2	53.9	69.5	133.5	705.7
Services	399.1	129.4	7.3	9.6	84.3	28.1	0.1	5.8	7.6	30.9	86.0	139.4
Income	463.4	156.2	5.0	15.9	118.6	9.1	7.7	5.5	26.5	42.7	112.0	120.6
of which: investment income	453.7	150.6	4.9	15.8	117.4	4.8	7.7	5.4	26.3	42.2	111.1	118.2
Current transfers	163.6	103.7	0.5	0.9	9.6	3.3	89.5	1.8	0.5	5.3	7.0	45.4
<b>Capital account</b>	12.1	1.8	0.0	0.2	1.1	0.3	0.1	0.1	0.1	0.5	1.6	8.0
<b>Net</b>												
<b>Current account</b>	2.4	116.8	9.1	2.7	85.1	56.4	-36.5	7.3	-33.1	8.4	51.3	-148.2
Goods	39.7	110.3	4.9	4.3	56.0	44.9	0.1	6.6	-19.8	10.7	65.5	-133.6
Services	36.4	27.0	1.7	2.3	20.4	-2.6	5.2	0.7	3.4	11.6	-6.7	0.4
Income	2.5	18.7	2.5	-3.8	6.6	14.9	-1.4	1.3	-16.5	-14.4	-7.8	21.2
of which: investment income	-3.9	18.9	2.4	-3.9	6.1	18.9	-4.7	1.3	-16.5	-20.4	-8.3	21.1
Current transfers	-76.1	-39.2	0.0	-0.2	2.1	-0.8	-40.5	-1.2	-0.3	0.5	0.3	-36.2
<b>Capital account</b>	13.4	19.0	0.0	-0.1	-0.3	-0.2	19.6	-0.1	0.4	-0.1	-0.7	-5.1

### 2. Balance of payments: direct investment

(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 Q2 to 2007 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Direct investment</b>	-147.6	-60.9	6.8	5.7	-49.5	-24.0	0.1	-10.8	9.5	-12.2	-35.7	26.3	-63.9
Abroad	-343.2	-151.2	-0.1	3.0	-125.6	-28.4	0.0	-16.5	3.7	-16.8	-67.9	-32.8	-61.6
Equity/reinvested earnings	-269.6	-129.7	-0.6	4.6	-106.7	-26.9	0.0	-6.8	6.0	-8.6	-48.4	-28.5	-53.6
Other capital	-73.6	-21.6	0.5	-1.6	-18.9	-1.5	0.0	-9.6	-2.4	-8.2	-19.5	-4.3	-8.0
In the euro area	195.5	90.4	6.9	2.7	76.1	4.5	0.1	5.6	5.8	4.7	32.2	59.2	-2.3
Equity/reinvested earnings	140.2	61.4	7.9	-1.3	53.7	1.0	0.1	0.0	3.0	7.9	13.9	50.4	3.6
Other capital	55.3	28.9	-1.0	4.0	22.4	3.5	0.0	5.7	2.9	-3.2	18.2	8.8	-5.9

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 Q2 to 2007 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Portfolio investment assets</b>	-445.7	-101.0	-7.2	-14.2	-80.7	-0.7	1.7	-8.1	0.4	-3.7	-191.7	-96.6	-45.0
Equity	-58.5	2.7	-2.3	-0.9	4.4	1.5	-0.1	0.1	1.4	0.6	-33.9	-34.0	4.7
Debt instruments	-387.2	-103.7	-4.9	-13.3	-85.1	-2.2	1.8	-8.2	-1.0	-4.3	-157.8	-62.6	-49.6
Bonds and notes	-293.1	-79.9	-5.0	-10.0	-65.8	-1.1	2.0	-6.5	-4.6	-1.7	-118.7	-36.7	-45.0
Money market instruments	-94.2	-23.8	0.2	-3.3	-19.3	-1.1	-0.2	-1.7	3.7	-2.6	-39.1	-25.9	-4.6

## 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 Q2 to 2007 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>Other investment</b>	-162.6	-214.3	-16.1	8.4	-192.6	-22.8	8.8	0.4	32.8	-9.9	64.5	-40.2	15.8	-11.7
Assets	-953.3	-701.8	-35.9	-4.3	-623.2	-35.4	-3.0	-0.6	15.4	-46.4	-67.4	-79.6	-3.3	-69.7
General government	-0.5	-8.8	-0.7	0.2	-7.8	0.0	-0.6	0.0	-0.4	0.0	0.0	0.1	-1.1	9.8
MFIs	-683.3	-476.2	-34.9	-1.3	-408.7	-31.2	-0.1	0.5	11.8	-42.2	-65.3	-54.4	-2.3	-55.2
Other sectors	-269.5	-216.8	-0.4	-3.2	-206.7	-4.2	-2.3	-1.0	4.0	-4.2	-2.1	-25.2	0.1	-24.3
Liabilities	790.7	487.4	19.8	12.7	430.6	12.6	11.7	1.0	17.4	36.5	131.9	39.4	19.1	58.0
General government	4.8	5.5	0.0	0.0	0.2	0.0	5.2	0.0	-0.3	-0.6	-0.2	0.1	2.5	-2.1
MFIs	553.8	303.9	19.1	10.4	264.7	9.6	0.0	-0.4	15.3	38.7	98.6	33.4	16.5	47.8
Other sectors	232.1	178.1	0.7	2.2	165.7	3.0	6.5	1.4	2.4	-1.6	33.5	5.9	0.1	12.3

## 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
<b>Direct investment</b>	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
<b>Portfolio investment assets</b>	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
<b>Other investment</b>	-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	-10.1	324.1	-1,142.6	-14.4	-304.2	320.1
2006 Q4	-1,059.4	-12.6	385.9	-1,510.3	-14.9	-245.9	325.8
2007 Q1	-1,073.2	-12.6	368.9	-1,594.1	6.9	-186.4	331.5
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	106.4	2,169.3	2,658.1	160.8	2,670.0	306.7
2004	8,768.7	112.6	2,337.1	3,035.8	174.1	2,940.8	281.0
2005	10,806.1	134.2	2,710.3	3,874.9	236.1	3,664.7	320.1
2006 Q4	12,288.2	145.7	2,959.6	4,376.2	288.6	4,337.8	325.8
2007 Q1	12,995.2	152.1	3,019.3	4,562.3	339.2	4,742.9	331.5
Outstanding liabilities							
2002	8,134.5	111.9	1,826.4	3,232.7	145.7	2,929.7	-
2003	8,749.8	116.9	2,081.9	3,574.2	168.3	2,925.4	-
2004	9,598.6	123.3	2,230.4	4,032.3	189.0	3,147.0	-
2005	11,623.2	144.3	2,386.2	5,017.6	250.5	3,969.0	-
2006 Q4	13,347.5	158.3	2,573.8	5,886.5	303.5	4,583.7	-
2007 Q1	14,068.4	164.7	2,650.4	6,156.4	332.3	4,929.3	-

### 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 Q4	2,385.7	192.6	2,193.1	574.0	2.8	571.1	1,937.8	47.7	1,890.2	635.9	10.1	625.8
2007 Q1	2,427.1	206.9	2,220.1	592.2	3.4	588.8	1,960.9	45.6	1,915.3	689.5	12.7	676.8

### 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
			General gov.	Other sectors				General gov.	Other sectors			General gov.	Other sectors			General gov.	Other sectors			General gov.
	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 Q4	2.8	131.4	34.7	1,816.0	2,980.6	10.4	809.1	11.4	1,197.1	2,603.1	0.9	300.8	0.2	61.3	302.7					
2007 Q1	2.8	148.5	35.6	1,856.0	3,123.5	10.5	848.4	12.6	1,248.3	2,720.9	0.1	325.3	5.8	68.1	312.0					

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 Q4	8.4	0.4	100.0	0.2	0.0	56.0	40.7	15.3	45.1	0.0	44.0	3.7
2007 Q1	13.6	0.3	105.9	0.3	0.0	52.0	41.8	10.2	45.0	0.0	46.1	3.9

	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 Q4	2,879.0	58.7	3,413.8	55.8	173.9	977.8	598.1	379.7	138.5	124.9	749.3	92.1
2007 Q1	3,141.4	70.0	3,657.9	64.4	185.1	1,088.2	650.5	437.8	147.2	131.4	812.0	107.4

**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 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
2006 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 Q1	331.5	180.4	363.108	4.6	4.3	142.2	4.9	27.6	109.4	0.1	84.6	24.7	0.3	0.0	25.1	-22.6
2007 May	327.4	176.5	360.323	4.7	4.4	141.8	4.4	26.6	110.8	-	-	-	0.1	0.0	27.3	-23.8
2007 June	325.3	172.8	358.767	4.7	4.3	143.5	5.7	27.7	110.1	-	-	-	0.0	0.0	26.6	-24.6
2007 July	328.8	173.6	357.491	4.7	4.1	146.4	5.1	30.8	110.3	-	-	-	0.2	0.0	25.1	-26.9
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 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
2006 Q4	39.9	9.9	20.572	0.4	0.0	29.6	1.6	1.5	26.5	0.0	19.1	7.4	0.0	0.0	2.8	-0.3
2007 Q1	40.5	10.3	20.632	0.4	0.0	29.9	1.4	3.3	25.2	0.0	19.5	5.8	0.0	0.0	3.0	-0.6
2007 May	40.7	10.1	20.632	0.4	0.0	30.2	0.7	3.7	25.7	-	-	-	0.0	0.0	3.1	-0.7
2007 June	40.5	9.4	19.442	0.4	0.0	30.7	1.2	3.0	26.5	-	-	-	0.0	0.0	3.2	-1.6
2007 July	41.4	9.4	19.442	0.4	0.0	31.6	0.7	4.3	26.5	-	-	-	0.0	0.0	3.0	-2.2

Source: ECB.

## 7.5 Trade in goods

(seasonally adjusted, unless otherwise indicated)

### 1. Values, volumes and unit values by product group

	Total (n.s.a.)		Exports (f.o.b.)					Imports (c.i.f.)					
	Exports	Imports	Total			Memo: Manufactures	Total			Memo: Manufactures	Oil		
			Intermediate	Capital	Consumption		Intermediate	Capital	Consumption				
	1	2	3	4	5	6	7	8	9	10	11	12	13
Values (EUR billions; annual percentage changes for columns 1 and 2)													
2003	-2.3	0.5	1,056.9	499.2	221.3	299.8	915.6	987.8	552.9	164.0	240.0	708.9	109.1
2004	8.9	9.4	1,142.8	545.8	246.7	314.6	994.9	1,073.4	604.4	183.3	255.4	767.4	129.2
2005	7.8	13.5	1,237.1	590.1	269.6	334.7	1,068.2	1,223.2	705.1	206.5	275.9	842.4	186.3
2006	11.2	13.4	1,380.7	665.0	289.6	369.6	1,183.0	1,392.8	827.9	208.9	304.3	938.6	225.3
2006 Q1	16.1	22.7	332.5	159.2	71.4	90.3	282.9	338.5	198.8	53.2	74.2	224.5	55.4
Q2	9.4	14.5	340.7	163.1	71.5	91.0	290.5	345.0	205.0	52.5	75.6	231.7	57.4
Q3	8.0	10.4	346.5	167.9	71.5	92.1	296.6	353.7	213.2	51.6	76.0	236.5	60.0
Q4	11.7	7.6	361.0	174.7	75.2	96.2	313.0	355.6	210.9	51.6	78.5	245.9	52.4
2007 Q1	9.3	5.1	366.0	175.3	77.5	97.0	312.5	358.1	211.5	52.6	78.9	250.4	46.8
Q2	8.9	3.9	371.4	.	.	.	.	358.7	.	.	.	.	.
2007 Jan.	12.0	8.0	121.5	58.3	25.8	32.5	102.9	119.8	71.0	18.2	25.8	83.3	16.1
Feb.	9.8	7.4	121.7	58.3	25.9	32.0	103.5	121.0	71.6	18.1	26.4	84.1	15.4
Mar.	6.7	0.5	122.8	58.8	25.8	32.5	106.1	117.3	68.9	16.4	26.6	83.1	15.3
Apr.	11.1	6.3	122.6	58.2	26.2	32.0	104.8	119.1	71.2	16.5	26.1	82.0	17.2
May	6.7	1.7	123.3	58.6	25.9	32.7	105.6	119.4	71.9	16.8	25.9	83.3	18.0
June	9.0	3.8	125.4	.	.	.	.	120.2	.	.	.	.	.
Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2003	1.0	3.6	108.5	105.9	106.8	113.1	108.2	101.9	100.2	97.1	109.7	100.2	103.2
2004	9.0	6.5	117.5	115.6	119.9	118.4	117.9	107.9	104.2	109.2	117.4	108.2	105.3
2005	4.9	5.1	123.7	120.2	129.5	123.5	124.0	113.9	107.6	123.7	123.6	116.3	109.9
2006	7.5	5.8	133.4	130.0	136.6	132.3	133.7	120.9	114.1	125.0	131.7	125.3	110.0
2006 Q1	10.7	8.9	128.9	125.4	134.2	129.6	128.2	117.4	110.2	124.7	127.9	120.1	106.2
Q2	5.2	4.0	132.1	128.5	135.4	129.9	132.0	119.5	112.4	125.6	132.0	124.6	106.7
Q3	5.0	4.5	133.8	130.9	135.5	132.0	134.2	122.0	116.3	124.7	131.1	125.7	115.9
Q4	9.0	6.0	138.6	135.1	141.1	137.6	140.4	124.7	117.7	125.1	135.9	130.6	111.1
2007 Q1	7.5	6.1	139.5	133.9	145.0	137.4	139.1	125.3	117.3	128.4	136.0	132.2	101.0
Q2	.	.	.	.	.	.	.	.	.	.	.	.	.
2007 Jan.	10.8	9.2	139.6	134.0	145.3	138.6	138.0	126.1	118.4	134.1	133.8	132.2	104.1
Feb.	7.5	8.2	138.9	133.3	146.1	135.5	138.0	126.8	119.1	130.6	136.6	132.4	101.2
Mar.	4.9	1.4	140.1	134.5	143.5	138.1	141.4	122.9	114.5	120.6	137.6	132.0	97.8
Apr.	8.3	6.7	139.2	132.5	145.8	135.9	139.2	124.0	117.2	122.5	134.2	130.0	105.6
May	3.7	2.5	139.5	132.8	144.5	137.7	140.0	124.7	118.5	124.9	133.6	132.3	109.7
June	.	.	.	.	.	.	.	.	.	.	.	.	.
Unit value indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2003	-3.2	-3.0	97.6	96.2	96.3	101.1	97.4	94.8	93.6	92.3	99.5	96.0	86.4
2004	-0.1	2.6	97.5	96.4	95.7	101.4	97.1	97.3	98.4	91.8	98.9	96.3	99.5
2005	2.8	7.9	100.2	100.2	96.8	103.4	99.1	105.0	111.2	91.2	101.5	98.3	137.5
2006	3.5	7.3	103.7	104.5	98.6	106.6	101.8	112.7	123.1	91.3	105.1	101.7	166.7
2006 Q1	4.9	12.8	103.4	103.7	99.0	106.3	101.5	112.8	122.5	93.3	105.5	101.5	170.0
Q2	4.0	10.1	103.4	103.7	98.3	106.9	101.3	113.0	123.9	91.5	104.2	101.0	174.9
Q3	2.8	5.6	103.8	104.8	98.1	106.5	101.7	113.5	124.4	90.4	105.5	102.2	168.2
Q4	2.5	1.5	104.4	105.6	99.2	106.7	102.6	111.6	121.6	90.2	105.1	102.2	153.7
2007 Q1	1.6	-0.9	105.1	107.0	99.4	107.7	103.4	111.9	122.3	89.6	105.5	102.9	150.8
Q2	.	.	.	.	.	.	.	.	.	.	.	.	.
2007 Jan.	1.1	-1.1	104.7	106.6	98.9	107.3	103.0	111.5	122.1	89.1	105.3	102.7	151.2
Feb.	2.1	-0.7	105.3	107.2	99.1	108.2	103.5	112.1	122.4	90.7	105.6	103.5	148.4
Mar.	1.7	-0.9	105.4	107.1	100.2	107.6	103.6	112.1	122.5	89.0	105.6	102.6	152.7
Apr.	2.6	-0.4	105.9	107.7	100.1	107.9	104.0	112.8	123.7	88.4	106.1	102.8	158.8
May	2.9	-0.8	106.3	108.1	99.9	108.6	104.2	112.5	123.6	88.0	105.8	102.6	160.4
June	.	.	.	.	.	.	.	.	.	.	.	.	.

Sources: Eurostat and ECB calculations based on Eurostat data (volume indices and seasonal adjustment of unit value indices).



**7.5 Trade in goods**

(EUR billions, unless otherwise indicated; seasonally adjusted)

**2. Geographical breakdown**

	Total	European Union 27 (outside the euro area)				Russia	Switzer- land	Turkey	United States	Asia			Africa	Latin America	Other countries
	1	Denmark	Sweden	United Kingdom	Other EU countries	6	7	8	9	China	Japan	Other Asian countries	13	14	15
<b>Exports (f.o.b.)</b>															
2003	1,056.9	24.9	38.6	193.8	125.0	29.2	63.3	24.8	167.0	35.1	31.3	135.3	59.2	37.9	91.6
2004	1,142.8	25.7	42.2	205.6	138.3	35.9	66.2	32.1	172.6	40.3	33.2	150.4	64.2	40.4	95.8
2005	1,237.1	29.0	45.1	203.2	157.9	43.7	70.7	34.8	185.0	43.3	34.0	165.9	72.9	46.9	104.7
2006	1,380.7	31.2	49.6	214.9	193.7	55.1	77.2	38.5	199.6	53.6	34.5	183.4	77.1	54.4	117.9
2006 Q1	332.5	7.6	11.6	53.0	44.5	12.5	18.2	9.6	49.6	12.7	8.8	43.6	19.3	13.1	28.4
Q2	340.7	7.8	12.2	53.3	47.6	12.9	18.6	9.8	49.6	12.8	8.5	45.1	18.9	13.3	30.2
Q3	346.5	7.8	12.7	54.5	49.4	14.2	19.5	9.6	49.5	13.6	8.5	46.0	19.0	13.7	28.4
Q4	361.0	8.0	13.1	54.1	52.1	15.5	20.9	9.5	50.9	14.6	8.6	48.8	19.8	14.2	30.9
2007 Q1	366.0	8.4	13.5	56.0	53.8	15.7	20.5	10.1	49.1	14.2	8.7	49.2	21.2	14.8	31.0
Q2	371.4	.	.	.	.	16.4	20.3	9.9	49.4	15.1	9.0	48.9	20.9	15.0	.
2007 Jan.	121.5	2.8	4.5	18.6	17.8	5.1	7.0	3.5	16.6	4.6	2.9	16.5	7.1	4.9	9.5
Feb.	121.7	2.8	4.4	18.7	17.9	5.2	6.8	3.2	16.4	4.8	2.9	16.2	7.0	4.9	10.4
Mar.	122.8	2.8	4.5	18.6	18.1	5.4	6.7	3.4	16.1	4.7	2.9	16.4	7.1	5.0	11.1
Apr.	122.6	2.8	4.4	18.5	18.2	5.4	6.8	3.3	16.8	4.9	2.9	16.0	7.0	5.1	10.5
May	123.3	2.8	4.6	18.6	18.4	5.5	6.8	3.3	15.9	5.2	3.0	16.3	7.0	5.0	10.8
June	125.4	.	.	.	.	5.5	6.7	3.2	16.6	5.0	3.1	16.6	7.0	4.9	.
<i>% share of total exports</i>															
2006	100.0	2.3	3.6	15.6	14.0	4.0	5.6	2.8	14.5	3.9	2.5	13.3	5.6	3.9	8.5
<b>Imports (c.i.f.)</b>															
2003	987.8	23.7	36.9	138.6	108.9	47.2	50.4	19.2	110.5	74.4	52.0	141.8	68.8	39.7	75.6
2004	1,073.4	25.4	39.8	145.0	116.6	56.4	53.5	23.2	113.1	92.1	54.3	161.0	72.8	45.2	75.0
2005	1,223.2	26.3	42.2	152.6	129.2	76.7	58.0	25.2	119.9	117.9	53.1	189.8	95.9	53.5	82.8
2006	1,392.8	27.8	47.4	165.8	153.7	94.6	62.1	29.0	128.5	143.7	56.4	213.0	109.5	66.0	95.2
2006 Q1	338.5	6.8	11.4	41.4	35.2	23.3	15.0	7.0	31.6	33.1	14.2	52.2	26.9	15.6	24.6
Q2	345.0	6.8	11.4	42.6	37.3	24.5	15.4	7.5	31.7	34.8	13.9	53.3	27.0	16.0	22.9
Q3	353.7	7.1	12.0	41.2	39.4	23.8	15.9	7.3	32.3	36.1	14.3	54.7	27.8	16.7	25.1
Q4	355.6	6.9	12.6	40.5	41.8	23.0	15.8	7.3	32.8	39.7	14.1	52.8	27.9	17.8	22.6
2007 Q1	358.1	7.0	12.8	40.4	41.9	22.9	16.7	7.8	33.1	41.6	14.5	51.9	25.9	18.1	23.4
Q2	358.7	.	.	.	.	23.8	16.6	7.8	32.1	39.1	14.1	52.7	27.0	17.4	.
2007 Jan.	119.8	2.4	4.4	13.5	14.1	7.6	5.5	2.6	11.1	13.7	5.0	17.5	8.9	6.2	7.4
Feb.	121.0	2.2	4.2	13.6	13.8	7.7	5.6	2.7	11.3	13.8	4.9	18.0	8.8	6.1	8.1
Mar.	117.3	2.3	4.2	13.3	14.0	7.6	5.6	2.6	10.6	14.1	4.6	16.4	8.3	5.8	8.0
Apr.	119.1	2.4	4.3	13.7	14.1	8.0	5.6	2.6	10.7	12.9	4.5	17.5	8.6	5.7	8.4
May	119.4	2.2	4.4	13.5	14.4	7.8	5.5	2.6	10.9	13.1	4.9	17.7	9.3	5.8	7.1
June	120.2	.	.	.	.	8.0	5.6	2.6	10.4	13.0	4.7	17.5	9.2	5.8	.
<i>% share of total imports</i>															
2006	100.0	2.0	3.4	11.9	11.0	6.8	4.5	2.1	9.2	10.3	4.1	15.3	7.9	4.7	6.8
<b>Balance</b>															
2003	69.1	1.2	1.7	55.2	16.1	-18.0	12.9	5.6	56.5	-39.3	-20.8	-6.4	-9.7	-1.8	16.0
2004	69.4	0.4	2.4	60.7	21.7	-20.5	12.7	8.9	59.4	-51.8	-21.1	-10.7	-8.6	-4.9	20.8
2005	13.9	2.7	2.9	50.6	28.7	-33.0	12.7	9.6	65.1	-74.7	-19.1	-23.9	-23.0	-6.7	21.8
2006	-12.1	3.4	2.2	49.0	40.0	-39.5	15.1	9.5	71.1	-90.1	-22.0	-29.5	-32.4	-11.7	22.8
2006 Q1	-6.0	0.7	0.3	11.6	9.3	-10.9	3.2	2.6	18.0	-20.5	-5.4	-8.6	-7.6	-2.5	3.8
Q2	-4.3	0.9	0.8	10.7	10.4	-11.5	3.2	2.3	17.9	-22.0	-5.5	-8.2	-8.0	-2.6	7.3
Q3	-7.2	0.7	0.7	13.2	10.0	-9.6	3.6	2.3	17.2	-22.5	-5.7	-8.7	-8.7	-3.0	3.3
Q4	5.4	1.1	0.5	13.5	10.3	-7.5	5.1	2.2	18.1	-25.1	-5.4	-4.0	-8.1	-3.6	8.3
2007 Q1	7.9	1.4	0.7	15.5	11.8	-7.2	3.8	2.2	16.0	-27.4	-5.8	-2.7	-4.7	-3.3	7.5
Q2	12.6	.	.	.	.	-7.4	3.7	2.0	17.3	-24.0	-5.1	-3.8	-6.1	-2.4	.
2007 Jan.	1.8	0.4	0.2	5.1	3.7	-2.5	1.5	1.0	5.5	-9.1	-2.1	-1.0	-1.8	-1.3	2.1
Feb.	0.7	0.5	0.2	5.1	4.0	-2.5	1.2	0.5	5.0	-9.0	-2.0	-1.7	-1.8	-1.1	2.2
Mar.	5.5	0.5	0.3	5.4	4.1	-2.2	1.1	0.7	5.5	-9.3	-1.7	0.0	-1.1	-0.8	3.2
Apr.	3.5	0.4	0.1	4.8	4.1	-2.6	1.2	0.7	6.1	-8.0	-1.6	-1.5	-1.6	-0.6	2.1
May	3.9	0.6	0.3	5.0	4.0	-2.3	1.3	0.7	5.0	-7.9	-1.9	-1.4	-2.3	-0.8	3.7
June	5.2	.	.	.	.	-2.5	1.2	0.6	6.2	-8.0	-1.6	-0.9	-2.2	-0.9	.

Sources: Eurostat and ECB calculations based on Eurostat data (balance and columns 5, 12 and 15).



## EXCHANGE RATES

### 8.1 Effective exchange rates <sup>1)</sup>

(period averages; index 1999 Q1=100)

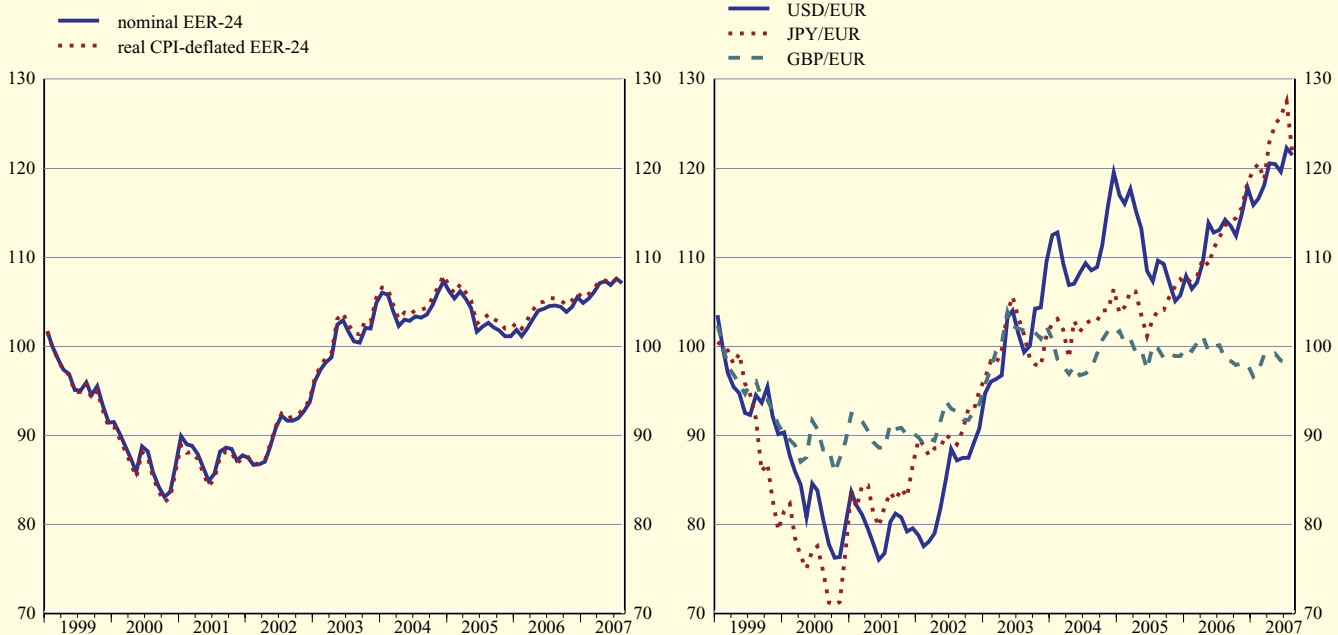
	EER-24						EER-44		
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI	
	1	2	3	4	5	6	7	8	
2004	104.3	105.1	104.2	103.1	100.1	103.0	111.2	105.6	
2005	103.3	104.1	102.5	100.9	97.9	101.3	109.7	103.6	
2006	103.6	104.4	102.9	100.7	95.9	100.1	110.0	103.3	
2006 Q2	103.8	104.6	103.0	100.8	95.9	100.6	110.1	103.6	
Q3	104.5	105.3	103.7	101.4	96.5	100.8	111.2	104.4	
Q4	104.6	105.3	104.0	101.4	96.3	100.2	111.3	104.2	
2007 Q1	105.5	105.9	104.8	102.2	96.3	100.8	112.0	104.6	
Q2	107.1	107.2	106.1	.	.	.	113.5	105.6	
2006 Aug.	104.6	105.4	103.8	-	-	-	111.3	104.5	
Sep.	104.4	105.2	103.4	-	-	-	111.1	104.2	
Oct.	103.9	104.6	103.4	-	-	-	110.4	103.5	
Nov.	104.5	105.2	103.9	-	-	-	111.1	104.1	
Dec.	105.5	106.0	104.9	-	-	-	112.3	104.9	
2007 Jan.	104.9	105.5	104.3	-	-	-	111.5	104.2	
Feb.	105.4	105.9	104.8	-	-	-	111.9	104.5	
Mar.	106.1	106.4	105.2	-	-	-	112.7	105.1	
Apr.	107.1	107.4	106.3	-	-	-	113.7	105.9	
May	107.3	107.4	106.1	-	-	-	113.6	105.6	
June	106.9	106.9	105.8	-	-	-	113.1	105.1	
July	107.6	107.6	106.5	-	-	-	113.9	105.8	
Aug.	107.1	107.1	106.0	-	-	-	113.7	105.6	
	<i>% change versus previous month</i>								
2007 Aug.	-0.4	-0.4	-0.4	-	-	-	-0.2	-0.2	
	<i>% change versus previous year</i>								
2007 Aug.	2.4	1.7	2.2	-	-	-	2.1	1.0	

### 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.

## 8.2 Bilateral exchange rates

(period averages; units of national currency per euro)

	Danish krone 1	Swedish krona 2	Pound sterling 3	US dollar 4	Japanese yen 5	Swiss franc 6	South Korean won 7	Hong Kong dollar 8	Singapore dollar 9	Canadian dollar 10	Norwegian krone 11	Australian dollar 12
2004	7.4399	9.1243	0.67866	1.2439	134.44	1.5438	1,422.62	9.6881	2.1016	1.6167	8.3697	1.6905
2005	7.4518	9.2822	0.68380	1.2441	136.85	1.5483	1,273.61	9.6768	2.0702	1.5087	8.0092	1.6320
2006	7.4591	9.2544	0.68173	1.2556	146.02	1.5729	1,198.58	9.7545	1.9941	1.4237	8.0472	1.6668
2006 Q4	7.4557	9.1350	0.67314	1.2887	151.72	1.5928	1,209.29	10.0269	2.0091	1.4669	8.2712	1.6740
2007 Q1	7.4524	9.1894	0.67062	1.3106	156.43	1.6162	1,230.80	10.2334	2.0073	1.5357	8.1690	1.6670
2007 Q2	7.4500	9.2573	0.67880	1.3481	162.89	1.6478	1,252.05	10.5372	2.0562	1.4791	8.1060	1.6214
2007 Feb.	7.4541	9.1896	0.66800	1.3074	157.60	1.6212	1,225.25	10.2130	2.0049	1.5309	8.0876	1.6708
Mar.	7.4494	9.2992	0.68021	1.3242	155.24	1.6124	1,248.82	10.3464	2.0186	1.5472	8.1340	1.6704
Apr.	7.4530	9.2372	0.67934	1.3516	160.68	1.6375	1,257.99	10.5634	2.0476	1.5334	8.1194	1.6336
May	7.4519	9.2061	0.68136	1.3511	163.22	1.6506	1,253.27	10.5642	2.0581	1.4796	8.1394	1.6378
June	7.4452	9.3290	0.67562	1.3419	164.55	1.6543	1,245.39	10.4854	2.0619	1.4293	8.0590	1.5930
July	7.4410	9.1842	0.67440	1.3716	166.76	1.6567	1,259.70	10.7247	2.0789	1.4417	7.9380	1.5809
Aug.	7.4429	9.3231	0.67766	1.3622	159.05	1.6383	1,273.37	10.6469	2.0744	1.4420	7.9735	1.6442
	% change versus previous month											
2007 Aug.	0.0	1.5	0.5	-0.7	-4.6	-1.1	1.1	-0.7	-0.2	0.0	0.4	4.0
	% change versus previous year											
2007 Aug.	-0.2	1.2	0.1	6.3	7.1	3.9	3.4	6.9	2.8	0.6	-0.2	-2.1
	Czech koruna 13	Estonian kroon 14	Cyprus pound 15	Latvian lats 16	Lithuanian litas 17	Hungarian forint 18	Maltese lira 19	Polish zloty 20	Slovak koruna 21	Bulgarian lev 22	New Roma- nian leu <sup>1)</sup> 23	
2004	31.891	15.6466	0.58185	0.6652	3.4529	251.66	0.4280	4.5268	40.022	1.9533	40,510	
2005	29.782	15.6466	0.57683	0.6962	3.4528	248.05	0.4299	4.0230	38.599	1.9558	3,6209	
2006	28.342	15.6466	0.57578	0.6962	3.4528	264.26	0.4293	3.8959	37.234	1.9558	3,5258	
2006 Q4	28.044	15.6466	0.57748	0.6969	3.4528	260.25	0.4293	3.8478	35.929	1.9558	3,4791	
2007 Q1	28.037	15.6466	0.57915	0.7023	3.4528	252.32	0.4293	3.8863	34.347	1.9558	3,3812	
2007 Q2	28.272	15.6466	0.58272	0.6986	3.4528	248.31	0.4293	3.8005	33.751	1.9558	3,2789	
2007 Feb.	28.233	15.6466	0.57918	0.7003	3.4528	253.30	0.4293	3.8943	34.490	1.9558	3,3823	
Mar.	28.057	15.6466	0.57985	0.7088	3.4528	249.86	0.4293	3.8859	33.813	1.9558	3,3692	
Apr.	28.015	15.6466	0.58148	0.7036	3.4528	246.00	0.4293	3.8144	33.491	1.9558	3,3338	
May	28.231	15.6466	0.58303	0.6965	3.4528	248.42	0.4293	3.7819	33.736	1.9558	3,2836	
June	28.546	15.6466	0.58352	0.6963	3.4528	250.29	0.4293	3.8074	34.002	1.9558	3,2243	
July	28.359	15.6466	0.58412	0.6969	3.4528	246.90	0.4293	3.7682	33.326	1.9558	3,1345	
Aug.	27.860	15.6466	0.58420	0.6978	3.4528	255.20	0.4293	3.8116	33.603	1.9558	3,2246	
	% change versus previous month											
2007 Aug.	-1.8	0.0	0.0	0.1	0.0	3.4	0.0	1.2	0.8	0.0	2.9	
	% change versus previous year											
2007 Aug.	-1.2	0.0	1.5	0.3	0.0	-7.0	0.0	-2.4	-10.8	0.0	-8.6	
	Chinese yuan renminbi <sup>2)</sup> 24	Croatian kuna <sup>2)</sup> 25	Icelandic krona 26	Indonesian rupiah <sup>2)</sup> 27	Malaysian ringgit <sup>2)</sup> 28	New Zealand dollar 29	Philippine peso <sup>2)</sup> 30	Russian rouble <sup>2)</sup> 31	South African rand 32	Thai baht <sup>2)</sup> 33	New Turkish lira <sup>3)</sup> 34	
2004	10.2967	7.4967	87.14	11,127.34	4.7273	1.8731	69.727	35.8192	8.0092	50.077	1,777,052	
2005	10.1955	7.4008	78.23	12,072.83	4.7119	1.7660	68.494	35.1884	7.9183	50.068	1,6771	
2006	10.0096	7.3247	87.76	11,512.37	4.6044	1.9373	64.379	34.1117	8.5312	47.594	1,8090	
2006 Q4	10.1339	7.3657	88.94	11,771.01	4.6734	1.9143	64.108	34.2713	9.4458	47.109	1,8781	
2007 Q1	10.1688	7.3656	89.28	11,934.33	4.5842	1.8836	63.609	34.4795	9.4919	44.538	1,8492	
2007 Q2	10.3476	7.3494	85.82	12,082.62	4.6204	1.8188	63.134	34.8589	9.5688	44.011	1,8029	
2007 Feb.	10.1326	7.3612	88.00	11,855.46	4.5706	1.8859	63.167	34.4060	9.3797	44.434	1,8260	
Mar.	10.2467	7.3641	88.69	12,144.32	4.6212	1.8952	64.069	34.5680	9.7417	43.320	1,8659	
Apr.	10.4400	7.3967	88.36	12,290.98	4.6449	1.8394	64.421	34.9054	9.6089	44.010	1,8362	
May	10.3689	7.3258	85.12	11,927.80	4.5962	1.8441	63.136	34.8999	9.4855	44.507	1,8029	
June	10.2415	7.3313	84.26	12,056.30	4.6237	1.7738	61.968	34.7739	9.6198	43.492	1,7728	
July	10.3899	7.2947	83.16	12,441.28	4.7184	1.7446	62.418	35.0292	9.5712	41.870	1,7574	
Aug.	10.3162	7.3161	88.46	12,765.65	4.7457	1.8786	62.862	34.9211	9.8391	43.337	1,7921	
	% change versus previous month											
2007 Aug.	-0.7	0.3	6.4	2.6	0.6	7.7	0.7	-0.3	2.8	3.5	2.0	
	% change versus previous year											
2007 Aug.	1.0	0.4	-1.8	9.6	0.8	-7.1	-4.3	1.9	10.5	-10.1	-4.7	

Source: ECB.

1) Data prior to July 2005 refer to the Romanian leu; 1 new Romanian leu is equivalent to 10,000 old Romanian lei.

2) For these currencies the ECB computes and publishes euro reference exchange rates as from 1 April 2005. Previous data are indicative.

3) Data prior to January 2005 refer to the Turkish lira; 1 new Turkish lira is equivalent to 1,000,000 old Turkish liras.



## DEVELOPMENTS OUTSIDE THE EURO AREA

### 9.1 In other EU Member States

(annual percentage changes, unless otherwise indicated)

#### 1. Economic and financial developments

	Bulgaria	Czech Republic	Denmark	Estonia	Cyprus	Latvia	Lithuania	Hungary	Malta	Poland	Romania	Slovakia	Sweden	United Kingdom
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>HICP</b>														
2005	6.0	1.6	1.7	4.1	2.0	6.9	2.7	3.5	2.5	2.2	9.1	2.8	0.8	2.1
2006	7.4	2.1	1.9	4.4	2.2	6.6	3.8	4.0	2.6	1.3	6.6	4.3	1.5	2.3
2006 Q4	5.7	1.1	1.6	4.5	1.5	6.2	4.2	6.4	1.1	1.3	4.8	3.5	1.4	2.7
2007 Q1	5.3	1.7	1.9	5.1	1.4	7.6	4.4	8.8	0.8	2.0	3.9	2.1	1.7	2.8
Q2	4.7	2.6	1.5	5.8	1.8	8.5	5.0	8.5	-0.9	2.3	3.9	1.7	1.4	2.6
2007 Mar.	4.4	2.1	1.9	5.6	1.4	8.5	4.8	9.0	0.5	2.4	3.7	2.1	1.6	3.1
Apr.	4.4	2.7	1.7	5.6	1.6	8.8	4.9	8.7	-1.1	2.2	3.8	2.0	1.6	2.8
May	4.5	2.4	1.7	5.9	1.9	7.8	5.0	8.4	-1.0	2.3	3.9	1.5	1.2	2.5
June	5.3	2.6	1.3	6.0	1.7	8.9	5.0	8.5	-0.6	2.6	3.9	1.5	1.3	2.4
July	6.8	2.5	1.1	6.5	2.3	9.5	5.1	8.3	-0.2	2.5	4.1	1.2	1.4	1.9
<b>General government deficit (-)/surplus (+) as a % of GDP</b>														
2004	2.2	-2.9	2.0	2.3	-4.1	-1.0	-1.5	-6.5	-4.9	-5.7	-1.5	-2.4	0.8	-3.1
2005	1.9	-3.5	4.7	2.3	-2.3	-0.2	-0.5	-7.8	-3.1	-4.3	-1.4	-2.8	2.1	-3.1
2006	3.3	-2.9	4.2	3.8	-1.5	0.4	-0.3	-9.2	-2.6	-3.9	-1.9	-3.4	2.2	-2.8
<b>General government gross debt as a % of GDP</b>														
2004	37.9	30.7	44.0	5.2	70.3	14.5	19.4	59.4	73.9	45.7	18.8	41.5	52.4	40.3
2005	29.2	30.4	36.3	4.4	69.2	12.0	18.6	61.7	72.4	47.1	15.8	34.5	52.2	42.2
2006	22.8	30.4	30.2	4.1	65.3	10.0	18.2	66.0	66.5	47.8	12.4	30.7	46.9	43.5
<b>Long-term government bond yield as a % per annum, period average</b>														
2007 Feb.	4.24	3.78	4.05	-	4.42	5.07	4.28	6.96	4.38	5.19	7.52	4.28	3.93	4.97
Mar.	4.22	3.76	3.96	-	4.47	5.14	4.24	6.79	4.38	5.19	7.53	4.24	3.79	4.88
Apr.	4.28	3.92	4.18	-	4.44	5.52	4.18	6.65	4.44	5.28	7.39	4.26	4.04	5.10
May	4.26	4.21	4.34	-	4.44	6.03	4.36	6.53	4.61	5.29	7.39	4.40	4.15	5.20
June	4.57	4.53	4.65	-	4.44	5.62	4.57	6.71	5.12	5.52	7.05	4.66	4.44	5.49
July	4.79	4.59	4.58	-	4.44	5.28	4.89	6.58	5.18	5.60	6.86	4.70	4.45	5.46
<b>3-month interest rate as a % per annum, period average</b>														
2007 Feb.	4.09	2.59	3.99	3.94	3.87	5.61	3.87	-	4.10	4.20	7.13	4.60	3.43	5.57
Mar.	4.19	2.56	4.07	4.06	3.97	6.30	4.05	8.10	4.18	4.22	7.49	4.48	3.43	5.55
Apr.	4.30	2.60	4.16	4.42	3.99	9.32	4.41	8.20	4.19	4.31	7.33	4.05	3.51	5.65
May	4.40	2.77	4.28	4.69	3.99	9.99	4.89	-	4.23	4.44	7.62	4.16	3.57	5.77
June	4.53	2.93	4.37	4.74	3.99	8.09	4.91	8.02	4.36	4.52	7.26	4.27	3.67	5.88
July	4.69	3.07	4.42	4.73	4.05	6.66	4.97	7.87	4.44	4.78	.	4.34	3.78	6.02
<b>Real GDP</b>														
2005	6.2	6.5	3.1	10.5	3.9	10.6	7.6	4.1	3.3	3.6	4.2	6.0	2.9	1.8
2006	6.1	6.4	3.5	11.4	3.8	11.9	7.5	3.9	3.3	6.1	7.7	8.3	4.2	2.8
2006 Q4	5.7	6.1	3.7	10.9	3.7	11.7	7.0	3.1	3.1	6.9	7.7	9.6	4.3	3.1
2007 Q1	6.2	6.2	2.7	9.8	4.0	11.2	8.0	2.6	3.5	6.8	6.0	9.0	3.4	3.0
Q2	.	.	0.6	.	3.7	11.3	7.7	1.8	.	6.9	.	9.4	3.3	3.0
<b>Current and capital accounts balance as a % of GDP</b>														
2005	-11.0	-1.5	3.9	-9.5	-5.1	-11.2	-5.9	-6.0	-5.8	-1.4	-7.9	-8.6	7.1	-2.3
2006	-15.1	-2.8	2.4	-12.3	-5.9	-19.9	-9.7	-4.8	-3.5	-1.7	-10.4	-8.4	6.7	-3.6
2006 Q4	-24.5	-4.8	1.3	-14.5	-19.5	-25.3	-10.0	-2.9	-3.1	-2.7	-10.7	-7.3	7.4	-3.7
2007 Q1	-27.2	2.0	-1.3	-17.1	-13.2	-23.7	-12.2	-4.3	-9.0	-2.2	-14.9	0.1	9.4	-4.0
Q2	.	.	3.0	.	.	.	-11.5	.	.	.	.	-3.4	.	.
<b>Unit labour costs</b>														
2005	2.4	-0.7	1.0	2.7	1.3	15.2	3.4	3.1	-0.5	0.3	.	0.5	0.6	3.9
2006	4.5	1.0	2.1	5.7	0.1	14.0	7.0	.	0.0	.	.	1.2	-0.4	2.4
2006 Q4	-	1.8	3.4	8.3	-	-	10.0	-	0.0	-	-	0.6	0.1	1.5
2007 Q1	-	3.7	4.5	14.9	-	-	9.2	-	-0.4	-	-	0.3	4.6	-0.1
Q2	-	.	5.5	.	-	-	.	-	.	-	-	.	.	.
<b>Standardised unemployment rate as a % of labour force (s.a.)</b>														
2005	10.1	7.9	4.8	7.9	5.2	8.9	8.2	7.2	7.3	17.7	7.1	16.3	7.4	4.8
2006	8.9	7.1	3.9	5.9	4.6	6.8	5.6	7.5	7.3	13.8	7.3	13.3	7.1	5.3
2006 Q4	8.2	6.5	3.6	5.6	4.3	6.2	4.8	7.6	6.9	12.4	7.2	12.3	6.5	5.3
2007 Q1	7.7	5.9	3.9	4.9	4.1	6.3	4.8	7.4	6.6	10.9	6.5	11.3	6.3	5.5
Q2	7.2	5.8	3.5	5.2	4.0	5.9	4.9	7.7	6.4	10.4	7.2	10.8	5.7	.
2007 Apr.	7.4	5.9	3.5	5.2	4.1	6.0	5.0	7.6	6.4	10.7	7.2	10.8	6.0	5.4
May	7.2	5.8	3.5	5.3	4.1	5.9	4.9	7.7	6.5	10.4	7.2	10.8	5.8	5.3
June	7.0	5.7	3.4	5.3	3.9	5.8	4.7	7.7	6.4	10.1	7.2	10.7	5.4	.
July	6.6	5.5	3.2	5.4	4.1	5.6	4.7	7.7	6.3	9.7	6.9	10.6	5.2	.
Aug.	.	.	.	.	4.0	.	.	7.7	.	.	.	.	.	.

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

## 9.2 In the United States and Japan

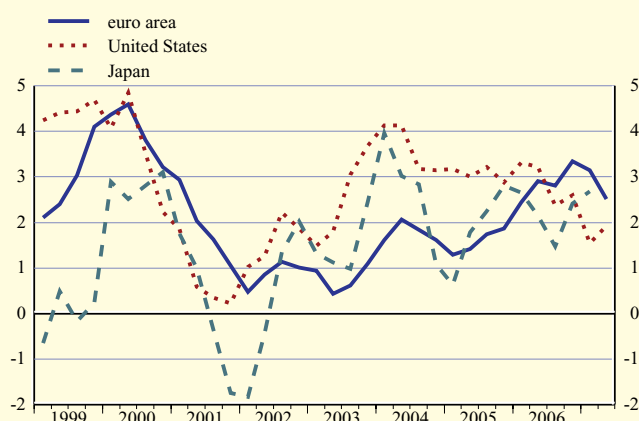
(annual percentage changes, unless otherwise indicated)

### 1. Economic and financial developments

	Consumer price index	Unit labour costs <sup>1)</sup> (manufacturing)	Real GDP	Industrial production index (manufacturing)	Unemployment rate as a % of labour force (s.a.)	Broad money <sup>2)</sup>	3-month interbank deposit rate <sup>3)</sup> as a % per annum	10-year government bond yield <sup>3)</sup> as a % per annum	Exchange rate <sup>4)</sup> as national currency per euro	Fiscal deficit (-)/surplus (+) as a % of GDP	Gross public debt <sup>5)</sup> as a % of GDP
	1	2	3	4	5	6	7	8	9	10	11
United States											
2003	2.3	0.8	2.5	1.3	6.0	7.0	1.22	4.00	1.1312	-4.8	48.0
2004	2.7	-0.1	3.6	3.0	5.5	4.7	1.62	4.26	1.2439	-4.6	48.8
2005	3.4	-0.5	3.1	4.0	5.1	4.3	3.56	4.28	1.2441	-3.7	49.2
2006	3.2	-1.5	2.9	5.0	4.6	4.7	5.19	4.79	1.2556	-2.3	48.5
2006 Q2	4.0	-2.1	3.2	5.5	4.6	4.8	5.21	5.07	1.2582	-2.3	48.6
Q3	3.3	-3.9	2.4	6.1	4.7	4.6	5.43	4.90	1.2743	-2.6	48.5
Q4	1.9	0.4	2.6	3.6	4.5	4.9	5.37	4.63	1.2887	-1.9	48.5
2007 Q1	2.4	0.4	1.5	2.3	4.5	5.3	5.36	4.68	1.3106	-2.6	49.4
Q2	2.7	3.1	1.9	1.8	4.5	6.2	5.36	4.84	1.3481	.	.
2007 Apr.	2.6	-	-	1.8	4.5	6.1	5.35	4.69	1.3516	-	-
May	2.7	-	-	1.9	4.5	6.3	5.36	4.75	1.3511	-	-
June	2.7	-	-	1.7	4.5	6.1	5.36	5.11	1.3419	-	-
July	2.4	-	-	1.9	4.6	6.1	5.36	5.01	1.3716	-	-
Aug.	.	-	-	.	.	.	5.48	4.68	1.3622	-	-
Japan											
2003	-0.2	-3.9	1.5	3.2	5.2	1.7	0.06	0.99	130.97	-7.9	151.4
2004	0.0	-4.9	2.7	5.5	4.7	1.9	0.05	1.50	134.44	-6.2	157.6
2005	-0.3	-0.6	1.9	1.1	4.4	1.8	0.06	1.39	136.85	-6.4	164.2
2006	0.2	-2.6	2.2	4.8	4.1	1.1	0.30	1.74	146.02	.	.
2006 Q2	0.2	-2.4	2.2	4.7	4.1	1.4	0.21	1.90	143.81	.	.
Q3	0.6	-2.8	1.5	5.6	4.1	0.6	0.41	1.80	148.09	.	.
Q4	0.3	-3.6	2.4	5.9	4.1	0.6	0.49	1.70	151.72	.	.
2007 Q1	-0.1	-2.2	2.6	3.0	4.0	1.0	0.62	1.68	156.43	.	.
Q2	-0.1	.	2.3	2.4	3.8	1.5	0.69	1.74	162.89	.	.
2007 Apr.	0.0	.	-	2.2	3.8	1.1	0.66	1.67	160.68	-	-
May	0.0	.	-	3.8	3.8	1.5	0.67	1.67	163.22	-	-
June	-0.2	.	-	1.1	3.7	1.9	0.73	1.89	164.55	-	-
July	0.0	.	-	3.2	3.6	2.1	0.77	1.89	166.76	-	-
Aug.	.	-	-	.	.	.	0.92	1.65	159.05	-	-

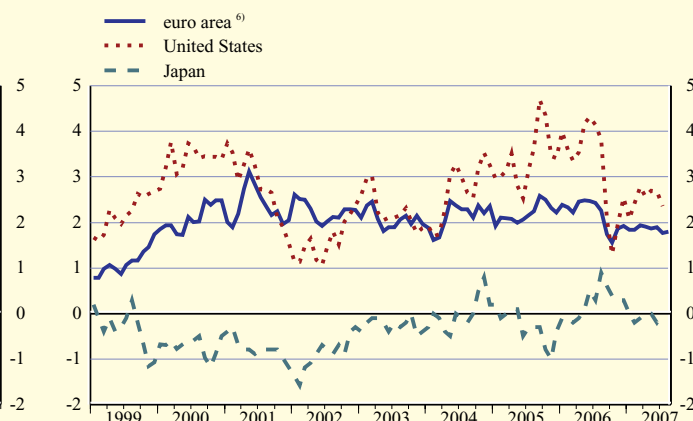
### C37 Real gross domestic product

(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.



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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.europa.eu](http://www.ecb.europa.eu)) under the "Money, banking and financial markets" subsection of the "Statistics" section.

The annual growth rate  $a_t$  for month  $t$  – i.e. the change in the 12 months ending in month  $t$  – may be calculated using either of the following two formulae:

$$f) a_t = \left[ \prod_{i=0}^{11} \left( 1 + \frac{F_{t-i}^M}{L_{t-i-1}} \right) - 1 \right] \times 100$$

$$g) a_t = \left( \frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

Unless otherwise indicated, the annual growth rates refer to the end of the indicated period. For example, the annual percentage change for the year 2002 is calculated in g) by dividing the index of December 2002 by the index of December 2001.



Growth rates for intra-annual periods may be derived by adapting formula g). For example, the month-on-month growth rate  $a_t^M$  may be calculated as:

$$h) a_t^M = \left( \frac{I_t}{I_{t-1}} - 1 \right) \times 100$$

Finally, the three-month moving average (centred) for the annual growth rate of M3 is obtained as  $(a_{t+1} + a_t + a_{t-1})/3$ , where  $a_t$  is defined as in f) or g) above.

#### CALCULATION OF GROWTH RATES FOR QUARTERLY SERIES

If  $F_t^Q$  and  $L_{t-3}$  are defined as above, the index  $I_t$  of adjusted outstanding amounts for the quarter ending in month  $t$  is defined as:

$$i) I_t = I_{t-3} \times \left( 1 + \frac{F_t^Q}{L_{t-3}} \right)$$

The annual growth rate in the four quarters ending in month  $t$ , i.e.  $a_t$ , may be calculated using formula g).

#### SEASONAL ADJUSTMENT OF THE EURO AREA MONETARY STATISTICS<sup>1</sup>

The approach used relies on a multiplicative decomposition through X-12-ARIMA.<sup>2</sup> The seasonal adjustment may include a day-of-the-week adjustment, and for some series is carried out indirectly by means of a linear combination of components. In particular, this is the case for M3, derived by aggregating the seasonally adjusted series for M1, M2 less M1, and M3 less M2.

The seasonal adjustment procedures are first applied to the index of adjusted outstanding amounts.<sup>3</sup> The resulting estimates of the seasonal factors are then applied to the levels and to the adjustments arising from reclassifications and revaluations, in turn

yielding seasonally adjusted transactions. Seasonal (and trading day) factors are revised at annual intervals or as required.

#### RELATING TO SECTIONS 3.1 TO 3.5

#### EQUALITY OF USES AND RESOURCES

In Table 3.1 the data conform to a basic accounting identity. As regards non-financial transactions, total uses equal total resources for each transaction category. Likewise in the financial account, this accounting identity is also reflected, i.e. for each financial instrument category, total transactions in financial assets equal total transactions in liabilities. In the other changes in assets account and the financial balance sheets, total financial assets equal total liabilities for each financial instrument category, with the exception of monetary gold and special drawing rights, which are by definition not a liability of any sector.

#### CALCULATION OF BALANCING ITEMS

The balancing items at the end of each account in Tables 3.1 and 3.2 are computed as follows:

The trade balance equals imports minus exports of goods and services vis-à-vis the euro area rest of the world.

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.europa.eu](http://www.ecb.europa.eu)), 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.



Net operating surplus and mixed income is defined for resident sectors only and is calculated as gross value added (gross domestic product at market prices for the euro area) minus compensation of employees (uses) minus other taxes less subsidies on production (uses) minus consumption of fixed capital (uses).

Net national income is defined for resident sectors only and is computed as net operating surplus and mixed income plus compensation of employees (resources) plus taxes less subsidies on production (resources) plus net property income (resources minus uses).

Net disposable income is also only defined for resident sectors and equals net national income plus net current taxes on income and wealth (resources minus uses) plus net social contributions (resources minus uses) plus net social benefits other than social transfers in kind (resources minus uses) plus net other current transfers (resources minus uses).

Net saving is defined for resident sectors and is calculated as net disposable income plus the net adjustment for the change in net equity of households in pension funds reserves (resources minus uses) minus final consumption expenditure (uses). For the rest of the world, current external account is compiled as the trade balance plus all net income (resources minus uses).

Net lending/net borrowing is computed from the capital account as net saving plus net capital transfers (resources minus uses) minus gross capital formation (uses) minus acquisitions less disposals of non-produced non-financial assets (uses) plus consumption of fixed capital (resources). It can also be calculated in the financial account as total transactions in financial assets minus total transactions in liabilities (also known as changes in net financial worth (wealth) due to transactions). For the household and non-financial corporation sectors, there is a statistical discrepancy between these balancing items computed from

the capital account and the financial account, respectively.

Changes in net worth (wealth) are calculated as changes in net worth (wealth) due to savings and capital transfers plus other changes in net financial worth (wealth). It currently excludes other changes in non-financial assets due to unavailability of data.

Net financial worth (wealth) is calculated as total financial assets minus total liabilities, whereas changes in net financial worth (wealth) are equal to the sum of changes in net financial worth (wealth) due to transactions (lending/ net borrowing from the financial account) and other changes in net financial worth (wealth).

Finally, changes in net financial worth (wealth) due to transactions are computed as total transactions in financial assets minus total transactions in liabilities and other changes in net financial worth (wealth) are calculated as total other changes in financial assets minus total other changes in liabilities.

#### 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 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:

$$j) \quad I_t = I_{t-1} \times \left( 1 + \frac{N_t^M}{L_{t-1}} \right)$$

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:

$$k) a_t = \left[ \prod_{i=0}^{11} \left( 1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$l) a_t = \left( \frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

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:

$$m) \left( \frac{0.5I_t + \sum_{i=1}^2 I_{t-i} + 0.5I_{t-3}}{0.5I_{t-12} + \sum_{i=1}^2 I_{t-i-12} + 0.5I_{t-15}} - 1 \right) \times 100$$

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:

$$n) \left( \frac{0.5I_t + \sum_{i=1}^{11} I_{t-i} + 0.5I_{t-12}}{0.5I_{t-12} + \sum_{i=1}^{11} I_{t-i-12} + 0.5I_{t-24}} - 1 \right) \times 100$$

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 STATISTICS<sup>4</sup>

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:

$$o) a_t = \left[ \prod_{i=0}^5 \left( 1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$p) a_t = \left( \frac{I_t}{I_{t-6}} - 1 \right) \times 100$$

## RELATING TO TABLE I IN SECTION 5.1

### SEASONAL ADJUSTMENT OF THE HICP<sup>4</sup>

The approach used relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S78). 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

<sup>4</sup> For details, see “Seasonal adjustment of monetary aggregates and HICP for the euro area”, ECB (August 2000) and the “Statistics” section of the ECB’s website ([www.ecb.europa.eu](http://www.ecb.europa.eu)), under the “Money, banking and financial markets” sub-section.

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 S78). The raw data for goods, services and income are pre-adjusted to take a working-day effect into account. The working-day adjustment in goods and services 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.europa.eu](http://www.ecb.europa.eu)). This allows user-friendly access to data via the ECB Statistical Data Warehouse (<http://sdw.ecb.europa.eu/>), 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.europa.eu](mailto:statistics@ecb.europa.eu).

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 5 September 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.europa.eu/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 "Monetary Financial Institutions and Markets Statistics Sector Manual – Guidance for the statistical classification of customers. Third Edition" (ECB, March 2007). The "Guidance Notes to the Regulation ECB/2001/13 on the MFI Balance Sheet Statistics" (ECB, November 2002) explains practices recommended to be followed by the NCBs. Since 1 January 1999 the statistical information has been collected and compiled on the basis of Regulation ECB/1998/16 of 1 December 1998 concerning the consolidated balance sheet of the Monetary Financial Institutions sector<sup>1</sup>, as last amended by Regulation ECB/2003/10<sup>2</sup>.

In line with this Regulation, the balance sheet item "money market paper" has been merged with the item "debt securities" on both the assets and liabilities side of the MFI balance sheet.

Section 2.9 shows end-of-quarter outstanding amounts for the balance sheet of the euro area investment funds (other than money market funds). The balance sheet is aggregated and therefore includes, among the liabilities, holdings by investment funds of shares/units issued by other investment funds. Total assets/liabilities are also broken down by investment policy (equity funds, bond funds, mixed funds,

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.

### EURO AREA ACCOUNTS

Section 3.1 shows quarterly integrated euro area accounts data, which provide comprehensive information on the economic activities of households (including non-profit institutions serving households), non-financial corporations, financial corporations and general government, as well as on the interactions between these sectors and the euro area rest of the world. The non-seasonally adjusted current prices data are displayed for the last available quarter following a simplified sequence of accounts in accordance with the methodological framework of the European System of Accounts 1995 (ESA 95).

In short, the sequence of accounts (transactions) comprises: 1) the generation of income account, which shows how the production activity translates into various categories of income; 2) the allocation of primary income account, which records receipts and expenses relating to various forms of property income (for the economy as a whole, the balancing item of the primary income account is national income); 3) the secondary distribution of income account, which shows how the national income of an institutional sector changes because of current transfers; 4) the use of income account, which shows how disposable income is spent on consumption or saved; 5) the capital account, which shows how savings and net capital transfers are spent in the acquisition of non-financial assets (the balancing item of the capital account is net lending/net borrowing); and 6) the financial account, which records the net acquisitions of financial assets and the net incurrence of liabilities. As each non-financial transaction is mirrored by a financial transaction, the balancing item of the financial account conceptually also equals net lending/net

borrowing as calculated from the capital account.

In addition, opening and closing financial balance sheets are presented which give a picture of the financial wealth of each individual sector at a given point in time. Finally, other changes in financial assets and liabilities (e.g. resulting from the impact of asset price changes) are also shown.

The sector coverage of the financial account and of the financial balance sheets is more detailed for the financial corporations sector, showing a breakdown into MFIs, other financial intermediaries (including financial auxiliaries), and insurance corporations and pension funds.

Section 3.2 shows four-quarter cumulated flows (transactions) for the so-called non-financial accounts of the euro area (i.e. accounts 1 to 5 presented above) also following the simplified sequence of accounts.

Section 3.3 shows four-quarter cumulated flows (transactions and other changes) for households' income, expenditure and accumulation accounts, and outstanding amounts for the financial balance sheet accounts, following a more analytical presentation. Sector-specific transactions and balancing items are arranged in such a way as to more easily depict financing and investment decisions of households, whilst respecting the account identities as presented in Sections 3.1 and 3.2.

Section 3.4 displays four-quarter cumulated flows (transactions) for non-financial corporations' income and accumulation accounts, and outstanding amounts for the financial balance sheet accounts, following a more analytical presentation.

Section 3.5 shows four-quarter cumulated financial flows (transactions and other changes) and outstanding amounts for the financial balance sheets of insurance corporations and pension funds.



## 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 statistics<sup>3</sup>. The breakdown by end-use of products for industrial producer prices and industrial production is the harmonised sub-division of industry excluding construction (NACE sections C to E) into Main Industrial Groupings (MIGs) as defined by Commission Regulation (EC) No 586/2001 of 26 March 2001<sup>4</sup>. Industrial producer prices reflect the ex-factory gate prices of producers. They include indirect taxes except VAT and other deductible taxes. Industrial production reflects the value added of the industries concerned.

World market prices of raw materials (Table 2 in Section 5.1) measures price changes of euro-denominated euro area imports compared with the base period.

The labour cost indices (Table 3 in Section 5.1) measure the changes in labour costs per hour worked in industry (including construction) and market services. Their methodology is laid down in Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index<sup>5</sup> and in the implementing Commission Regulation (EC) No 1216/2003 of 7 July 2003<sup>6</sup>. A breakdown of hourly labour costs for the euro area is available by labour cost component (wages and salaries, and employers' social contributions plus employment-related taxes paid by the employer less subsidies received by the employer) and by economic activity. The ECB calculates the indicator of negotiated wages (memo item in Table 3 of Section 5.1) on the basis of non-harmonised, national-definition data.

Unit labour cost components (Table 4 in Section 5.1), GDP and its components (Tables 1 and 2 in Section 5.2), GDP deflators (Table 5 in Section 5.1) and employment statistics (Table 1 in Section 5.3) are results of the ESA 95 quarterly national accounts.

Industrial new orders (Table 4 in Section 5.2) measure the orders received during the reference period and cover industries working mainly on the basis of orders – in particular textile, pulp and paper, chemical, metal, capital goods and durable consumer goods industries. The data are calculated on the basis of current prices.

Indices for turnover in industry and for the retail trade (Table 4 in Section 5.2) measure the turnover, including all duties and taxes with the exception of VAT, invoiced during the

3 OJ L 162, 5.6.1998, p. 1.

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.

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.

Section 6.1 presents annual figures on general government revenue and expenditure on the basis of definitions laid down in Commission Regulation (EC) No 1500/2000 of 10 July 2000<sup>7</sup> 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 2002<sup>8</sup> 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)<sup>9</sup> and the amending ECB Guideline of 31 May 2007 (ECB/2007/3)<sup>10</sup>, as well as with 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

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.

10 OJ L 159, 20.6.2007, p. 48.

“European Union balance of payments/international investment position statistical methods” (May 2007), 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.cmf.org](http://www.cmf.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 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 EUROSYSTEM<sup>1</sup>



### 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

<sup>1</sup> 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.

**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

the marginal lending facility and the deposit facility will remain unchanged at 3.75%, 4.75% and 2.75% respectively.

**6 JUNE 2007**

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 4%, starting from the operation to be settled on 13 June 2007. In addition, it decides to increase by 25 basis points the interest rates on both the marginal lending facility and the deposit facility, to 5% and 3% respectively, with effect from 13 June 2007.

**5 JULY, 2 AUGUST AND 6 SEPTEMBER 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 4.00%, 5.00% and 3.00% respectively.





# THE TARGET (TRANS-EUROPEAN AUTOMATED REAL-TIME GROSS SETTLEMENT EXPRESS TRANSFER) SYSTEM



## PAYMENT FLOWS IN TARGET

In the second quarter of 2007 TARGET processed a daily average of 369,066 payments, with a total daily average value of €2,422 billion, the highest figures since the launch of TARGET. Compared with the previous quarter, this represented an increase of 7% in terms of volume and 8% in terms of value. When compared with the same period last year, an increase of 10% in volume and 13% in value is observed. TARGET's overall market share in terms of value remained at the same high level of 89%, and its market share in terms of volume reached 60%. The highest level of TARGET traffic during this quarter was recorded on 29 June, the last day of the quarter, when a total of 519,780 payments were processed.

## INTRA-MEMBER STATE PAYMENTS

TARGET processed a daily average of 286,239 intra-Member State payments with a total average value of €1,547 billion per business day in the second quarter of 2007. This represented an increase of 7% in volume and 6% in value as compared with the previous quarter. In comparison with the corresponding period in 2006, the volume increased by 11% and the value increased by 10%. Intra-Member State traffic accounted for 77.6% of the total volume and 63.9% of the total value of TARGET payments. The average value of an intra-Member State payment remained at €5.4 million. At the intra-Member State level, 63% of payments were below €50,000, while 10% were above €1 million. On average, there were 183 intra-Member State payments with a value above €1 billion per day. The highest level of intra-Member State traffic during this quarter was recorded on 29 June, when a total of 401,569 payments were processed.

## INTER-MEMBER STATE PAYMENTS

At the inter-Member State level, TARGET processed a daily average of 82,827 payments

with a total daily average value of €875 billion in the second quarter of 2007. Compared with the previous quarter, this represented an increase of 6% in terms of volume and 12% in terms of value. The number of interbank payments processed increased by 4% and the value increased by 13% as compared with the previous quarter. For customer payments, an increase of 8% was observed in terms of volume and an increase of 9% was recorded in terms of value as compared with the previous quarter. The proportion of interbank payments in average daily inter-Member State traffic was 46% in terms of volume and 94% in terms of value. The average value of interbank payments increased from €19.9 million to €21.1 million and that of customer payments remained at €1.1 million. 66% of the inter-Member State payments had a value below €50,000, while 14% had a value above €1 million. On average, there were 85 inter-Member State payments with a value above €1 billion per day. The highest level of inter-Member State traffic during this quarter was recorded on 29 June, when a total of 118,211 payments were processed.

## TARGET AVAILABILITY AND BUSINESS PERFORMANCE

In the second quarter of 2007 TARGET achieved an overall availability of 99.88%, compared with 99.87% in the previous quarter. The number of incidents with an effect on TARGET's availability was 13, which is 1 more than in the previous quarter. Incidents considered in the calculation of TARGET's availability are those that prevent the processing of payments for 10 minutes or more. During the second quarter of 2007 there were three incidents that lasted more than two hours. Table 3 shows the availability figures for each national TARGET component and the ECB payment mechanism. In the quarter under review 98.71% of inter-Member State payments were processed in less than 5 minutes, 1.16% needed between 5 minutes and 15 minutes, and 0.05% required between 15 minutes and 30 minutes. On

**Table 1 Payment instructions processed by TARGET and other selected interbank funds transfer systems: volume of transactions**

(number of payments)

	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
<b>TARGET</b>					
All TARGET payments					
Total volume	20,854,425	20,313,134	22,062,699	22,069,092	22,882,111
Daily average	336,362	313,247	350,202	344,830	369,066
Intra-Member State TARGET payments					
Total volume	16,019,310	15,686,100	17,153,073	17,071,952	17,746,830
Daily average	258,376	241,873	272,271	266,749	286,239
Inter-Member State TARGET payments					
Total volume	4,835,115	4,627,034	4,909,629	4,997,140	5,135,281
Daily average	77,986	71,374	77,931	78,080	82,827
<b>Other systems</b>					
EURO1 (EBA)					
Total volume	12,024,168	11,712,173	12,390,099	12,540,775	13,252,906
Daily average	194,328	180,593	196,668	195,876	213,757
Paris Net Settlement (PNS)					
Total volume	1,664,581	1,587,129	1,700,859	1,678,885	1,659,684
Daily average	24,880	24,512	26,998	26,235	26,769
Pankkien On-line Pikasiirrot ja Sekit-järjestelmä (POPS)					
Total volume	172,023	144,456	136,200	136,111	173,124
Daily average	2,579	2,224	2,162	2,126	2,792

**Table 2 Payment instructions processed by TARGET and other selected interbank funds transfer systems: value of transactions**

(EUR billions)

	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
<b>TARGET</b>					
All TARGET payments					
Total value	133,405	131,843	137,943	143,598	150,143
Daily average	2,152	2,031	2,190	2,244	2,422
Intra-Member State TARGET payments					
Total value	86,989	85,847	90,307	93,776	95,905
Daily average	1,403	1,322	1,434	1,465	1,547
Inter-Member State TARGET payments					
Total value	46,416	45,995	47,637	49,822	54,237
Daily average	749	709	756	778	875
<b>Other systems</b>					
EURO1 (EBA)					
Total value	11,936	12,399	12,766	13,480	13,876
Daily average	193	191	203	210	224
Paris Net Settlement (PNS)					
Total value	3,891	3,572	3,795	3,883	4,459
Daily average	62	55	60	61	72
Pankkien On-line Pikasiirrot ja Sekit-järjestelmä (POPS)					
Total value	112	111	114	128	115
Daily average	2	2	2	2	2

**Table 3 TARGET availability for each national component and the ECB payment mechanism**

National TARGET component	Availability Q2 2007
Belgium	100.00%
Denmark	99.69%
Germany	100.00%
Estonia	100.00%
Ireland	99.97%
Greece	99.63%
Spain	100.00%
France	99.08%
Italy	100.00%
Luxembourg	100.00%
Netherlands	99.92%
Austria	99.72%
Poland	100.00%
Portugal	100.00%
Finland	100.00%
United Kingdom	100.00%
ECB payment mechanism	100.00%
Overall TARGET availability	99.88%

average, the processing time exceeded 30 minutes for 66 payments per day, which should be seen in the context of the 82,827 inter-Member State payments processed on average every day.







## DOCUMENTS PUBLISHED BY THE EUROPEAN CENTRAL BANK SINCE 2006

This list is designed to inform readers about selected documents published by the European Central Bank since January 2006. For Working Papers, the list only refers to publications released between June and August 2007. Unless otherwise indicated, hard copies can be obtained or subscribed to free of charge, stock permitting, by contacting [info@ecb.europa.eu](mailto:info@ecb.europa.eu).

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.europa.eu>).

### 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.

“The importance of public expenditure reform for economic growth and stability”, April 2006.

“Portfolio management at the ECB”, April 2006.

“Monetary and exchange rate arrangements of the euro area with selected third countries and territories”, April 2006.

“The contribution of the ECB and the Eurosystem to European financial integration”, May 2006.

“The single list in the collateral framework of the Eurosystem”, May 2006.

“Equity issuance in the euro area”, May 2006.

“Measures of inflation expectations in the euro area”, July 2006.

“Competitiveness and the export performance of the euro area”, July 2006.

“Sectoral money holding: determinants and recent developments”, August 2006.

“The evolution of large-value payment systems in the euro area”, August 2006.

“Demographic change in the euro area: projections and consequences”, October 2006.

“Integrated financial and non-financial accounts for the institutional sectors in the euro area”, October 2006.

“Monetary policy ‘activism’”, November 2006.

“The Eurosystem's experience with fine-tuning operations at the end of the reserve maintenance period”, November 2006.

“Financial development in central, eastern and south-eastern Europe”, November 2006.

“The enlarged EU and euro area economies”, January 2007.

“Developments in the structural features of the euro area labour markets over the last decade”, January 2007.

“Putting China's economic expansion in perspective”, January 2007.

“Challenges to fiscal sustainability in the euro area”, February 2007.

“The EU arrangements for financial crisis management”, February 2007.

- “Migrant remittances to regions neighbouring the EU”, February 2007.
- “Communicating monetary policy to financial markets”, April 2007.
- “Output growth differentials in the euro area: sources and implications”, April 2007.
- “From government deficit to debt: bridging the gap”, April 2007.
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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.europa.eu/home/glossary/html/index.en.html](http://www.ecb.europa.eu/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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