



EUROPEAN CENTRAL BANK

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DECEMBER

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## MONTHLY BULLETIN DECEMBER 2007

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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 December 2007, the Governing Council of the ECB decided, on the basis of its regular economic and monetary analyses, to leave the key ECB interest rates unchanged. The information that has become available since the previous meeting of the Governing Council, on 8 November, has confirmed the existence of strong short-term upward pressure on inflation, with the HICP inflation rate reaching 3.0% in November. It has also fully confirmed the assessment that there are upside risks to price stability over the medium term. Against this background, and with money and credit growth remaining very vigorous in the euro area, the Governing Council stands ready to counter upside risks to price stability, as required by its mandate. The economic fundamentals of the euro area remain sound. However, the reappraisal of risk in financial markets is still evolving and is accompanied by continued uncertainty about the potential impact on the real economy. The Governing Council will therefore monitor very closely all developments. By acting in a firm and timely manner on the basis of its assessment, the Governing Council will ensure that second-round effects and risks to price stability over the medium term do not materialise. Firmly anchoring medium and long-term inflation expectations in line with price stability 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 coming weeks.

Starting with the economic analysis, according to Eurostat's first estimate, the quarter-on-quarter growth rate of euro area real GDP in the third quarter of 2007 was 0.7%, in line with the earlier flash estimate. Domestic demand remained the main driver of economic growth in the third quarter, confirming the sustained nature of economic expansion in the euro area. The latest information on economic activity from various confidence surveys and indicator-based estimates supports the assessment that economic growth has continued

into the fourth quarter of this year, though probably at a more moderate pace than in the third quarter. Overall, the fundamentals of the euro area remain sound. Profitability has been sustained, employment growth has been robust and the unemployment rate has fallen to levels not seen for 25 years.

These factors are also reflected in the December 2007 Eurosystem staff macroeconomic projections. Annual real GDP growth is projected to lie in the range of 2.4% to 2.8% in 2007, and be between 1.5% and 2.5% in 2008, and between 1.6% and 2.6% in 2009. In comparison with the September ECB staff projections, the range projected for real GDP growth in 2008 has been revised slightly downwards, whereas for 2007 the new range lies within the upper part of the previous one. Available forecasts from international organisations broadly confirm this outlook.

The scenario of sustained real GDP growth broadly in line with trend potential is based on the expectation that the global economy will remain resilient, with the slowdown of economic growth in the United States partly offset by the continued strength of emerging market economies. External demand should therefore provide ongoing support to euro area exports and investment. Consumption growth should also contribute to economic expansion, in line with developments in real disposable income, as continued employment growth provides supportive conditions. That said, in view of the potential impact of ongoing financial market volatility and re-pricing of risk on the real economy, the level of uncertainty remains high.

In the Governing Council's view, the risks surrounding this outlook for economic growth lie on the downside. They relate mainly to the potential for a broader impact from the ongoing reappraisal of risk in financial markets on financing conditions and confidence and on world and euro area growth, possible further oil and commodity price rises, as well as concerns

about protectionist pressures and possible disorderly developments owing to global imbalances.

As regards price developments, according to Eurostat's flash estimate, the annual HICP inflation rate increased sharply again in November 2007, to 3.0% from 2.6% in October. Oil prices have risen strongly in recent months, and food prices have increased substantially, reflecting higher global demand. In addition, as emphasised by the Governing Council on previous occasions, unfavourable effects from energy prices are having a strong upward impact on annual HICP inflation rates in the current period, owing to the marked decline in oil prices a year ago.

Looking ahead, the HICP inflation rate is expected to remain significantly above 2% in the coming months, and is likely to moderate only gradually in the course of 2008. Hence, the period of temporarily high rates of inflation would be somewhat more protracted than previously expected. The December Eurosystem staff projections foresee annual HICP inflation to be between 2.0% and 2.2% in 2007, but then to rise to between 2.0% and 3.0% in 2008. For 2009, HICP inflation is projected to lie between 1.2% and 2.4%. Compared with the September 2007 ECB staff projections, the projected ranges for HICP inflation in 2007 and 2008 have shifted upwards. Forecasts from international organisations which incorporate recent inflation developments give a broadly similar picture.

These projections largely mirror the assumed path of oil and food prices, for which available futures prices suggest a deceleration in the course of next year. On the domestic side, unit labour cost growth is projected to increase over the projection horizon. In this context it is important to emphasise that the staff projections are based on the key assumption that recent oil and food price dynamics and their impact on HICP inflation will not have broadly-based second-round effects on wage-setting behaviour. A further key assumption is that growth in

profit margins will moderate over the projection horizon. In combination, these two assumptions imply, in the context of the staff projections, a continuation of overall contained domestic cost pressures, which contributes to the moderation in inflation projected in 2009.

In the Governing Council's view, risks to this medium-term outlook for price developments are fully confirmed to lie on the upside. These risks include the possibility of further rises in oil and agricultural prices, continuing the strong momentum observed in recent months, as well as increases in administered prices and indirect taxes beyond those foreseen thus far. Moreover, taking into account the existence of capacity constraints, the favourable momentum of real GDP growth observed over the past few quarters and the positive developments in labour markets, stronger than currently expected wage growth may emerge. Furthermore, an increase in pricing power in market segments with low competition could materialise. It is therefore crucial that all parties concerned meet their responsibilities and that second-round effects on wage and price-setting stemming from recent commodity price rises be avoided. To that end, any explicit or de facto indexation of nominal wages to prices should be eliminated.

The monetary analysis confirms the prevailing upside risks to price stability at medium to longer-term horizons. Money and credit have both continued to grow vigorously in recent months. The annual growth rate of M3 in October, at 12.3%, is likely to have been influenced by a number of temporary factors, such as the flattening of the yield curve, the financial market turmoil and specific transactions associated with the restructuring of certain banking groups. However, even taking these special factors into account, the underlying rate of monetary expansion remains strong. Moreover, the sustained expansion of loans to the domestic private sector, which grew at an annual rate of 11.2% in October, points to the continued vigour of underlying monetary dynamics. Monetary developments therefore continue to require very careful monitoring,

both to detect underlying trends associated with inflationary pressures at longer horizons and to better understand shorter-term dynamics.

Such monitoring will also provide a more complete picture of the response of the private sector to the increased volatility in financial markets. A broad assessment of underlying trends in money and credit growth is particularly important at present given recent financial market developments. Heightened financial volatility may influence the short-term behaviour of money-holders and thereby complicate the extraction of the underlying trend monetary developments. At the same time, monetary and credit data can also offer an important insight into how financial institutions, households and firms have responded to the financial market turmoil.

For the time being, however, there is little evidence that the financial market turbulence since early August has strongly influenced the dynamics of broad money and credit aggregates, although specific balance sheet items, such as holdings of money market fund shares/units, may have been affected. Indeed, the growth of bank loans to households and non-financial corporations has remained robust in recent months, which may suggest that the supply of credit has not been impaired. Further data and analysis will be required to develop a more complete view of the impact of the financial market developments on bank balance sheets, financing conditions and money and credit growth.

To sum up, a cross-check of the outcome of the economic analysis with that of the monetary analysis fully confirms the assessment that there are upside risks to price stability over the medium term, in a context of vigorous money and credit growth and against the background of sound economic fundamentals in the euro area. At the same time, the reappraisal of risk in financial markets is still evolving and uncertainty about the potential impact on the real economy has continued. Consequently, the Governing Council will monitor very closely

all developments. The ECB's monetary policy stands ready to counter upside risks to price stability, as required by its mandate. In particular, for the recent increase in inflation to remain temporary, it is of the essence that no second-round effects materialise via an impact from current inflation rates on wage and price-setting behaviour. By acting in a firm and timely manner on the basis of its assessment, the Governing Council will ensure that second-round effects and risks to price stability over the medium term do not materialise and that medium and long-term inflation expectations remain firmly anchored in line with price stability. This is all the more important in the current context. As regards the financial markets, the Governing Council will continue to pay great attention to developments over the coming weeks.

Turning to fiscal policy, the European Commission's autumn 2007 economic forecast generally confirms the picture of improving budget balances in the euro area this year. However, progress with structural fiscal consolidation in countries with remaining budget imbalances is generally disappointing. This lack of ambition unnecessarily prolongs the correction of remaining fiscal deficits and could lead to negative surprises should the macroeconomic environment turn less favourable. In this context, Member States should meet the commitment they made in the Eurogroup's Berlin agreement of April 2007, namely that most euro area members would achieve their medium-term objectives in 2008 or 2009, and all should aim for 2010 at the latest.

With regard to structural reforms, it is important that governments continue their efforts to make progress. The improvements in the employment situation over recent years show the fruits of past reforms. It is essential that the reform momentum to enhance competition, productivity growth and labour market flexibility is maintained and that there are no reversals of the reform process in the countries of the euro area.





# ECONOMIC AND MONETARY DEVELOPMENTS

## I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

Overall, economic activity in the world economy remains resilient, albeit moderating somewhat from very buoyant conditions. Global repercussions of the US slowdown have so far remained limited and emerging markets are partly taking over the role of an engine of global growth. In view of higher commodity prices, headline consumer price inflation increased in OECD countries. In many emerging markets, inflation rose strongly mainly because of the stronger impact of food price developments. On balance, risks to the outlook for growth are judged to lie on the downside. These downside risks relate mainly to the potential for a broader impact from the ongoing reappraisal of risk in financial markets on financing conditions and confidence and on world and euro area growth, possible further oil and commodity price rises, including agricultural prices, as well as concerns about protectionist pressures and possible disorderly developments owing to global imbalances.

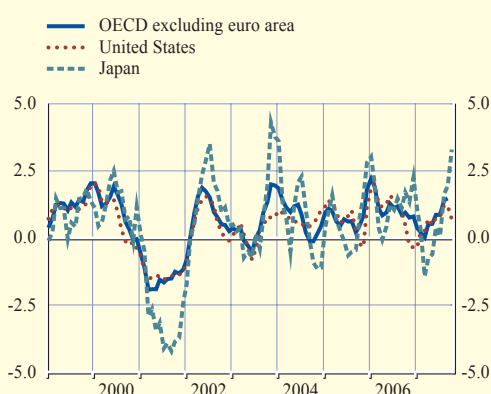
### I.1 DEVELOPMENTS IN THE WORLD ECONOMY

Overall, global economic activity remains resilient, albeit moderating somewhat from the very buoyant conditions recorded in past years. While industrial production in the OECD countries (excluding the euro area) accelerated since March and expanded robustly in September at 1.4% on a three-month moving average basis (see Chart 1), survey evidence on global business conditions suggests some moderation in the expansion in global manufacturing production. The global all-industry output PMI has been gradually easing in recent months to 54.0 in November, which is below its long-run average but above the threshold value between economic expansion and contraction at 50. As the current downturn in US economic activity emanates mainly from a protracted weakness in the housing sector, the global repercussions have so far remained rather limited. The economic expansion in emerging markets proceeds at a strong pace, particularly in emerging Asia, which implies that these countries are partly taking over – from the United States – the role of the main engine of global growth. It remains to be seen, however, to what extent the heightened financial market volatility recorded in recent months and the associated increase in uncertainty will have adverse implications for the global economy.

In view of higher commodity prices, particularly for energy and food, and unfavourable base effects, headline consumer price inflation in OECD countries increased in October to 2.8%, from 2.2% in the month before. Excluding food and energy, consumer price inflation stood at 1.9% in October, unchanged compared to September. On a monthly basis, consumer prices rose at the same pace as in the previous month, at 0.3% in October. In many emerging markets, inflation increased more strongly because of the higher weight of food in their price index. Survey evidence on global input prices suggests that average costs rose sharply in November, both in the manufacturing and in the service sector.

Chart 1 Industrial production in OECD countries

(monthly data; seasonally adjusted)



Sources: OECD and ECB calculations.

Note: Last observation refers to October 2007 except for OECD excluding euro area (September 2007). Data shown are calculated as three-month moving averages against the corresponding averages three months earlier.

## UNITED STATES

In the United States, economic activity has remained robust despite the ongoing housing market correction and financial market turmoil. According to the preliminary release, real GDP grew at a quarterly annualised rate of 4.9% in the third quarter, after 3.8% in the second quarter. Growth was supported especially by surprisingly brisk net exports and relatively strong private consumption, which offset the dampening effect of residential construction. While the GDP growth estimate for the third quarter was revised upwards, private consumption turned out to be somewhat weaker than previously thought.

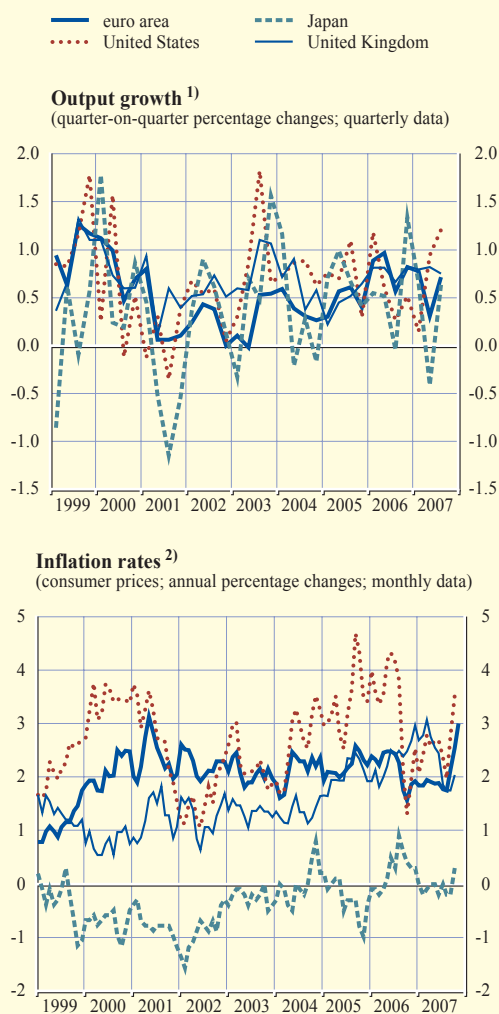
As regards price developments, annual CPI inflation has recently accelerated again after some moderation during the summer months. This has been mainly attributable to energy costs, which have recently surged in particular owing to a strong base effect, and food prices, of which annual price changes have been on an accelerating trend since January 2007. In October CPI inflation stood at 3.5%, 0.8 percentage points higher than its six-month average from May to October. However, at the same time, core consumer inflation measures (i.e. excluding energy and food) have remained lower. In October core CPI inflation was 2.2%, equalling the six-month average.

Looking ahead, GDP growth is expected to slow down from the fourth quarter of 2007 onwards, as the deepening housing market correction and ongoing financial market turmoil are expected to curb growth more severely. In addition, somewhat softening labour markets and high energy costs are likely to take their toll on real consumption growth. On the other

hand, robust foreign demand and the weakened exchange rate should continue to support exports and thus GDP growth. However, the role of foreign trade is relatively small in the US economy and the evidence from recent indicators points to a slowing growth momentum. Despite the recent surge in energy prices and the depreciation of the US dollar, inflation expectations have remained relatively well anchored in the United States.

On 31 October the US Federal Open Market Committee decided to cut its target for the federal funds rate by 25 basis points to 4.50%. The changes also included a 25 basis point reduction in the primary credit rate to 5.00%.

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.

## JAPAN

In Japan, economic activity has continued to recover, while inflation has remained subdued. Output has been supported by healthy domestic demand and strong exports. In the third quarter of 2007, according to first preliminary data released by the Cabinet Office, economic activity rebounded from the contraction recorded in the previous quarter, mostly driven by strong external demand, especially from non-Japan Asia. Real GDP grew by 0.6% on a quarterly basis – above market expectations – after -0.4% in the previous quarter.

Consumer price inflation has remained subdued (see Chart 2), owing to persistent downward pressures, especially on wages. In October 2007 consumer price inflation returned to positive territory for the first time since December 2006. The annual change in the CPI was 0.3%, after -0.2% in September, while the annual change in the CPI excluding fresh food was 0.1%, after -0.1% in the previous month.

At its meeting on 13 November 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, output growth has been robust in recent quarters – at or above the long-term average of 0.7% (see Chart 2). In the third quarter GDP grew by 0.7% (quarter on quarter) and was driven by private consumption and gross fixed capital formation. The contribution of net exports to GDP growth was negative as import growth accelerated in line with domestic demand and export dynamics. The pace of quarterly GDP growth is expected to decelerate in the coming quarters.

After declining for six consecutive months HICP inflation rose in October to 2.1%, from 1.8% in the previous month. This increase is mainly attributable to higher fuel, lubricants and some food prices. In the short run inflation is expected to remain above 2.0% on the back of higher energy, food and import prices.

On 6 December 2007 the Bank of England's Monetary Policy Committee decided to cut its main policy rate by 0.25 basis points to 5.5%. The decision was taken amid incipient signs of growth moderation, deteriorated conditions in financial markets and a tightening in credit supply.

## OTHER EUROPEAN COUNTRIES

In the other EU countries outside the euro area, output growth has mostly remained robust in recent quarters, reflecting sustained growth in domestic demand. Inflation developments have been markedly affected by rising food prices in many countries, reflecting inter alia weather-related supply constraints.

In Sweden and Denmark, real economic developments have diverged in recent quarters. While quarterly real GDP growth in Denmark decreased to -0.4% in the second quarter of 2007, output growth in Sweden rose to 0.9%. In Denmark, this development was mainly attributable to a broad-based weakening of domestic demand, while both private and public consumption accelerated in Sweden. HICP inflation in the two countries has risen in recent months from subdued levels. In October annual HICP inflation in Denmark rose to 1.8% and in Sweden it rose to 1.9%.

Concerning the four largest central and eastern European economies, output growth remained robust in recent quarters in the Czech Republic and Poland, while growth moderated in Hungary

and Romania. Real GDP growth was mainly driven by domestic demand, except in Hungary, where it was driven mostly by net exports. Confidence indicators suggest some further gradual weakening of economic growth in Hungary and Romania in the coming months. Inflation developments continue to differ significantly across the four countries. In the Czech Republic, HICP inflation rose to 4.0% in October, reflecting base effects, while in Poland it rose to 3.1% mainly on account of higher energy prices. In both Hungary and Romania, HICP inflation rose to 6.9% reflecting rising food and energy prices. In Hungary HICP inflation has remained high over the past year on account of the increase in indirect taxes and administered prices linked to the country's fiscal consolidation package. In the months ahead there are upward risks stemming from food and energy prices in all countries.

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 growth in credit, employment and wages. Confidence indicators suggest some deceleration in economic growth in the coming months. Annual HICP inflation has risen rapidly in recent months and remains high in most of the fastest-growing countries, such as Bulgaria and the Baltic States. The short-term outlook for inflation is characterised by great uncertainty owing to volatile food and energy prices, while wage pressures remain high in many countries, notably the fastest-growing ones.

In Russia, GDP growth has remained robust in the second quarter of 2007 at 7.8% year on year. Leading indicators of economic activity suggest that the upswing, which is mainly driven by domestic demand, has continued during the third quarter of 2007. Inflation has continued to follow an upward path, increasing to 10.8% year on year in October (from 9.4% in September).

#### **EMERGING ASIA**

In emerging Asia, economic activity continued to expand at a robust pace, especially in the largest economies of the region. Inflationary pressures picked up further in China, but remained at moderate levels in the other large economies.

In China, growth remained strong. Real GDP grew by 11.5% year on year in the third quarter, slightly down from 11.9% in the previous quarter, but in line with average growth in the first half of the year. Growth was led by strong domestic investment and net exports. Although export growth slowed slightly between July and October, the trade surplus continued to widen and reached a cumulative USD 213 billion in the first ten months of 2007, 20% higher than the surplus in the entire previous year. At the same time, foreign exchange reserves continued to rise, totalling USD 1,433 billion at end-September 2007. Consumer price inflation in October rebounded to the August level of 6.5% after a slight dip in September, mostly driven by rising food prices. On 26 November the People's Bank of China raised the reserve requirements ratio of banks, for the ninth time this year, by 50 basis points to 13.5%.

In Korea, real GDP grew at an annual rate of 5.2% in the third quarter of 2007, up from 5.0% in the previous quarter. Annual CPI inflation edged up to 3.5% in November from 3.0% the month before, mainly owing to an upsurge in prices of food and commodities. In India, economic activity remained sustained, with GDP growing by 8.9% on average in the third quarter slightly down from 9.3% in the previous quarter. Wholesale price inflation, the Reserve Bank of India's main inflation measure, stood at 3.1% in November.

Overall, economic 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 continued to be robust, driven by domestic demand. In Mexico, real GDP growth rebounded in the third quarter of 2007, expanding at an annual rate of 3.7% after 2.8% in the second quarter. As regards price developments, annual consumer price inflation averaged 4% in the third quarter, broadly unchanged from the two previous quarters. On 26 October the central bank raised its key policy rate by 25 basis points to 7.5%. In Brazil, industrial production strengthened further, expanding by 6.3% (year on year) in the third quarter, up from 4.8% on average in the first half of this year. Annual consumer price inflation slightly increased to 4.1% in October. In Argentina, output growth has kept its robust momentum, with industrial production expanding at an annual rate of 6.9% in the third quarter. Annual CPI has continued to slow down, albeit remaining at elevated levels. Average inflation in the third quarter stood at 8.6%, down from an average of 9.2% in the previous six months.

Overall, despite the uncertainty about spillover effects of the recent financial turmoil, the outlook for Latin America continues to be favourable, with domestic demand expected to remain the main engine of growth.

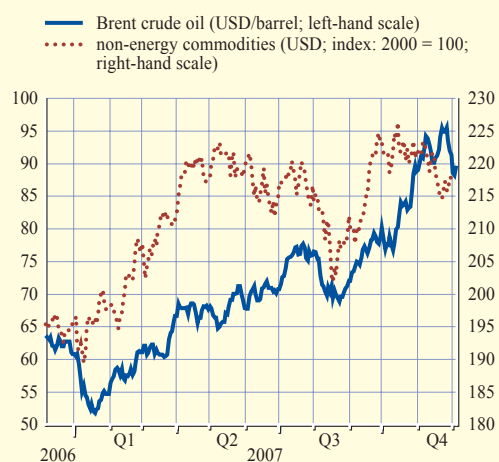
### 1.2 COMMODITY MARKETS

Oil prices surged in most of November, with US West Texas Intermediate and Brent crude oil prices hitting new record highs well above USD 90 per barrel. Towards the end of November and the beginning of December oil prices eased markedly. On 5 December Brent crude oil prices stood at USD 89.7 per barrel, around 48% above the levels at the beginning of the year. The surge in oil prices has been mainly driven by a further tightening of market fundamentals and continuing geopolitical tensions. In particular, a counter-seasonal third-quarter stock draw raised concerns over a global supply tightness ahead of the northern hemisphere winter. According to the November International Energy Agency (IEA) monthly oil report, OECD stocks continued to fall in October and early November, reflecting robust demand and constrained supplies. However, the price increases have been limited by the possibility of a slowdown in demand growth reflecting high oil prices and a potential US slowdown. The IEA claims that higher energy prices are already having an impact on the demand for oil, particularly in OECD countries. Consequently, they have revised downwards their forecast for global oil demand growth for 2008, which is now expected to reach 2.3% (this, however, is still higher than the 1.2% growth projected for 2007). Meanwhile, and despite growing calls for OPEC to increase their output levels, OPEC ministers decided not to increase production levels at their 5 December meeting.

Looking ahead, still limited spare capacity – amid robust demand and continued geopolitical and supply risks – is likely to keep oil prices at elevated levels in the absence of a change in OPEC's policies. According to futures markets, oil market participants currently expect prices to remain at high levels, declining slightly towards USD 88 by the end of 2008.

Following the strong increase in September, the prices of non-energy commodities remained fairly volatile during October and November. The overall non-energy commodity price index (denominated in US dollars) was on average approximately 14% higher in November than a year earlier, as higher agricultural prices more than offset lower metals prices. In particular, food prices

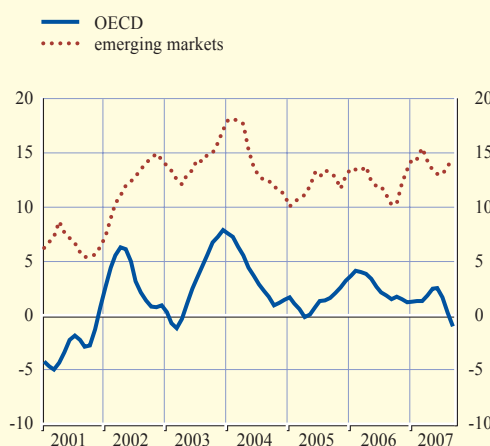
**Chart 3 Main developments in commodity markets**



Sources: Bloomberg and HWWI.

**Chart 4 OECD composite leading indicator**

(six-month rate of change)



Source: OECD.

Note: The emerging market indicator is a weighted average of the CLI for Brazil, China and Russia.

continued to rise, although growth rates started declining slightly from the very high values recorded at the end of September. The prices of oilseeds and oils continued to rise in November, as strong demand for biofuels and lower production of soya beans and other oil seeds have left these markets particularly tight.

### 1.3 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

The resilient albeit moderating global expansion bodes well for robust foreign demand for euro area goods and services in the medium term. In September, the composite leading indicator for major non-OECD countries pointed to continued steady expansion in China, India and Brazil and a slightly improved outlook for Russia. By contrast, the composite leading indicator continued to signal a weakening outlook for most major OECD economies (see Chart 4).

On balance, risks to the outlook for growth are judged to lie on the downside. These downside risks relate mainly to the potential for a broader impact from the ongoing reappraisal of risk in financial markets on financing conditions and confidence and on world and euro area growth, possible further oil and commodity price rises, including agricultural prices, as well as concerns about protectionist pressures and possible disorderly developments owing to global imbalances.

## 2 MONETARY AND FINANCIAL DEVELOPMENTS

### 2.1 MONEY AND MFI CREDIT

Between August and October 2007 the underlying rate of monetary expansion in the euro area remained strong, as reflected in the continued rapid growth of M3 and credit. Thus far, the turmoil observed in financial markets appears to have had a limited impact on developments in broad money and credit, although some specific MFI balance sheet items may have been affected. In particular, recent data suggest that there has been no severe disruption to bank loan supply. They also provide no evidence – as yet, at least – that aggregate data have been sustained by substantial re-intermediation of previously securitised loans or credit products. Consequently, the ongoing strength of credit expansion, which remains an important contributor to the buoyant monetary dynamics, appears to reflect normal borrowing behaviour rather than distress. While the stimulative effect of the relatively flat yield curve suggests that annual M3 growth may currently overstate the pace of underlying monetary dynamics, overall money and credit expansion remains strong. In the context of already ample monetary liquidity, this points to upside risks to price stability over the medium to longer term.

#### THE BROAD MONETARY AGGREGATE M3

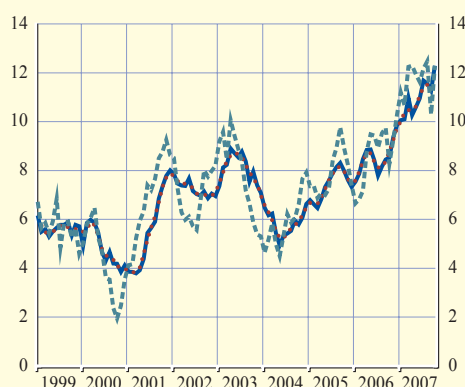
In the third quarter of 2007 the annual growth rate of M3 increased further to 11.5%, up from 10.6% in the second quarter and 10.2% in the first quarter. This was the highest annual growth rate since the start of Stage Three of Economic and Monetary Union.<sup>1</sup> The annual growth rate of M3 declined slightly in August and September, before picking up again to reach 12.3% in October (see Chart 5). The annual growth rate of M3 corrected for the estimated impact of portfolio shifts followed a pattern similar to that of the official M3 series (see Chart 6).

<sup>1</sup> It also represented the highest annual rate of growth since the early 1980s, based on synthetic estimates of M3 prior to 1999.

Chart 5 M3 growth

(percentage changes; adjusted for seasonal and calendar effects)

- M3 (annual growth rate)
- ..... M3 (three-month centred moving average of the annual growth rate)
- - - M3 (annualised six-month growth rate)

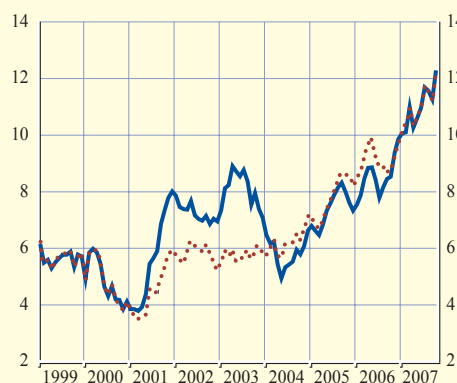


Source: ECB.

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

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

- official M3
- ..... M3 corrected for the estimated impact of portfolio shifts<sup>1)</sup>



Source: ECB.

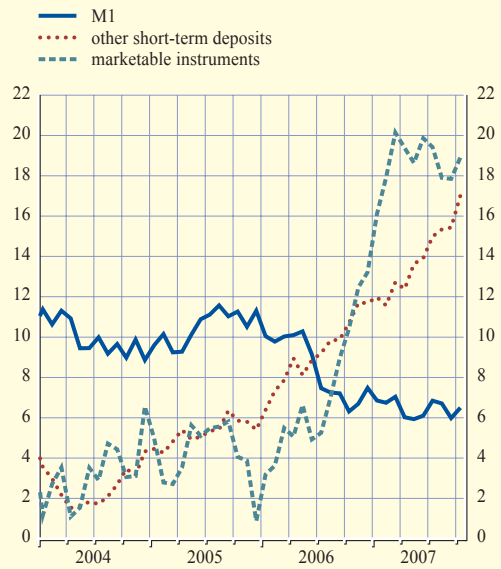
<sup>1)</sup> Estimates of the magnitude of portfolio shifts into M3 are constructed using the general approach discussed in Section 4 of the article entitled "Monetary analysis in real time" in the October 2004 issue of the Monthly Bulletin.



A broad-based monetary analysis suggests that the recent strong growth of M3 somewhat overstates the underlying rate of monetary expansion. For instance, part of the recent growth of M3 has been associated with the flat – and, at times, even inverted – yield curve. In this context, short-term MFI deposits are remunerated attractively relative to longer-term deposits and securities. This has led to shifts into shorter-term deposits and marketable securities included in M3, since these assets offer greater liquidity and less risk at little cost in terms of return. Consequently, the stronger M3 growth is, to some extent, being driven by speculative demand for monetary assets. This view is supported by the downward trend observed since late 2005 in the annual growth rate of M1, which suggests some moderation of the underlying monetary expansion, in line with the removal of monetary policy accommodation through increases in key ECB interest rates (see Chart 7). However, even accounting for these effects, overall M3 growth remained strong in the third quarter of 2007.

Chart 7 Main components of M3

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



Source: ECB.

The strong monetary expansion in the third quarter of 2007 was again fuelled by rapid growth in credit to the private sector. For the seventh consecutive quarter, a double-digit annual growth rate was observed for MFI lending to the private sector. The strong flows of MFI loans to non-financial corporations and households over the past four months run counter to the view that the recent turmoil seen in financial markets has caused severe disruptions to MFI loan supply. More generally, looking at several broad measures of money and credit, there are, thus far, few signs that the financial turmoil has had any significant effect on overall monetary expansion.<sup>2</sup> In line with the nature and origins of the turmoil, some impact has been visible in specific positions on the MFI balance sheet which are closely related to the money market and the market for asset-backed securities. More specifically, an impact has been identified in the holdings of money market fund shares/units, in developments in MFIs' short-term debt securities and, to some extent, in developments in the loans and deposits of other non-monetary financial intermediaries (OFIs).

The recent financial turmoil has highlighted the crucial role played by MFIs as providers of liquidity to the economy and the financial system, even in an “originate and distribute” model of banking, i.e. in a model in which MFIs, after granting loans, sell those loans to investors. The MFI sector therefore has a central role to play as regards the spread of the financial turmoil to the broader financial sector and, ultimately, the real economy. The analysis of monetary data from MFIs' balance sheets has provided important information regarding the impact of the turmoil on monetary developments and, more generally, the response of the private sector to the increased uncertainty associated with the financial market volatility.

<sup>2</sup> See also Box 2, entitled “The impact of the financial market turmoil on money and credit developments”, in the November 2007 issue of the Monthly Bulletin.

Overall, taking into account the (limited) effect of the turmoil on monetary dynamics and notwithstanding the stimulative impact of the flat yield curve on M3 growth, a broad-based analysis of MFI balance sheet data indicates that the underlying rate of monetary expansion has remained strong.

### MAIN COMPONENTS OF M3

In the third quarter of 2007 the annual growth rate of M1 increased slightly to 6.5% (up from 6.2% in the second quarter), although it remained well below the rates seen in 2003 and 2004 (see Table 1).<sup>3</sup> In October the annual growth rate of M1 remained unchanged compared with the third quarter. M1 is currently being influenced by two countervailing forces. On the one hand, the rising opportunity cost of holding M1 associated with the increases in key ECB interest rates since December 2005 is having a dampening effect; and on the other hand, there is greater transaction-related demand for M1 given the continued strength of economic activity, as well as a desire to hold M1 as a buffer in the context of the recent financial market turmoil.

This pattern is also reflected in the annual rate of growth of overnight deposits, the main component of M1, which increased to 6.2% in October, up from 6.1% in the third quarter and 5.5% in the second quarter. At the same time, the annual growth rate of currency in circulation declined further to stand at 8.1% in October, down from 8.8% in the third quarter and 10.0% in the second quarter, suggesting that the impact of the euro cash changeover on the growth of demand for currency may be petering out.

The annual growth rate of short-term deposits other than overnight deposits continued to strengthen, reaching 17.0% in October, having stood at 15.0% in the third quarter and 13.1% in the second quarter (see Chart 7). This development reflects the ongoing strong inflow for short-term time deposits (i.e. deposits with an agreed maturity of up to two years), which grew at an

<sup>3</sup> Quarterly average growth rates are calculated on the basis of the average level in the quarter.

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 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Sep.	2007 Oct.
<b>M1</b>	<b>45.0</b>	<b>6.8</b>	<b>7.0</b>	<b>6.2</b>	<b>6.5</b>	<b>6.0</b>	<b>6.5</b>
Currency in circulation	7.2	11.1	10.5	10.0	8.8	8.2	8.1
Overnight deposits	37.8	6.0	6.3	5.5	6.1	5.6	6.2
<b>M2 - M1 (= other short-term deposits)</b>	<b>40.1</b>	<b>11.1</b>	<b>11.9</b>	<b>13.1</b>	<b>15.0</b>	<b>15.4</b>	<b>17.0</b>
Deposits with an agreed maturity of up to two years	22.1	25.2	29.5	33.2	37.6	38.2	41.8
Deposits redeemable at notice of up to three months	18.0	1.1	-0.8	-2.1	-3.2	-3.6	-4.2
<b>M2</b>	<b>85.1</b>	<b>8.7</b>	<b>9.1</b>	<b>9.2</b>	<b>10.3</b>	<b>10.2</b>	<b>11.2</b>
<b>M3 - M2 (= marketable instruments)</b>	<b>14.9</b>	<b>11.3</b>	<b>16.9</b>	<b>19.3</b>	<b>18.7</b>	<b>17.9</b>	<b>18.9</b>
<b>M3</b>	<b>100.0</b>	<b>9.0</b>	<b>10.2</b>	<b>10.6</b>	<b>11.5</b>	<b>11.3</b>	<b>12.3</b>
<b>Credit to euro area residents</b>	<b>8.8</b>	<b>8.0</b>	<b>8.1</b>	<b>8.7</b>	<b>8.7</b>	<b>8.7</b>	<b>9.2</b>
Credit to general government	-3.1	-4.5	-4.3	-3.9	-4.3	-4.3	-4.1
Loans to general government	-0.4	-1.3	-1.2	-0.9	-1.5	-2.2	-2.2
Credit to the private sector	11.9	11.1	11.0	11.7	11.6	12.2	12.2
Loans to the private sector	11.2	10.6	10.5	11.0	11.0	11.2	11.2
<b>Longer-term financial liabilities (excluding capital and reserves)</b>	<b>9.0</b>	<b>10.0</b>	<b>10.3</b>	<b>10.3</b>	<b>9.7</b>	<b>9.0</b>	<b>9.0</b>

Source: ECB.

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

annual rate of 37.6% in the third quarter. By contrast, deposits redeemable at notice of up to three months continued to decline, falling by 3.2% in the third quarter of 2007. As the remuneration of short-term time deposits has broadly followed the rise in short-term money market interest rates, the spread against the remuneration of short-term savings deposits and overnight deposits (the remuneration of which has increased more slowly) has continuously increased. This has supported shifts into time deposits from M1 and savings deposits. Moreover, with a flat yield curve, short-term time deposits are attractive by comparison with riskier longer maturity assets outside M3, since they offer greater liquidity and less risk at little cost in terms of return, thereby supporting shifts away from longer-term assets as well.

The relatively flat yield curve in the euro area has also had a positive effect on the annual growth rate of marketable instruments, which stood at 18.8% in the third quarter and 18.9% in October. At the same time, the annual growth rate of such instruments moderated by comparison with the previous quarter. This reflected net sales of money market fund shares/units by the money-holding sector between July and October. In the context of the financial market turmoil, particularly large net outflows (totalling €26 billion) were seen for money market fund shares/units in August and September. Before the onset of the financial market turmoil, some money market funds took on exposure to the structured credit market in order to boost returns so as to outperform their benchmark money market rate. The reassessment of risk in this market and the well publicised concerns regarding the quality of the assets of a small number of funds would seem to have led to generalised apprehension regarding this instrument. The disinvestment observed for these assets is mirrored by strong inflows for short-term MFI debt securities. Over the past four months the money-holding sector's purchases of such securities have been at the highest level seen since the start of Stage Three of Economic and Monetary Union (with those purchases totalling €57 billion), thereby providing funding to the MFI sector. At the same time, some of the net outflows observed for money market fund shares/units in August and September were reversed in October. This may reflect the reversal of some contagion reactions observed in the very early stages of the turmoil.

The broadest aggregation of M3 components for which reliable information is available by holding sector is short-term deposits plus repurchase agreements (hereafter referred to as "M3 deposits"). The annual growth rate of the aggregate M3 deposits of the household sector, the sector contributing the most to total M3 deposit growth, reached 7.3% in the third quarter of 2007, up from 6.7% in the second quarter. The upward trend observed for this growth rate since mid-2004 thus continued, supported by income and wealth growth and the increasing remuneration of M3 deposits. This is corroborated by a broader estimate of sectoral holdings of M3 (see Box 1, entitled "New estimates on holdings by sector for euro area M3").

The annual growth rate of M3 deposits held by non-financial corporations edged upwards in the third quarter of 2007, reaching 13.4%, up from 13.1% in the preceding quarter. The growth rate of M3 deposits held by non-monetary financial institutions stood at 20.0% on an annual basis in the third quarter, up from 15.7% in the second quarter. This strengthening is related in part to some investment funds' need to maintain larger cash buffers.

## Box 1

**NEW ESTIMATES ON HOLDINGS BY SECTOR FOR EURO AREA M3**

A central challenge for monetary analysis is the extraction from directly observed monetary indicators, such as the broad monetary aggregate M3, of an estimate of the underlying rate of monetary expansion, which provides policy-relevant signals for risks to price stability. In practice, extracting this information requires careful analysis of developments in the components, counterparts and sectoral holdings of M3. The money-holding sector consists of several sub-sectors, namely: households (including non-profit organisations); non-financial corporations; financial institutions other than monetary financial institutions, which comprises insurance corporations and pension funds, as well as other non-monetary financial intermediaries; and state and local government, as well as social security funds.

This box presents new estimates recently made available by the ECB for the sectoral M3 holdings of the private sectors.<sup>1</sup> These new estimates are available on a quarterly basis for the period since the first quarter of 1999 and on a monthly basis for the period since January 2003. Their construction is based both on a more extensive set of national data than was previously available and on a more comprehensive compilation methodology. These estimates replace the previous vintage presented in the article entitled “Sectoral money holding: determinants and recent developments” in the August 2006 issue of the Monthly Bulletin.

**Construction of the estimates of sectoral holdings of M3**

The construction of the sectoral M3 series is based mainly on the sectoral holdings of short-term deposits (including repurchase agreements) available in the MFI balance sheet statistics, which accounted for around 80% of total M3 in the second quarter of 2007. For these instruments, the money-issuing sector, in accordance with Regulation ECB/2001/13 on MFI balance sheet statistics, has reported a detailed sectoral breakdown on a monthly basis for the period since January 2003. For the period 1999-2002, quarterly series on sectoral deposit holdings are estimated and have already been made available to the public.<sup>2</sup>

Getting from sectoral holdings of short-term deposits to sectoral M3 holdings requires the allocation to the individual money-holding sectors of currency in circulation, money market fund shares/units and debt securities issued by MFIs with an original maturity of up to two years. For these instruments, statistical information cannot be collected directly from reporting agents, as MFIs are typically unable to provide information on the owners of the traded securities they issue. Similarly, holders of currency in circulation are not easily identifiable. The allocation of these M3 instruments to the various money-holding sectors is therefore based on estimates.<sup>3</sup> Information generated at the national central banks in the context of compiling sectoral financial accounts has also been used where appropriate.

1 The new estimates can be downloaded from the ECB website at <http://sdw.ecb.europa.eu>. They can also be found at <http://www.ecb.europa.eu/stats/money/aggregates/sectorialm>, where additional information on the estimation methodology is also provided.

2 These estimates, available on a quarterly basis starting from the first quarter of 1991, can be downloaded from the ECB website at <http://sdw.ecb.europa.eu>. For further details, see Box 1, entitled “New euro area historical series on holdings of M3 deposits by sector”, in the August 2006 issue of the Monthly Bulletin.

3 These estimates include statistical information reported to the ECB in accordance with Guideline ECB/2007/9, which covers statistical requirements in the area of money and banking statistics (including data on other financial intermediaries), and Guideline ECB/2005/13 on financial account statistics in Monetary Union.

Estimates for sectoral M3 holdings will, from now on, be published for households, non-financial corporations and non-monetary financial intermediaries (with data broken down further into insurance corporations and pension funds on the one hand, and other financial intermediaries on the other) in terms of both outstanding amounts (stocks) and transactions (flows).

### Stylised facts on developments in sectoral holdings of M3

Analysis of the sectoral series can provide a useful additional perspective with regard to the assessment of aggregate monetary trends. Chart A shows the annual growth rates of the new estimated M3 holdings of households, non-financial corporations and non-monetary financial intermediaries. The dynamics of the respective sectors differ significantly in the period 1999-2007. The new estimates demonstrate that households are the largest money-holding sector, accounting for approximately two-thirds of the stock of M3 in the second quarter of 2007.

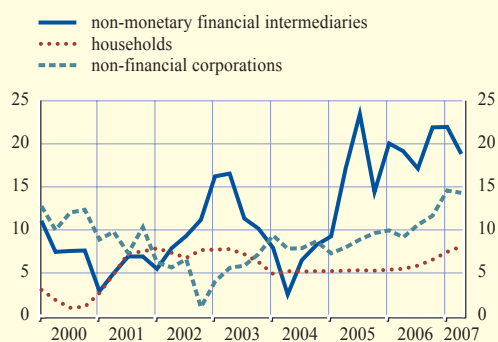
Chart B shows the annual growth rate of the revised estimate of M3 holdings of households and compares it with the series published in the August 2006 Monthly Bulletin. This suggests that the series have a very similar profile over time. The growth rate of household M3 balances increased sharply in 2001 and remained at very high levels until mid-2003, driven by portfolio shifts into M3 resulting from an environment of heightened financial, economic and geopolitical uncertainty as households shifted wealth from equity into money.<sup>4</sup> The annual growth rate of household M3 balances edged upwards from early 2004, before strengthening significantly between the second half of 2005 and mid-2007.

The table below compares the annual growth rates for the three main money-holding sectors in terms of the average level of growth and the variability of their dynamics for the period from 1999 to the second quarter of 2007. Several stylised facts can be noted for this sample period. First, non-monetary financial intermediaries' M3 holdings display the highest average growth

4 See the article entitled "Money demand and uncertainty" in the October 2005 issue of the Monthly Bulletin.

**Chart A Estimates of sectoral M3 holdings**

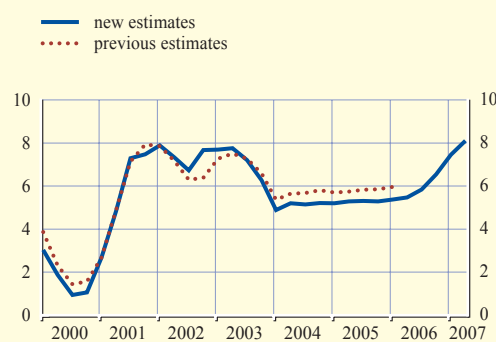
(annual percentage changes; not adjusted for seasonal or calendar effects)



Source: ECB estimates.

**Chart B Household holdings of M3**

(annual percentage changes; not adjusted for seasonal or calendar effects)



Source: ECB estimates.

Note: "Previous estimates" refers to the series shown in the August 2006 issue of the Monthly Bulletin.

**Growth of sectoral M3 holdings between  
1999 and the second quarter of 2007**

(annual percentage changes)

	Non-monetary financial intermediaries	Non- financial corporations	Households
Average	11.6	9.1	5.7
Minimum	2.5	1.0	0.9
Maximum	23.5	14.6	8.1
Standard deviation	6.1	3.0	2.0

Source: ECB calculations.

rate, followed by the holdings of non-financial corporations, while the M3 holdings of households grew more moderately. Second, looking at different measures of the variability of sectoral money growth (such as the range between the minimum and maximum, or the standard deviation), non-monetary financial intermediaries experienced the greatest variability in terms of monetary dynamics, while non-financial corporations and households exhibit a far more stable growth pattern, in line with the view that the money

demand behaviour of these two sectors is less affected by short-run developments.<sup>5</sup> These stylised facts are in line with the findings based on the 2006 vintage.

Overall, the new estimates confirm that there are significant differences in the dynamics of the M3 holdings of households, non-financial corporations and non-monetary financial intermediaries. The examination of sectoral developments can provide a useful additional perspective with regard to the analysis and assessment of aggregate monetary trends. At the same time, it needs to be borne in mind that sectoral M3 data are estimates and may, therefore, be less accurate than the sectoral short-term deposits actually reported.

<sup>5</sup> The coefficient of variation (defined as the standard deviation of the growth rate divided by the average growth rate) also confirms that the variability of non-monetary financial intermediaries' M3 holdings is greater than that of the holdings of non-financial corporations and households.

**MAIN COUNTERPARTS OF M3**

As regards the counterparts of M3, the high rate of money growth continues to go hand in hand with robust growth in MFI credit to euro area residents. On an annual basis, MFI credit to euro area residents increased to 8.7% in the third quarter of 2007, up from 8.1% in the second quarter and 8.0% in the first quarter (see Table 1). Within total credit, MFIs continued, on a net basis, to sell general government debt securities in the third quarter, in line with the overall pattern observed since March 2006. In the context of the financial market turmoil, MFIs may initially have sold government securities in order to generate liquidity and cover funding needs. In October, however, MFIs purchased those securities on a net basis, with the result that the annual rate of decline of holdings of general government securities decreased to -5.1%, having stood at -5.6% in the third quarter. These developments possibly reflect some easing of liquidity conditions in October by comparison with August and September.

MFI credit to the private sector continued to expand strongly, growing at a rate of 12.2% in October, by comparison with 11.7% and 11.0% in the third and second quarters of 2007 respectively. The increase in October was driven mainly by strong purchases of private sector securities by euro area MFIs, predominantly from non-monetary financial corporations. These purchases were, however, to a large extent related to financial transactions linked to the takeover of a large financial intermediary in the euro area. That is to say, the increase in MFIs' holdings of private sector securities was not directly related to the financial market turmoil, as might have been expected if a significant increase in re-intermediation had occurred.

The growth rate of MFI lending to the private sector increased to 11.2% in October, up from 11.0% in the third quarter and 10.5% in the second quarter. The annual growth rate of loans to households reached 6.8% in October, having stood at 7.0% in the third quarter and 7.5% in the second quarter. There is thus no indication that the financial market turmoil has, as yet, limited lending to households, the moderation of which started as long ago as the second quarter of 2006. This moderation has been driven mainly by the falling annual growth rate of lending for house purchase, which is in line with the slowdown observed in house price growth and housing market activity in a number of euro area economies and the gradual increase seen in mortgage rates throughout the euro area over the past few quarters. The growth rate of loans for house purchase reached 7.9% in October, having stood at 8.1% in the third quarter. The annual growth rate of consumer credit remained broadly unchanged at 5.5% in October, having stood at 5.7% in the third quarter. Over recent quarters the annual growth rate of consumer credit has declined in line with the moderation in consumer confidence (see also Section 2.7 on financial flows and the financial position of the household sector).

The annual growth rate of MFI loans to non-financial corporations reached 13.9% in October, having stood at 13.8% in the third quarter and 12.7% in the second quarter. Importantly, this strong growth was driven by an increase in the growth rate of loans with a longer-term maturity, while the growth rate of loans with a short-term maturity moderated somewhat. More specifically, the annual growth rate of loans with a maturity of over five years increased to 12.7% in October, up from 12.6% in the third quarter, while the annual growth rate of loans with a maturity of up to one year declined to 11.8% in October, down from 12.1% in the third quarter. There are various factors that could explain the strong loan growth (see Section 2.6). However, breaking down the loan growth by maturity seems not to support the notion of “forced” re-intermediation of credit back onto MFI balance sheets or the prolongation of bridge loans granted in the context of LBO and M&A activities, as MFIs would arguably want to retain such loans only for a short period of time. All in all, there is limited evidence that MFIs’ strong lending to non-financial corporations is the result of a dislocation in credit markets. Looking ahead, however, some moderation can be expected in the growth of credit to non-financial corporations, given the tightening of credit conditions in relation to the financial market turmoil, the removal of monetary accommodation since the end of 2005 and the decline in the growth rate of loans to households, which MFI loans to non-financial corporations tend to follow with a lag of several quarters.<sup>4</sup>

The annual growth rate of MFI loans to OFIs increased to 22.8% in October, up from 19.8% in the third quarter. This reflects, to a large extent, loans related to a takeover of a financial intermediary. In addition, those loans reflect, in part, investment funds’ demand for larger liquidity buffers. Furthermore, there is some evidence that OFIs’ demand for loans partly reflects the use of credit lines to conduits and structured investment vehicles (SIVs) as a result of the OFIs’ difficulties in obtaining funds from the money market. Finally, OFIs’ demand for loans may also stem from short-term bridge loans provided by MFIs in order to finance the ongoing growth in the euro area securitisation market. This would be in line with the observation that, at least up until October, there appears not to have been a breakdown in the market for traditional true-sale securitisations. A breakdown could have led to previously securitised loans or credit products being re-intermediated back onto MFI balance sheets, which has not been observed in significant amounts up until October. Overall, therefore, the growth of loans to the private sector seems genuine, with no significant upward bias as a result of re-intermediation associated with the financial market turmoil.

4 See Box 6, entitled “The cyclical pattern of loans to households and non-financial corporations in the euro area”, in the June 2007 edition of the Monthly Bulletin.

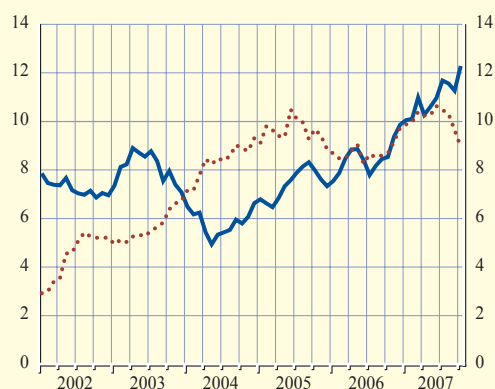
Among the other counterparts of M3, the dynamics of MFI longer-term financial liabilities (excluding capital and reserves) held by the money-holding sector have moderated somewhat, with their annual growth rate reaching 9.0% in October, having stood at 10.3% in the third quarter of 2007 (see Chart 8). This moderation reflects, in part, the shift observed towards shorter-term maturities in the MFI debt securities held by the money-holding sector. As regards the external counterparts, the net annual inflow in the net external asset position of the MFI sector decreased further to €200 billion in October, down from €204 billion in the previous month and the peak of €340 billion recorded in March. This suggests that some favourable investment opportunities that financial market participants saw in the euro area in late 2006 and early 2007 in the context of low volatility and ample financial market liquidity have ceased to be profitable as risk has been repriced. The sizeable capital inflows observed earlier in the year have therefore, in part, been unwound, particularly in August and September. The monetary presentation of the balance of payments (data for which is available up until September) reveals that the annual inflow in the net external asset position of MFIs mainly reflects investment in euro area debt securities by non-resident investors.

Overall, the latest data (i.e. up to October 2007) confirm that the monetary dynamics in the euro area have remained strong. Taking into account the relatively flat yield curve and the possible influence of the financial market turmoil, the underlying rate of expansion of money and credit has also remained buoyant. Thus far, the monetary analysis indicates that the financial market turmoil has not had a major impact on the expansion of broad money and credit aggregates in the euro area.

**Chart 8 M3 and MFI longer-term financial liabilities**

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

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

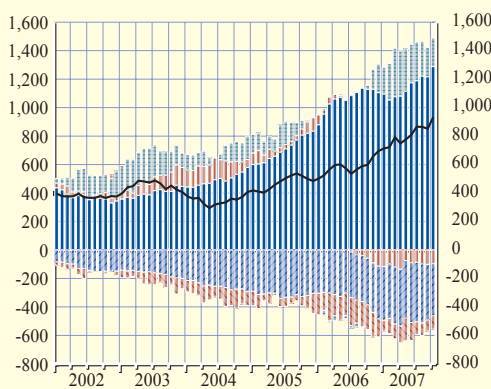


Source: ECB.

**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.



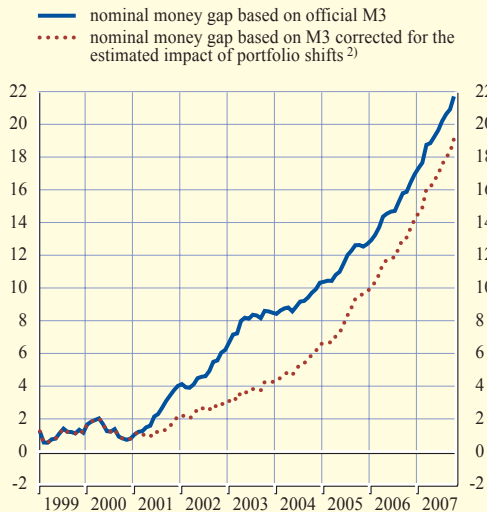
## GENERAL ASSESSMENT OF MONETARY LIQUIDITY CONDITIONS IN THE EURO AREA

The rapid accumulation of monetary liquidity in the euro area continued in the third quarter of 2007, as reflected in developments in the nominal and real money gaps (see Charts 10 and 11). With regard to the nominal money gap, the ongoing strong growth of nominal M3 has resulted in further increases in both the money gap based on official M3 data and that based on the M3 series corrected for the estimated impact of portfolio shifts. The real money gap takes into account the absorption of the accumulated liquidity by inflation deviating from the ECB's definition of price stability. Although the real money gap measures are both lower than the respective nominal money gap measures, their rates of increase have been comparable in recent quarters.

These mechanical measures are only imperfect estimates of the liquidity situation and should thus be treated with caution. The uncertainty surrounding the estimates is illustrated, to some extent, by the broad range of estimates derived from the four measures presented above. Nonetheless, even after taking the relatively flat yield curve and the financial market turmoil into account, the overall picture painted by these measures – and particularly that derived from the broad monetary analysis geared towards identifying the underlying growth of M3 – indicates that liquidity conditions in the euro area remain ample. Strong monetary and credit growth in a context of already ample liquidity imply upside risks to price stability over the medium to longer term.

**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)



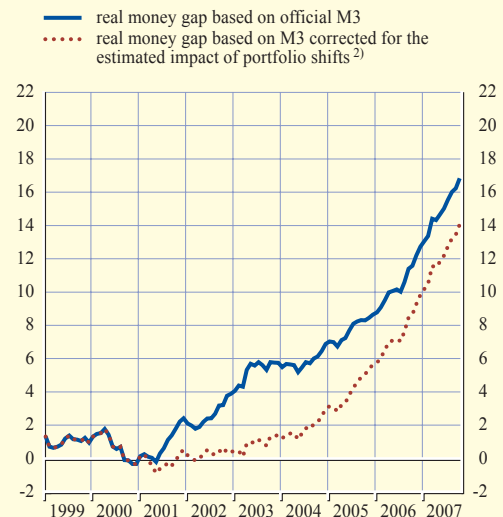
Source: ECB.

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)



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.

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

*In the second quarter of 2007 the annual growth rate of total financial investment by the non-financial sectors increased somewhat. This mainly reflects increased financial investment by the general government sector, while the contribution of the household and non-financial corporation sectors remained broadly unchanged. Annual flows into investment funds increased somewhat in the second quarter, while the growth rate of financial investment by insurance corporations and pension funds remained broadly unchanged.*

### NON-FINANCIAL SECTORS

In the second quarter of 2007 (the most recent quarter for which data are available) the annual growth rate of total financial investment by the non-financial sectors increased to 4.9%, up from 4.6% in the first quarter (see Table 2). A breakdown by investment instrument shows that this increase reflects, in particular, stronger growth in larger asset categories such as currency and deposits and shares and other equity (excluding mutual fund shares). On the other hand, the annual growth rate of debt securities excluding financial derivatives declined somewhat, as did the growth rate of investment in insurance technical reserves.

The breakdown by non-financial sector shows that the increase in total financial investment was due mainly to an increase in the contribution of the general government sector (see Chart 12). This increased contribution may be related to the continued growth seen in government disposable income, while at the same time the growth rates of government consumption and non-financial investment moderated slightly in the second quarter of 2007. The combined contribution of the household and non-financial corporation sectors to the overall growth rate of financial investment was broadly stable in the second quarter of 2007, accounting for around 4.5 percentage points of the total annual increase of 4.9% (for more detailed information concerning developments in financial investment by the private sector, see Sections 2.6 and 2.7).

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

	Outstanding amount as a percentage of financial assets <sup>1)</sup>	Annual growth rates									
		2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
<b>Financial investment</b>	<b>100</b>	<b>4.1</b>	<b>3.9</b>	<b>4.0</b>	<b>4.5</b>	<b>4.6</b>	<b>4.7</b>	<b>4.7</b>	<b>4.6</b>	<b>4.6</b>	<b>4.9</b>
Currency and deposits	22	5.7	5.9	5.5	6.4	6.4	6.4	7.0	6.9	7.3	7.7
Debt securities, excl. financial derivatives	6	2.8	1.7	0.7	0.1	1.8	2.6	4.3	5.8	4.8	4.5
<i>of which: short-term</i>	1	-6.3	-9.6	-4.1	-12.1	8.7	10.6	19.1	35.9	26.2	24.0
<i>of which: long-term</i>	5	3.8	3.0	1.3	1.1	1.2	1.9	3.1	3.6	2.8	2.7
Shares and other equity, excl. mutual fund shares	34	2.1	2.0	2.9	2.6	2.1	2.2	1.7	1.7	2.0	2.3
<i>of which: quoted shares</i>	11	1.0	-0.5	-1.4	0.9	-0.7	0.2	1.3	0.2	1.0	1.0
<i>of which: unquoted shares and other equity</i>	24	2.6	3.1	4.6	3.3	3.3	3.0	1.8	2.4	2.5	2.9
Mutual fund shares	7	1.6	2.2	3.7	4.5	3.1	1.8	-0.4	-1.2	-0.8	-0.3
Insurance technical reserves	15	7.0	7.2	7.4	7.7	7.6	7.1	6.8	6.2	5.6	5.5
Other <sup>2)</sup>	16	4.3	2.9	2.3	4.1	5.4	6.4	7.9	7.2	7.5	7.7
M3 <sup>3)</sup>		6.5	7.6	8.3	7.3	8.5	8.4	8.5	9.9	11.0	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.

## INSTITUTIONAL INVESTORS

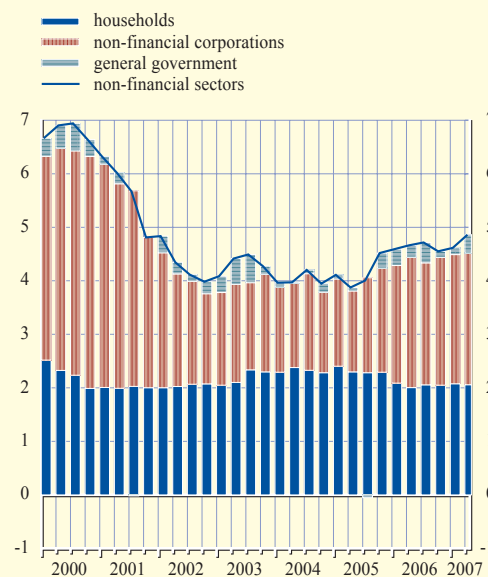
The annual growth rate of the total assets of euro area investment funds (excluding money market funds) was 16.8% in the second quarter of 2007, following a notably lower rate of growth of 9.9% in the previous quarter (down from 15.9% in the fourth quarter of 2006). Around three-quarters of this increase was due to a strengthening in the growth rate of holdings of shares and other equity, which gained from positive valuation effects, although somewhat stronger growth was also seen for all other investment instruments on the asset side of investment funds' aggregated balance sheet.

Data provided by EFAMA<sup>5</sup> for the second quarter of 2007 show that, of the different types of investment fund, the strongest net annual inflow continued to be recorded for mixed funds, although this was of a somewhat smaller magnitude than in previous quarters (see Chart 13). The net annual inflow for equity funds declined further in the second quarter of 2007, while a net annual inflow was observed for bond funds after several quarters of net annual outflows. Finally, the net annual flow into money market funds increased further in the second quarter of 2007, although this was then partly reversed in the context of the turmoil observed in the financial markets (see Section 2.1).

The annual growth rate of total financial investment by insurance corporations and pension funds in the euro area declined marginally to 6.2% in the second quarter of 2007, down from 6.3% in the first quarter (see Chart 14). This mirrored the somewhat lower growth rate of investment in insurance products by the non-financial sector. The lower growth rate of investment by insurance corporations and pension funds was accounted for by a fall in the contributions of both mutual fund shares and currency and deposit holdings. At the same time, the contribution of investment in debt securities (excluding financial derivatives) increased further in the second quarter of 2007.

Chart 12 Financial investment of non-financial sectors

(annual percentage changes; contributions in percentage points)



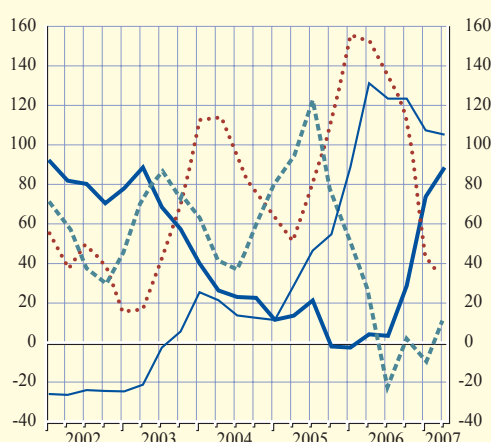
Source: ECB.

5 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>



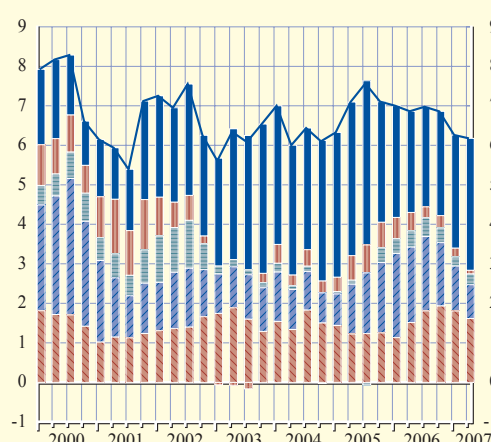
Sources: ECB and EFAMA.

1) 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.

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

### 2.3 MONEY MARKET INTEREST RATES

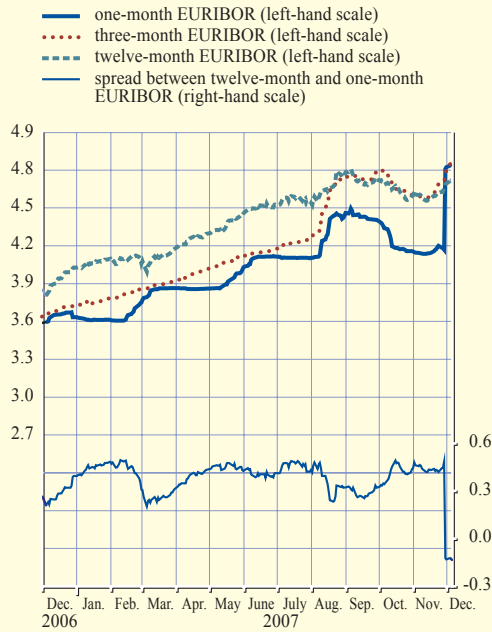
*The unusually marked spread between secured and unsecured money market rates persisted from the beginning of September to the beginning of December 2007, despite a temporary decline in October. The money market yield curve steepened somewhat up until 28 November, with the spread between unsecured twelve-month and one-month money market interest rates rising to stand at 48 basis points on that date. On the following day the unsecured one-month rate, spanning the end of the year, increased very strongly, rising by 64 basis points. From then on the spread was negative.*

Unsecured money market interest rates declined somewhat between the beginning of September and the beginning of December 2007, despite increasing again and almost reaching peak levels – particularly in the three-month money market – in the course of November. On 5 December the one-month, three-month, six-month and twelve-month EURIBOR rates stood at 4.86%, 4.87%, 4.8% and 4.72% respectively, i.e. 40, 13 and 4 basis points higher and 6 basis points lower than the levels observed at the beginning of September.

The spread between the twelve-month and one-month EURIBOR rates was -13 basis points on 5 December, compared with 33 basis points on 3 September (see Chart 15). However, the slope of the money market yield curve established on this basis should be interpreted with some caution, as it reflects the fact that the one-month EURIBOR now spans the end of the year, a point at which liquidity is traditionally expected to be tighter. Furthermore, developments in spreads between unsecured EURIBOR rates and secured rates such as EUREPO (an index for rates on private sector repurchase agreements) remain exceptional by historical standards owing to the tensions seen in money markets since August.

**Chart 15 Money market interest rates**

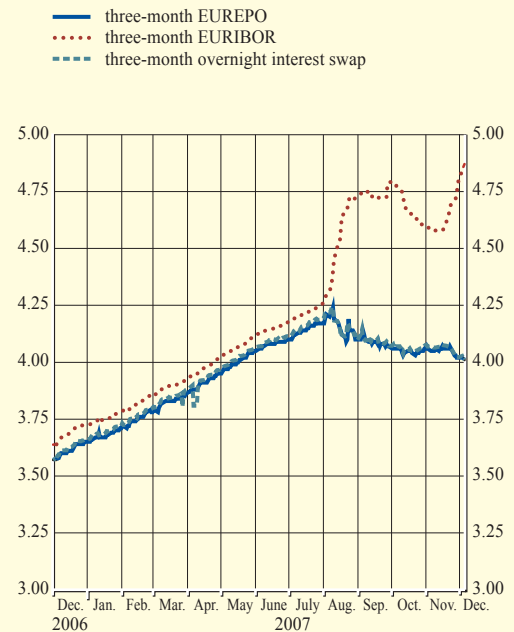
(percentages per annum; daily data)



Sources: ECB and Reuters.

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

(percentages per annum; daily data)



Sources: ECB and Reuters.

The interest rates implied by the three-month EURIBOR futures contracts maturing in December 2007, March 2008, June 2008 and September 2008 stood at 4.81%, 4.44%, 4.24% and 4.08% respectively on 5 December 2007. For the December 2007 and March 2008 contracts, the implied rates were respectively 28 and 6 basis points higher than at the beginning of September, while for the June 2008 and September 2008 contracts the implied rates were 7 and 19 basis points lower (see Chart 17).

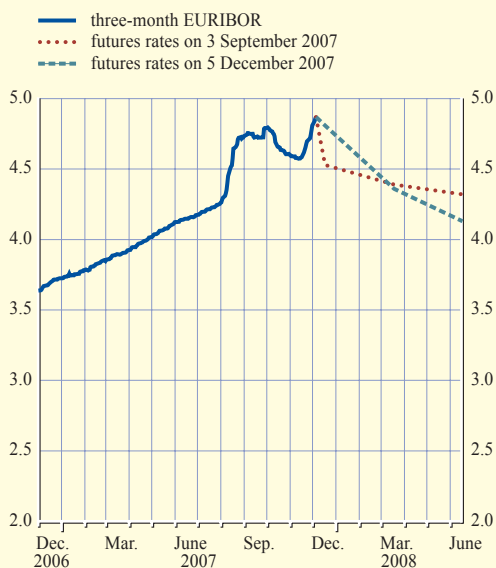
Market participants' expectations regarding interest rates at very short-term maturities in 2007 and 2008 were adjusted downwards between the beginning of September and the beginning of December, as reflected in the evolution of the EONIA swap rates (see Chart 16). However, this is only partly reflected in the developments in three-month EURIBOR futures contracts. Indeed, the spreads between deposit rates and the corresponding EONIA swap rates continue to stand at high levels and to display some volatility. The true evolution of expectations can be inferred from developments in EONIA swap rates (see Chart 16).

As regards indicators of uncertainty regarding money market developments, the implied volatility derived from options on three-month EURIBOR futures declined somewhat in September and October. In November the level of implied volatility increased again, almost reaching the levels observed at the beginning of September (see Chart 18).

In September 2007 interest rates rose at the very short end of the money market curve and were very volatile on the back of considerable tensions in the money markets (see Chart 19). At the

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

(percentages per annum; daily data)

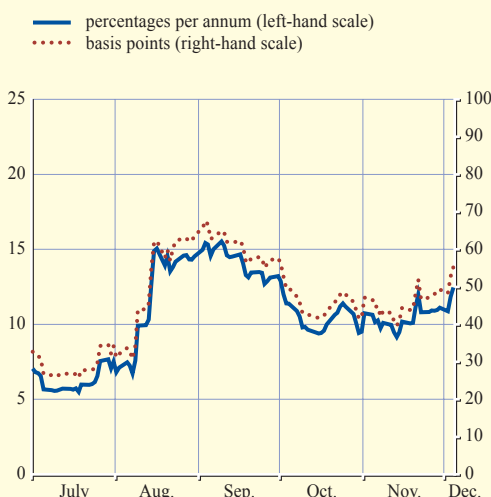


Source: Reuters.

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 March 2008**

(percentages per annum; basis points; daily data)



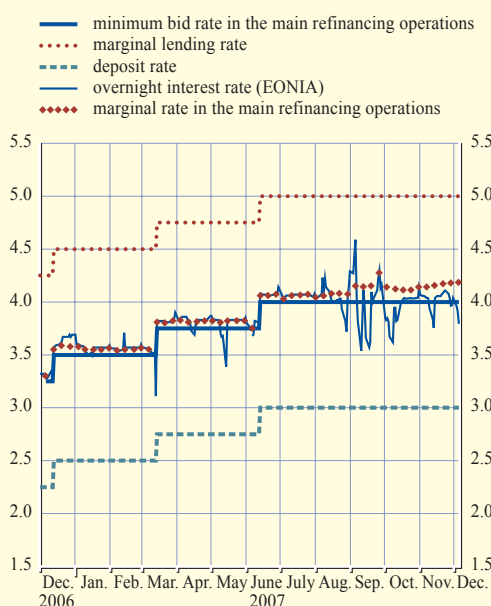
Sources: Bloomberg, Reuters and ECB calculations.

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).

beginning of October the ECB issued a statement emphasising the importance attached to keeping interest rates close to the minimum bid rate. Interest rate conditions in the short-term money market then stabilised, with the EONIA standing relatively close to the minimum bid rate in the Eurosystem's main refinancing operations. From 14 November onwards, however, the EONIA increased steadily, reaching a level of 4.108% on 23 November. Following a statement issued by the ECB and further generous allotments in the ECB's main refinancing operations, this upward trend was reversed and rates gradually shifted to levels slightly below 4%. These developments and the policy operations conducted by the ECB are described in more detail in Box 2.

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

(percentages per annum; daily data)



Sources: ECB and Reuters.

Box 2

**LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 8 AUGUST TO 13 NOVEMBER 2007**

This box describes the ECB's liquidity management during the three reserve maintenance periods ending on 11 September, 9 October and 13 November 2007. This period was characterised by tensions in the euro money market, which the ECB addressed by providing liquidity earlier than usual within those reserve maintenance periods through its main refinancing operations (MROs), as well as by conducting several fine-tuning operations and two supplementary longer-term refinancing operations (LTROs). The average liquidity supply in those maintenance periods was not affected by these measures, as the additional liquidity provided early in each maintenance period was compensated for by smaller allotment volumes and/or liquidity-absorbing fine-tuning operations later in the maintenance period. Several statements communicated via news wire services explained the actions of the ECB.<sup>1</sup>

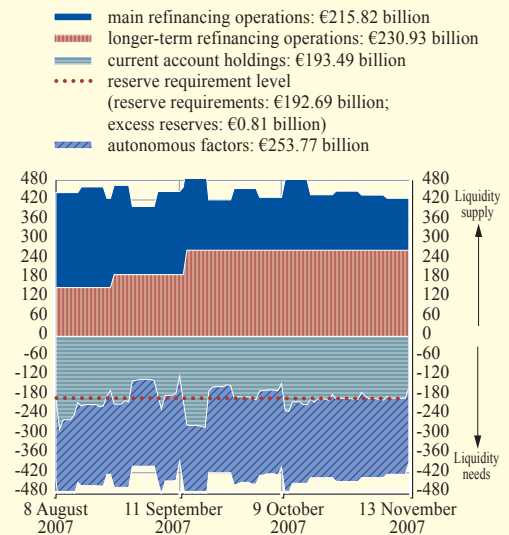
**Liquidity needs of the banking system**

In the three maintenance periods under review, banks' average liquidity needs rose by €3.5 billion by comparison with the preceding three periods. This effect can be explained mainly by a €4.4 billion increase in required reserves, while autonomous factors and excess reserves were slightly lower, declining by €0.7 billion and €0.2 billion respectively. Total liquidity needs resulting from reserve requirements stood at €192.7 billion and those resulting from autonomous factors averaged €253.8 billion (see Chart A).

The level of excess reserves (i.e. the daily average of current account holdings in excess of reserve requirements) remained broadly stable in the three periods under review at an average of €0.81 billion (see Chart B). This was broadly

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

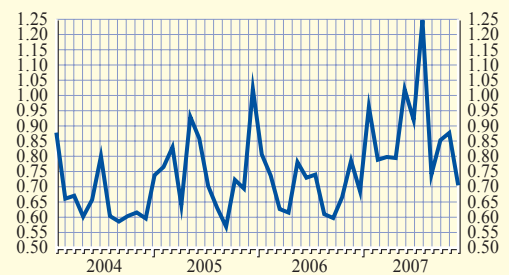
(EUR billions; daily averages for the whole period are shown next to each item)



Source: ECB.

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

(EUR billions; average level in each maintenance period)



Source: ECB.

1) Banks' current account holdings in excess of reserve requirements.

<sup>1</sup> The full list of statements communicated by the ECB can be found at <http://www.ecb.europa.eu/mopo/implement/omo/html/communication.en.html>

in line with the average (€0.75 billion) seen since the changes to the monetary policy implementation framework in March 2004.

### Liquidity supply and interest rates

The total volume of outstanding open market operations increased only slightly as a result of the increase in reserve requirements. At the same time, the maturity of the outstanding open market operations changed substantially over the review period, as the volume of outstanding LTROs increased significantly relative to the volume of the MROs.

In the maintenance period ending on 7 August (the last before the onset of the turmoil) the total outstanding volume of liquidity provided via LTROs was €150 billion. This figure rose to €265 billion in the maintenance period ending on 13 November on account of the allotment, in August and September, of two supplementary LTROs of €40 billion and €75 billion respectively. At the same time, the average liquidity volume provided via MROs was reduced accordingly from €301.7 billion to €180.2 billion. As a result, the share of refinancing provided through LTROs increased from 33% to 60%.

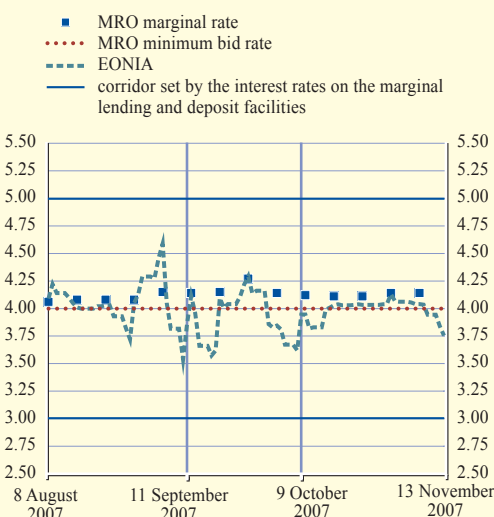
As illustrated by Chart C, the level of volatility of the EONIA was considerably higher than in recent years during the period under review. Owing to counterparties' very competitive bidding in the MROs, the spread between the marginal rates in these operations (the lowest rates at which bidders receive liquidity) and the minimum bid rate was, at times, fairly large.

### Reserve maintenance period ending on 11 September

On the morning of 9 August tensions in some segments of the US dollar-denominated money market led to a strong increase in banks' demand for current account holdings with the Eurosystem. Consequently, the overnight rate rose to around 4.60%. At the same time, the trading volume in the interbank market became very thin. The ECB reacted immediately by launching a liquidity-providing fine-tuning operation in the form of a fixed rate tender at a rate of 4.00% with overnight maturity and pre-announced full allotment of the bids submitted by counterparties.<sup>2</sup> As a result, €94.8 billion of liquidity was provided (€27 billion more than the second-largest fine-tuning operation to date, which took place on 12 September 2001). The overnight rate normalised immediately and was quoted at around 4.05% for the rest of the day, while the EONIA still ended the day at 4.22%.

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.

<sup>2</sup> The fine-tuning operations carried out in August are described in more detail in Box 3, entitled "The ECB's additional open market operations in the period from 8 August to 5 September 2007", in the September 2007 issue of the Monthly Bulletin.



On the following three business days the ECB conducted further liquidity-providing fine-tuning operations with overnight maturity, although this time through variable rate tender procedures. The amounts provided on those days decreased from €61.1 billion on 10 August to €47.7 billion on 13 August and €7.7 billion on 14 August, while the EONIA decreased steadily to 4.05%. On 14 August the ECB also allotted the regular MRO. The benchmark amount for this operation took into account the large liquidity surplus that had accumulated since the start of the maintenance period because of the fine-tuning operations and was therefore relatively small. Against this background and in order to ease the tensions still prevailing in the short-term money market, the ECB allotted €73.5 billion above the benchmark.

Since the ECB was still aiming for balanced liquidity conditions at the end of the maintenance period, the amount allotted above the benchmark was reduced to €46 billion in the MRO allotted on 22 August. On 23 August the ECB also allotted a supplementary longer-term refinancing operation with a maturity of three months for an amount of €40 billion, further supporting the normalisation of the functioning of the euro money market. As a result of the ample liquidity conditions following the provision of these large amounts of liquidity in addition to the usual benchmark amount, the EONIA fell to 3.72% on 28 August.

In order to gradually reduce the large reserve surplus that had accumulated by this point, the ECB further reduced – to €14.5 billion – the amount of liquidity allotted in addition to the benchmark in the following MRO. On 29 August, the settlement day of the MRO, the EONIA rose to 4.05%. However, as a result of the reduction in the amount allotted above the benchmark, daily current account holdings dropped to a level of €50-60 billion below the reserve requirements for that week. Together with the usual end-of-month effect, this development caused the EONIA to rise further to stand at 4.458% on 4 September.<sup>3</sup> On this day the ECB allotted €5.0 billion above the benchmark in the final MRO of the period. When the EONIA continued to rise, reaching 4.588% on 5 September, the ECB injected €42.2 billion of liquidity on 6 September through an overnight fine-tuning operation without a pre-announced volume. The upward trend in the overnight rate was reversed and the EONIA fell to 3.538% on 10 September. On the following day, which was the last day of the period, the ECB restored broadly balanced liquidity conditions by conducting a liquidity-draining fine-tuning operation for an amount of €60 billion with a rate of 4.00%. The maintenance period ended with net recourse to the deposit facility of €1.2 billion and the EONIA at 3.865%.

### **Reserve maintenance period ending on 9 October**

In the first MRO of this maintenance period, which was settled on 12 September, the ECB allotted €10 billion above the benchmark. Only one day later further liquidity was provided through a second supplementary longer-term refinancing operation with a three-month maturity for an amount of €75 billion. This aimed to support the normalisation of the functioning of the euro money market, and the resulting ample liquidity conditions drove the EONIA down from 4.113% on the first day of the period to 3.573% on 17 September.

With the second MRO of that period, the ECB started to gradually withdraw the excess liquidity and allotted €36 billion above the benchmark. On the settlement day, 19 September, the EONIA rose by 48 basis points to 4.095%, before easing to 4.007% on the following day. With the end

<sup>3</sup> As of September, the EONIA is published with three decimal places instead of two.

of the quarter imminent, the EONIA rebounded strongly to stand at 4.293% on 26 September. The allotment of €33 billion above the benchmark in that week's MRO stopped this upward trend, and the EONIA stood at 4.137% and 4.162% respectively on the last two days of the quarter. On Monday 1 October, once the end-of-quarter effect had passed, the EONIA stood at 3.858%.

With the allotment, in the MRO in the last week of the period, of €7.5 billion above the benchmark, the EONIA eased further, reaching 3.621% on 8 October. On the following day the ECB again restored balanced liquidity conditions by withdrawing €24.5 billion in a fine-tuning operation with a rate of 4.00%. The period ended with net recourse to the deposit facility of just €0.4 billion and the EONIA at 3.945%.

### Reserve maintenance period ending on 13 November

Just before the start of the maintenance period ending on 13 November the ECB issued a statement via news wire services saying that the ECB was aiming to further reduce the volatility of short-term rates around the central policy rate.<sup>4</sup> To this end, the ECB stated its willingness to reinforce its policy of allotting more than the benchmark amount in its MROs, while still aiming at balanced conditions at the end of the period, with a view to steering liquidity conditions during the period so that very short-term interest rates remained close to the minimum bid rate. The ECB allotted €40 billion above the benchmark in the first MRO of the period. When the EONIA fell from 3.946% to 3.818% in the first two days of the period, the ECB conducted a liquidity-absorbing fine-tuning operation, offering to accept "up to €30 billion" for five days at a rate of 4.00%. Since counterparties submitted bids with a total value of €40 billion, the full €30 billion was absorbed.

After this operation the EONIA stabilised at a level only slightly above 4.00% and remained at that level until 9 November, with the end of the month giving rise only to a moderate increase to 4.131%. The ECB steadily reduced the amount by which its allotments exceeded the benchmark, with €3.5 billion being allotted above the benchmark in the last MRO of the period. The EONIA decreased to 3.837% on the penultimate day of the period. On the next day the ECB expected net recourse to the deposit facility of €37 billion and launched a liquidity-draining fine-tuning operation for that amount. However, the bids submitted by counterparties fell €9.3 billion short of that volume, giving rise to a liquidity surplus in the market. The overnight rate fell to a level close to the deposit facility rate, and the EONIA stood at 3.755%. The period ended with net recourse to the deposit facility of €8.7 billion.

4 The ECB issued the following statement on 8 October together with the announcement of the first MRO of the maintenance period: "The ECB continues to closely monitor liquidity conditions and aims at further reducing the volatility of very short-term rates around the MRO minimum bid rate. For this purpose, the ECB will reinforce its policy of allocating more liquidity than the benchmark amount in main refinancing operations to accommodate the demand of counterparties to fulfil reserve requirements early within the maintenance period. The difference between the allotted and the benchmark amount is envisaged to decline gradually in the course of the maintenance period, taking into account the prevailing market conditions. The ECB still aims at balanced liquidity conditions at the end of the maintenance period. The ECB will steer liquidity towards more balanced conditions also during the maintenance period, in a way which is consistent with the objective to keep very short-term rates close to the minimum bid rate."

## 2.4 BOND MARKETS

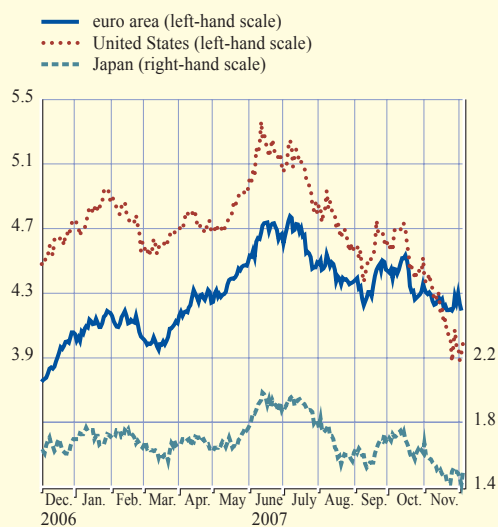
*In the last three months global financial markets have been strongly affected by the financial turmoil that started last August. Global asset prices suffered pronounced swings in the period under review, partly reflecting the evolution of investors' views on the wider impact of the turmoil. Government bond markets experienced strong flight-to-safety portfolio shifts of funds from riskier asset classes to sovereign bonds, changing expectations regarding monetary policy rates and increasing uncertainty about the economic outlook. Overall, lower bond yields resulted in most advanced economies. Moreover, market participants' uncertainty about future bond market developments increased in the euro area and, particularly, in the United States.*

The last three months were characterised by significant volatility in global financial markets as a result of a general reassessment and re-pricing of financial risks triggered by distress in the sub-prime segment of the US mortgage market. Investors' concerns rose as additional evidence on the consequences of the exposure to the US mortgage-based assets became available, and markets underwent strong swings. Global bond markets were initially affected mainly by flight-to-safety portfolio shifts, while bond yields seem more recently to also reflect investors' growing pessimism about the economic outlook, in particular for the United States. At the same time, inflation concerns also appeared to rise among investors, fuelled by the surge in oil prices and food prices over the review period.

Overall, ten-year government bond yields in the euro area stood at 4.2% in early December, which was around 20 basis points lower than the level at end-August (see Chart 20). This overall development of long-term bond yields, however, masks significant intra-period swings. At the same time, ten-year government bond yields in the United States fell by around 60 basis points,

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

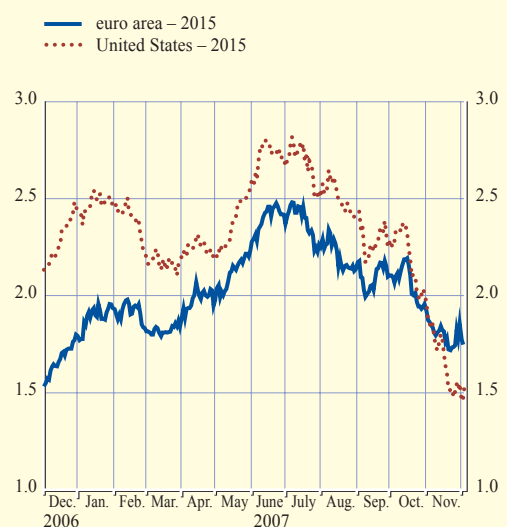
(percentages per annum; daily data)



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.

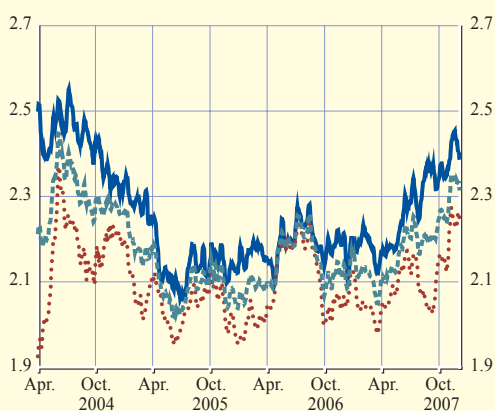
ending the review period at around 4.0%. As a result, the long-term interest rate differential between US and euro area bonds narrowed markedly and became negative for the first time since September 2004, standing at -20 basis points in early December. In Japan, ten-year government bond yields declined by about 10 basis points to stand at 1.5% at the end of the review period. The financial market turmoil triggered rising uncertainty among market participants about the near-term outlook for euro area and, particularly, US long-term bond yields. This was reflected in both higher levels and significant swings in implied bond market volatility between the end of August and 5 December.

US long-term bond yields declined considerably over the period under review. The decrease reflected significantly lower real rates that, as measured by inflation-linked bond yields, fell by 90 basis points, i.e. even more than the nominal yields. The drop in real yields appeared to reflect a weaker growth outlook for the United States, as perceived by market participants, possibly on account of the adverse economic effects of higher oil prices, a deteriorating housing sector and increasing concerns about the economic impact of the financial market turmoil. The decision of the Federal Open Market Committee (FOMC) to lower interest rates both on 18 September and on 31 October led to further downward revisions to interest rate expectations at medium to long-term horizons, thereby contributing to the decline in bond yields over the period under review. At the same time, the surge in oil prices and the weakening of the US dollar appeared to trigger some inflation concerns among investors. In the period under review, US break-even inflation rates rose across all horizons, and those increases contributed to attenuating the downward pressure on nominal yields that stemmed from the lower real yields.

**Chart 22 Zero-coupon spot and forward break-even inflation rates in the euro area**

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

- five-year forward break-even inflation rate five years ahead (seasonally adjusted)
- ..... five-year spot break-even inflation rate (seasonally adjusted)
- - - ten-year spot break-even inflation rate (seasonally adjusted)

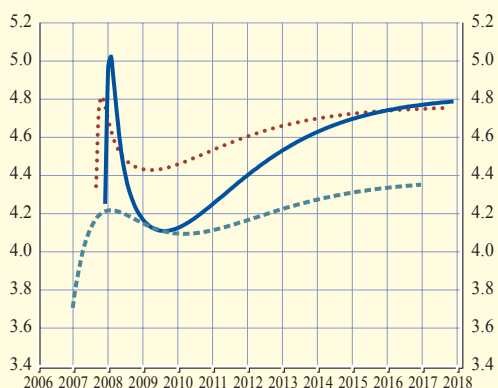


Sources: Reuters and ECB calculations.

**Chart 23 Implied forward euro area overnight interest rates**

(percentages per annum; daily data)

- 5 December 2007
- ..... 31 August 2007
- - - 29 December 2006



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.

As in the United States, long-term nominal bond yields in the euro area have fallen since end-August, albeit to a far lesser extent. The decline in nominal yields is also a reflection of lower real yields in the euro area (see Chart 21): the yield on the ten-year spot index-linked bond fell by about 30 basis points to 1.9%, while that on the five year forward index-linked bond five years ahead decreased by 10 basis points to around 2.1%. In addition to the effects of flight-to-safety portfolio shifts, the downward revision of real (and nominal) yields in the euro area may be attributed to perceptions by investors of some moderation in euro area growth prospects.

Over the past few months, long-term break-even inflation rates in the euro area increased somewhat across all horizons, and reached rather elevated levels, most likely as a result of new oil price highs, sharp increases in food prices and the recent rise in euro area HICP inflation. The five-year forward break-even inflation rate five years ahead, a measure of market participants' purely long-term inflation expectations and the related inflation risk premium, increased slightly over the review period, reaching a level around 2.4% on 5 December (see Chart 22). Similar increases were recorded for the five-year and the ten-year spot break-even inflation rates, which suggest an increase in inflation concerns among investors across all longer-term maturities. Available indicators of shorter-term inflation expectations among market participants suggest that inflation concerns over shorter horizons, too, rose over the period under review: for instance, one-year forward rates one year ahead based on inflation-linked swaps have risen by 30 basis points since end-August, to above 2.3% at the end of the review period. However, it has to be borne in mind that additional caution is warranted when interpreting movements in break-even inflation rates and other market based measures of inflation expectations in a period of general financial distress.

The implied forward overnight interest rate curve for the euro area experienced a downward shift at most horizons between end-August and early December 2007 (see Chart 23). The short end of the curve continues to reflect the tensions in the money markets, while the downward shift in implied forward rates at medium to long-term horizons may be attributable both to a decline in risk premia triggered by flight-to-safety flows into government bonds and to the downward revision to growth expectations among market participants at intermediate horizons.

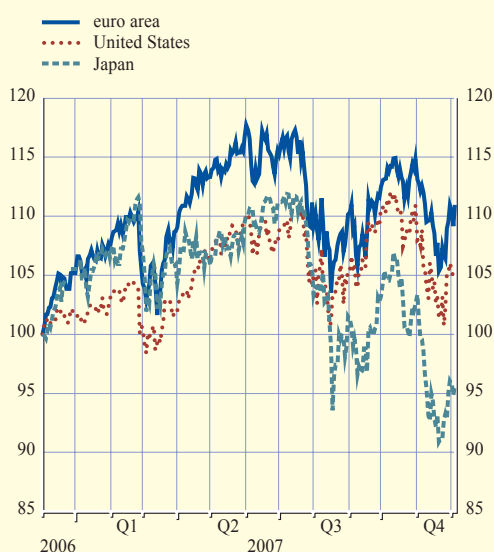
## 2.5 EQUITY MARKETS

*Between the end of August and early December, global equity prices experienced pronounced swings amid synchronous movements in implied stock market volatility, although the overall change in major stock indices was relatively muted. In the first half of the period under review, global stock markets recovered strongly from the heavy losses incurred after the outbreak of the financial turmoil in early August. Thereafter, as of mid-October, intensified concerns about the financial and economic implications of the US sub-prime mortgage crisis resurfaced, prompting a renewed correction in stock prices. These swings in global stock prices seem to reflect mainly corresponding changes in the equity risk premia demanded by investors for holding stocks, rather than strong revisions in expected earnings.*

The recent financial turmoil had a marked impact on global stock prices, which were subject to significant volatility in the last few months. Between the end of August and early December, major stock markets displayed very strong price swings. In the first half of the period under review, global stock markets recovered almost fully from the sharp losses suffered during the first

Chart 24 Stock price indices

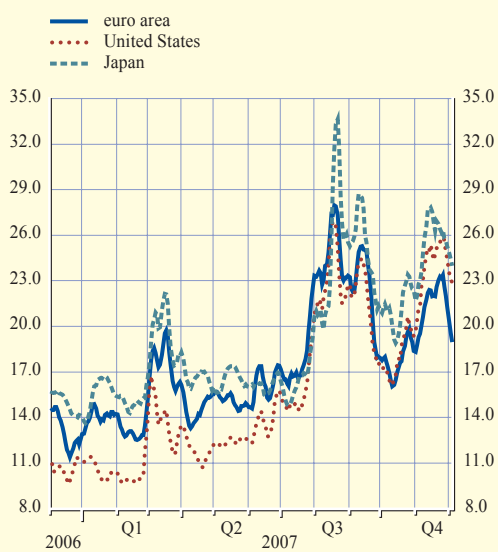
(index: 1 December 2006 = 100; daily data)



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.

weeks of the financial turmoil. Later on, as of mid-October, risk aversion heightened again as concerns about the financial and economic implications of the US sub-prime mortgage crisis intensified, triggering a renewed correction in stock prices in November (see Chart 24). Overall, stock prices in the euro area, as measured by the Dow Jones EURO STOXX index, and in the United States, as measured by the Standard & Poor's 500 index, remained broadly unchanged between the end of August and 5 December. Japanese stock prices, as measured by the Nikkei 225 index, fell by about 10% over the entire review period.

Following the outbreak of the financial market tensions in August, near-term stock market uncertainty, as measured by the implied volatility extracted from stock options, rose sharply in the major markets (see Chart 25). This development reflected the sudden change in investors' assessment of risks that had occurred in late summer on account of increasing uncertainty about the broader implications of the US mortgage crisis. Later on in the review period, investors' concerns appeared to have abated temporarily, and market volatility moderated significantly. Since mid-October, however, there has been another sharp rebound in investors' uncertainty. Indeed, the stock market declines in November seem to have been due to higher equity risk premia, given that they coincided with sharp increases in volatility in an environment where long-term bond yields fell and both actual and expected earnings remained relatively robust. The recent sharp rebound in corporate bond spreads, in particular for lower-rated companies, also supports the view that, towards the end of the period under review, uncertainty and risk aversion among investors picked up again after a period of substantial moderation.

In the early part of the review period, global stock markets, in general, and the US stock market, in particular, recovered from the initial sharp correction in the summer. As in the February/March and June episodes earlier this year, the sell-off appeared to be short-lived. However, stock market sentiment and uncertainty deteriorated again as a result of further bad news from the US sub-prime mortgage market and generally higher-than-expected losses reported by major financial institutions. Investors' heightened concerns about the economic outlook, weaker housing markets and, in particular, potentially adverse impacts of the financial turmoil, together with the surge in oil prices, led to further losses in all stock market sectors.

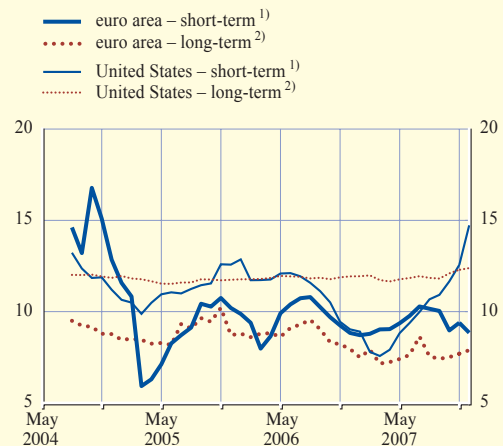
According to analysts, however, the growth of the actual and expected earnings of US companies remained fairly robust and, together with lower long-term bond yields and expectations of monetary policy easing, curbed the decline in US stock prices over the latter part of the period under review and contributed to a partial rebound. Indeed, the expected growth rates in earnings per share of corporations included in the Standard & Poor's 500 index, both for the next 12 months and over a longer-term horizon of three to five years, have remained comfortably in the double-digit range, with the former even rising to 13% in November (see Chart 26).

Euro area stock prices likewise experienced pronounced swings over the past three months, thus reflecting the trend in global markets. Investors' concerns about the impact of the US sub-prime mortgage crisis quickly extended to stock prices throughout the world, including the euro area, as it became clear that euro area financial institutions, too, might be heavily exposed to investments in instruments related to US sub-prime mortgages. As did other major markets, the euro area stock market experienced a significant recovery in the earlier part of the review period, but those gains were partially erased over the past few weeks – between mid-October and 5 December, the Dow Jones EURO STOXX index lost around 3%.

Throughout the period under review, euro area stock prices received continuous support from the earnings side. Actual and expected earnings growth among listed euro area firms remained robust, despite high oil prices and the appreciation of the euro vis-à-vis the US dollar. According to November data, the earnings per share of the companies included in the Dow Jones EURO STOXX index are expected to continue to grow at an annual rate of close to 10% over the next 12 months and by around 8% over a horizon of three to five years ahead. Moreover, actual annual earnings growth was 15% in November, only marginally lower than in August. These figures suggest that, notwithstanding the financial turmoil, analysts still expect listed euro area companies to deliver robust earnings growth over coming years. In addition to strong earnings, the decline in euro area government long-term bond yields should have had a favourable discounting effect, thereby helping to mitigate the fall in equity prices.

**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 (I/B/E/S) 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).

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> (end-of-period data)	6.9	6.2	12.0	6.7	29.8	3.1	12.0	5.4	7.5	10.4	100.0
<b>Price changes</b> (end-of-period data)											
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
2007 Q3	0.1	-5.0	-0.8	-4.1	-7.5	-2.7	-10.4	7.7	9.1	2.1	-3.4
October	-0.0	2.6	5.0	-1.0	1.9	2.4	3.6	-1.1	8.4	6.2	2.9
November	-4.9	-4.4	-5.8	-2.9	-5.6	2.7	-2.3	-4.1	1.5	1.3	-3.4
31 Aug. - 5 Dec.	-2.8	-3.4	1.8	0.4	-4.3	5.9	-1.0	-1.6	15.8	13.6	0.7

Sources: Thomson Financial Datastream and ECB calculations.

As regards developments in sectoral stock price indices in the euro area, there were significant differences across economic sectors over the past three months (see Table 3). The telecommunications and utility sectors managed to record double-digit gains, clearly outperforming the broad-based Dow Jones EURO STOXX index in the period under review. Among the underperforming sectors, the strongest losses were recorded by consumer services and, in particular, the financial sector. Higher-than-expected losses and remaining uncertainty regarding the exposure of the financial sector to assets linked to risky sub-prime mortgages in the United States appear to be the main factors behind the poor performance of this sector, which lost more than 4% between end-August and early December.

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

*In the third quarter of 2007, non-financial corporations' real cost of external financing continued to rise somewhat. At the same time, corporate profitability remained solid. Despite the higher cost of financing, demand by non-financial corporations for MFI loans remained high. This led to an increase in non-financial corporations' debt-to-income ratio, whereas the ratio of debt to financial assets continued to be stable in view of considerable financial investment in past quarters. Against the background of the net tightening of credit standards reported in the October 2007 bank lending survey, it remains to be seen whether the recent financial turmoil will cause loan growth to moderate in the coming months.*

### FINANCING CONDITIONS

The real cost of external financing for euro area non-financial corporations – as calculated by weighting the cost of different sources of financing on the basis of their amounts outstanding, corrected for valuation effects – increased further in the third quarter of 2007 (see Chart 27).<sup>6</sup> From a longer-term perspective, however, it remained below previous peaks reached in 2000–2002

<sup>6</sup> For a detailed description of how the real cost of external financing of euro area non-financial corporations is measured, see Box 4 in the March 2005 issue of the Monthly Bulletin.

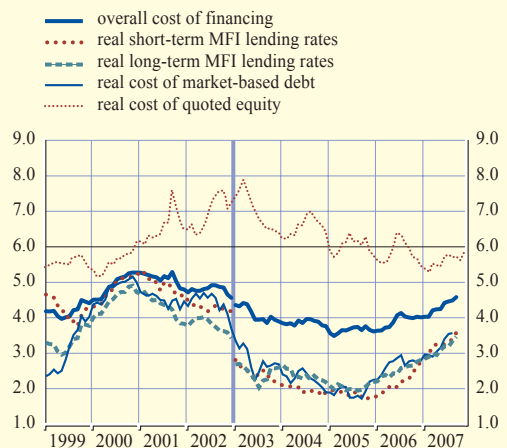


when, in the context of the stock market correction of the time, the real cost of equity had become particularly high.<sup>7</sup> In the third quarter of 2007, the increase in the real cost of non-financial corporations' external financing was driven mainly by a continued rise in their real cost of debt financing, which rose by around 30 basis points from the second to the third quarter of 2007. Both the real cost of bank lending and the real cost of market-based debt financing contributed to this increase. By contrast, the real cost of quoted equity remained broadly unchanged. The increase in the real overall cost of financing for euro area non-financial corporations reflects mainly the trend towards a tightening of financing conditions which started in December 2005, thereby broadly following the pattern of lagged pass-through and interest rate smoothing observed in previous cycles. At the same time, the tensions on financial markets and a re-evaluation of risk have also contributed to the increase in the recent past.

The real cost of bank lending continued to rise in the third quarter, by 30 basis points from June to September. Both short-term and long-term rates contributed to this increase. Short-term MFI interest rates on loans to non-financial corporations with floating rates and an initial rate fixation of up to one year went up by around 30 to 40 basis points between June and September 2007, depending on the loan size (see Table 4). This was less than the increase in the three-month EURIBOR, which rose markedly in the context of the financial market tensions. Consequently, the spread between short-term bank lending rates and the three-month money market rate declined in the third quarter of 2007. This development was broadly in line with the evidence on the pass-through of market interest rates to bank interest rates. Long-term MFI interest rates on loans to non-financial corporations with an initial rate fixation of over five years also continued to rise over the same period, by around 20 to 30 basis points, depending on the size of the loans, despite a decline in comparable government bond yields. This increase may be related to the fact that the cost of long-term bank funding through the issuance of bonds rose significantly (see Chart 28 below). In contrast to the spreads of short-term bank lending rates, the spread between long-term bank lending rates and both two-year and five-year government bond yields widened markedly in the third quarter of 2007. These developments are also consistent with the results of the October 2007 bank lending survey for the euro area, which suggest a broader reassessment of risks by banks, after a prolonged period of exceptionally benign credit conditions. According to the results of the October 2007 bank lending survey for the euro area, reporting banks mentioned factors that were related to their situation in the current context of the financial market tensions, such as the cost related to the bank's capital, the bank's liquidity position and its access to market financing, as well as expectations regarding general economic activity and the industry or firm-specific outlook, as playing a role in the net

**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 forecasts.

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.

7 When disregarding the statistical break at the beginning of 2003.

**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 Sep. 2007 <sup>2)</sup>		
	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Aug.	2007 Sep.	2007 Mar.	2007 June	2007 Aug.
<b>MFI interest rates on loans</b>									
Bank overdrafts to non-financial corporations	5.69	5.80	6.06	6.18	6.36	6.50	44	32	14
Loans to non-financial corporations of up to €1 million									
with a floating rate and an initial rate fixation of up to one year	4.74	5.08	5.29	5.53	5.75	5.92	62	38	17
with an initial rate fixation of over five years	4.59	4.67	4.83	5.00	5.16	5.22	39	22	6
Loans to non-financial corporations of over €1 million									
with a floating rate and an initial rate fixation of up to one year	4.03	4.50	4.68	4.90	5.00	5.20	52	31	20
with an initial rate fixation of over five years	4.48	4.63	4.86	5.17	5.30	5.45	59	28	14
<b>Memo items</b>									
Three-month money market interest rate	3.34	3.68	3.89	4.15	4.54	4.74	85	59	20
Two-year government bond yield	3.62	3.79	3.94	4.45	4.19	4.10	15	-36	-9
Five-year government bond yield	3.70	3.83	3.95	4.57	4.27	4.19	25	-38	-8

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.

tightening of credit standards. Similar reasons for a net tightening of credit standards in the third quarter of 2007, in particular for loans to large enterprises, were also cited in the United States and the United Kingdom (see Box 3).

**Box 3****EVIDENCE OF THE IMPACT OF RECENT FINANCIAL MARKET TENSIONS, AS REVEALED BY BANK LENDING SURVEYS IN MAJOR INDUSTRIALISED ECONOMIES**

The euro area bank lending survey for October has shown that banks reacted to the tensions in financial markets in the third quarter by tightening their credit standards, both for enterprises and, to a lesser extent, for households. In this context, it is of interest to investigate whether banks in other major economic areas have responded to the financial market tensions in similar ways. The analysis in this box is based on evidence from the bank lending surveys in a number of major industrialised economies, namely the United States, Japan, the United Kingdom and the euro area.<sup>1</sup> The box provides results for mainly loans to enterprises, which were affected, on average across the countries involved, more markedly than loans to households.

<sup>1</sup> The quarterly US Senior Loan Officer Opinion Survey on Bank Lending Practices (the "US survey") is based on a sample of 50-60 large domestic banks and a separate sample of 20 branches and agencies of foreign banks located in the United States. The quarterly Japan Senior Loan Officer Survey (the "Japanese survey") covers about 50 major Japanese banks. The quarterly UK Credit Conditions Survey (the "UK survey"), which was introduced by the Bank of England in 2007, covers about 30 banks, the largest lenders in the secured, unsecured and corporate lending market segments. The quarterly bank lending survey for the euro area (the "euro area survey") covers around 90 banks in all euro area countries. The national results are weighted by the volumes of loans to households and enterprises for aggregation at the euro area level.

### Some key facts on the design of the surveys

All four surveys are conducted quarterly and report information, based on the answers from participating banks, on the changes recorded in the past three months and expected over the next three months in credit standards for the approval of loans, in the underlying terms and conditions and in the demand for loans. In addition, all surveys ask the banks for an indication of possible factors explaining such developments. In this respect, the surveys are quite similar to each other. Viewed in depth, however, there are some relevant differences between the surveys, which need to be borne in mind when comparing the results. First, with respect to enterprises, the banks' answers are partly published for all enterprises and partly split into large, medium-sized and small firms,<sup>2</sup> with size categories differing across the surveys. In addition, the compilation methods differ somewhat. While the US and euro area surveys publish net percentages, which are defined as the simple difference between the sum of the percentages for tightening and the sum of the percentages for easing, the Bank of England publishes net percentage balances, for which responses are weighted by the intensity of the response (i.e. major changes are weighted twice as high as minor changes) and by the market share of the reporting lenders. Like the Bank of England, the Bank of Japan also publishes weighted results (diffusion index).

Moreover, when comparing the survey results for the third quarter of 2007, the fact must be taken into account that the surveys were conducted at different times. The US survey of October 2007 and the corresponding Japanese survey were both conducted around mid-October, whereas the UK survey for the third quarter of 2007 was already conducted between 20 August and 13 September and the euro area survey for the third quarter of 2007<sup>3</sup> was conducted in the second half of September.

### Changes in bank credit standards in the third quarter of 2007

For the third quarter of 2007, the surveys for the United States, the United Kingdom and the euro area report a considerable net tightening of credit standards for the approval of loans to enterprises (see Chart A). In all three economic areas, large enterprises were affected more by the net tightening than small enterprises. At the same time, however, the net percentage of banks reporting tighter credit standards in the United States and in the euro area remained below the peaks of 2001 and 2003 respectively.<sup>4</sup> In the euro area, credit standards for loans to households were tightened significantly less than those for enterprises, while they were kept broadly unchanged in net terms in the United Kingdom (see Chart B).<sup>5</sup> In the United States, by contrast, credit standards for residential mortgage loans were tightened sharply in the third quarter of 2007, to the highest net percentage level recorded since the start of the survey in 1990. In contrast to the other three surveys, Japanese banks reported a continued net easing of credit standards for loans to both firms of all sizes and households in the third quarter of 2007, and expected this easing to continue in the fourth quarter.

2 The US survey, for instance, reports the split into "large and medium firms" and "small firms", but not the results for all enterprises.

3 For a detailed description of the results of the euro area bank lending survey for the third quarter of 2007, see Box 2 in the October 2007 issue of the Monthly Bulletin.

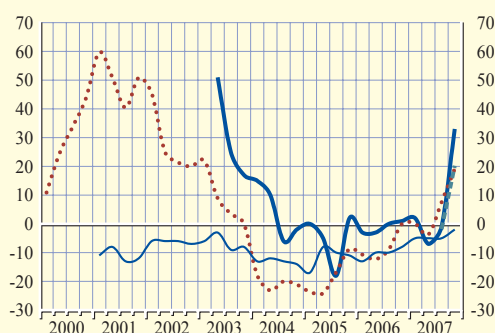
4 For the United Kingdom, there are no historical data for these periods.

5 It has to be recalled that the UK survey was conducted prior to the insolvency of Northern Rock, a UK mortgage lender.

**Chart A Changes in credit standards for loans to large enterprises**

(over the past three months; net percentages of banks contributing to tightening standards)

- euro area
- ..... United States (large and medium-sized firms)
- - - United Kingdom (large and medium-sized firms)
- Japan



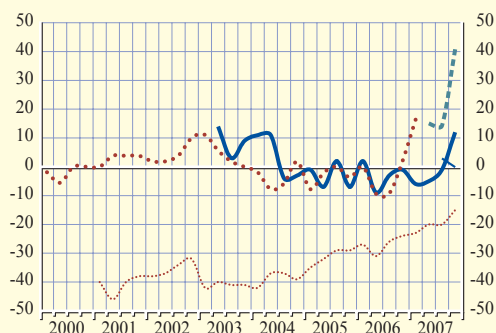
Sources: ECB, Federal Reserve System, Bank of Japan and Bank of England.

Note: For the United Kingdom, data only start in the second quarter of 2007. The net percentage balances on corporate credit availability in the United Kingdom have been inverted. Inverted diffusion index for Japan.

**Chart B Changes in credit standards for residential mortgage loans**

(over the past three months; net percentages of banks contributing to tightening standards)

- euro area (loans for house purchase)
- ..... United States (all residential mortgage loans)
- - - United States (prime residential mortgage loans)
- United Kingdom (secured credit to households)
- ..... Japan (all loans to households)



Sources: ECB, Federal Reserve System, Bank of Japan and Bank of England.

Note: For the United Kingdom, data only start in the second quarter of 2007. The net percentage balances on secured credit availability to households in the United Kingdom have been inverted. For the United States, the series for all residential mortgage loans has been discontinued on account of a split into the prime, non-traditional and sub-prime market segments as from the April 2007 survey. Inverted diffusion index for Japan.

### Factors affecting the availability of bank loans to enterprises in the third quarter of 2007

With respect to the reasons for the net decline in the availability of loans to enterprises, a number of factors were common to banks in the United States, the United Kingdom and the euro area, although their importance differed somewhat. First, banks reported that their expectations with respect to the economic outlook had contributed significantly to the net tightening of credit standards in the third quarter, especially in the United States and the euro area. In the United Kingdom, the changing economic outlook – in the view of reporting banks – contributed only modestly to the net decline in credit availability, but is expected to play a significantly greater role in the fourth quarter. In addition, banks in both the euro area and the United Kingdom reported that their cost of funds had contributed considerably to the net tightening of credit standards for enterprises in the third quarter. By contrast, US banks did not, on average, regard their current or expected capital, or their liquidity positions, to be an important factor behind the tightening of credit standards. Moreover, in all three economic areas, banks' access to market financing and a reduced tolerance of risk were mentioned as important reasons for the tightening of credit standards. In contrast to the results of the other three surveys, the Japanese survey cited the economic outlook as an important factor behind the net easing of credit standards.

The UK and euro area surveys for the third quarter of 2007 – and, to some extent, the US survey as well – reported specifically on two areas that were particularly affected by the tensions in financial markets, namely on the changes in securitisation and on the impact on bank lending of banks' liquidity commitments to structured investment vehicles (SIVs) or conduits. With

respect to securitisation, banks reported that the financial market tensions in the third quarter had made it difficult, in the context of true-sale securitisation, for them to offload loans from their balance sheet or, in the context of synthetic securitisation, to sell the credit risk of the loans. In the United States, banks reported a considerably lower share of securitised mortgage loans in the third quarter. Similarly, UK banks reported that they expected a marked decline in the use of both true-sale and synthetic securitisation in the fourth quarter of 2007. When asked about the reduced ability to offload loans or credit risk from their balance sheets, UK banks reported a strong negative effect on their capacity to extend new credit to the corporate sector, and on the underlying terms and conditions, since July 2007. A considerable negative impact on the capacity for, and the terms of, new secured lending to households is also expected by banks for the fourth quarter. As regards the euro area survey, based on the ad hoc questions for the third quarter, more than 70% of the reporting euro area banks stated that their access to securitisation had already been hampered in the third quarter and that it was expected to be hampered also in the fourth quarter of 2007.

As regards the impact of banks' liquidity commitments to SIVs or conduits on bank lending, the US and UK surveys provide specific information. In the United States, when questioned about changes in their standards and terms for providing backup lines of credit for commercial paper programmes, banks reported a considerable net tightening in this respect in the third quarter. Similarly, in the United Kingdom, when asked about the impact of possible liquidity commitments to asset-backed commercial paper programmes or SIVs, banks reported a strong negative effect on the capacity for, and underlying terms of, extending new credit to the corporate sector since July 2007.

#### **Changes in the terms and conditions for loans to enterprises in the third quarter of 2007**

According to reporting banks, the tensions in financial markets have affected both price and non-price terms and conditions for loans to enterprises in the United States, the United Kingdom and the euro area in the third quarter. This reflected an increased risk aversion of banks against the background of higher uncertainty and possibly higher credit and liquidity risks. By contrast, the terms and conditions for bank loans to enterprises in Japan continued to evolve favourably.

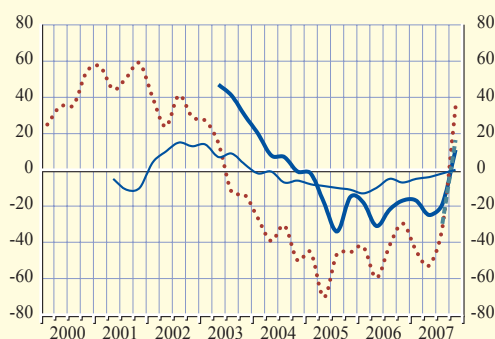
Starting with price terms and conditions, a significant net percentage of banks in the United States reported a marked increase, especially for large and medium firms, in the spreads of loan rates over their cost of funds and in the premiums charged on riskier loans (see Chart C). For the United Kingdom, banks reported a considerable net increase in the spreads on loans in the third quarter, more for large than for medium-sized private non-financial corporations, and they expect a further increase in the fourth quarter. Euro area banks likewise tightened their margins significantly, both on average and in respect of riskier loans, in the third quarter. Where Japanese banks are concerned, an increase in the spreads of loan rates over the banks' cost of funds for lower-rated firms in the third quarter might point to a certain increase in risk aversion.

Non-price terms and conditions were generally tightened somewhat less than price terms and conditions in the United States, the United Kingdom and the euro area. In the United States, in particular loan covenants in the third quarter were tightened considerably in comparison with the previous quarter. For the United Kingdom, most non-price terms and conditions, such as collateral requirements, maximum credit lines or loan covenants, still contributed positively or

**Chart C Changes in price terms on loans to enterprises**

(over the past three months; net percentages of banks contributing to tightening standards)

- euro area (margin on average loans; all firms)
- ..... United States (spreads of loan rates over cost of funds; large firms)
- - - United Kingdom (spreads on loans; large and medium-sized firms)
- Japan (spreads of loan rates over cost of funds; large firms)

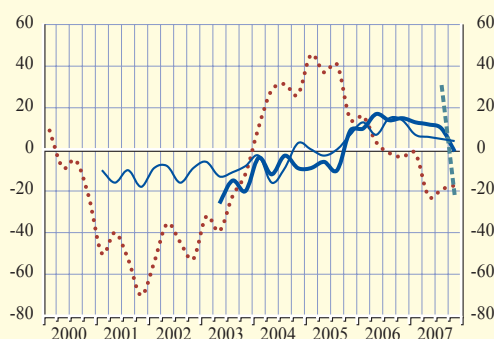


Sources: ECB, Federal Reserve System, Bank of Japan and Bank of England.  
Note: For the United Kingdom, data only start in the second quarter of 2007. The net percentage balances on spreads on loans to large private non-financial corporations in the United Kingdom have been inverted. Inverted diffusion index for Japan.

**Chart D Changes in demand for loans to large enterprises**

(over the past three months; net percentages of banks reporting a positive contribution to demand)

- euro area
- ..... United States (large and medium-sized firms)
- - - United Kingdom
- Japan



Sources: ECB, Federal Reserve System, Bank of Japan and Bank of England.  
Note: For the United Kingdom, data only start in the second quarter of 2007. Net percentage balances for large private non-financial corporations in the United Kingdom. Diffusion index for large firms in all industries for Japan.

neutrally to the availability of credit to private non-financial corporations in the third quarter. However, banks expect a sharp deterioration in non-price terms and conditions in the fourth quarter. With respect to the euro area, banks reported a broad-based net tightening of their non-price terms and conditions, such as collateral requirements, the size of credit lines, loan covenants and non-interest charges, for loans to enterprises in the third quarter, after a net easing in the second quarter. Japanese banks, by contrast, generally continued to ease their non-price terms and conditions for loans to firms in net terms in the third quarter of 2007.

### Demand for loans in the third quarter of 2007

With respect to the demand for loans by large enterprises and households in the third quarter of 2007, banks in the United States, the United Kingdom and the euro area reported a decline in net loan demand by large and medium-sized enterprises, and partly by households, whereas Japanese banks reported an unchanged or increased net demand for loans by firms and households (see Chart D).

In the United States, banks reported that the net demand for loans by enterprises continued to weaken in the third quarter, albeit somewhat less than in the second quarter. According to the reporting banks, this was due mainly to decreasing financing needs both for fixed investment and for mergers and acquisitions (M&As). In the United Kingdom, banks mentioned a drop in the demand for loans by private non-financial corporations, which had still increased in the second quarter. The main factors cited by the reporting banks as contributing to the decline in the third quarter and to an expected further decline in the fourth quarter were balance sheet

restructuring and commercial real estate, as well as – for the fourth quarter only – M&As. As did US and UK banks, euro area banks likewise reported a decline, mainly related to lower M&A activity, in net demand for loans by large enterprises. In the Japanese survey, the reporting banks stated that higher sales and investment had contributed strongly both to firms' demand for loans and to households' demand for housing loans. By contrast, customers' funding from other sources did not become more difficult according to reporting banks and, hence, did not contribute to the rise in the demand for loans by firms.

### Conclusions

The international comparison of the bank lending survey results for the third quarter of 2007 has shown that bank lending conditions in the United States, the United Kingdom and the euro area seem to have been affected significantly by the financial market tensions and the reappraisal of risks. It should be noted, however, that the net tightening of the credit standards applied to enterprises in the United States and in the euro area remains less severe for all firm sizes than in 2001 and 2003 respectively, and that lending to households has thus far been generally affected to a lesser degree in the euro area and the United Kingdom, although this does not hold true for the United States. In particular in the United States, credit standards for residential mortgages were tightened sharply in the third quarter, reaching their highest level since the start of the survey in 1990. By contrast, bank lending conditions in Japan seem to have been hardly affected by the turmoil.

Taking a somewhat longer-term perspective, the spread between short-term bank lending rates and the three-month money market rate for loans of both small and large size to non-financial corporations reached its lowest level since the start of the MFI lending rates series in 2003. The spreads between longer-term bank lending rates and comparable government bond yields remained slightly below the respective average values recorded for small-sized loans since 2003, whereas the spreads of longer-term bank lending rates in the third quarter of 2007 for large loans reached levels above the averages registered since 2003.

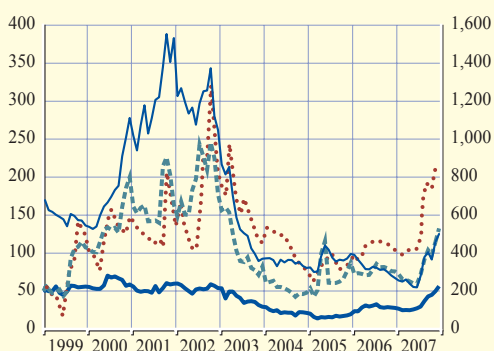
With respect to developments in market debt financing, the real cost of market-based debt financing also rose significantly in the third quarter of 2007, by around 20 basis points from June to September. In the context of declining government bond yields, the increase in the real cost of market-based debt financing led to a significant widening of the spreads of non-financial corporate bonds from June to September, reflecting the reassessment of risks against the background of the tensions in the financial markets (see Chart 28). At the same time, the increase in the spread over the same period remained more limited for non-financial corporate bonds than for financial corporate bonds, especially when lower-rated non-financial bonds are compared with financial corporate bonds. In November, the real cost of market-based debt financing stood broadly at its September level.

The real cost of quoted equity of non-financial corporations only rose slightly in the third quarter of 2007. Consequently, while the gap between the real cost of quoted equity and the real cost of debt financing continued to be significant, it narrowed further to the lowest level recorded since the first quarter of 2002. At the same time, in the wake of developments on the stock market, the real cost of quoted equity rose considerably in November, after having fallen in October.

Chart 28 Corporate bond spreads

(basis points; monthly averages)

- euro-denominated non-financial AA (left-hand scale)
- euro-denominated financial BBB (left-hand scale)
- - - euro-denominated non-financial BBB (left-hand scale)
- euro-denominated high-yield bonds (right-hand scale)

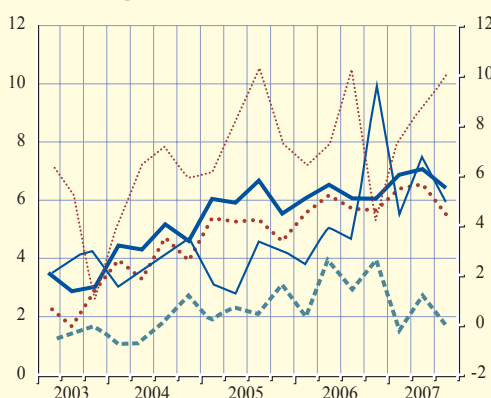


Sources: Thomson Financial Datastream and ECB calculations.  
Note: Bond spreads are calculated against the AAA government bond yields.

Chart 29 Profit ratios of listed non-financial corporations

(net income to net sales ratios; quarterly data)

- total non-financial corporations
- manufacturing
- - - wholesale and retail trade
- construction
- transportation and communications



Sources: Thomson Datastream and ECB calculations.

## FINANCIAL FLOWS

According to aggregated firm-level data from corporate financial statements, the profitability of listed non-financial corporations in the euro area, measured in terms of the ratio of net income to sales, declined somewhat in the third quarter of 2007, but nevertheless remained at sound levels (see Chart 29). The decline seems to have been linked mainly to a higher interest burden of non-financial corporations, related to both higher debt and higher interest rates, while the ratio of operating expenses to sales continued to decline. In contrast to the net income-to-sales ratio, the non-financial corporate sector's ratio of operating income to sales increased still further in the third quarter of 2007. As regards sectoral developments, the ratio of net income to sales of listed non-financial corporations declined in most economic sectors in the third quarter. By contrast, sectoral developments with respect to the operating income-to-sales ratio were rather mixed. It seems likely that the deterioration of housing market prospects has probably had a negative impact on profitability in the construction sector.

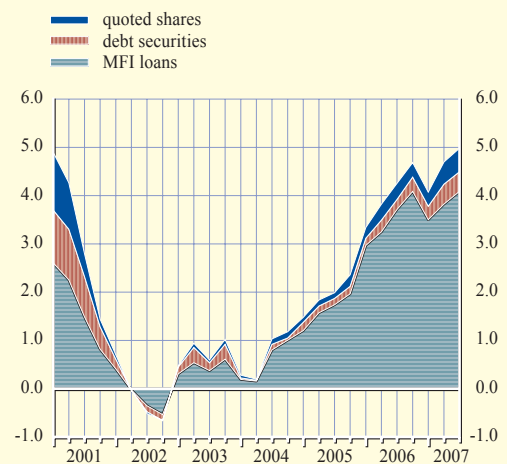
Stock market-based profitability measures have likewise shown some moderation since the beginning of the third quarter of 2007 (see Chart 26 in Section 2.5). At the same time, corporate profitability remained at generally sound levels up to November 2007. This moderation may reflect market concerns not only about increased downward risks to economic growth as a consequence of the tensions in financial markets, as well as the slowdown of economic activity in the United States, and possible implications for world economic growth, but also about higher commodity prices and the appreciation of the euro exchange rate. The actual growth in corporate earnings per share has remained broadly constant in the third quarter of 2007, but subsequently moderated somewhat. Corporations' expected earnings per share both one year ahead and over the longer term had already declined somewhat in the course of the third quarter, but stabilised thereafter.



Notwithstanding the favourable overall situation with respect to corporate profitability, non-financial corporations increased their external financing further in the third quarter in order to finance their capital formation and financial investment. The real annual rate of growth of non-financial corporations' financing (including MFI loans, debt securities and quoted shares) rose to 5.0%, from 4.7% in the second quarter (see Chart 30). In particular, the contribution of the largest component, loan financing, increased further. While the contribution of financing via debt securities remained unchanged in the third quarter, issuance of quoted shares recovered somewhat in comparison with the second quarter, while remaining subdued from a longer-term perspective. If a broader view is taken and unquoted equity, pension fund reserves and other accounts payable, in particular, are also included, the annual growth rate of financing for non-financial corporations stood at 5.1% in the second quarter of 2007, after 4.9% in the first quarter.

**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.

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

(percentage changes; end of quarter)

	Annual growth rates					
	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Oct.
<b>MFI loans</b>	12.8	13.1	12.6	13.3	14.0	13.9
Up to one year	10.3	9.7	9.9	11.1	13.0	11.8
Over one and up to five years	20.4	20.8	18.7	20.1	19.9	20.7
Over five years	11.6	12.5	12.1	12.2	12.4	12.7
<b>Debt securities issued</b>	3.9	5.4	5.7	8.2	8.3	-
Short-term	-3.3	3.7	7.9	18.5	21.2	-
Long-term, of which: <sup>1)</sup>	5.3	5.7	5.3	6.3	5.9	-
Fixed rate	1.0	2.2	3.2	3.9	3.9	-
Variable rate	28.5	25.6	20.5	19.7	18.6	-
<b>Quoted shares issued</b>	1.0	0.8	0.9	1.3	1.3	-
<b>Memo items<sup>2)</sup></b>						
Total financing	6.3	6.0	6.2	6.2	6.6	-
Loans to non-financial corporations	9.8	10.2	10.3	10.3	10.3	-
Insurance technical reserves <sup>3)</sup>	4.4	4.4	4.6	3.9	3.5	-

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 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.

The annual rate of growth of MFI loans to non-financial corporations remained at a high level, namely at 13.9% in October, broadly unchanged from September, but slightly lower than the peak of 14.2% recorded in August (see Table 5). The rates of growth in September and October were above the previous peak (of 12%) in the third quarter of 2000, when loan growth to non-financial corporations had been particularly strong in the context of intense merger and acquisition (M&A) activity, and similar to the peak (of 14.0%) recorded in the first quarter of 1990. Consequently, up to the third quarter of 2007, based on hard data, there were no signs of a decline in loan growth to non-financial corporations following the tensions in financial markets. This contrasts with the indications from the October 2007 bank lending survey for the euro area, which point to a net tightening of credit standards, especially for loans to large enterprises, and a lower net demand for loans. There are different possibilities for explaining why MFI loan growth continued to be strong in the third quarter. Difficulties in selling loans on the secondary loan market in the wake of the tensions in financial markets and possibly some decline in securitisation activity may have led to a prolongation of loans or to a drawing of credit lines, thus adding to the demand for loans, as banks might not have been able to remove such loans from their balance sheets. At the same time, however, the information available on securitisation activity suggests that banks have generally been able to continue their securitisation programmes, although at a somewhat lower level.

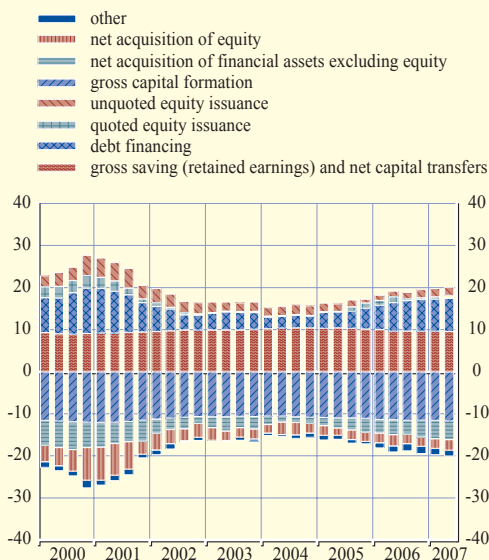
While loan growth continued to be particularly strong, the annual growth of debt securities issued by non-financial corporations declined from July to September, to 8.3%. This decline is also reflected in a drop of the three-month annualised seasonally adjusted growth rate. Both the annual rate of growth of short-term debt securities, although starting from a high level, and the annual rate of growth of long-term debt securities declined over this period, to 21.2% and 5.9% respectively in September. This may be related to the rise in corporate bond spreads. The annual rate of growth of debt securities issued by non-monetary financial corporations also decreased somewhat in the third quarter, but remained at a high level of 27.6% in September. In contrast to the situation with regard to non-financial corporations, the three-month annualised seasonally adjusted growth rate for overall debt securities issuance by non-monetary financial corporations moved only little. At the same time, however, the three-month annualised seasonally adjusted rate of change for short-term debt securities issued by this sector was strongly negative from June to August. The lower net issuance activity is probably related to the tensions in financial markets, which have led to difficulties in issuing securities, in particular in the segment for short-term debt securities.

The annual growth of quoted equity issued by non-financial corporations in the third quarter of 2007 remained unchanged from the second quarter, at 1.3%, although declining slightly in August and September in comparison with July. Non-financial corporations' net issuance of quoted shares was negative in August and September, on account of both a relatively low gross issuance and considerable redemptions, possibly indicating share buybacks. In contrast to the rather low issuance of quoted shares, the annual growth rate of unquoted equity issued by euro area non-financial corporations stood at 2.4% in the second quarter according to information based on the euro area accounts up to the second quarter of 2007. Given that the amount outstanding is also higher than that of quoted shares, unquoted equity contributed a larger proportion to the external financing of non-financial corporations.

The robust development of profitability over the past few years and, viewed in terms of external financing, a considerable demand for debt financing were used by non-financial corporations largely for gross capital formation and for financial investment (see Chart 31). Both capital formation and financial investment had been increasing in relation to GDP from 2004 to the first

**Chart 31 Saving, financing and investment of non-financial corporations**

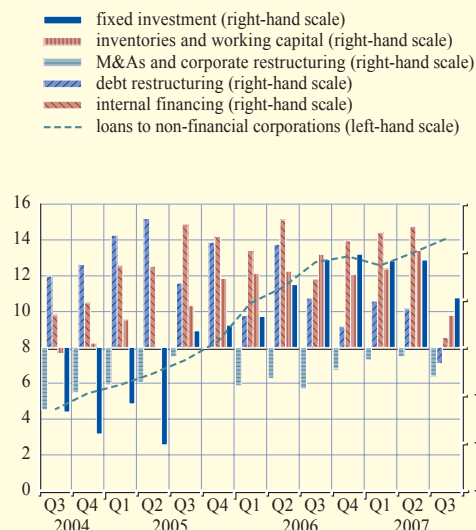
(four-quarter moving sums; percentages of GDP)



Source: Euro area accounts.  
Notes: Debt includes loans, debt securities and pension fund reserves. "Other" includes financial derivatives, other accounts payable/receivable and adjustments.

**Chart 32 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 October 2007 bank lending survey.

half of 2007. The results of the bank lending survey on the factors contributing to non-financial corporations' demand for loans confirm these main uses of non-financial corporations' resources up to the second quarter of 2007 (see Chart 32). In particular, M&As and corporate restructuring were mentioned as important factors contributing to the demand for loans by enterprises up to the second quarter of 2007. However, the results of the bank lending survey for the third quarter of 2007 show a sharp drop in the contribution of both M&As and corporate restructuring to loan demand by enterprises, which is probably related to the effects of the recent financial turmoil.

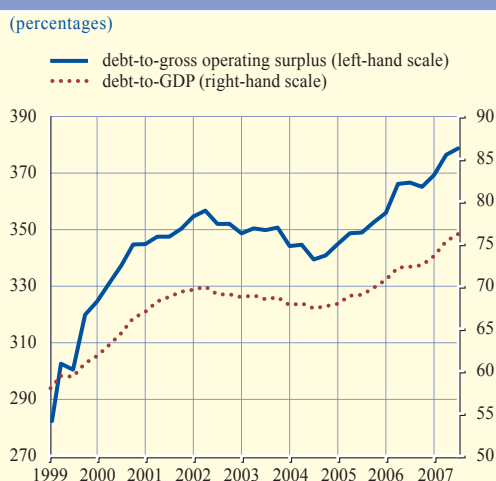
### FINANCIAL POSITION

The considerable demand for debt financing by non-financial corporations has led to a further increase in non-financial corporations' ratios of debt to GDP and debt to the gross operating surplus in the third quarter of 2007, to 76% and around 380% respectively (see Chart 33).<sup>8</sup> Together with the increase in interest rates, the rise in debt has caused the interest burden of non-financial corporations to increase since 2006. In contrast to the debt-to-income ratios, the ratio of debt to financial assets of non-financial corporations remained stable in the first half of 2007, after having been on a declining trend since the first quarter of 2003. This decline reflected the considerable increase in financial investment by non-financial corporations over this period.

<sup>8</sup> Debt figures have been revised slightly upwards following the inclusion in the definition of debt of loans to non-financial corporations granted by the government and non-euro area residents. Quarterly figures on loans to non-financial corporations granted by the government, non-financial corporations and non-residents have become available with the release of the unconsolidated quarterly euro area accounts. An estimate for loans between euro area non-financial corporations has been excluded from the definition of debt as such loans are mainly extended between capital-linked enterprises.

Overall, the ongoing high rate of growth of non-financial corporations' loan financing seems to indicate that non-financial corporations still have relatively easy access to external financing. At the same time, the results on the net tightening of credit standards for enterprises and the further increase in the cost of non-financial corporations' external financing in the third quarter of 2007 indicate a certain deterioration of financing conditions for non-financial corporations in the euro area. With respect to the overall financial position of non-financial corporations in the euro area, the debt-to-income ratios increased further in the third quarter, but profitability remained at sound levels, despite some recent moderation.

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



Sources: ECB, Eurostat and ECB calculations.

Notes: Debt is reported on the basis of the quarterly euro area accounts. It includes loans (excluding loans granted by one euro area non-financial corporation to another), debt securities issued and pension fund reserves. The latest quarter is estimated.

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

*In the third quarter financing conditions for loans to households tightened somewhat further. This tightening appears to have been implemented mainly through non-interest rate factors, while MFI lending rates increased only modestly. The financial turmoil of recent months seems, thus far, to have had a limited impact on MFI lending rates for households, and the flows of MFI loans to households over the past few months do not point to any noticeable dampening effect. Households' borrowing dynamics stabilised in October after a further moderation in the third quarter. As a result, the increases seen in household indebtedness levelled off somewhat in the third quarter of 2007.*

### FINANCING CONDITIONS

MFI interest rate statistics and the October 2007 bank lending survey<sup>9</sup> point to some further tightening of financing conditions in the third quarter of 2007, although at levels that are still favourable by historical standards.

MFI lending rates on loans for house purchase increased further in the third quarter, rising, depending on the period of initial rate fixation, by between 15 and 24 basis points compared with the average for the second quarter (see Chart 34). The increase in lending rates with a short period of initial rate fixation was more pronounced than that in lending rates with a long period of initial rate fixation. As a result, the inverted term structure of lending rates for loans for house purchase became more pronounced. In September 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 was 24 basis points.

<sup>9</sup> See Box 2, entitled "The results of the October 2007 bank lending survey for the euro area", in the October 2007 issue of the Monthly Bulletin.

A similar picture emerged for MFI lending rates on consumer credit, as the increases seen in short-term lending rates in the third quarter were, on average, more pronounced than those recorded for lending rates with a longer initial rate fixation period. In particular, the lending rate for consumer credit with an initial rate fixation period of less than one year increased by 34 basis points by comparison with the average for the second quarter, whereas the lending rate on loans with an initial rate fixation period of more than ten years increased by only 6 basis points. In September the term structure of lending rates for consumer credit was also inverted, with a spread of 10 basis points between the lending 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 five years.

The spreads between MFI lending rates and market interest rates with a comparable maturity increased somewhat in the third quarter of 2007 by comparison with the second quarter. In the case of lending rates on loans for house purchase, the increase in the spread was accentuated by the decline in the two-year government bond yield. The spread on the lending rate for consumer credit also increased somewhat, as the rise in the average lending rate on consumer credit was somewhat stronger than the rise in the 12-month money market rate.

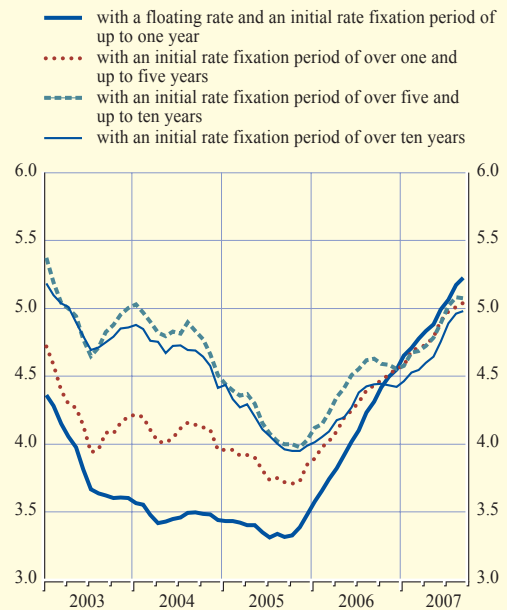
In the October 2007 bank lending survey, banks reported, on balance, a tightening of the credit standards applied to the approval of loans to households for house purchase. This followed the net easing reported in previous quarters. Banks indicated that the tightening was generally implemented through non-interest rate factors such as the adjustment of loan-to-value ratios and higher collateral requirements. This would be consistent with the only moderate further increases seen in MFI lending rates in the third quarter. As regards consumer credit, the percentage of banks reporting an easing of credit standards remained largely unchanged compared with the previous quarter.

### FINANCIAL FLOWS

The annual growth rate of total loans to households declined to 7.6% in the second quarter of 2007 (the most recent period for which data are available from the quarterly euro area sector accounts), down from 8.1% in the first quarter (see Chart 35). This further moderation was mainly the result of a fall in the annual growth rate of MFI loans to households. The annual growth rate of non-MFI loans to households continued to exceed that of MFI loans to households.

**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>)

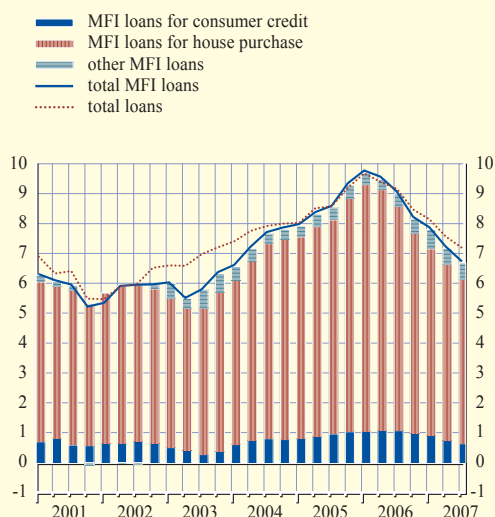


Source: ECB.

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)

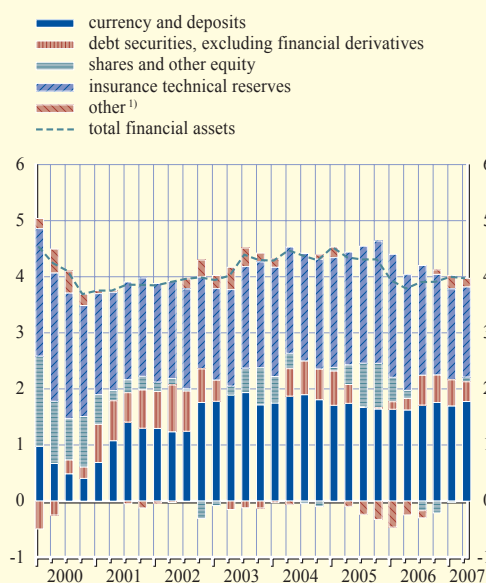


Source: ECB.

Note: Total loans comprise loans to households from all institutional sectors, including the rest of the world. For the third 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)



Sources: ECB and Eurostat.

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

The annual growth rate of MFI loans to households was 6.8% in October, having averaged 7.0% in the third quarter and 7.5% in the second quarter. This mirrored the reduced contributions of both loans for house purchase and consumer credit. On a month-by-month basis, this moderation is, to some extent, less sustained than is suggested by the quarterly averages. For instance, the growth rate of loans to households in October was, at 7.9%, unchanged from September. Overall, the data on MFI loans to households over the past few months do not point to recent financial market developments having any noticeable dampening effect.

The gradual decline observed in recent quarters in the growth rate of loans for house purchase (which reached 7.9% in October, having stood at 8.1% in the third quarter and 8.6% in the second quarter) is related to the slowdown seen in the housing market dynamics of a number of euro area countries, as well as to the impact of higher mortgage lending rates in the euro area. In the October bank lending survey, banks identified both housing market prospects and consumer confidence as factors contributing to a dampening of households' demand for housing loans.

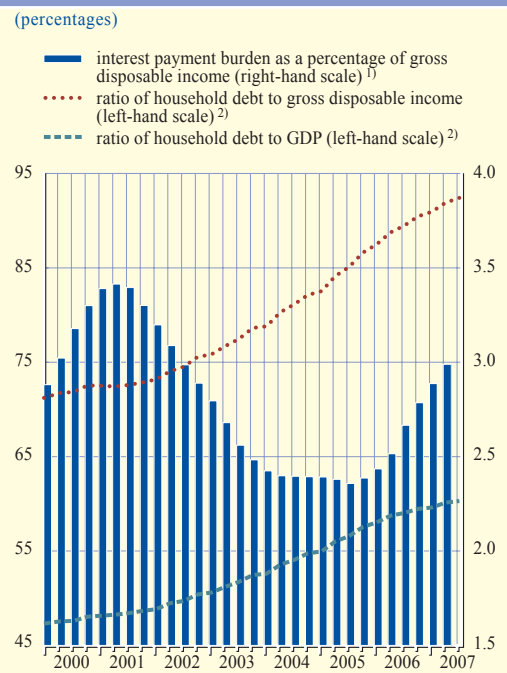
The annual growth rate of consumer credit was 5.5% in October, having stood at 5.7% in the third quarter and 6.5% in the second quarter. The deceleration of growth in consumer credit appears to be broadly consistent with the weaker growth observed in retail sales of non-food items over recent quarters and the decline in consumer confidence seen in the third quarter. The October bank lending survey showed a slight reduction in the percentage of banks reporting an increase in demand for consumer credit and other lending.

On the asset side of the euro area household sector's balance sheet, the annual growth rate of total financial investment remained unchanged at 4.0% in the second quarter of 2007 (see Chart 36). The contribution of currency and deposits increased somewhat, and that of shares and other equities, which had been negative in previous quarters, turned positive again. These developments were offset by the reduced contributions of debt securities and other financial assets, while the contribution of insurance technical reserves remained broadly stable. Investment in currency and deposits and investment in insurance and pension products – two asset classes at opposite ends of the maturity spectrum but considered to be relatively safe investments – continued to be the main contributors to overall household investment growth.

#### FINANCIAL POSITION

Owing to the moderation in net household borrowing, the rise in household indebtedness as a percentage of gross income was somewhat smaller in the third quarter than was generally the case in previous quarters (see Chart 37). The debt-to-income ratio increased slightly further, reaching just over 92%, while the debt-to-GDP ratio increased marginally further to stand somewhat above 60%. The level of indebtedness of euro area households is still relatively modest by international standards, particularly when compared with the United States or the United Kingdom. The interest payment burden (measured as a percentage of disposable income) increased further to 3.0% in the second quarter of 2007 (the most recent period for which data are available from the euro area integrated accounts), but is still below its peak of 2001.

**Chart 37 Household debt and interest payments**



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 for financial services.

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

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

### 3 PRICES AND COSTS

In November 2007 euro area HICP inflation is estimated to have reached 3.0%, up from 2.6% in October and 2.1% in September. These developments were largely anticipated and essentially driven by increases in energy and food prices on the international markets, reinforced by the upward impact on the annual inflation rate of energy price developments a year ago. The annual rate of change in the HICP excluding unprocessed food and energy rose to 2.1% in October from 2.0% in both September and August. Price pressures remain elevated along the production chain and input cost pressure is high, especially in services. Overall, the annual HICP inflation rate is expected to remain significantly above 2% in the coming months, before gradually moderating in the course of 2008 – assuming that energy and food prices stabilise in international markets, as currently embedded in futures prices. According to the latest Eurosystem staff macroeconomic projections, annual HICP inflation is expected to be between 2.0% and 3.0% in 2008 and between 1.2% and 2.4% in 2009. Risks to this outlook are fully confirmed to lie on the upside. These risks include the possibility of further rises in oil and agricultural prices, as well as of unanticipated increases in administered prices and indirect taxes. Moreover, taking into account the existence of capacity constraints, the favourable momentum of real GDP growth observed over the past few quarters and the positive signs from labour markets, wage developments may be stronger than currently expected. Furthermore, an increase in pricing power in market segments with lower competition could materialise.

#### 3.1 CONSUMER PRICES

##### FLASH ESTIMATE FOR NOVEMBER 2007

According to Eurostat's flash estimate, annual HICP inflation reached 3.0% in November 2007 (see Table 6). Although the detailed breakdown of the HICP components will not be released until mid-December, available country information suggests that the main components behind the increase in overall inflation were energy and – to a somewhat lesser extent – food.

**Table 6 Price developments**

(annual percentage changes, unless otherwise indicated)

	2005	2006	2007 June	2007 July	2007 Aug.	2007 Sep.	2007 Oct.	2007 Nov.
<b>HICP and its components</b>								
Overall index <sup>1)</sup>	2.2	2.2	1.9	1.8	1.7	2.1	2.6	3.0
Energy	10.1	7.7	0.9	0.0	-0.9	3.0	5.5	.
Unprocessed food	0.8	2.8	3.0	2.8	2.4	2.1	3.1	.
Processed food	2.0	2.1	2.0	1.9	2.5	3.1	3.8	.
Non-energy industrial goods	0.3	0.6	1.0	0.9	1.0	1.0	1.1	.
Services	2.3	2.0	2.6	2.6	2.6	2.5	2.5	.
<b>Other price indicators</b>								
Industrial producer prices	4.1	5.1	2.3	1.8	1.8	2.7	3.3	.
Oil prices (EUR per barrel)	44.6	52.9	52.6	55.2	52.4	55.2	57.7	62.8
Non-energy commodity prices	9.4	24.8	14.2	7.8	5.4	6.9	3.5	-0.1

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

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



### HICP INFLATION UP TO OCTOBER 2007

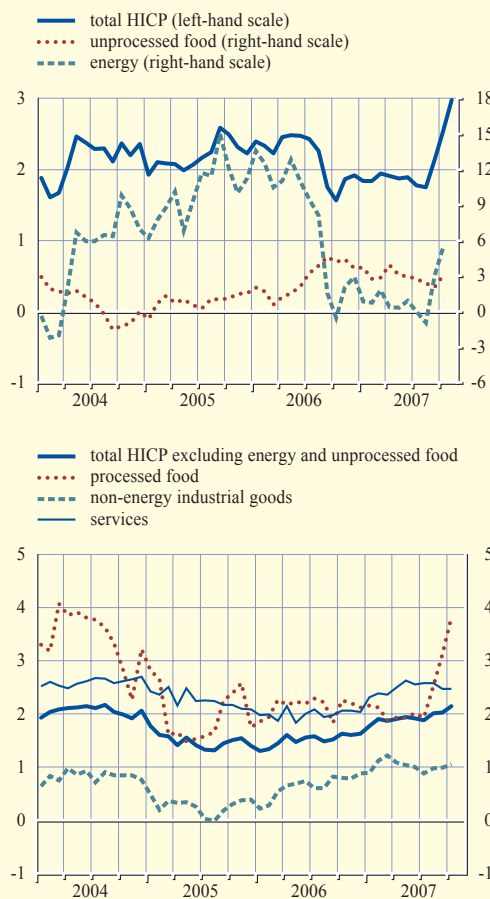
The estimated jump in overall HICP inflation in November was the third consecutive sharp increase, bringing annual rates to elevated levels by historical standards, up from an average growth rate of 1.9% in the first three quarters of 2007 (see Chart 38). These increases were driven by the recent strong energy and food price increases and by the expected upward impact on the annual inflation rate of falling energy prices a year ago.

In October 2007 overall HICP inflation increased strongly to 2.6%, from 2.1% in September, driven by energy and food price developments. The sizeable contribution from the energy component was partly attributable to a month-on-month increase, reflecting the pass-through of the recent increases in oil prices in international markets, but also resulted from a base effect from falling energy prices in the same month a year ago. The annual rate of change in unprocessed food prices also rose markedly in October, mainly as a result of the volatile behaviour of vegetable prices.

The annual rate of change in the HICP excluding unprocessed food and energy edged up steadily over the same period, to 2.1% in October from 2.0% in September, compared with 1.9% in the first half of the year. The rise in October was almost entirely due to a further substantial increase in the annual rate of change in the price of processed food, mainly dairy and cereal products. This can be explained by global pressures in agricultural commodity prices, as discussed in more detail in Box 4, entitled “Euro area food prices: recent developments and outlook”. Among the other components of the HICP excluding unprocessed food and energy, the annual rate of change in the prices of non-energy industrial goods rose marginally to 1.1% in October, while that of services remained unchanged at 2.5%. The two less volatile HICP components showed more moderate dynamics over the six-month period to October 2007, but grew at elevated rates, above their 2006 average, partly reflecting the impact of the strong VAT increase in Germany in January.

Chart 38 Breakdown of HICP inflation: main components

(annual percentage changes; monthly data)



Source: Eurostat.

## Box 4

## EURO AREA FOOD PRICES: RECENT DEVELOPMENTS AND OUTLOOK

The prices of several agricultural commodities, such as cereals and oilseeds, have increased significantly in world markets in the past few months.<sup>1</sup> In part, these price increases reflect temporary factors affecting the global supply of these commodities, such as adverse weather conditions in some major agricultural commodity-exporting countries. Global food prices have also been bolstered by the strong increases in the global demand for foodstuff resulting from the changes in food consumption patterns in many developing economies and from the emergence of new sources of demand for some agricultural commodities, for example for the production of biofuels. As these latter developments are of a structural nature, they are likely to have a more persistent upward impact on global food prices in the future.

The rise in global food prices has already led to notable increases in food prices in the euro area, at both the producer and the consumer level. The producer prices of food products and beverages rose by 7.5% in annual terms in October, compared with a rate of 2.2% on average in 2006. At the consumer level, the annual rate of change in HICP processed food excluding tobacco rose to 4.0% in October, up from 1.6% in 2006 (see Table A). By contrast, unprocessed food prices, which are traditionally more volatile, seem to have been less affected by the recent developments in global food prices so far.

The impact of global food prices on consumer prices in the euro area is also evident from a detailed breakdown of prices by product and category. For example, within the HICP processed food component, the prices of bread and cereals as well as of milk, cheese and eggs rose

1 For more information, see the box entitled "Recent food price developments in world markets and the euro area" in the September 2007 issue of the Monthly Bulletin.

Table A Unprocessed and processed food components of the euro area HICP

(annual percentage changes, unless otherwise indicated)

	HICP Weights (%)		2007							
	2007	2004	2005	2006	2007					
					May	June	July	Aug.	Sep.	Oct.
<b>Food</b>	<b>19.6</b>	<b>2.3</b>	<b>1.6</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>	<b>3.5</b>
<b>Unprocessed food</b>	<b>7.6</b>	<b>0.6</b>	<b>0.8</b>	<b>2.8</b>	<b>3.1</b>	<b>3.0</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>3.1</b>
Meat	3.8	1.5	1.3	2.4	2.9	2.5	2.1	2.1	2.2	2.7
Fish	1.2	0.8	1.6	3.7	3.0	2.4	2.8	2.4	2.1	2.2
Fruit	1.2	0.7	-0.5	1.0	2.2	5.6	3.3	4.2	4.6	5.1
Vegetables	1.5	-1.7	0.1	4.3	4.0	2.2	3.9	1.8	-0.3	3.3
<b>Processed food excluding tobacco</b>	<b>9.4</b>	<b>1.3</b>	<b>0.5</b>	<b>1.6</b>	<b>1.1</b>	<b>1.3</b>	<b>1.3</b>	<b>1.8</b>	<b>2.6</b>	<b>4.0</b>
Bread and cereals	2.5	2.2	0.8	1.4	2.4	2.4	2.5	2.8	3.8	5.4
Milk, cheese and eggs	2.1	0.8	-0.1	0.6	0.7	1.1	1.3	2.2	3.9	7.6
Oil and fats	0.6	3.9	2.2	9.9	-5.1	-5.4	-5.2	-1.2	0.0	1.2
Sugar, jam, honey, chocolate and confectionery	1.0	1.6	0.0	0.9	1.0	0.9	0.9	0.9	1.1	1.5
Food products not elsewhere classified	0.4	0.5	0.0	0.9	0.5	0.7	0.6	0.6	0.5	0.7
<b>Tobacco</b>	<b>2.5</b>	<b>12.2</b>	<b>7.8</b>	<b>3.9</b>	<b>4.9</b>	<b>4.8</b>	<b>4.3</b>	<b>5.2</b>	<b>5.2</b>	<b>3.1</b>

Sources: Eurostat and ECB calculations

Note: The processed food aggregate also includes mineral waters, soft drinks, fruit and vegetable juices, spirits, wine and beer, which are not reported in this table.

**Table B HICP processed food excluding tobacco across euro area countries**

(annual percentage changes)

	2004	2005	2006	2007	
				May	Oct.
Belgium	1.6	2.0	1.9	3.2	5.0
Germany	0.3	0.2	1.0	1.6	5.2
Ireland	0.5	0.0	0.2	0.1	3.7
Greece	4.7	3.2	4.7	0.9	3.7
Spain	3.9	2.8	4.4	0.9	6.8
France	1.3	-0.6	0.7	0.1	1.3
Italy	2.2	0.6	1.9	1.8	3.5
Luxembourg	2.0	1.7	1.8	1.8	4.0
The Netherlands	-3.7	-1.8	0.2	0.3	2.8
Austria	2.3	0.8	1.5	2.5	6.5
Portugal	2.4	-0.8	1.7	0.5	3.8
Slovenia	0.8	-1.3	1.4	2.6	11.2
Finland	-4.0	-0.8	0.9	0.5	1.1
Euro area	1.3	0.5	1.6	1.1	4.0

Sources: Eurostat and ECB calculations

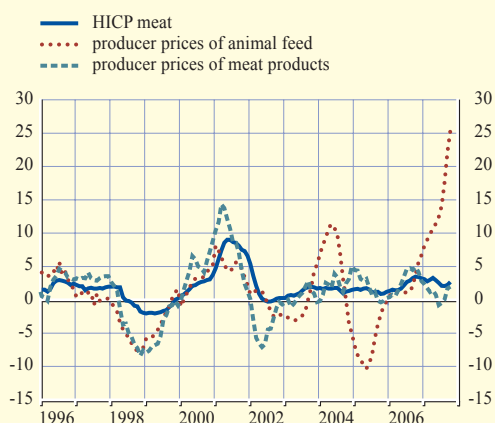
particularly sharply in October (see Table A). These items have a combined weight of around half of the total processed food component excluding tobacco. Anecdotal evidence suggests that the recent price increases in dairy products may also reflect the specificities of the formation of milk prices in some European countries, in addition to the price increases in global markets of animal feed and other input costs.

Although food prices at the producer and the consumer level have risen in all euro area countries in recent months, the extent to which the global food price shock has been transmitted to individual euro area countries has varied significantly. For example, the annual rate of increase of HICP processed food excluding tobacco was slightly above 11% in Slovenia in October, the highest rate within the euro area. In the same month, Belgium, Germany, Spain and Austria also saw sharp annual price increases in this component of between 5% and 7% (see Table B). By contrast, inflation for processed food excluding tobacco in France and Finland was significantly below the euro area average.

A number of factors are behind the diverse food price developments across countries. Retail food markets are traditionally segmented across countries. In this respect, differences in market structures and competitive conditions in the retail and distribution sectors are likely to explain the diverse reaction of retailers' profit margins across countries to a common external shock and therefore account for most of the difference seen in consumer food price inflation across countries. In countries where food price increases have been relatively contained, it appears that, in the context of high competition among retailers, profit margins may have acted as a buffer cushioning the steep increases in global food prices. Moreover, if the underlying economic conditions in a certain country are perceived to be weak, retailers may be reluctant to fully pass on high increases in food prices. Additionally, fixed periods for the negotiation of prices between suppliers and retailers may have also delayed the pass-through in some countries. By contrast, in countries where food price increases have been more considerable, it seems that retailers' profit margins have not acted as a buffer. In some cases, this might be due to the fact that food retailers operate in an environment of compressed margins. Under these conditions, input price shocks tend to be passed on to consumers more quickly. In some other countries, a

**Chart A Prices for animal feed and meat in the euro area**

(annual percentage changes)



Source: Eurostat.

**Chart B Selling price expectations and producer prices of food and beverages**

(percentage balance; annual percentage changes)



Sources: European Commission Business and Consumer Surveys and Eurostat.

lack of competition in some food market segments, in a context of robust underlying economic activity, may have also resulted in a quick and, in some cases, stronger pass-through to consumers.

Looking ahead, HICP food price inflation may increase somewhat further in the very near term as the past increases in producer costs are passed through to retail prices. Preliminary November data suggest that this is the case. Barring further shocks in food commodity prices, HICP food price inflation should subsequently fall back towards levels more consistent with its historical average. This outlook is in line with the information from futures contracts in global markets for food-related commodities. The balance of risks is on the upside. Meat prices, which represent around 50% of the unprocessed food component and which have been fairly muted so far, could be affected by the recent strong increases in the producer prices of animal feed (see Chart A). Moreover, the recent upsurge in the selling price expectations of producers of food, beverages and tobacco, as reported by the European Commission's Business Survey, signals further upward pressures on food prices in the near term (see Chart B).

Further ahead, the outlook for both world and domestic food prices remains highly uncertain. Although the supply of agricultural products should eventually respond to the increase in demand, the catch-up period may be more prolonged than currently envisaged. Moreover, food price developments depend on a number of factors which are difficult to predict, including technology advances and possible changes in energy policy. Hence, risks in the medium term also seem to be on the upside.

Against the background of a marked increase in international food commodity prices, it appears useful to review the impact of the EU's common agricultural policy, and to analyse whether further liberalisation and reforms in the EU agricultural markets would benefit European consumers in terms of lower prices (Box 5 provides some background to this discussion).

### THE EUROPEAN UNION'S COMMON AGRICULTURAL POLICY AGAINST THE BACKGROUND OF GLOBALLY RISING FOOD PRICES

Global food prices have risen significantly in 2007. This is the result of a number of factors, such as increases in energy and fertiliser prices, adverse weather conditions in some regions, greater demand for biofuel production and a generally strong demand for crops in emerging economies (see Box 4 in this issue of the Monthly Bulletin). The increase in food prices has also raised questions regarding the effects of the EU's common agricultural policy (CAP) on food prices. This box provides some background to these questions.

The CAP of the European Union is anchored in Article 33 of the Treaty establishing the European Community. Its objectives are (i) to increase agricultural productivity, (ii) to ensure a fair standard of living for the agricultural community, (iii) to stabilise markets, (iv) to assure the availability of supplies and (v) to ensure that supplies reach consumers at "reasonable prices". The CAP also contains policies and measures to improve rural development and the environment. In 1980 the CAP accounted for 69% of the total EU budget, with the share declining to 50% in 2003 and 43% today. It is expected to account for 36% of the budget by 2013.

Originally, the CAP supported EU farmers' incomes through import levies, export subsidies and guaranteed prices for products that would otherwise have remained at the much lower world market price level. By the 1980s, these measures had led to high budgetary costs and an oversupply of agricultural products. Against this background, the EU introduced various measures to limit expenditure and production, such as introducing milk quotas in 1984, imposing planting restrictions on vineyards, establishing ceilings on national aid for various products and introducing a programme for setting aside agricultural land (see below).

In 2003 the CAP was reformed extensively in order to meet the requirements of international trade liberalisation agreements (such as the Doha trade round), to alleviate EU budgetary pressures and to make EU farming both more environmentally friendly and more competitive. The reform lowered guaranteed prices substantially and introduced a "single farm payment" to replace many of the previous payments that were tied to production and direct payments to farmers. Most CAP expenditure is now accounted for by aid to farmers that is not coupled to production.

As well as setting import taxes and import quotas, the CAP imposes two important types of direct supply constraint: production quota regimes and "set-aside" obligations. Production quotas are imposed on certain products (in particular, milk and sugar) and result in penalties such as milk super-levies in cases of overshooting. Farmers are also obliged to "set aside" (i.e. leave uncultivated) a specific proportion of agricultural land. The rate of obligatory setting-aside can vary between harvest years.<sup>1</sup> The obligation to set land aside is expected to be abolished in the near future, and the European Commission is also in favour of gradually phasing out milk quotas so as to reduce market distortions on the supply side of the CAP<sup>2</sup>.

1 In July 2007 the European Commission decided to set the obligatory set-aside rate for sowings in autumn 2007 and spring 2008 at 0%, in response to the increasingly tight situation in the cereals market.

2 For more details, see "Preparing for the 'Health Check' of the CAP reform", Communication from the Commission to the Council and the European Parliament, Brussels, November 2007.

Given the substantial reduction of guaranteed prices as a result of the 2003 reform<sup>3</sup> and the increase in prices on world markets<sup>4</sup>, the instrument of export subsidies has hardly been used.

The 2003 reform succeeded in diminishing distortionary effects on the agricultural markets by, for example, reducing the market intervention price for a number of agricultural products (such as butter, skimmed milk powder and rice). The decoupling<sup>5</sup> of farm payments under the reformed CAP has reduced the instruments that affect supply. However, despite the 2003 reform, CAP policies still entail distortionary effects and divergence between the EU prices and the international prices of a number of agricultural products (such as milk, beef and sugar). The impact of higher food prices is regressive, given that poorer households spend a higher fraction of their income on food. Certain subsidies are still linked to production or land area, and thus often benefit larger farms.<sup>6</sup> The Commission has acknowledged this distortion and recently proposed an increase in the decoupling rate, as well as payment cuts for larger farms. In general, an excessive use of the CAP may trap resources in a low-productivity sector, thereby hampering the EU economy's capacity to adjust. A more market-led allocation of resources in the agricultural markets should, in principle, be beneficial for the most efficient, innovative and productive farmers, thus guaranteeing an efficient allocation of resources.

Against the background of a marked increase in international food prices, further liberalisation and reforms in the EU agricultural markets are particularly important. Reforms would help to enhance market efficiency and benefit European consumers in the form of lower prices. In order to allow consumers to profit from lower farm-gate prices, adequate competition in the downstream sectors (food processing, retail trade and catering) and compliance with Single Market provisions are necessary. The successful conclusion of the Doha round of world trade negotiations should also help to improve the functioning of global trade in general, and of agricultural markets in Europe and worldwide in particular.

3 Before the 2003 reform, guaranteed prices were intervention prices that guided the market prices. After the reform, the guaranteed prices became "safety-net" prices like those in the US Farm Bill.

4 See the box entitled "Recent food price developments in world markets and the euro area" in the September 2007 issue of the Monthly Bulletin.

5 The rate of decoupling is the percentage of EU agricultural aid that is given to farmers without any link to actual agricultural production or land use.

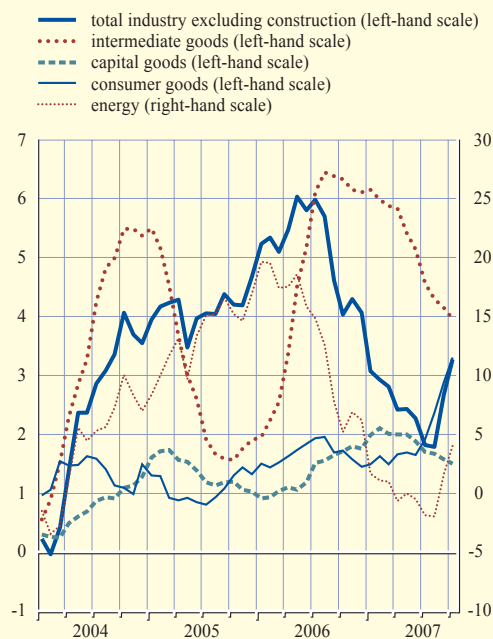
6 OECD, "Economic Survey of the European Union", Paris, 2007.

### 3.2 INDUSTRIAL PRODUCER PRICES

Following a period of gradual decline since mid-2006, the annual rate of change in overall industrial producer prices (excluding construction) has rebounded strongly over the last two months, driven by the recent increases in oil and food prices. It recorded a 3.3% increase in October, from 2.7% in September and 1.8% in August (see Chart 39). As in the previous month, this development was largely due to a sharp rise in energy producer prices, reflecting a very strong increase on a month-on-month basis and, to a lesser extent, a base effect. Excluding energy and construction, annual producer price inflation remained unchanged in October at an elevated level (3.1%). However, this masks counteracting developments among its components. As in the previous month, short-term dynamics in the producer prices of both intermediate and capital goods remained moderate, reflecting to some extent favourable effects from the appreciation of the euro. By contrast, the annual rate of change in the producer prices of overall consumer goods continued

**Chart 39 Breakdown of industrial producer prices**

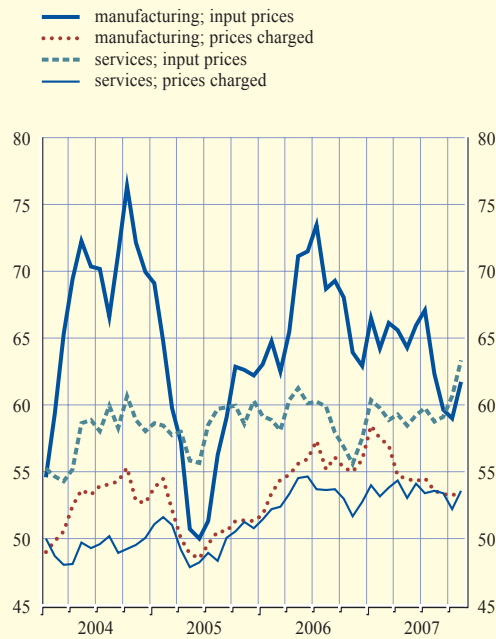
(annual percentage changes; monthly data)



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.

its recent upward trend, driven by a further sizeable increase in the producer prices of food consumer goods. It reached an elevated level of 3.3% in October, up from growth rates of around 1.5% at the turn of the year. However, excluding tobacco and food prices, the annual rate of change in the producer prices of consumer goods has remained at around 1.3% throughout the year, which suggests a levelling-off of pipeline pressures on HICP non-energy industrial goods prices. Confirming the assessment of the previous month, the October data for industrial producer prices point to elevated price pressure along the production chain. In particular, the further strengthening of pressure from food producer items can be expected to have an impact at the retail level.

The most recent information on firms' price-setting behaviour from the NTC Economics Purchasing Managers' Index (PMI) (see Chart 40) confirms a picture of increasing input price pressures in both the manufacturing and services sectors. Following a period of decline since July, owing to lower commodity prices and exchange rate developments, the indicator of (non-wage) input costs in the manufacturing sector rebounded in November. This was due to a reported sharp increase in raw materials prices, as higher oil and food prices were only partly counterbalanced by lower prices for metals. The input price index for the services sector increased for the third consecutive month, driven by high oil prices, rising wages and increased borrowing costs. However, output price indicators for both sectors have shown relatively moderate dynamics over the past few months, and increased only marginally in November. This suggests that the pass-through of higher input costs to customers, especially in services, has so far been limited, possibly as a result of strong competition. Nevertheless, all price-related survey indicators remain at somewhat elevated levels by historical standards.

Table 7 Labour cost indicators

(annual percentage changes, unless otherwise indicated)

	2005	2006	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3
Negotiated wages	2.1	2.3	2.1	2.5	2.0	2.3	2.2
Total hourly labour costs	2.7	2.6	2.6	2.4	2.3	2.5	.
Compensation per employee	1.8	2.2	2.4	1.8	2.1	1.8	.
<i>Memo items:</i>							
Labour productivity	0.7	1.4	1.2	1.7	1.4	0.8	.
Unit labour costs	1.0	0.8	1.1	0.1	0.8	1.1	.

Sources: Eurostat, national data and ECB calculations.

### 3.3 LABOUR COST INDICATORS

On the basis of data available up to the third quarter of 2007, the picture emerging from labour cost indicators still points to moderate wage developments in the euro area (see Table 7).

Negotiated wages in the euro area increased by 2.2% year on year in the third quarter of 2007, slightly below the increase recorded in the second quarter and the average growth observed in 2006 (see Chart 41).

Inflationary pressures from labour costs in the course of 2007 appear to have been moderate, although this assessment has to be confirmed by other labour cost indicators, which have not yet been published for the third quarter. Based on data available for the first half of 2007, and looking through the impact of country-specific developments, the annual growth rates of all labour cost

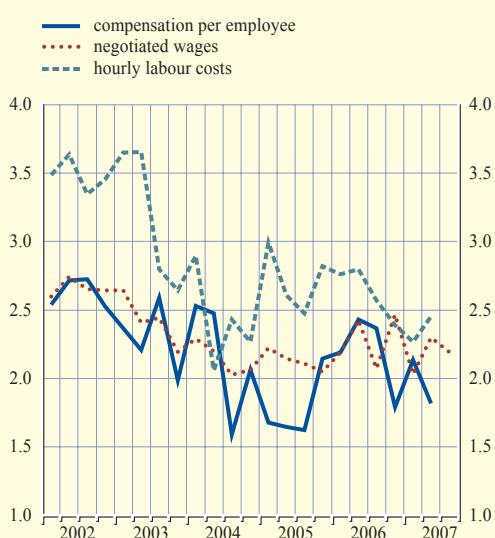
indicators have remained close to or below their average of the previous year. Although the annual growth in compensation per employee was fairly subdued, the downturn in labour productivity growth over the same period implied a rise in the annual growth rate of unit labour costs in the second quarter, but it remained moderate by historical standards.

Turning to sectoral developments, when looking beyond the more volatile pattern of monthly developments at the average over the first half of 2007, growth in compensation per employee in the industry sector remained broadly in line with the changes observed over the last few years, while in the services sector it showed some decline (see Chart 42).

Looking ahead, information from the latest wage negotiations in some countries points to a rise in wage pressures from 2008 onwards. There are indications of particularly strong pressures in public sector wages. Developments

Chart 41 Selected labour cost indicators

(annual percentage changes; quarterly data)

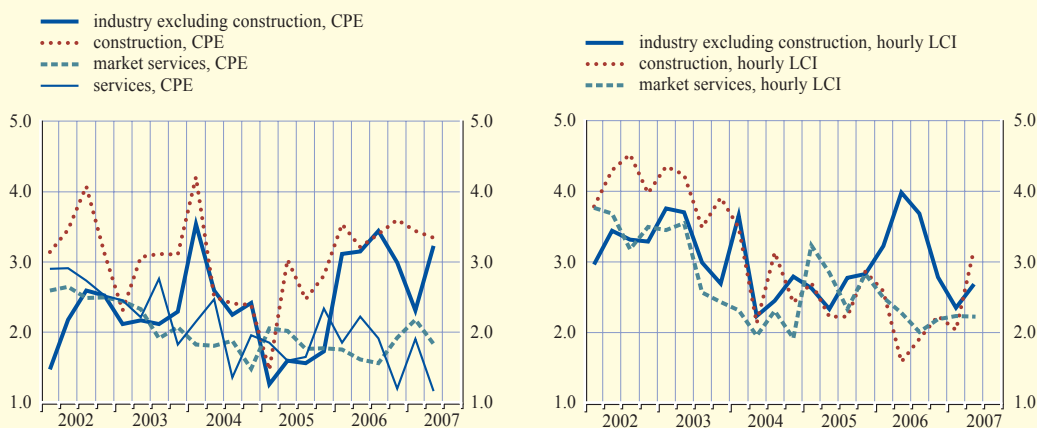


Sources: Eurostat, national data and ECB calculations.



**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".

in public sector wages matter not only because of their impact on fiscal balances, but also because they may induce a spillover to private sector wages.

### 3.4 THE OUTLOOK FOR INFLATION

Overall, energy and food prices are expected to keep annual headline HICP inflation significantly above 2% in the coming months. The annual HICP inflation rate is expected to moderate gradually in the course of next year, assuming that pressures from energy and food prices subside, as currently foreseen by futures markets for these commodities. According to the latest Eurosystem staff macroeconomic projections, annual HICP inflation is expected to be between 2.0% and 3.0% in 2008 and between 1.2% and 2.4% in 2009. For more information, see the section entitled "Eurosystem staff macroeconomic projections for the euro area".

Risks to this outlook are fully confirmed to lie on the upside and include the possibility of persistently high oil and agricultural prices, as well as of unanticipated increases in administered prices and indirect taxes. Moreover, taking into account the existence of capacity constraints, the favourable momentum of real GDP growth observed over the past few quarters and the positive signs from labour markets, wage developments may be stronger than currently expected. In addition, the peak in headline inflation in many countries driven by food and oil price increases may lead to a further worsening of inflation expectations in the coming months. This may pose an upside risk to inflation through second-round effects, as it could lead to higher wage demands, in the context of a tight labour market, and to a higher pass-through of increasing input costs to consumers, especially in market segments with lower competition and higher pricing power. Box 6 discusses the importance of closely monitoring the anchoring of longer-term inflation expectations.

## Box 6

**MEASURES OF LONGER-TERM INFLATION EXPECTATIONS FROM THE ECB SURVEY OF PROFESSIONAL FORECASTERS: A MORE DETAILED ANALYSIS OF RECENT DEVELOPMENTS**

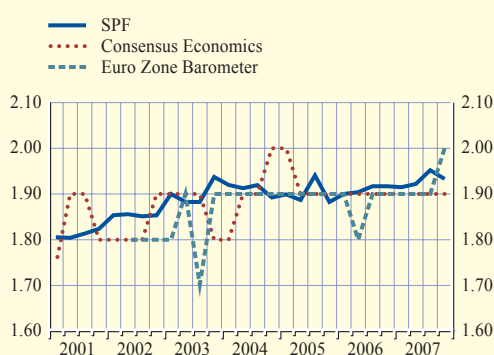
Recent economic developments, in particular rising oil and food prices, have highlighted the need to monitor closely the anchoring of longer-term inflation expectations. This box provides a deeper analysis of the data on longer-term inflation expectations from the ECB Survey of Professional Forecasters (SPF), focusing on the insight to be gained from considering the cross-sectional (i.e. individual) forecaster dimension.

**Aggregate indicators of longer-term inflation expectations**

Overall, aggregate SPF longer-term inflation expectations have fluctuated around 1.9% since the beginning of 2003. They reached a peak of 1.94% in the fourth quarter of 2003 and the second quarter of 2005. More recently, a slight upward movement since the beginning of 2006

**Chart A Longer-term inflation expectations from surveys of forecasters**

(annual percentage changes)



Sources: ECB, Consensus Economics and Euro Zone Barometer.

Note: The latest forecasts refer to 2012 in the SPF for the fourth quarter of 2007, 2013-2017 in the October 2007 issue of Consensus Economics, and 2011 in the October 2007 issue of the Euro Zone Barometer.

can be detected, with a new peak of 1.95% reached in the third quarter of 2007. However, as reported last month, aggregate longer-term (i.e. five years ahead) inflation expectations edged down slightly in the latest round of the SPF (for the fourth quarter of 2007), to 1.93%. Thus, using one decimal place, this slight downward revision leads to a change from 2.0% back to 1.9% (the level at which SPF longer-term inflation expectations had been for many consecutive rounds). These aggregate results are broadly in line with the information on euro area longer-term inflation expectations that can be obtained from other similar surveys: Consensus Economics and the Euro Zone Barometer (see Chart A).

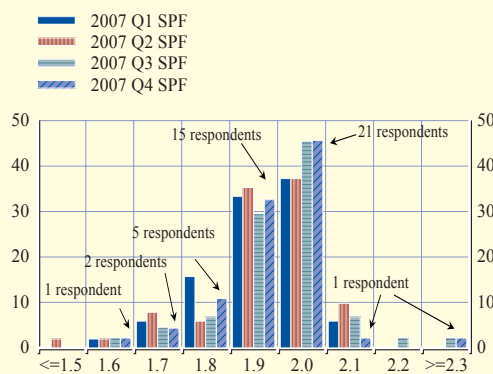
However, it should be noted that, although each of the surveys asks professional forecasters/economists about their longer-term inflation expectations, there are some differences between them, for example with regard to the reference period for longer-term expectations. The ECB SPF has the largest number of responses to the question on longer-term inflation expectations, with approximately 45 on average. An additional feature of the ECB SPF is that it collects both point estimates and probability distributions surrounding respondents' expectations. Finally, a potentially useful feature of the ECB SPF is that data on individual respondents' expectations are available (on an anonymised basis).

## Considering the information content of the cross-section of longer-term inflation expectations<sup>1</sup>

Developments in aggregate expectations may conceal changes in the cross-sectional distribution of point estimates. Looking at individual replies in the last two SPF rounds, the percentage of respondents reporting a point estimate of 2.0% has increased slightly (see Chart B). In the latest SPF round, almost half of the respondents reported an estimate of 2.0%. However, only two respondents reported longer-term inflation expectations of 2.1% or above.

**Chart B Distribution of longer-term inflation expectations among SPF respondents**

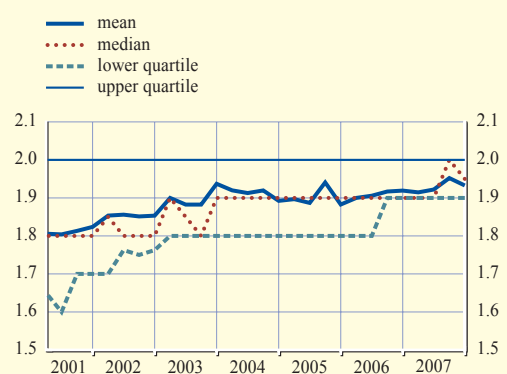
(percentage of respondents)



Source: ECB calculations.

**Chart C Measures of central tendencies of SPF longer-term inflation expectations**

(annual percentage changes)



Source: ECB calculations.

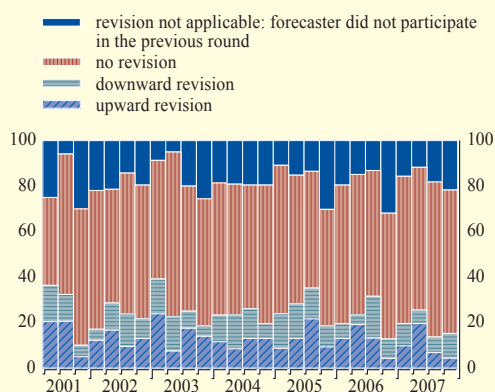
Taking a longer-term perspective, various measures of central tendencies suggest that inflation expectations have been relatively stable since the review and clarification of the ECB's monetary policy strategy (in the second quarter of 2003), when the ECB announced that price stability was defined as inflation being not only "below" but also "close to" 2%. Since mid-2006 longer-term inflation expectations have been concentrated within the 1.9% to 2.0% interval (see Chart C). The upper quartile of the SPF longer-term inflation point estimates has remained unchanged at 2.0%, i.e. at least 25% of the forecasters have always expected longer-term inflation to be at or above 2.0%. The lower quartile increased steadily until the first quarter of 2003 and remained flat at 1.8% from the second quarter of 2003 until the second quarter of 2006. It has narrowed to 1.9% since the third quarter of 2006, indicating that at least 50% of the forecasters expect longer-term inflation to be between 1.9% and 2.0%. The median of the longer-term inflation expectations was stable from the first quarter of 2004 until the third quarter of 2007, when it increased to 2.0%, before retreating to 1.95% in the fourth quarter, indicating that half of the point estimates were above 1.95% in the latest SPF round.

Looking at the revisions of the longer-term inflation expectations, since the first quarter of 2001 on average 24% of forecasters have revised their longer-term inflation expectations in a

<sup>1</sup> For additional analysis of the cross-sectional dimension of the ECB SPF, see Bowles et al., "The ECB Survey of Professional Forecasters (SPF): a review after eight years' experience", ECB Occasional Paper No 59, April 2007.

**Chart D Revisions to longer-term inflation expectations from one SPF round to the next**

(as a percentage of respondents who have provided a point estimate)



Source: ECB calculations.

expectations of those who had reported expectations in the previous round, or some combination of both.

**Conclusions and cross-checking against information from financial market-based indicators of inflation expectations**

Although aggregate point estimates for longer-term inflation expectations from the ECB SPF have remained broadly unchanged at around 1.9%, changes can be observed in both the cross-sectional distribution and the probability distribution underlying these expectations. The percentage of respondents reporting 2% as their longer-term inflation expectation has increased, although it is still the case that very few report point expectations above 2%. Furthermore, as reported last month, the risk of an outcome of above 2% has also increased. In the latest SPF round, the probability associated with an outcome of longer-term inflation of below 2% (52%) was almost as high as the probability associated with an outcome at or above 2% (48%).

Thus, developments in survey indicators of inflation expectations, combined with the fact that indicators of longer-term inflation expectations extracted from financial instruments<sup>2</sup> have risen significantly since early 2007 (see developments in the five-year forward break-even inflation rate five years ahead (seasonally adjusted) in Chart 22 of this issue of the Monthly Bulletin), point to the need to monitor closely longer-term inflation expectations.

2 Indicators of longer-term inflation expectations extracted from financial instruments are not pure measures of inflation expectations as they may also contain an inflation risk premium and be impacted by other market factors. For more information, see the article entitled "Measures of inflation expectations in the euro area" in the July 2006 issue of the Monthly Bulletin.

given round (see Chart D). In the latest SPF round, two-thirds of the respondents did not revise their forecast from the previous round, while five revised down and two revised up their point estimates. Ten of the participants in the latest round had not participated in the previous round, and revisions cannot therefore be calculated for them. On average, 18% of respondents in a given survey round did not participate in the previous round; when analysing the aggregate results of longer-term inflation expectations, it is thus important to keep in mind these changes in the composition of the panel from one round to another. The changes in the average point estimates of longer-term inflation expectations from one round to the next may sometimes reflect changes in the panel composition rather than changes in the actual longer-term inflation

## 4 OUTPUT, DEMAND AND THE LABOUR MARKET

Eurostat's first estimate of euro area real GDP growth in the third quarter of 2007 was 0.7%, confirming the previous flash estimate. Information available at the beginning of the fourth quarter suggests some moderation of economic activity not only in the industrial sector but also, to a lesser extent, in the services sector. Overall, the fundamentals of the euro area remain sound, profitability has been sustained, employment growth robust and the unemployment rate at levels not seen for 25 years. The December 2007 Eurosystem staff macroeconomic projections for the euro area place average annual real GDP growth in a range of between 2.4% and 2.8% in 2007, between 1.5% and 2.5% in 2008 and between 1.6% and 2.6% in 2009. In comparison with the September ECB staff projections, the range projected for real GDP growth in 2008 is slightly lower, whereas for 2007 the range lies within the upper part of the range projected in September. The most recent forecasts from international organisations broadly confirm this outlook. The risks surrounding this outlook for economic growth are on the downside. They relate mainly to the potential for a broader impact from the ongoing reappraisal of risk in financial markets on financing conditions and confidence and on world and euro area growth, possible further oil and commodity price rises, as well as concerns about protectionist pressures and possible disorderly developments due to global imbalances.

### 4.1 OUTPUT AND DEMAND DEVELOPMENTS

#### REAL GDP AND EXPENDITURE COMPONENTS

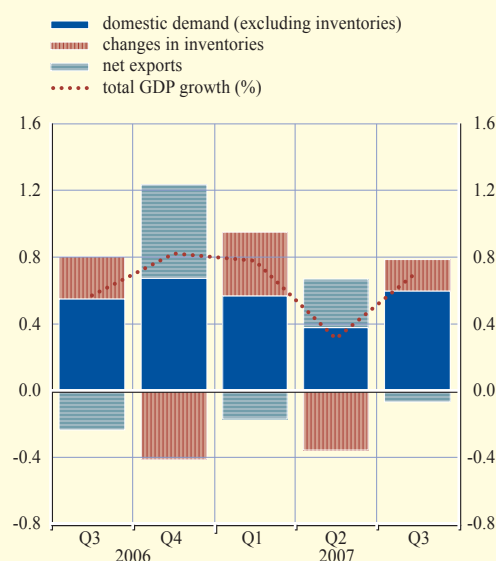
The most recent information has confirmed the assessment presented in previous editions of the Monthly Bulletin. Having expanded above its potential rate in 2006, economic activity developed in line with potential growth in the first three quarters of 2007. As the economy is in a more mature phase of the cycle, real GDP growth should rely more on the contribution of consumption and less on that of investment.

According to Eurostat's first estimate of national accounts data, real GDP growth was 0.7% in the third quarter of 2007, compared with 0.3% in the previous quarter (see Chart 43). Private consumption grew by 0.5%, confirming the positive indications observed previously. Investment recovered its dynamism, to stand at 0.9% quarter on quarter in the third quarter, supporting the view that the decline seen in the second quarter was mainly attributable to specific factors affecting the construction sector. Net trade provided a slightly negative contribution, but both exports and imports saw strong growth. The contribution of inventories was positive.

Overall, the latest estimate of national accounts data suggests that euro area economic growth remained strong in the first three quarters of the year, albeit somewhat weaker than in 2006.

Chart 43 Real GDP growth and contributions

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



Sources: Eurostat and ECB calculations.

## SECTORAL OUTPUT AND INDUSTRIAL PRODUCTION

While stronger growth in the industrial sector was the main driver of the acceleration in the growth of GDP in 2006, the services sector has been progressively taking over this role in 2007. However, in the third quarter industrial growth rebounded after the relatively moderate growth recorded in the second quarter.

According to Eurostat's first estimate of national accounts data, the contribution of the services sector to euro area total value added was 0.5 percentage point in the third quarter of 2007, compared with 0.4 percentage point in the previous quarter. The industrial sector also made a substantial contribution to value added growth in the third quarter, of 0.3 percentage point, having contributed only marginally in the previous three months.

This picture is confirmed by the most recent data on industrial production (see Chart 44). Industrial production (excluding construction) increased by 1.5% in the third quarter of 2007, following an increase of 0.5% in the second quarter. This high quarterly rate reflects large increases in all the main industrial groupings, most notably in capital goods and energy. In three-month-on-three-month terms, industrial new orders (excluding heavy transport equipment) rose by 1.1% in September, compared with 1.8% in the previous month, indicating that expansion in this sector may be slowing. In the construction sector, production increased by 0.4% in the three months to November. While production in this sector showed extraordinary dynamism in 2006, prolonged by the temporary effect of specific factors related to weather conditions in early 2007, on average it appears to have experienced a moderation in growth since the beginning of this year.

Overall, the most recent information suggests that the contribution of industrial production to GDP growth is likely to be weaker in the fourth quarter than it was in the third quarter.

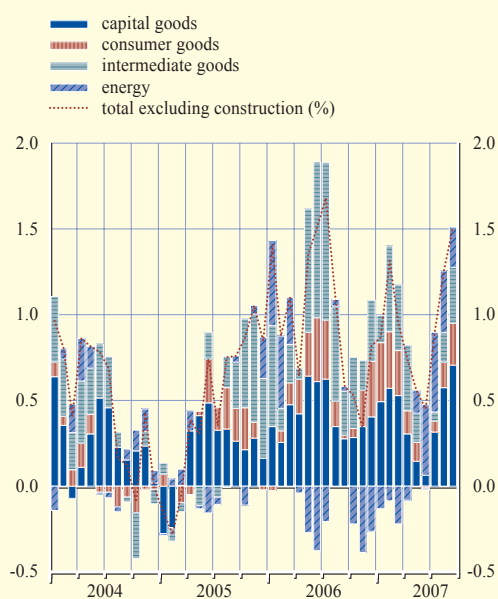
## SURVEY DATA FOR THE INDUSTRIAL AND SERVICES SECTORS

Since the summer of 2006 survey indicators have been pointing to a normalisation of euro area economic activity from the rates of above potential growth previously observed. Over the last 18 months, survey data have consistently indicated slower growth in the industrial sector but robust growth in the services sector. However, survey data available to November 2007 suggest that the services sector also saw some moderation in economic activity in the fourth quarter.

Looking at short-term movements, industrial activity appears to have rebounded somewhat in November, having fallen in the previous two months, as suggested by both the European Commission's industrial confidence indicator and the Purchasing Managers' Index (PMI) for

**Chart 44 Industrial production growth and contributions**

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

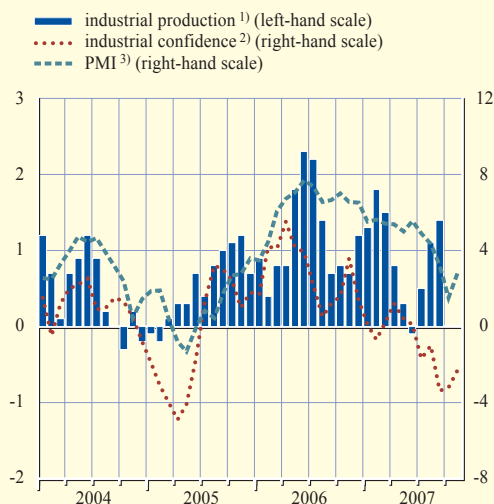


Sources: Eurostat and ECB calculations.

Note: The data shown are calculated as three-month moving averages against the corresponding average three months earlier.

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

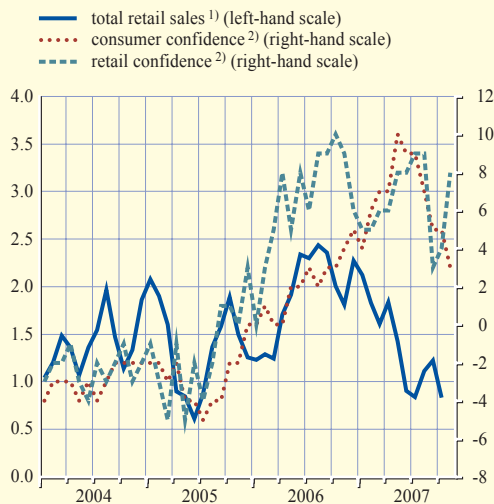
(monthly data; seasonally adjusted)



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: Eurostat and European Commission Business and Consumer Surveys.  
 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.

the manufacturing sector (see Chart 45). However, both indicators also suggest that the average level of industrial activity for the first two months of the fourth quarter was lower than the average for the previous quarter. Nevertheless, the manufacturing PMI remains above the theoretical threshold of 50, which signals growth, while the Commission's industrial confidence indicator stands significantly above its historical average.

With regard to the services sector, both the European Commission's services confidence indicator and the PMI for business activity in the services sector declined in November. Both series are now below their historical average levels, suggesting that growth has moderated somewhat in the services sector. However, they remain at levels consistent with sustained expansion in the fourth quarter and above the average levels observed in these same surveys between 2002 and 2005.

Overall, the survey data for both the industrial and services sectors suggest that GDP growth rates in the fourth quarter of 2007 may be lower than in the third quarter, although close to potential growth.

#### INDICATORS OF HOUSEHOLD SPENDING

Private consumption growth in the euro area has continued to provide support to GDP growth, in line with developments in real disposable income and favourable labour market conditions.

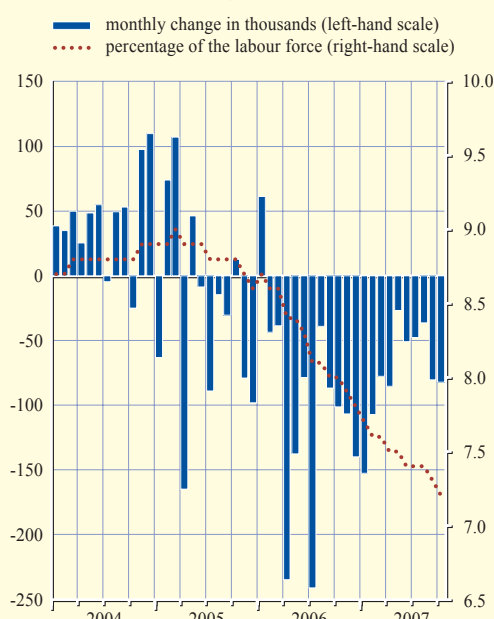
The latest available information on household spending confirms the gradual recovery in private consumption. Private consumption in the euro area increased by 0.5% quarter on quarter in the third quarter of the year, following an increase of 0.6% in the previous quarter. According to the available data, private consumption growth in the third quarter was partly driven by growth in

spending on retail goods, with retail sales increasing by 0.7% quarter on quarter (see Chart 46).

As yet, only limited data are available for the last three months of the year. In October retail sales increased by 0.3% on a three-month moving average basis, while new passenger car registrations in the euro area remained broadly unchanged. The European Commission's retail trade confidence indicator, which signals retailers' perceptions, increased further in November and is at a historically high level. However, euro area consumer confidence declined in November, mainly reflecting a sharp deterioration in consumers' perceptions of the general economic situation. Consumer confidence remains above its historical average but has fallen since the peak observed in May 2007. Nevertheless, conditions are favourable in the labour market, implying that the outlook for private consumption is broadly positive for 2008, although indicators point to slightly weaker growth in consumption in the fourth quarter of 2007 than in the third.

Chart 47 Unemployment

(monthly data; seasonally adjusted)



Source: Eurostat.

## 4.2 LABOUR MARKET

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

Table 8 Employment growth

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

	Annual rates		Quarterly rates				
	2005	2006	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
Whole economy	0.9	1.5	0.6	0.3	0.4	0.6	0.5
<i>of which:</i>							
Agriculture and fishing	-1.1	-1.2	0.6	-1.4	-0.6	0.4	-0.6
Industry	-0.2	0.6	0.4	0.3	0.5	0.7	0.6
Excluding construction	-1.3	-0.2	0.1	0.0	0.0	0.2	0.1
Construction	2.5	2.6	1.3	0.8	1.6	1.9	1.6
Services	1.4	2.0	0.6	0.3	0.4	0.5	0.6
Trade and transport	0.7	1.5	0.7	0.2	0.0	0.5	0.6
Finance and business	2.4	3.6	0.9	1.0	1.0	0.9	1.0
Public administration <sup>1)</sup>	1.4	1.6	0.5	0.1	0.4	0.4	0.4

Sources: Eurostat and ECB calculations.

1) Also includes education, health and other services.



## UNEMPLOYMENT

The downward trend in the euro area unemployment rate seen since mid-2004 has continued, with the euro area standardised unemployment rate declining further to 7.2% in October, from 7.3% in September (see Chart 47). The figure for October is the lowest rate seen since the early 1980s. The unemployment rate has declined by a significant 0.8 percentage point in the last 12 months, although the pace of the decline has slowed gradually since the beginning of 2007. In October the number of unemployed persons in the euro area fell by about 82,000, compared with a monthly average of 113,000 in the first quarter.

Survey data on production constraints from the European Commission's quarterly survey suggest that labour shortages increased further at the beginning of the fourth quarter of 2007 in both the industrial and services sectors.

## EMPLOYMENT

Following strong economic growth in the euro area, employment growth improved substantially in 2006 compared with 2005 (see Table 8), and the information available points to continued steady expansion in 2007.

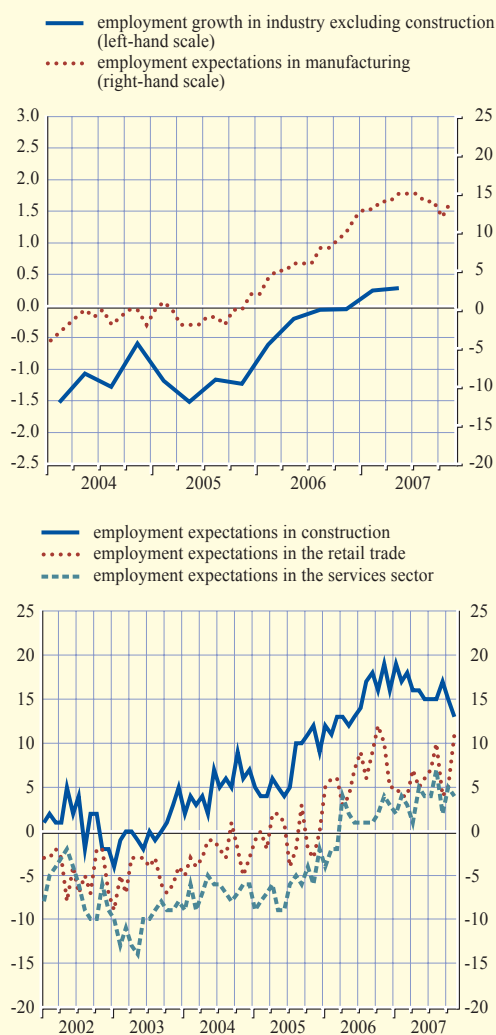
The favourable developments in the euro area labour market in recent years appear to have continued at the beginning of the fourth quarter of 2007, based on survey data available to November (see Chart 48). According to the NTC Economics PMI survey, employment continued to grow in November in both the industrial and services sectors. The employment expectations reported by the European Commission's Business and Consumer Survey convey a similar picture.

### 4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY

According to Eurostat's first estimate, the quarter-on-quarter growth rate of euro area real GDP in the third quarter of 2007 was 0.7%, in line with the earlier flash estimate. The latest information on economic activity from various confidence surveys and indicator-based estimates supports the assessment that economic growth has continued into the fourth quarter of this year, though probably at a more moderate pace compared with the third quarter. All in all, the fundamentals of

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.

the euro area remain sound. Profitability has been sustained, employment growth has been robust and unemployment rates have fallen to levels not seen for 25 years.

These factors are also reflected in the December 2007 Eurosystem staff macroeconomic projections. Annual real GDP growth is projected in a range of between 2.4% and 2.8% in 2007, between 1.5% and 2.5% in 2008 and between 1.6% and 2.6% in 2009. In comparison with the September ECB staff projections, the range projected for real GDP growth in 2008 is slightly lower, whereas for 2007 the range lies within the upper part of the range projected in September. The most recent forecasts from international organisations broadly confirm this outlook. This scenario of sustained real GDP growth broadly in line with trend potential is based on the expectation that the global economy will remain resilient, with the slowdown of economic growth in the United States partly offset by the continued strength of emerging market economies. Strong external demand should therefore provide ongoing support to euro area exports and investment. Consumption growth should also contribute to economic expansion, in line with developments in real disposable income, as continued employment growth provides supportive conditions. Nevertheless, in view of the potential impact of ongoing financial market volatility and the repricing of risk on the real economy, the level of uncertainty remains high.

The risks attached to this outlook for economic growth lie on the downside. These risks are related mainly to the potential for a broader impact from the ongoing reappraisal of risk in financial markets on financing conditions and confidence and on world and euro area growth, possible further oil and commodity price rises, as well as concerns about protectionist pressures and possible disorderly developments due to global imbalances.

## 5 FISCAL DEVELOPMENTS

The European Commission's autumn 2007 economic forecast generally confirms the picture of further improving budget balances in the euro area this year. The euro area average general government deficit-to-GDP ratio is projected to decline in 2007 and increase slightly in 2008. None of the euro area countries is expected to report a deficit above the 3% of GDP reference value in either year. However, progress in structural consolidation in countries with budgetary imbalances, i.e. those that still have not reached their medium-term objective, is generally disappointing. For several countries, the projected improvement falls short of recent political commitments and is not in line with the provisions of the revised Stability and Growth Pact (SGP). This lack of ambition unnecessarily prolongs their budget imbalances and could lead to negative surprises, should the macroeconomic environment turn less favourable. Moreover, it leaves these countries less well prepared for the fiscal consequences of ageing populations and other risks to long-term fiscal sustainability. This situation, if not corrected in the upcoming updates of stability programmes, could undermine the credibility of the preventive arm of the SGP. It calls for firm and convincing peer support by those countries that do conduct prudent fiscal policies.

### FISCAL DEVELOPMENTS IN 2007

The public finance outlook for the euro area shows a continued improvement in headline budget balances this year. According to the European Commission's autumn economic forecast published in November 2007, the average general government deficit ratio is projected to stand at 0.8% of GDP in 2007 (see Table 9), down from 1.5% in 2006. Compared with the updated stability programmes of end-2006, this figure represents an improvement of 0.6 percentage point over the initial targets at the euro area level, which is fully accounted for by the base effect of the better than expected outturn in 2006. At the country level, for the first time since the year 2000, none of the euro area countries is expected to record a budget deficit in excess of the 3% of GDP reference value this year. For the two remaining countries that are subject to the excessive deficit procedure at present, Italy and Portugal, the Commission projects a deficit ratio below and at the 3% of GDP reference value, respectively. Among the other countries with fiscal imbalances in

**Table 9 Fiscal developments in the euro area**

(as a percentage of GDP)

	2003	2004	2005	2006	2007	2008
<b>European Commission economic forecast, autumn 2007</b>						
a. Total revenue	45.0	44.6	45.0	45.6	45.6	45.3
b. Total expenditure	48.1	47.4	47.5	47.1	46.4	46.2
of which:						
c. Interest expenditure	3.3	3.1	2.9	2.9	2.9	2.8
d. Primary expenditure (b - c)	44.8	44.3	44.5	44.2	43.5	43.3
Budget balance (a - b)	-3.1	-2.8	-2.5	-1.5	-0.8	-0.9
Primary budget balance (a - d)	0.2	0.3	0.4	1.3	2.1	2.0
Cyclically adjusted budget balance	-2.7	-2.4	-1.9	-1.2	-0.7	-0.8
Gross debt	69.1	69.6	70.3	68.6	66.5	65.0
Memo item: real GDP (annual percentage change)	0.8	2.0	1.5	2.8	2.6	2.2
<b>Euro area averages based on 2006-07 updated stability programmes<sup>1)</sup></b>						
Budget balance			-2.4	-2.1	-1.4	-1.1
Primary budget balance			0.6	1.0	1.5	1.8
Cyclically adjusted budget balance			-1.8	-1.7	-1.1	-0.8
Gross debt			70.6	69.4	67.8	66.4
Memo item: real GDP (annual percentage change)			1.4	2.6	2.2	2.2

Sources: European Commission, updated stability programmes 2006-07 and ECB calculations.

Note: Figures may not add up due to rounding. European Commission figures include Cyprus and Malta.

1) The euro area average in 2005 includes French data from the stability programme 2005-06.

2006, only Germany is seen to achieve a structural fiscal improvement of at least 0.5% of GDP – the benchmark for the annual correction of the cyclically adjusted budget balance net of temporary and one-off factors for countries that have yet to reach their medium-term budgetary objectives under the Stability and Growth Pact. For all the other countries with a deficit below 3% of GDP but with remaining fiscal imbalances in 2006, the Commission expects the consolidation effort to fall short of this benchmark, despite the generally favourable economic environment. As a consequence, fiscal balances in 2007 are projected to be in line with medium-term budgetary objectives in only around half of the euro area countries.

The Commission forecast indicates a further reduction of the euro area general government gross debt ratio, from 68.6% of GDP in 2006 to 66.5% in 2007. This reflects declines in debt ratios in all euro area countries except Ireland, France and Luxembourg, where debt ratios are expected to remain broadly stable.

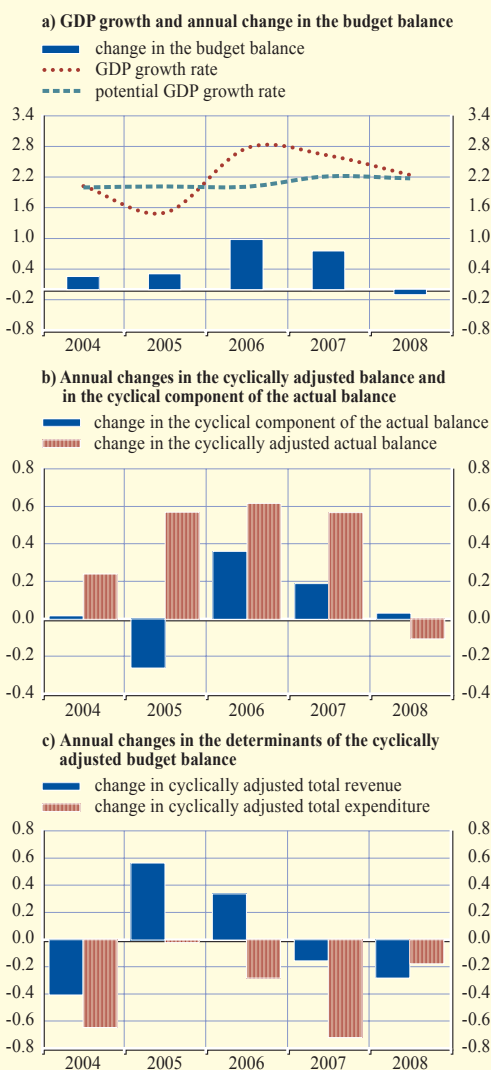
#### FACTORS UNDERLYING BUDGETARY DEVELOPMENTS IN 2007

The improvement in the euro area fiscal balance is mainly driven by comparatively strong economic growth (given an average annual real GDP growth rate of 2.6% in 2007, see Chart 49a) and the unwinding of significant deficit-increasing temporary factors in Italy (0.3% of euro area GDP). The latter were related to capital transfer increases reflecting a European Court of Justice ruling on VAT and a takeover of railway debt in the second half of last year.

The cyclically adjusted deficit has continued to decline in 2007 (see Chart 49b), but only by a small amount if the impact of the two temporary factors for Italy in 2006 is excluded. Aggregate developments mask notable divergences across countries. Among the countries with significant budgetary imbalances in 2006, Germany, Italy, and Portugal are expected to record sizeable improvements in their cyclically adjusted balances. By contrast, limited progress is estimated for France and Austria, while no progress is expected for Slovenia, and Greece would even experience a worsening in its cyclically adjusted balance. The projected overall improvement in the euro area cyclically adjusted balance in 2007 reflects a decline in cyclically adjusted expenditures which more than offsets a minor decrease on the revenue side (see Chart 49c). As noted above, the

Chart 49 Determinants of budgetary developments in the euro area

(in percentage points of GDP; percentage changes)



Sources: European Commission (autumn 2007 economic forecast) and ECB calculations.  
Note: Cyprus and Malta are included in the euro area aggregate.

decline in expenditures in 2007 partly reflects the unwinding of the temporary factors.

Quarterly data available up to the second quarter of 2007 show the comparative strength of general government total revenue growth over expenditure growth in the recent past (see Chart 50). Although total revenue growth decelerated in the first half of 2007 from the previously elevated levels, revenue windfalls and indirect tax increases continue to play an important positive role in the overall budgetary improvement, offsetting the impact of direct tax cuts and lower social contributions.

#### PROSPECTS FOR PUBLIC FINANCES IN 2008

For 2008, the Commission economic forecast projects the average euro area deficit to increase slightly to 0.9% of GDP. The fiscal stance should be broadly neutral as the cycle is expected to have a mostly neutral impact on budget balances, while the ratio of interest payments is projected to decrease somewhat. Notably, of the countries with fiscal imbalances, only Greece and Malta are projected to record an annual structural fiscal consolidation in line with the SGP benchmark of 0.5% of GDP. Structural consolidation would virtually come to a standstill or even go into reverse in the countries with remaining structural deficits: the Commission projects a minor structural improvement for Portugal, but none for Italy and Austria, and even a deterioration for France and Slovenia. After reaching its medium-term objective in 2007, Germany is projected to fall short of it in 2008.

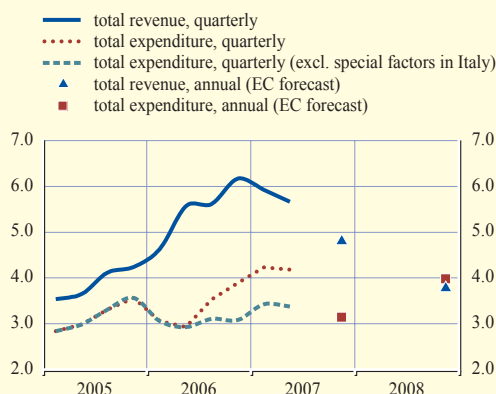
The developments at the euro area level reflect in particular a number of planned further direct tax cuts and lower social contributions in some countries, while in some cases indirect taxes are to be raised. Tax cuts focus mainly on lower rates of enterprise taxation, primarily in Germany, while social security contributions are cut in France and Germany. On balance, discretionary revenue reductions are projected to contribute to a small decline in the revenue-to-GDP ratio at the euro area level, while the expenditure ratio is expected to decrease only slightly, thus indicating no further consolidation efforts. Adjusted for cyclical effects, the decline in the expenditure-to-GDP ratio virtually comes to a halt in 2008. Some governments are translating part of ongoing revenue windfalls into extra spending rather than faster deficit and debt reduction. Meanwhile, the average ratio of government gross debt to GDP is projected to decline to 65.0%, supported by a broadly stable primary surplus ratio. With the exception of Ireland and Portugal, the debt ratio is projected to decrease in all euro area countries. The debt ratios of Belgium, Germany, Greece, France, Italy, Malta and Portugal are projected to remain above the 60% of GDP reference value in 2008.

#### CURRENT FISCAL POLICIES AND THE LESSONS OF THE PAST

The continued improvement in headline budgetary balances observed in 2007 is welcome, in particular the fact that no euro area country is projected to record deficits above the 3% of GDP

**Chart 50 Quarterly government finance statistics and projections, euro area**

(year-on-year percentage growth rate of four-quarter moving sums)



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 Q2 2007, plus the annual projections for 2007 and 2008 from the European Commission autumn 2007 forecast. The special factors in Italy excluded from total expenditure in the second half of 2006 amounted to 0.3% of GDP.

reference value. Budgetary improvements have evidently been helped by strong economic growth, translating into strong tax collection and sizeable revenue windfalls. Nevertheless, the obvious lack of consolidation efforts in most countries with fiscal imbalances is a source of concern for at least two reasons. First, historical experience shows that weak starting positions and complacent fiscal policies can result in rapidly deteriorating fiscal balances when the economic environment turns. Second, disregard of the policy requirements of the Stability and Growth Pact puts the credibility of its preventive arm at risk.

A look at fiscal developments around the end of the last economic boom may be instructive, in particular the situation in 2000. Then, fiscal plans and projections reflected the assumption that an unexpectedly strong revenue performance would last. However, actual developments after 2000 illustrate how over-optimistic fiscal projections in combination with structurally weak budget positions at the end of the boom led to a rapid deterioration in public finances. Mainly on the back of substantially weaker than expected revenues, the final deficit outcomes turned out much worse than projected: the euro area deficit (ESA 95 definition, excluding UMTS proceeds) rose from 1.0% in 2000 to 1.9% of GDP in 2001 and to 2.6% of GDP in 2002. In several euro area countries, the deficit ratio rapidly exceeded the 3% of GDP reference value in 2001-2003. It is noteworthy that the structural worsening of budget balances originated mainly on the revenue side and resulted from sizeable tax cuts, with a major impact stemming from measures adopted in Germany, France, Italy and the Netherlands.

The current situation indeed bears some resemblance to the fiscal outlook in 2000. Sustained economic growth, which the Commission projects to continue in 2008, is expected to boost government revenues and deflate spending ratios. Nevertheless, structural fiscal balances remain below medium-term objectives in many countries, in some instances by a substantial margin. In addition, there are clear uncertainties regarding the sustainability of the current favourable fiscal conditions, in particular on the revenue side. The buoyancy of tax revenues also reflects windfalls from sources that are not fully accounted for in conventionally defined tax bases and may soon fade. Additionally, to the extent that the increase in the revenue-to-GDP ratio is attributable to higher receipts from direct taxes paid by corporations, it cannot safely be assumed to last, given that this revenue category is particularly volatile. Also for other revenue categories, it is difficult to know to what extent higher revenues are structural or only transitory in nature. Budget plans for 2008 imply that uncertain higher revenues may be translated into tax cuts and higher expenditures, rather than deficit and debt reduction.

Hence, as a lesson from the past, governments would be well advised to adopt a fiscal strategy of prudence and not to translate current buoyant revenues into unfunded tax cuts and/or expenditure increases. While tax cuts can generally reduce distortions and contribute to economic efficiency over time, short-run effects can harm the soundness of public finances if such measures are implemented without due regard to the need for budgetary safety margins. Besides undermining the prospects for fiscal sustainability, a complacent attitude in good economic times increases the eventual need for fiscal tightening in less favourable economic times.

#### **NEED FOR COMPLIANCE WITH THE EU FISCAL FRAMEWORK**

Complacent fiscal policies in good times put at risk not only fiscal soundness but also, over the long run, macroeconomic stability. Current policy intentions in a number of countries also raise serious doubts about their commitment to the EU fiscal policy framework, which is designed to encourage sustainable and growth-friendly public finances in Economic and Monetary Union. On two occasions in 2007, euro area finance ministers publicly reiterated their commitment to the

objectives of the Stability and Growth Pact, particularly its preventive arm, and undertook to strengthen its implementation.

First, at their meeting in Berlin on 20 April 2007, finance ministers of the euro area countries agreed to reach sound structural budgetary positions as soon as possible, and by 2010 at the latest. In contrast to that agreement, structural consolidation in most countries with budgetary imbalances has been disappointing in the 2007 and 2008 budgets, and fiscal imbalances are projected to persist, in some cases of considerable magnitude. On current projections, it appears highly questionable whether countries will indeed comply with the joint objective agreed in Berlin, and current policy intentions provide no reassurance in this regard.

Second, in October 2007, the ECOFIN Council agreed on a number of measures to improve the effectiveness of the Stability and Growth Pact, in particular by strengthening its preventive arm. They also confirmed the need to comply with the Pact's structural consolidation benchmark of 0.5% of GDP per year (see Box 7).

#### Box 7

##### **POLITICAL COMMITMENTS AND THE STABILITY AND GROWTH PACT**

Economic stability and sustainable growth in the context of Economic and Monetary Union depend inter alia on the determination of the Member State governments to conduct sound fiscal policies. Important political commitments have recently been made in this respect.

On 20 April 2007 the Eurogroup ministers of finance and economy, in their spring orientation debate on budgetary policies, reaffirmed their adherence to the sound fiscal policy principles of the revised Stability and Growth Pact (SGP). They agreed that the euro area was experiencing economic good times and undertook to make full use of the current economic growth and the better than expected tax revenues to pursue sound fiscal policies in line with SGP provisions. Ministers confirmed their commitment to actively consolidate public finances in good times and to use unexpected extra revenues for debt and deficit reduction. Member States that had not yet reached their medium-term budgetary objective (MTO) were expected to speed up the pace of deficit and debt reduction in order to achieve at least the annual fiscal adjustment benchmark, in structural terms, of 0.5% of GDP. Euro area countries committed to achieve their MTO in 2008 or 2009 and all of them agreed to aim for 2010 at the latest. Finally, those countries that had achieved their MTO were expected to avoid fuelling macroeconomic imbalances through a loosening of fiscal policy in good times.

On 9 October 2007 the ECOFIN Council adopted conclusions on how to improve the effectiveness of the SGP. The conclusions emphasised that the SGP should be fully implemented and that Member States that had not yet reached their MTOs should speed up the pace of deficit and debt reduction and allocate higher than expected revenues to this end. Specifically, the Council conclusions contained the following pledges:

- Ensuring progress towards sustainable fiscal positions is a key priority, in line with the preventive arm of the SGP, to prepare for the impending budgetary impact of ageing

populations. Countries not yet at their MTO should speed up the pace of deficit and debt reduction. In particular, countries participating in the euro area or in ERM II should pursue an annual adjustment in cyclically adjusted terms, net of one-off and temporary measures, of 0.5% of GDP as a benchmark. The adjustment effort should be higher in good times.

- Long-term fiscal sustainability, notably the future impact of ageing, is to be better taken into account in the MTOs. The criteria and modalities for taking into account implicit government liabilities in the definition of MTOs will be discussed early in 2008. Member States would present new MTOs in the updates of stability and convergence programmes in the autumn of 2009, providing for a revision of MTOs every four years.
- National fiscal rules and institutions, including monitoring mechanisms, are important in the attainment of sound budgetary positions. Rules-based multiannual fiscal frameworks can help to adhere to medium-term budgetary plans, including by controlling expenditure. Domestic ownership of the EU fiscal policy framework is enhanced by an appropriate involvement of national parliaments.
- The regular assessment of national fiscal policies is to be enhanced by a more comprehensive analysis of the overall macroeconomic situation and by improved tools for measuring the underlying fiscal positions of Member States, notably with a view to avoiding pro-cyclical fiscal policies in good times. If necessary, stability and convergence programmes should specify further measures to fill the gap between MTOs and fiscal trends.

Strengthening the preventive arm of the SGP is important to ensure that MTOs are reached quickly and to avoid a repetition of the past mistake of reducing structural consolidation efforts in good times. The renewed ECOFIN Council commitment and the ensuing proposals are hence welcome in principle. Care should, however, be taken to ensure that refinements to the way the Pact is implemented do not make the framework overly complex and dilute its rules-based nature.

It is now essential that all countries fully live up to their renewed policy commitments. Any discrepancy between policy pledges and policy actions contributes to undermining the credibility of fiscal commitments in the EU and its fiscal framework. Only two years after the Pact was revised to align it more closely with country-specific circumstances, these developments are disquieting.

In this situation, the concept of peer support, essential to the functioning of the EU fiscal framework, deserves particular attention. Such support can be provided by Member States in the framework of the EU fiscal monitoring and surveillance process, particularly in the discussion of each country's stability or convergence programme. The messages to be conveyed in these discussions will be more credible if they are underpinned by references to sound actual fiscal policies. In this regard, countries at (or close to) their medium-term budgetary objectives now have the opportunity to show how sound fiscal policies, compliant with the Stability and Growth Pact, help them to ensure fiscal soundness and macroeconomic stability.

For countries with budgetary imbalances, more ambitious budgetary targets are called for, in order to guard against unexpected shocks. The continued positive economic outlook provides an



opportunity to allocate further revenue windfalls fully to faster consolidation. Using these additional revenues to increase expenditure or cut taxes in an unfunded manner poses the risk that budgetary positions may deteriorate rapidly when such favourable conditions come to an end.

Public finances at the current juncture require close monitoring, especially for countries with significant imbalances and an insufficient safety margin with respect to the deficit reference value. In terms of multilateral surveillance at the European level, all policy instruments available should, if necessary, be employed to that effect. The new EU Treaty, while strengthening economic governance of the euro area, confirms the procedures regarding the budgetary surveillance mechanisms (see Box 8).

#### Box 8

### THE TREATY OF LISBON

On 19 October 2007 the EU Heads of State or Government reached agreement on a new Treaty, which they will sign in Lisbon on 13 December 2007. The Treaty then needs to be ratified by all 27 Member States. The intention is that it enters into force on 1 January 2009 and in any case before the European Parliament elections in June 2009.

The new Treaty amends both the Treaty establishing the European Community and the Treaty on European Union. These two Treaties will continue to be the basis on which the EU functions. The Treaty simplifies the structure of the European Union, which currently consists of a Community “pillar” and two separate foreign policy and home affairs “pillars”. In the new Treaty, the pillars cease to exist and the Community is succeeded and replaced by the Union, which will have legal personality. The Treaty establishing the European Community is renamed the Treaty on the Functioning of the European Union.

On 5 July 2007 the ECB published its Opinion<sup>1</sup> on the opening of the Intergovernmental Conference (IGC) that drew up the new Treaty. The Opinion referred to several innovations agreed upon in the Treaty establishing a Constitution for Europe, which was signed by the Heads of State or Government of all Member States, but not ratified<sup>2</sup>. On 2 August 2007 the President of the ECB wrote a letter to the Presidency of the IGC<sup>3</sup> with suggestions on the first draft of the new Treaty, regarding the ECB and the European System of Central Banks (ESCB).

### Changes made to the Treaties

The new Treaty makes several changes to the EU’s general institutional framework. The first is the establishment of a permanent President for the European Council, who will be elected for a term of two and a half years, renewable once. The President will represent the EU externally and chair meetings of the European Council, which brings together the Heads of

1 Opinion of the European Central Bank of 5 July 2007 at the request of the Council of the European Union on the opening of an Intergovernmental Conference to draw up a Treaty amending the existing Treaties (CON/2007/20), Official Journal C 160/2-4, 13/07/2007.

2 This Treaty was the topic of an article entitled “The European Constitution and the ECB” in the ECB Monthly Bulletin, August 2004.

3 The letter is available on both the IGC and ECB websites.

State or Government and the President of the European Commission. The European Council itself becomes a Union institution.

The EU's foreign policy apparatus is strengthened, as is the role of the Council's High Representative for foreign and security policy. The High Representative becomes simultaneously a Commission vice-president in charge of external relations (meaning a five-year term), and will chair the Foreign Affairs Council. The current rotating presidency system is maintained for chairing the Council's remaining formations. The position is supported by a new European external action service, which will bring together external relations staff from the Commission and the Council, and will also draw on the foreign policy apparatus of the Member States.

The Commission becomes smaller: from 2014, the number of Commissioners will be reduced from 27 to two-thirds of the number of Member States (including the Commission President and the High Representative), chosen on the basis of an equal rotation system. The European Parliament becomes involved in more legislative areas and the number of its members is reduced to 751. Co-decision by the Council and the European Parliament becomes the ordinary legislative procedure.

As regards the Council, the definition of a qualified majority is amended, by introducing the so-called "double majority" system, which will become mandatory from 2017. This means that a measure will usually be approved by the Council if it is supported by 55% of Member States, representing at least 65% of the EU population. In addition, more areas of Council voting will be decided by qualified majority voting.

Other innovations include: a role for national parliaments in monitoring the application of the subsidiarity principle; the introduction of an "exit clause" allowing for a Member State to leave the EU in an orderly fashion; and a reference to the European Council's Copenhagen criteria for EU enlargement. Moreover, the EU's Charter of Fundamental Rights becomes legally binding, albeit with some possible exceptions in its application. Finally, the "enhanced cooperation" procedure, which allows for the development of certain policies by the EU when some, but not all, Member States want to act, is made easier to use.

### **Changes to the Treaties of particular relevance to Economic and Monetary Union**

The new Treaty makes no fundamental change to the provisions of the current Treaties on economic and monetary policy.

The new Treaty introduces a list of objectives for the Union. Price stability is already the primary objective of the ECB and the ESCB, and is now included in these EU objectives, one of which is the "sustainable development of Europe based on balanced economic growth and price stability". An "economic and monetary union whose currency is the euro" is another EU objective.

The ECB, which currently has the status of a *sui generis* Community body, is given the legal status of a Union institution. In this context, the ECB deemed it indispensable that the special institutional features of the ECB and of the Eurosystem/ESCB were preserved. These special features, which include all aspects of independence, the ECB's regulatory powers, and its legal

personality, are key to the successful performance of the Eurosystem's tasks. The new Treaty fully retains all these special features.

The term "Eurosystem" is introduced into the Treaties. This refers to the ECB and the national central banks of the Member States that have adopted the euro, differentiating it from the term "ESCB", which refers to the ECB and the national central banks of all EU Member States. Apart from technical redrafting, no changes are made in the areas of the convergence criteria, prudential supervision or exchange rate policy. The new Treaty redrafts the language used regarding the external representation of the euro area in the context of the international financial architecture. The new text clarifies the current situation but does not change the allocation of responsibilities as regards economic policy and monetary policy. Notably, the new Treaty introduces for the first time the concept of "unified representation".

Under the new Treaty, the appointment of members of the ECB's Executive Board is by a qualified majority of the European Council, whereas currently it requires the common accord of the governments of the Member States.

The new Treaty also introduces several other innovations in the area of economic governance. These include recognition of the "Euro Group", which retains its current informal status. Its President will serve a two-and-a-half-year term. Moreover, the role of the euro area countries is strengthened. A new provision allows them, by a qualified majority, to adopt new measures to bolster the coordination and surveillance of their budgetary discipline and to set out specific economic policy guidelines for the euro area members. As soon as the Treaty comes into force, decisions on non-compliance by euro area countries with the excessive deficit procedure and the broad economic policy guidelines will be taken only by euro area countries, and without the Member State concerned. Finally, the euro area members will provide a recommendation on whether a country can adopt the euro. Therefore, the final decision on the introduction of the euro in a Member State, while being taken by the whole Council, will take into account the view expressed by the euro area members. This does not in any way change the current procedure of the ECB and the Commission providing convergence reports and the Commission making a proposal.

In this way, although the new Treaty leaves Economic and Monetary Union (EMU) fundamentally unchanged, it introduces various relevant developments. The Treaty recognises some current realities and refines EMU in several respects, offering both progress on mechanisms for more distinct economic governance of the euro area and the potential for further developments.

## 6 EUROSISTEM STAFF MACROECONOMIC PROJECTIONS FOR THE EURO AREA

*On the basis of the information available up to 23 November 2007, Eurosystem staff have prepared projections for macroeconomic developments in the euro area.<sup>1</sup> Average annual real GDP growth is projected to be between 2.4% and 2.8% in 2007, between 1.5% and 2.5% in 2008, and between 1.6% and 2.6% in 2009. The average rate of increase in the overall HICP is projected to be between 2.0% and 2.2% in 2007, between 2.0% and 3.0% in 2008, and between 1.2% and 2.4% in 2009.*

### Box 9

#### TECHNICAL ASSUMPTIONS

The Eurosystem staff projections are based on a series of 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 November 2007. With regard to short-term interest rates, as measured by the three-month EURIBOR, market expectations are derived from forward rates, reflecting a snapshot of the yield curve at the cut-off date. They imply an average level of 4.9% in the fourth quarter of 2007, falling to 4.5% in 2008 and 4.3% in 2009. The market expectations for euro area ten-year nominal government bond yields imply a flat profile at their mid-November level of 4.3%. The baseline projection also includes the assumption that bank lending spreads will rise slightly over the projection horizon, reflecting the current 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 per barrel are assumed to be USD 72.6 in 2007, USD 88.6 in 2008 and USD 83.7 in 2009. The average annual increase in non-energy commodity prices in US dollars is assumed to be 18.1% in 2007, 8.9% in 2008 and 4.5% in 2009.

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 1.46 and an effective exchange rate of the euro that is, on average, 3.8% higher in 2007 than the average for 2006, and 2.6% higher in 2008 and 2009 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 national parliaments or that have been specified in detail by governments and are likely to pass the legislative process.

<sup>1</sup> The Eurosystem staff macroeconomic projections are produced jointly by experts from the ECB and the euro area NCBS. They are a biannual input into the Governing Council's assessment of economic developments and the risks to price stability. More information on the procedures and techniques used is given 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.

## THE INTERNATIONAL ENVIRONMENT

Global economic growth (outside the euro area) is projected to moderate over the projection horizon, while remaining resilient. This is mainly due to continued robust economic expansion in emerging markets, which are partly taking over from the United States as the main engine of global growth.

Overall, annual growth in world real GDP outside the euro area is projected to average about 5.6% in 2007 and 5.2% in both 2008 and 2009. Growth in the euro area's external export markets is projected to be about 6.0% in 2007, 6.9% in 2008 and 7.1% in 2009.

## REAL GDP GROWTH PROJECTIONS

Eurostat's flash estimate of euro area real GDP growth in the third quarter of 2007 indicates a quarter-on-quarter growth rate of 0.7%, following 0.3% in the second quarter of this year. Real GDP is projected to expand over the projection horizon at quarterly growth rates of around 0.5%. Against this background, average annual real GDP growth is projected to be between 2.4% and 2.8% in 2007, between 1.5% and 2.5% in 2008, and between 1.6% and 2.6% in 2009.

Among the domestic components of GDP, private consumption is expected to grow broadly in line with real disposable income, generally reflecting projected developments in employment and real wage growth. The saving ratio is expected to remain largely unchanged. Government consumption is expected to grow moderately over the projection horizon.

Business investment is expected to slow down somewhat as the support from favourable demand and profit prospects is dampened by lower global growth and tighter financing conditions. Residential private investment growth in particular is expected to moderate, reflecting a normalisation in the housing markets of several euro area countries. Overall, the average annual growth rate of total fixed investment is projected to be between 4.0% and 5.0% in 2007, between 0.9% and 3.9% in 2008, and between 0.7% and 3.9% in 2009.

Export growth is expected to continue to support economic activity, although the euro area's export market shares are projected to decline slightly, owing to increased global competition and to losses in price competitiveness. The average annual rate of growth in total imports is projected

**Table 10 Macroeconomic projections for the euro area**

(average annual percentage changes)<sup>1,2)</sup>

	2006	2007	2008	2009
HICP	2.2	2.0-2.2	2.0-3.0	1.2-2.4
Real GDP	2.9	2.4-2.8	1.5-2.5	1.6-2.6
Private consumption	1.9	1.4-1.8	1.4-2.4	1.2-2.8
Government consumption	1.9	1.4-2.6	1.1-2.1	1.0-2.0
Gross fixed capital formation	5.2	4.0-5.0	0.9-3.9	0.7-3.9
Exports (goods and services)	8.0	4.6-7.4	3.5-6.7	3.9-7.1
Imports (goods and services)	7.6	4.0-6.6	3.3-6.7	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 from 2006, with the exception of the HICP, where they include Slovenia only from 2007. Since the September 2007 projections Cyprus and Malta have been included as part of the euro area in the projection ranges from 2008 onwards. 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.

to be slightly below that of total exports, resulting overall in a slightly positive contribution from net trade to real GDP growth over the projection period.

The favourable trends in the labour market are projected to continue. Total employment growth is expected to moderate in 2008, in line with the pattern projected for economic activity. Labour supply is expected to increase as a result of improved job prospects and labour market reforms in a number of euro area countries. The unemployment rate is projected to decline further over the projection horizon.

### PRICE AND COST PROJECTIONS

Since August 2007 annual HICP inflation has increased substantially, due essentially to additional pressures from food and energy prices. Looking ahead, projected inflation continues to be affected for some time by such pressures. External price pressures are expected to remain strong until mid-2008, owing largely to the assumed path of oil and non-energy commodity prices, in particular for food commodities. In 2008 and 2009, indirect taxes and administered prices are expected to have an upward impact on HICP inflation, albeit to a lesser extent than in 2007 when there was a significant increase in German VAT. Moreover, the projections are based on the expectation that total economy wage growth will be stronger over 2008-09 than in previous years, while labour productivity growth is not expected to increase markedly over the horizon. The effects on inflation of the resulting higher growth of unit labour costs are, however, expected to be dampened by declining growth in profit margins. As a result of these various elements, the average rate of increase in the overall HICP is projected to be between 2.0% and 2.2% in 2007, between 2.0% and 3.0% in 2008, and between 1.2% and 2.4% in 2009.

### COMPARISON WITH THE SEPTEMBER 2007 PROJECTIONS

With regard to real GDP growth, the current range projected for 2007 is within the upper part of the range contained in the ECB staff macroeconomic projections published in the September 2007 issue of the Monthly Bulletin. The range for 2008 has been adjusted downwards, reflecting the anticipated effects of higher energy and food prices and a stronger exchange rate of the euro than previously assumed. With regard to HICP inflation, the range projected has been shifted upwards for both 2007 and 2008, mainly reflecting the assumption of higher energy and food prices than in the September projections.

**Table II Comparison with the September 2007 projections**

(average annual percentage changes)

	2006	2007	2008
Real GDP – September 2007	2.9	2.2-2.8	1.8-2.8
Real GDP – December 2007	2.9	2.4-2.8	1.5-2.5
HICP – September 2007	2.2	1.9-2.1	1.5-2.5
HICP – December 2007	2.2	2.0-2.2	2.0-3.0

**Box 10****FORECASTS BY OTHER INSTITUTIONS**

A number of forecasts for the euro area are available from both international organisations and private sector institutions. However, these forecasts are not strictly comparable with one another or with the Eurosystem staff macroeconomic projections, as they were finalised at different points in time and are therefore partly outdated. Additionally, they use different (partly unspecified) methods to derive assumptions for fiscal, financial and external variables, including oil and other commodity prices. Finally, there are differences in working-day adjustment methods across different forecasts (see the table below).

In the forecasts currently available from other institutions, euro area real GDP is expected to grow by between 2.5% and 2.6% in 2007, by between 1.9% and 2.2% in 2008, and by between 2.0% and 2.2% in 2009. The forecasts anticipate average annual HICP inflation to be between 2.0% and 2.1% in 2007, between 2.0% and 2.5% in 2008, and at 2.0% in 2009. All available forecasts thus fall within the ranges of the Eurosystem projections.

**Comparison of forecasts for euro area real GDP growth and HICP inflation**

(average annual percentage changes)

	Date of release	GDP growth			HICP inflation		
		2007	2008	2009	2007	2008	2009
IMF	Oct. 2007	2.5	2.1	n.a.	2.0	2.0	n.a.
European Commission	Nov. 2007	2.6	2.2	2.1	2.0	2.1	2.0
OECD	Dec. 2007	2.6	1.9	2.0	2.1	2.5	2.0
Consensus Economics Forecasts	Nov. 2007	2.6	2.0	n.a.	2.0	2.0	n.a.
Survey of Professional Forecasters	Oct. 2007	2.6	2.1	2.2	2.0	2.0	2.0
Eurosystem staff projections	Dec. 2007	2.4-2.8	1.5-2.5	1.6-2.6	2.0-2.2	2.0-3.0	1.2-2.4

Sources: European Commission Economic Forecasts, Autumn 2007; IMF World Economic Outlook, October 2007; OECD Economic Outlook No 82, December 2007, Preliminary edition; Consensus Economics Forecasts; and the ECB's Survey of Professional Forecasters. Note: The Eurosystem staff macroeconomic projections and the OECD forecasts both report working-day-adjusted annual growth rates, whereas the European Commission and the IMF report annual growth rates that are not adjusted for the number of working days per annum. Other forecasts do not specify whether they report working-day-adjusted or non-working-day-adjusted data.

## 7 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

### 7.1 EXCHANGE RATES

The broad-based appreciation of the euro has continued in recent months, while the perception of risk has increased from the historically low values recorded in June. On 5 December the euro stood, in effective terms, 5.8% higher than at the beginning of 2007.

#### EFFECTIVE EXCHANGE RATE OF THE EURO

Overall, the euro appreciated significantly during 2007. A first broad-based appreciation took place between the end of 2006 and late April 2007 – partly reflecting changing market assessments about the relative cyclical position of the euro area relative to its main trading partners. Thereafter, the nominal effective exchange rate of the single currency largely traded sideways until the end of August, amid some considerable short-term volatility. From the beginning of September the single currency started to appreciate sharply, a trend that continued over the subsequent two months. The strength of the euro over the last three months seems related to the turbulence in global credit markets and the associated market expectations of a widening interest rate differential between the two main economic areas. On 5 December 2007 the nominal effective exchange rate – as measured against the currencies of 24 of the euro area's important trading partners – was 3.9% above its end-August level and 5.8% higher than at the beginning of the year (see Chart 51).

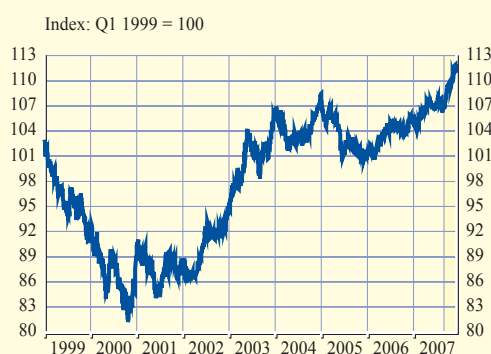
The appreciation of the euro in effective terms over the past three months has been rather broad-based. The euro has strengthened significantly against the US dollar, the pound sterling, the Chinese renminbi and some of the Asian currencies linked to the dollar. By contrast, it has weakened vis-à-vis the Polish zloty and the Czech koruna. In terms of the indicators of the international price and cost competitiveness of the euro area, in November 2007, based on developments in consumer and producer prices, the real effective exchange rate of the euro was, on average, slightly less than 6% above its average 2006 level (see Chart 52).

#### US DOLLAR/EURO

The evolution of the euro against the US dollar has broadly followed the pattern of the nominal effective exchange rate of the euro over recent months. After a period of appreciation against the US currency that lasted until the end of April, the euro tended to trade broadly sideways,

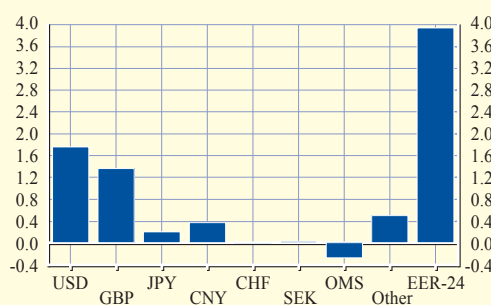
Chart 51 Euro effective exchange rate and its decomposition <sup>1)</sup>

(daily data)



#### Contributions to EER changes <sup>2)</sup>

From 31 August to 5 December 2007  
(in percentage points)



Source: ECB.

Note: The shaded area refers to the period from 31 August 2007 to 5 December 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.



amid some considerable short-term fluctuations. Since the beginning of September the exchange rate of the euro vis-à-vis the US dollar has been influenced by concerns about liquidity conditions in global money and credit markets, which have led to a sharp increase in investors' risk aversion and to financial market volatility. In fact, implied volatility on the USD/EUR currency pair almost doubled in relation to its historical low at the end of June. Weak data releases in the United States, especially with reference to the housing market and to overall confidence indicators, together with downward revisions to the US growth outlook by market participants since the summer, also weighed on the US currency. On 5 December the euro traded at USD 1.47, i.e. 7.4% above its level at the end of August and about 12% stronger than at the start of 2007 (see Chart 53).

#### JAPANESE YEN/EURO

Throughout 2007 the euro has recorded large swings against the Japanese yen. In the earlier part of the year, the euro continued its appreciation against the Japanese currency, ongoing since mid-2005, to reach a peak of JPY 168.68 on 13 July. In subsequent months, the euro-yen exchange rate fluctuated widely, broadly reflecting swings in financial market volatility. This, in turn, influenced the perceived profitability of carry trades where the Japanese yen has been actively used as a funding currency. The intensification of the US sub-prime mortgage market strains and their spillover to other market segments were a key factor in explaining these developments. On 5 December the euro stood at JPY 162.33, i.e. about 2% stronger than its level at the end of August and 3.4% stronger than at the beginning of 2007 (see Chart 53).

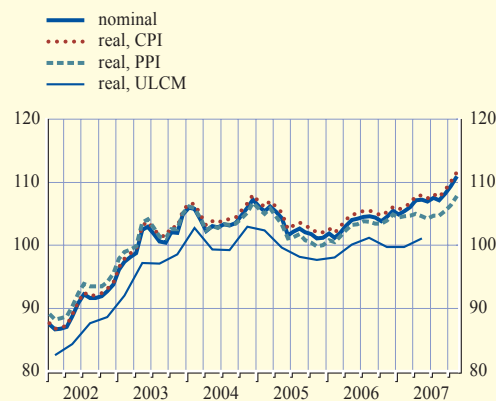
#### EU MEMBER STATES' CURRENCIES

In the first eleven months of 2007 most currencies participating in ERM II remained stable and continued to trade at, or close to, their respective central rates (see Chart 54). The Slovak koruna, whose central rate was revalued in March, continued to trade on the strong side of its new central rate, some volatility notwithstanding. On 5 December the Slovak currency traded at SKK 33.26, i.e. 6.2% stronger than its central rate and 1.3% stronger than its level at the end of August. In the first eight months of 2007 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. At the beginning of September it tended to weaken against the euro and moved to the weaker side of the band, before subsequently appreciating again into the stronger side. On 5 December the Latvian lats traded half a percentage point higher than its ERM II central rate, broadly unchanged from its level at the end of August.

With regard to the currencies of other EU Member States not participating in ERM II, between the end of August and 5 December 2007 the euro appreciated by 6.6% against the pound sterling and by 8.6% against the Romanian leu, while it depreciated by 5.4% and 5.7% against the Czech koruna and the Polish zloty, respectively.

**Chart 52 Euro nominal and real effective exchange rates <sup>1)</sup>**

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

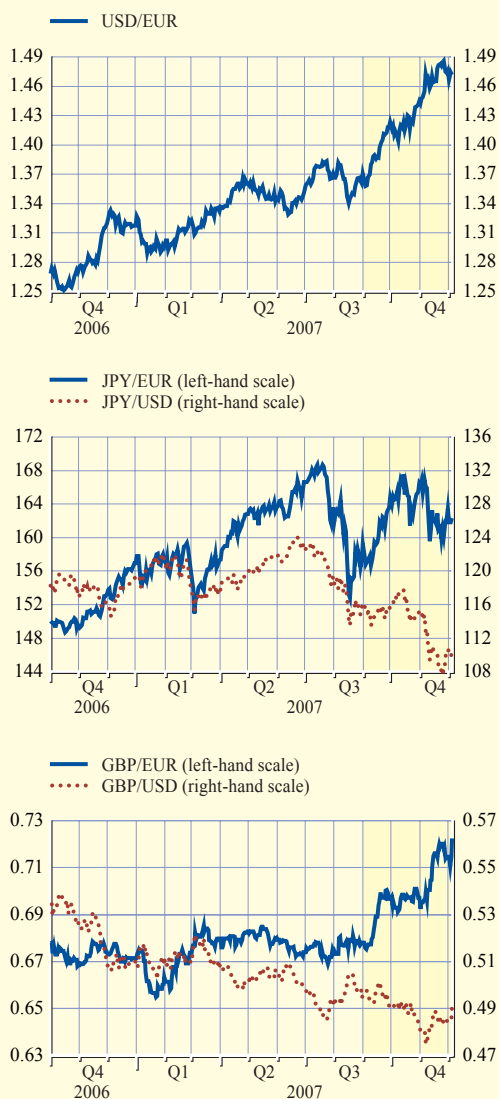


Source: ECB.

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

Chart 53 Patterns in exchange rates

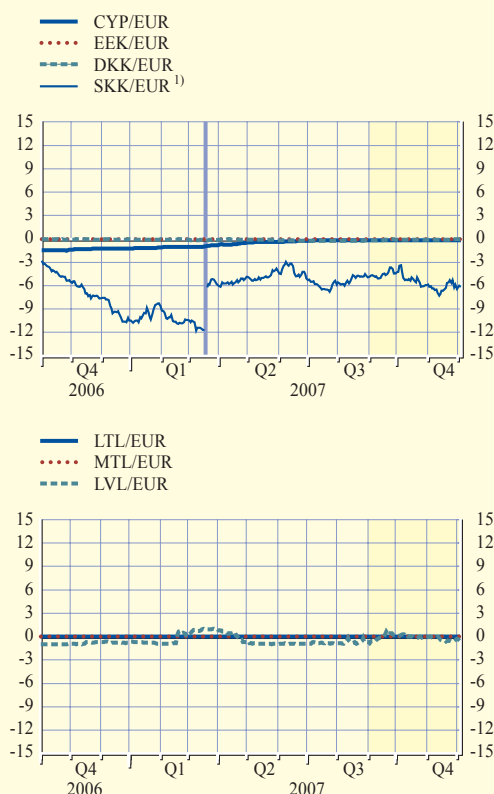
(daily data)



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

Chart 54 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.

## OTHER CURRENCIES

Overall, between the end of August and 5 December, the euro remained broadly unchanged vis-à-vis the Swiss franc, at around CHF 1.65. Nevertheless, the euro initially appreciated over this period, following the strengthening trend observed since the middle of 2006. In mid-October 2007 this trend began to reverse in a context of increased volatility, broadly mirroring developments in the JPY/EUR rate. The weakening of the euro vis-à-vis the Swiss franc is reportedly related to a general unwinding of carry trades, made less attractive by heightened risk aversion and volatility.

Between the end of August and 5 December, the euro appreciated by 1.6% against the Norwegian krone and more significantly against the currencies of some of the main Asian trading partners (by 7.4% against the Hong Kong dollar, by 5.7% against the Korean won, by 2% against the Singapore dollar and by 5.2% against the Chinese renminbi).

## 7.2 BALANCE OF PAYMENTS

The 12-month cumulated current account of the euro area showed a surplus of 0.3% of GDP (€26.6 billion in seasonally adjusted terms) in September 2007, compared with a deficit of 0.3% of GDP a year earlier (€21.7 billion). This change resulted mainly from an increase in the goods surplus. The breakdown of goods exports into volumes and prices, available up to August 2007, indicates that volumes of goods exports picked up after being broadly stable in the first half of the year. In the financial account, combined direct and portfolio investment registered large cumulative net inflows of €248.6 billion in the 12-month period to September 2007 compared with net outflows of €16.1 billion a year earlier.

### TRADE AND THE CURRENT ACCOUNT

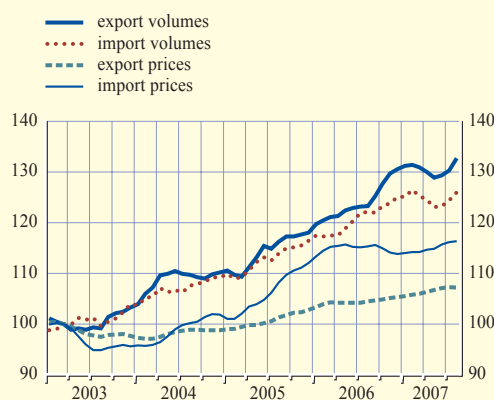
Extra-euro area trade values showed stronger growth in the third quarter of 2007 compared with the first half of the year. The value of exports of goods and services grew by 2.4% in the third quarter (in terms of seasonally adjusted quarter-on-quarter moving average figures). This compares with growth rates of 1.6% in the second quarter and 1.1% in the first quarter (see Table 12 and Chart 55). Imports of goods and services grew by 2.7% in the third quarter, up from 1.4% in the second quarter and 0.5% in the first quarter.

The acceleration originated mainly from trade in goods and is consistent with the rise in both euro area GDP growth and euro area foreign demand growth in the third quarter. In that quarter, export and import values of goods increased by 3.2% and 3.4% respectively, up from much weaker growth in the first part of the year. Developments in the goods sector have been partly offset by a subdued performance in trade in services. The value of exports of services declined by 0.2%, while the value of imports rose by the same amount. This represents a considerable slowdown after the higher values observed in the first two quarters (5.2% and 2.2% for exports and 2.6% and 3% for imports in the first and second quarters, respectively).

The breakdown of trade in goods into volumes and prices, available up to August 2007, indicates that the robust growth in exports stemmed mainly from developments in the volume of trade. After stagnating in the first half of the year, export volumes picked up in July and August 2007 (see Chart 55). The strength of export volumes of goods seems to have followed a pick-up in foreign demand

**Chart 55 Breakdown of trade in goods into volumes and prices**

(index: 2003 Q1 = 100; seasonally adjusted; three-month moving average)



Sources: Eurostat and ECB calculations.

1) Latest extra-euro area observations are for August 2007.

Table 12 Main items of the euro area balance of payments

(seasonally adjusted, unless otherwise indicated)

	2007		Three-month moving average figures ending				12-month cumulated figures ending	
	2007 Aug.	2007 Sep.	2006 Dec.	2007 Mar.	2007 June	2007 Sep.	2006 Sep.	2007 Sep.
<i>EUR billions</i>								
<b>Current account</b>	4.5	0.6	0.8	2.6	2.5	3.0	-21.7	26.6
Goods balance	7.7	3.7	5.2	5.1	5.7	5.7	9.3	65.1
Exports	129.4	128.1	122.4	122.2	124.0	128.0	1,343.6	1,489.9
Imports	121.6	124.4	117.3	117.2	118.2	122.3	1,334.4	1,424.8
Services balance	4.2	3.4	2.9	3.9	3.8	3.6	36.3	42.7
Exports	39.4	39.4	36.3	38.2	39.0	38.9	422.4	457.2
Imports	35.3	36.0	33.4	34.2	35.3	35.3	386.1	414.6
Income balance	-0.4	-0.1	-0.1	-0.5	-1.1	0.1	9.5	-4.9
Current transfers balance	-7.0	-6.4	-7.2	-5.8	-6.0	-6.4	-76.7	-76.2
<b>Financial account<sup>1)</sup></b>	63.8	-3.7	-14.1	1.6	7.7	35.7	116.6	93.0
Combined net direct and portfolio investment	14.7	23.6	21.5	38.4	0.1	22.9	-16.1	248.6
Net direct investment	-7.2	-22.6	-17.5	-4.9	-23.0	-9.9	-127.3	-165.9
Net portfolio investment	21.9	46.2	39.0	43.3	23.2	32.8	111.2	414.5
Equities	-13.9	21.2	17.2	32.0	20.4	18.3	107.7	263.7
Debt instruments	35.8	25.0	21.8	11.3	2.7	14.4	3.6	150.8
Bonds and notes	10.6	2.3	32.3	16.0	-2.0	-2.6	55.5	131.2
Money market instruments	25.2	22.7	-10.5	-4.7	4.7	17.0	-52.0	19.7
<i>Percentage changes over previous period</i>								
<b>Goods and services</b>								
Exports	2.6	-0.7	4.0	1.1	1.6	2.4	12.2	10.3
Imports	1.0	2.3	1.3	0.5	1.4	2.7	16.1	6.9
<b>Goods</b>								
Exports	2.3	-0.9	4.6	-0.2	1.4	3.2	13.0	10.9
Imports	0.7	2.3	1.1	-0.1	0.9	3.4	18.7	6.8
<b>Services</b>								
Exports	3.8	-0.1	2.3	5.2	2.2	-0.2	9.5	8.2
Imports	1.7	2.1	2.0	2.6	3.0	0.2	8.0	7.4

Source: ECB.

Note: Figures may not add up due to rounding.

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

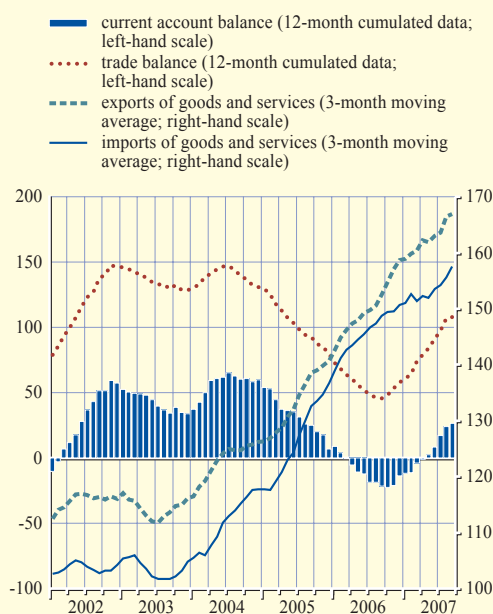
which started in the course of the second quarter of 2007. Meanwhile, export prices increased moderately in the period up to August 2007.

The observed growth in euro area exports seems to be due, in particular, to a very sharp increase in September, largely driven by German exports. In terms of products, the increases reflect mainly developments in intermediate and consumer goods. A geographical breakdown shows that increases are strongest in trade towards oil-producing countries and Asia, in line with previous trends. However, the increases also relate to trade with the United Kingdom and the United States. In contrast to recent developments, export growth was sluggish towards the United Kingdom and negative towards the United States up to the first half of 2007 (see Chart 57).

The sharp rise in the value of imported goods in the third quarter of 2007 seems to be partly due to the solid growth of domestic demand in the euro area and the pick-up in euro area industrial production. The volume-price breakdown of extra-euro area goods trade also suggests that import prices continued to increase in the three-month period to August, possibly reflecting the large increases in world commodity prices and, to a lesser extent, developments in manufacturing import prices.

**Chart 56 The euro area current account and trade balances**

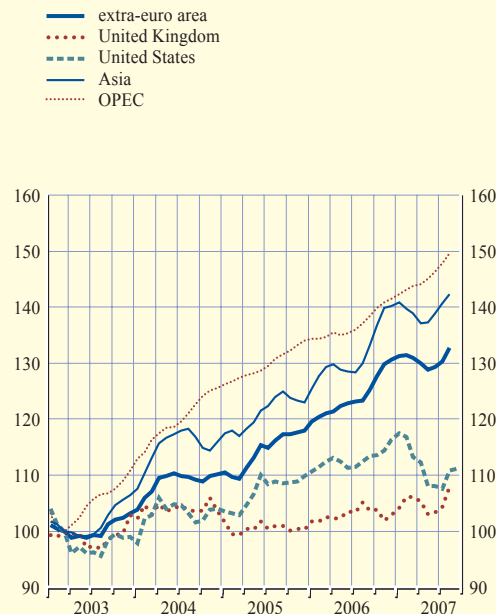
(EUR billions; monthly data; seasonally adjusted)



Source: ECB.

**Chart 57 Euro area export volumes to selected trading partners**

(indices: 2003 Q1 = 100; seasonally adjusted; three-month moving averages)



Sources: Eurostat and ECB calculations.  
Note: The latest observations refer to August 2007 except for the United States (September 2007).

Taking a longer-term perspective, the 12-month cumulated current account to September recorded a surplus of €26.6 billion, compared with a deficit of €21.7 billion a year earlier (see Chart 56). This shift largely resulted from developments in the goods balance which – in 12-month cumulated terms – rose by €55.8 billion from the previous year. By contrast, the balance for services increased more moderately, while the income balance registered a small deficit (€4.9 billion) compared with a surplus (€9.5 billion) one year earlier. The balance of current transfers remained broadly unchanged, posting a deficit of €76.2 billion.

### FINANCIAL ACCOUNT

In the third quarter of 2007, the combined direct and portfolio investment of the euro area recorded monthly average net inflows of €22.9 billion, as opposed to balanced net flows in the second quarter of the year. The increase in the combined figure is mostly attributable to larger net inflows in portfolio equity investment (Table 12).

The data on the financial account up to September 2007 indicate that foreign portfolio investment into the euro area may have been only temporarily affected by the credit market turbulence and the subsequent repricing of risk by global investors. Meanwhile, euro area residents appear to remain cautious in their foreign investment strategies.

From a longer-term perspective, cumulated net inflows in combined direct and portfolio investment amounted to €248.6 billion in the 12-month period to September 2007, compared with net outflows of €16.1 billion a year earlier. The switch in the direction of net capital flows reflected a significant

increase in net portfolio investment inflows (of €303.3 billion), which to a limited extent were counterbalanced by higher net outflows in direct investment (see Chart 58).

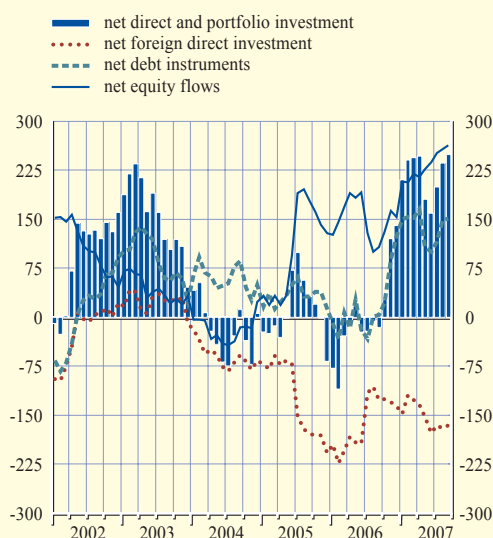
The developments in cumulated portfolio investment flows over the past 12 months have continued to be driven primarily by increasing net inflows in equity securities and, to a lesser extent, in euro area debt instruments (money market debt, as well as bonds and notes). The net inflows in debt instruments were almost entirely accounted for by higher net purchases of euro area bonds and notes by non-residents. By contrast, the higher cumulated net inflows in equity securities were attributable to both higher foreign investment in euro area equities and lower net purchases of foreign equity by euro area residents. These developments may have been underpinned by the favourable growth performance of expected relative earnings of euro area enterprises.

The geographical breakdown shows that the outstanding amount of direct investment abroad at the end of 2006, which stood at €3.1 trillion, was mainly due to euro area direct investment into the United Kingdom (26%), the United States (20%), offshore financial centres (11%), Switzerland (10%) and countries that have joined the EU since 2004 (7%). The total direct investment into Brazil, Russia, India and China amounted to 5% of the total. The stock of foreign direct investment into the euro area amounted to €2.7 trillion. Of this investment, 38% originated from the United Kingdom, 24% from the United States, 13% from offshore financial centres, 8% from Switzerland and only 1% each from the group of countries that have joined the EU since 2004 and from the BRIC group of countries (Brazil, Russia, India and China).

On the assets side of portfolio investment, euro area holdings of foreign securities largely reflected holdings of securities issued in the United States (34%), the United Kingdom (24%) and offshore financial centres (12%). Holdings of securities issued in Brazil, Russia, India and China represented 4% of the total. Meanwhile, the international investment position of the euro area recorded net liabilities of €1.0 trillion (about 12% of euro area GDP) at the end of 2006, up from €0.8 trillion recorded one year earlier. This higher net liability position was principally due to revaluations as a result of movements in exchange rates (€151.9 billion) and net financial transactions (€118.0 billion).

**Chart 58 Euro area combined direct and portfolio investment**

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



Source: ECB.



# 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	12.5	2.18	3.44
2006	8.6	8.7	8.4	-	10.9	15.7	3.08	3.86
2006 Q4	6.8	8.7	9.0	-	11.2	16.5	3.59	3.86
2007 Q1	7.0	9.1	10.2	-	10.6	16.3	3.82	4.08
Q2	6.2	9.2	10.6	-	10.5	18.5	4.07	4.42
Q3	6.5	10.3	11.5	-	11.0	20.1	4.49	4.48
2007 June	6.1	9.5	11.0	11.1	10.8	19.3	4.15	4.66
July	6.8	10.4	11.7	11.4	11.0	20.7	4.22	4.63
Aug.	6.7	10.5	11.6	11.5	11.2	20.5	4.54	4.43
Sep.	6.0	10.2	11.3	11.7	11.0	19.2	4.74	4.37
Oct.	6.5	11.2	12.3	.	11.2	.	4.69	4.40
Nov.	.	.	.	.	.	.	4.64	4.26

### 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	2.7	1.5	1.3	81.2	0.9	8.9
2006	2.2	5.1	2.6	2.8	4.0	83.3	1.5	8.2
2007 Q1	1.9	2.9	2.3	3.2	3.9	84.6	1.8	7.6
Q2	1.9	2.4	2.5	2.5	2.7	84.6	1.7	7.5
Q3	1.9	2.1	.	2.7	3.9	84.3	.	7.3
2007 June	1.9	2.3	-	-	2.5	-	-	7.4
July	1.8	1.8	-	-	4.0	84.3	-	7.4
Aug.	1.7	1.8	-	-	4.4	-	-	7.4
Sep.	2.1	2.7	-	-	3.3	-	-	7.3
Oct.	2.6	3.3	-	-	.	84.2	-	7.2
Nov.	3.0	.	-	-	.	-	-	.

### 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)	
							7	
	1	2	3	4	5	6	7	8
2005	19.9	47.9	-208.8	141.3	320.1	103.3	104.2	1.2441
2006	-3.7	23.0	-136.4	276.4	325.8	103.6	104.5	1.2556
2006 Q4	21.0	16.9	-52.5	116.9	325.8	104.6	105.4	1.2887
2007 Q1	4.8	8.6	-14.6	129.8	331.5	105.5	106.1	1.3106
Q2	1.2	20.3	-69.1	69.5	325.3	107.1	107.7	1.3481
Q3	11.9	19.5	-29.7	98.3	340.5	107.6	108.2	1.3738
2007 June	13.9	11.3	-37.4	70.6	325.3	106.9	107.4	1.3419
July	5.7	9.4	0.1	30.2	328.8	107.6	108.1	1.3716
Aug.	1.7	4.5	-7.2	21.9	330.4	107.1	107.7	1.3622
Sep.	4.5	5.6	-22.6	46.2	340.5	108.2	108.8	1.3896
Oct.	.	.	.	.	346.6	109.4	110.0	1.4227
Nov.	.	.	.	.	.	111.0	111.6	1.4684

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 9 November	2007 16 November	2007 23 November	2007 30 November
<b>Gold and gold receivables</b>	185,473	185,420	185,391	185,357
<b>Claims on non-euro area residents in foreign currency</b>	143,006	141,545	141,910	142,164
<b>Claims on euro area residents in foreign currency</b>	23,354	23,165	24,191	25,167
<b>Claims on non-euro area residents in euro</b>	17,729	15,685	15,826	14,504
<b>Lending to euro area credit institutions in euro</b>	425,010	447,883	454,265	463,068
Main refinancing operations	160,003	182,002	169,000	178,001
Longer-term refinancing operations	265,005	265,005	285,006	285,004
Fine-tuning reverse operations	0	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	1	874	256	60
Credits related to margin calls	1	2	3	3
<b>Other claims on euro area credit institutions in euro</b>	17,821	20,106	20,241	20,972
<b>Securities of euro area residents in euro</b>	96,491	95,050	95,267	95,865
<b>General government debt in euro</b>	37,110	37,110	37,110	37,103
<b>Other assets</b>	302,478	305,797	311,322	313,066
<b>Total assets</b>	1,248,472	1,271,761	1,285,523	1,297,266

#### 2. Liabilities

	2007 9 November	2007 16 November	2007 23 November	2007 30 November
<b>Banknotes in circulation</b>	642,123	640,622	639,283	645,697
<b>Liabilities to euro area credit institutions in euro</b>	191,088	215,273	194,998	203,794
Current accounts (covering the minimum reserve system)	190,806	215,070	194,758	203,522
Deposit facility	270	192	216	267
Fixed-term deposits	0	0	0	0
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	12	11	24	5
<b>Other liabilities to euro area credit institutions in euro</b>	168	170	169	137
<b>Debt certificates issued</b>	0	0	0	0
<b>Liabilities to other euro area residents in euro</b>	53,415	53,351	81,545	75,096
<b>Liabilities to non-euro area residents in euro</b>	26,797	27,257	28,305	28,748
<b>Liabilities to euro area residents in foreign currency</b>	182	901	311	240
<b>Liabilities to non-euro area residents in foreign currency</b>	18,795	16,358	18,268	19,443
<b>Counterpart of special drawing rights allocated by the IMF</b>	5,398	5,398	5,398	5,398
<b>Other liabilities</b>	110,545	112,468	117,280	118,744
<b>Revaluation accounts</b>	131,060	131,060	131,060	131,060
<b>Capital and reserves</b>	68,901	68,903	68,906	68,909
<b>Total liabilities</b>	1,248,472	1,271,761	1,285,523	1,297,266

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	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 8 Aug.	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
12	406,119	381	269,000	4.00	4.14	4.17	7
19	356,281	371	155,000	4.00	4.15	4.16	7
26	368,995	378	190,000	4.00	4.27	4.29	7
3 Oct.	298,721	316	163,000	4.00	4.14	4.16	7
10	322,684	342	218,000	4.00	4.12	4.16	7
17	283,439	349	171,000	4.00	4.11	4.14	7
24	304,089	348	182,000	4.00	4.11	4.14	7
31	287,241	308	170,000	4.00	4.14	4.16	7
7 Nov.	275,580	300	160,000	4.00	4.14	4.15	7
14	280,458	298	182,000	4.00	4.15	4.16	7
21	277,051	299	169,000	4.00	4.17	4.19	7
28	257,966	283	178,000	4.00	4.18	4.20	7
5 Dec.	253,519	273	163,000	4.00	4.18	4.20	7
Longer-term refinancing operations							
2007 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
13 Sep.	139,021	140	75,000	-	4.35	4.52	90
27	85,353	159	50,000	-	4.50	4.63	84
1 Nov.	87,587	157	50,000	-	4.45	4.53	91
23	147,977	130	60,000	-	4.55	4.61	90
29	132,386	175	50,000	-	4.65	4.70	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 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
11	Collection of fixed-term deposits	66,388	37	60,000	4.00	-	-	-	1
9 Oct.	Collection of fixed-term deposits	40,235	18	24,500	4.00	-	-	-	1
12	Collection of fixed-term deposits	40,080	22	30,000	4.00	-	-	-	5
13 Nov.	Collection of fixed-term deposits	27,750	10	27,750	4.00	-	-	-	1

Source: ECB.

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

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

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

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

**1.4 Minimum reserve and liquidity statistics**

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

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

Reserve base as at <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' agreed maturity and notice period)	Debt securities up to 2 years' agreed maturity	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
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 Q1	16,253.0	8,634.2	657.4	2,009.8	1,358.8	3,592.8
2007 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
July	16,822.3	8,955.9	694.0	2,089.3	1,392.1	3,690.9
Aug.	16,890.0	8,994.1	713.9	2,086.8	1,407.8	3,687.5
Sep.	16,968.2	9,073.2	745.5	2,075.7	1,424.9	3,649.0

**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
Q2	185.3	186.2	0.9	0.0	3.80
2007 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	192.7	0.9	0.0	4.09
9 Oct.	192.5	193.4	0.9	0.0	4.18
13 Nov.	193.7	194.4	0.7	0.0	4.12
11 Dec.	195.9	.	.	.	.

**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 Q2	326.4	284.9	150.0	0.3	0.0	0.2	0.2	625.2	49.1	-99.4	186.2	811.7
2007 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
11 Sep.	317.3	268.7	171.7	0.2	10.7	0.4	1.7	639.2	52.3	-117.8	192.7	832.4
9 Oct.	321.9	194.3	262.3	0.3	0.0	1.6	0.9	637.3	63.7	-118.0	193.4	832.3
13 Nov.	327.6	180.2	265.0	0.1	0.0	0.6	5.1	640.1	55.9	-123.3	194.4	835.1

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
Eurosysteem														
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
Q2	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
2007 July	1,669.9	762.7	17.7	0.6	744.3	254.5	216.8	2.2	35.5	-	17.5	357.5	15.7	262.0
Aug.	1,649.6	730.5	17.7	0.6	712.1	256.1	217.4	2.2	36.6	-	17.6	360.6	15.6	269.2
Sep.	1,707.3	753.5	17.8	0.6	735.1	259.5	219.3	2.2	38.0	-	17.7	368.8	15.6	292.3
Oct. <sup>(p)</sup>	1,781.8	800.2	17.8	0.6	781.8	262.3	220.4	2.2	39.8	-	17.9	378.1	15.6	307.6
MFIs excluding the Eurosysteem														
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
Q2	28,066.3	15,775.4	798.2	9,712.6	5,264.6	3,759.0	1,281.7	761.2	1,716.1	96.6	1,273.9	4,888.9	201.7	2,070.9
2007 July	28,140.3	15,881.4	799.7	9,809.8	5,271.9	3,774.4	1,257.7	777.0	1,739.7	97.1	1,260.1	4,928.0	198.2	2,001.2
Aug.	28,161.5	15,964.3	793.1	9,848.9	5,322.3	3,741.9	1,228.5	780.4	1,733.0	95.5	1,248.4	4,917.6	198.4	1,995.4
Sep.	28,481.1	16,160.8	793.2	9,945.5	5,422.1	3,747.5	1,214.5	804.0	1,728.9	95.6	1,255.9	4,879.7	203.0	2,138.6
Oct. <sup>(p)</sup>	29,141.3	16,566.0	943.6	10,045.1	5,577.3	3,811.6	1,214.3	862.9	1,734.4	98.5	1,307.5	4,984.9	216.5	2,156.1

### 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
Eurosysteem											
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
Q2	1,651.5	652.6	495.2	51.2	23.3	420.7	-	0.1	207.0	51.0	245.6
2007 July	1,669.9	660.0	511.4	53.3	21.8	436.4	-	0.1	209.5	43.9	244.8
Aug.	1,649.6	657.0	482.8	52.9	17.5	412.5	-	0.1	212.3	46.9	250.5
Sep.	1,707.3	657.2	510.7	51.7	19.1	439.9	-	0.1	222.6	48.3	268.4
Oct. <sup>(p)</sup>	1,781.8	661.9	561.6	54.9	22.9	483.8	-	0.1	228.7	39.6	289.9
MFIs excluding the Eurosysteem											
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	8,060.9	5,395.9	758.7	4,424.8	1,529.7	4,255.7	2,543.1
Q2	28,066.3	-	14,021.0	169.8	8,278.3	5,572.9	795.6	4,523.4	1,551.2	4,451.8	2,723.2
2007 July	28,140.3	-	14,038.8	126.8	8,324.5	5,587.6	809.7	4,549.1	1,568.4	4,498.5	2,675.9
Aug.	28,161.5	-	14,042.7	120.6	8,319.4	5,602.6	801.7	4,576.4	1,567.7	4,539.2	2,633.8
Sep.	28,481.1	-	14,241.4	144.2	8,403.8	5,693.4	776.7	4,574.4	1,583.6	4,525.9	2,779.1
Oct. <sup>(p)</sup>	29,141.3	-	14,613.4	129.3	8,625.4	5,858.7	782.4	4,646.5	1,637.6	4,630.0	2,831.4

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
Q2	21,414.0	10,529.2	816.0	9,713.2	2,258.3	1,494.9	763.4	880.3	5,243.0	217.1	2,286.1
2007 July	21,462.9	10,627.9	817.4	9,810.4	2,253.7	1,474.6	779.2	865.9	5,285.5	213.8	2,216.1
Aug.	21,453.4	10,660.4	810.9	9,849.5	2,228.5	1,446.0	782.5	854.2	5,278.2	214.0	2,218.2
Sep.	21,705.0	10,757.1	811.0	9,946.1	2,240.1	1,433.8	806.2	856.7	5,248.4	218.6	2,384.1
Oct. <sup>(p)</sup>	22,211.5	11,007.1	961.4	10,045.7	2,299.8	1,434.7	865.1	894.2	5,363.0	232.1	2,415.4
Transactions											
2005	1,608.0	708.9	12.8	696.0	156.2	76.2	80.0	53.2	448.0	1.4	240.4
2006	1,997.9	877.3	-14.4	891.6	10.6	-96.8	107.4	98.5	801.7	6.4	203.5
2007 Q1	884.6	254.0	-8.2	262.2	63.2	19.0	44.2	20.8	394.4	0.5	151.8
Q2	788.0	282.0	-5.4	287.4	84.4	11.0	73.4	16.7	222.3	3.2	179.4
2007 July	77.8	101.7	1.4	100.3	-4.0	-20.6	16.6	-10.6	64.2	-3.3	-70.2
Aug.	-12.5	32.9	-6.6	39.5	-25.9	-29.7	3.8	-10.5	-11.0	0.1	1.9
Sep.	326.6	108.9	0.3	108.6	13.6	-11.3	24.8	1.9	32.4	4.6	165.2
Oct. <sup>(p)</sup>	327.1	78.2	-3.7	81.9	53.3	5.2	48.1	26.6	148.2	4.7	16.2

**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>3)</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	8,078.4	666.3	2,701.6	1,341.8	4,295.3	2,775.4	18.7
Q2	21,414.0	604.9	221.0	8,301.6	699.1	2,773.1	1,346.8	4,502.8	2,968.8	-4.1
2007 July	21,462.9	612.9	180.1	8,346.2	712.6	2,774.1	1,366.2	4,542.4	2,920.8	7.7
Aug.	21,453.4	610.5	173.6	8,336.9	706.1	2,807.0	1,368.3	4,586.1	2,884.2	-19.3
Sep.	21,705.0	610.4	196.0	8,422.9	681.0	2,807.6	1,389.5	4,574.2	3,047.5	-24.0
Oct. <sup>(p)</sup>	22,211.5	613.5	184.2	8,648.2	683.9	2,872.4	1,435.0	4,669.5	3,121.3	-16.6
Transactions										
2005	1,608.0	64.4	10.9	495.7	-3.0	213.5	95.5	448.0	333.9	-50.8
2006	1,997.9	59.4	-15.2	683.7	27.0	285.6	57.2	601.6	253.2	45.4
2007 Q1	884.6	-4.2	24.8	157.1	54.5	117.5	38.9	292.5	196.8	6.9
Q2	788.0	16.5	37.2	225.1	30.5	70.8	2.4	230.5	183.4	-8.4
2007 July	77.8	8.0	-41.5	47.1	14.4	4.7	19.7	58.4	-48.8	15.8
Aug.	-12.5	-2.3	-6.5	-10.3	-6.9	31.8	3.8	40.4	-34.8	-27.7
Sep.	326.6	-0.1	22.4	98.6	-25.9	18.6	16.2	53.8	137.6	5.4
Oct. <sup>(p)</sup>	327.1	3.1	-16.5	75.6	13.2	20.3	9.9	125.5	78.4	17.6

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>

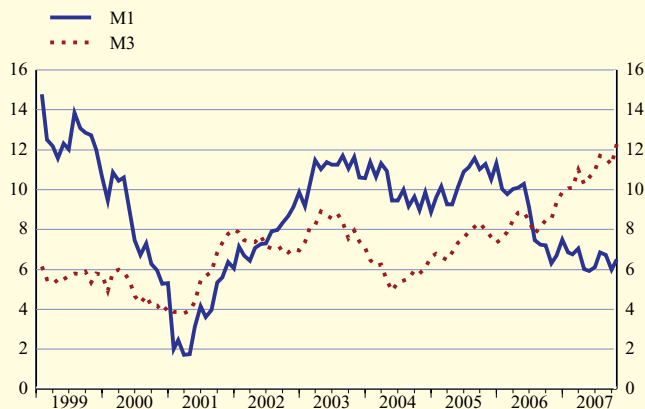
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

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

	M1		M2		M3	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>
	M1	M2-M1	M2	M3-M2	Loans						
	1	2	3	4					5	6	
Outstanding amounts											
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	425.8
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	636.8
2007 Q1	3,746.8	3,064.9	6,811.8	1,190.3	8,002.0	-	5,604.1	2,301.4	10,978.1	9,444.7	755.9
Q2	3,785.1	3,170.7	6,955.8	1,228.4	8,184.2	-	5,728.1	2,297.9	11,324.9	9,684.5	728.3
2007 July	3,805.4	3,228.3	7,033.8	1,235.5	8,269.3	-	5,765.6	2,286.4	11,436.7	9,782.9	728.5
Aug.	3,825.2	3,273.7	7,098.9	1,243.1	8,342.0	-	5,795.4	2,265.6	11,553.0	9,888.8	696.1
Sep.	3,817.3	3,316.3	7,133.6	1,259.9	8,393.5	-	5,790.6	2,253.4	11,642.8	9,955.0	669.3
Oct. <sup>(p)</sup>	3,838.3	3,420.7	7,259.1	1,271.4	8,530.4	-	5,896.0	2,400.8	11,838.2	10,063.2	677.6
Transactions											
2005	337.0	138.9	475.9	8.5	484.4	-	400.8	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	-	150.0	-23.7	298.7	258.8	127.0
Q2	37.7	108.0	145.7	32.1	177.8	-	123.8	-0.1	354.8	255.5	-27.0
2007 July	21.0	58.8	79.8	7.8	87.6	-	42.3	-11.8	119.5	101.4	3.1
Aug.	19.4	45.1	64.5	10.4	74.9	-	26.8	-21.9	118.3	106.4	-32.7
Sep.	-5.1	47.0	41.9	19.8	61.7	-	9.9	-11.2	102.3	78.2	-30.4
Oct. <sup>(p)</sup>	22.4	73.5	95.9	20.4	116.3	-	22.7	-2.8	155.9	90.4	11.8
Growth rates											
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	9.2	-4.9	10.9	10.6	339.6
June	6.1	13.9	9.5	19.9	11.0	11.1	9.3	-3.7	11.6	10.8	270.0
2007 July	6.8	15.0	10.4	19.4	11.7	11.4	9.2	-3.7	11.6	11.0	270.8
Aug.	6.7	15.3	10.5	17.9	11.6	11.5	9.2	-4.1	11.8	11.2	242.6
Sep.	6.0	15.4	10.2	17.9	11.3	11.7	8.9	-4.3	11.6	11.0	204.4
Oct. <sup>(p)</sup>	6.5	17.0	11.2	18.9	12.3	.	8.4	-4.1	12.2	11.2	200.3

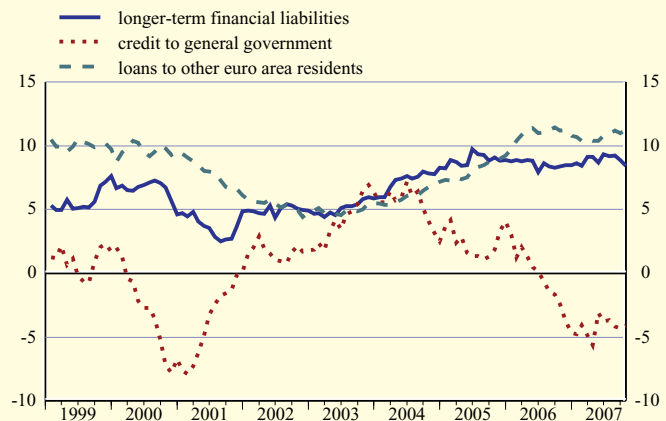
### C1 Monetary aggregates <sup>1)</sup>

(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>

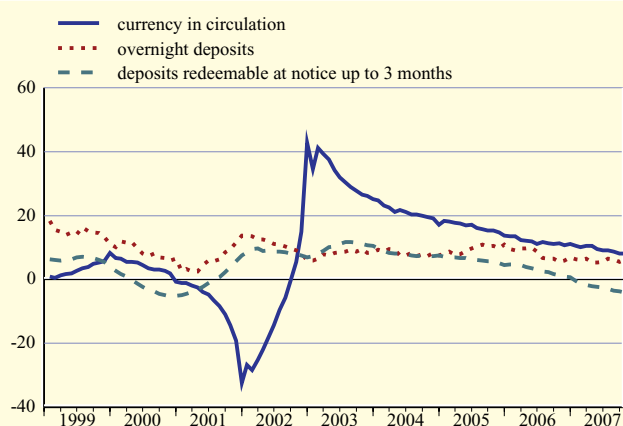
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

### 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	1,696.4	1,338.5
2007 Q2	599.2	3,186.0	1,645.2	1,525.5	285.1	700.5	242.8	2,522.3	109.4	1,748.6	1,347.7
2007 July	604.7	3,200.8	1,709.4	1,518.9	290.6	704.8	240.1	2,527.8	110.7	1,764.6	1,362.4
2007 Aug.	608.2	3,217.0	1,762.9	1,510.8	287.2	695.4	260.5	2,549.7	111.1	1,767.8	1,366.8
2007 Sep.	610.6	3,206.7	1,807.8	1,508.5	298.0	679.9	282.0	2,525.6	113.0	1,769.8	1,382.2
2007 Oct. <sup>(p)</sup>	617.8	3,220.5	1,883.4	1,537.3	288.7	684.5	298.2	2,564.5	120.6	1,780.4	1,430.5
Transactions											
2005	63.2	273.8	69.1	69.8	-5.9	-2.0	16.4	198.4	-4.3	111.2	95.5
2006	57.5	198.0	300.8	9.2	31.2	28.8	70.2	216.3	15.5	137.8	57.4
2007 Q1	12.6	51.0	120.9	-15.4	8.4	40.9	41.8	68.3	4.6	40.4	36.6
2007 Q2	7.0	30.6	118.5	-10.5	3.4	28.3	0.4	62.7	1.7	52.9	6.5
2007 July	5.5	15.5	65.4	-6.6	5.6	5.2	-2.9	9.5	1.2	16.5	15.1
2007 Aug.	3.6	15.9	53.2	-8.2	-3.5	-9.8	23.7	17.4	0.5	2.9	6.1
2007 Sep.	2.4	-7.5	49.1	-2.1	14.2	-16.3	21.9	-6.5	1.9	4.0	10.5
2007 Oct. <sup>(p)</sup>	7.2	15.2	84.0	-10.5	-9.3	14.9	14.8	-4.0	0.8	13.2	12.8
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	9.0	5.3
2007 June	9.2	5.5	35.1	-2.5	14.6	14.4	49.2	11.0	17.6	9.6	5.4
2007 July	9.2	6.4	37.5	-2.9	14.3	14.4	46.9	10.6	17.0	9.9	5.2
2007 Aug.	8.7	6.3	38.6	-3.5	11.2	12.8	44.9	10.7	15.4	9.5	5.9
2007 Sep.	8.2	5.6	38.2	-3.6	11.7	9.5	55.5	9.9	15.1	9.0	6.4
2007 Oct. <sup>(p)</sup>	8.1	6.2	41.8	-4.2	12.8	11.4	50.6	8.8	13.8	8.9	6.8

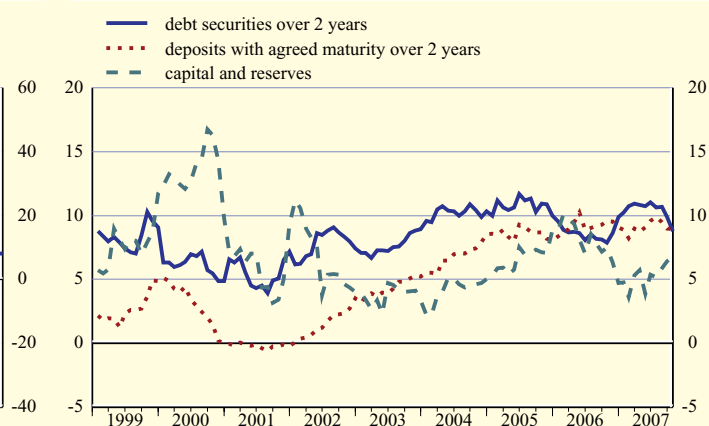
### C3 Components of monetary aggregates <sup>1)</sup>

(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>

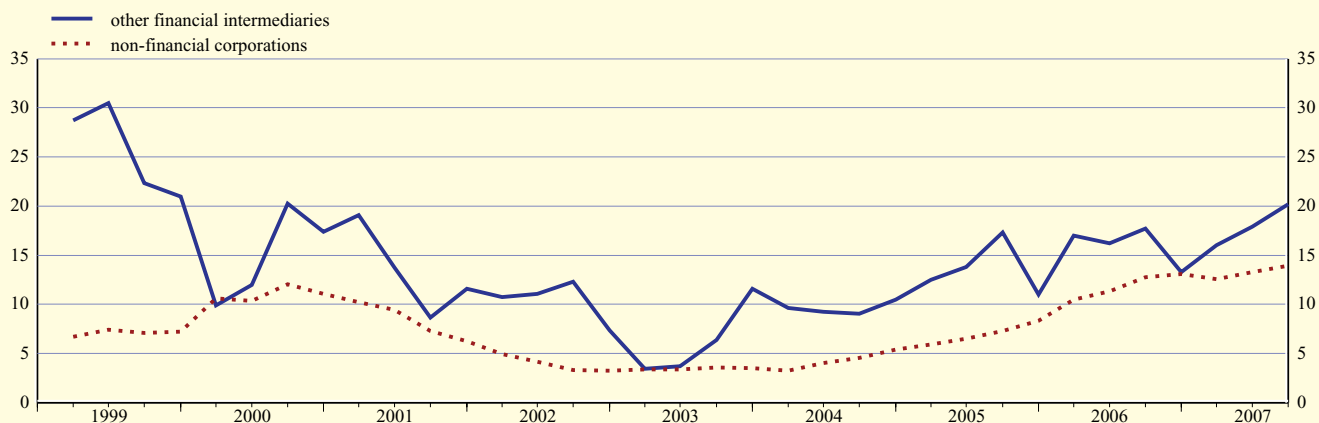
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 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
Q2	110.5	83.5	802.2	502.3	4,107.9	1,223.3	777.1	2,107.5
2007 July	111.5	84.7	813.2	506.0	4,168.9	1,241.1	791.7	2,136.2
Aug.	110.6	85.4	821.0	506.8	4,186.8	1,230.4	803.0	2,153.3
Sep.	111.9	87.9	851.1	532.7	4,230.8	1,252.7	811.1	2,167.0
Oct. <sup>(p)</sup>	115.5	90.4	884.5	527.3	4,273.5	1,250.6	829.2	2,193.6
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
Q2	12.0	11.8	29.0	13.9	161.0	57.8	40.0	63.3
2007 July	1.1	1.2	12.3	5.1	61.8	17.7	14.7	29.4
Aug.	-0.9	0.8	8.7	1.4	17.2	-11.4	11.4	17.2
Sep.	1.4	2.5	33.9	28.3	49.5	24.0	9.5	15.9
Oct. <sup>(p)</sup>	3.6	2.5	15.5	-4.3	41.0	-1.3	17.7	24.6
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
June	30.7	40.6	17.9	20.4	13.3	11.1	20.1	12.2
2007 July	24.0	31.9	20.6	24.4	13.6	11.5	19.4	12.8
Aug.	27.9	39.9	19.7	22.3	14.2	12.9	20.4	12.8
Sep.	25.5	40.2	20.2	22.7	13.9	13.0	19.9	12.4
Oct. <sup>(p)</sup>	30.1	46.6	22.8	22.3	13.9	11.8	20.7	12.7

### 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>**

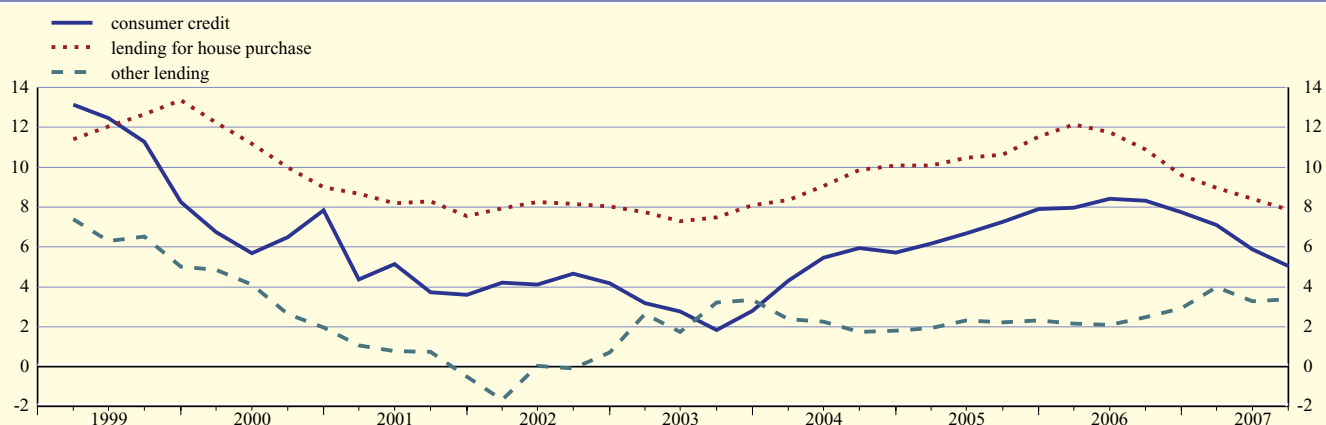
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

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

	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
Q2	4,692.0	602.3	134.9	204.6	262.8	3,336.7	16.4	72.6	3,247.7	753.0	150.3	103.8	498.9
2007 July	4,716.2	606.4	136.0	205.0	265.5	3,358.7	15.8	73.1	3,269.9	751.0	146.5	104.3	500.2
Aug.	4,730.5	606.0	134.9	204.4	266.7	3,374.1	15.8	73.1	3,285.2	750.4	144.2	104.4	501.8
Sep.	4,751.6	606.9	134.4	204.3	268.1	3,392.3	16.3	73.5	3,302.6	752.4	146.9	104.3	501.2
Oct. <sup>(p)</sup>	4,771.7	612.6	136.3	205.1	271.2	3,406.9	16.2	73.8	3,316.9	752.2	146.0	104.3	501.9
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
Q2	85.3	13.4	3.1	2.5	7.9	66.0	0.3	0.8	64.9	5.8	2.9	1.9	1.1
2007 July	25.1	4.2	1.2	0.4	2.6	22.5	-0.2	0.4	22.3	-1.5	-3.8	0.6	1.7
Aug.	14.5	-0.4	-1.0	-0.6	1.2	15.3	0.1	0.1	15.2	-0.5	-2.3	0.2	1.7
Sep.	23.8	0.6	-0.4	0.1	1.0	19.5	0.5	0.4	18.7	3.7	3.0	0.3	0.5
Oct. <sup>(p)</sup>	21.8	5.5	2.0	0.9	2.7	15.6	-0.1	0.3	15.3	0.7	-0.7	0.3	1.2
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
June	7.2	5.9	4.4	0.6	11.2	8.4	11.0	4.6	8.5	3.3	0.6	5.3	3.7
2007 July	7.0	5.9	4.8	0.5	11.1	8.1	9.6	4.6	8.2	3.3	0.6	5.7	3.6
Aug.	7.0	5.8	4.7	0.5	10.8	8.1	9.9	4.6	8.2	3.3	-0.1	5.7	3.8
Sep.	6.8	5.1	4.1	0.1	9.7	7.9	8.7	4.5	8.0	3.4	1.2	5.4	3.6
Oct. <sup>(p)</sup>	6.8	5.5	4.5	0.5	10.1	7.9	10.6	4.5	7.9	3.3	1.2	5.2	3.6

**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>

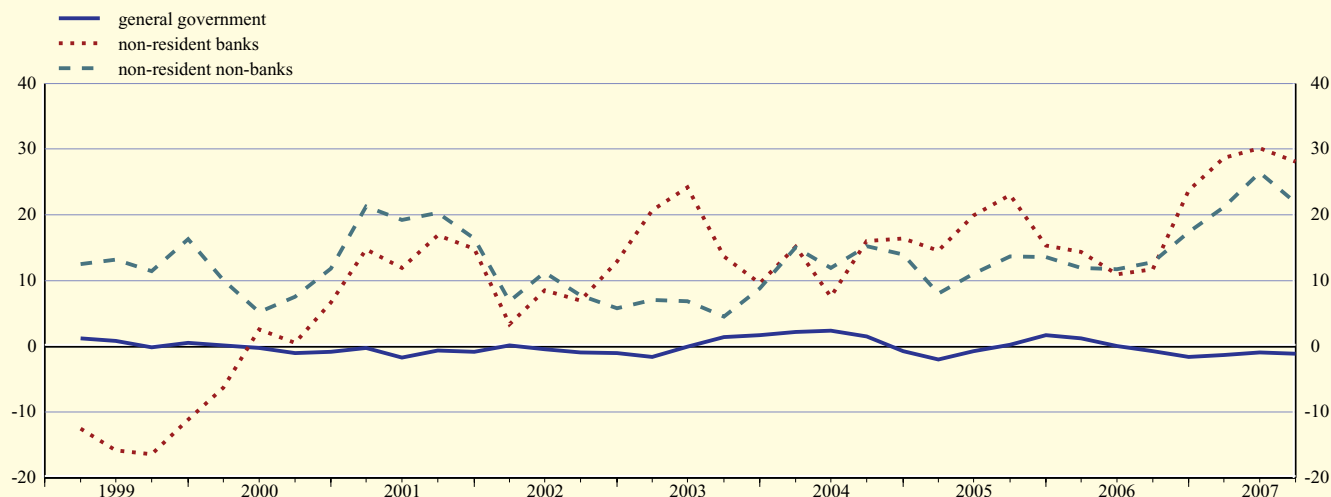
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 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										
2005	826.9	125.1	246.8	425.8	29.2	2,485.2	1,722.1	763.1	66.0	697.1
2006	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	798.2	95.7	218.8	446.1	37.6	3,286.4	2,334.3	952.0	61.4	890.6
Q3 <sup>(p)</sup>	793.2	92.4	213.9	447.8	39.1	3,301.4	2,354.1	947.3	59.9	887.5
Transactions										
2005	13.7	-5.6	-8.1	21.9	5.5	296.8	207.9	89.0	4.7	84.3
2006	-13.4	-17.6	-14.3	21.9	-3.4	532.5	402.9	129.6	-2.8	132.3
2007 Q1	-8.2	-6.9	-6.3	-0.3	5.3	272.7	222.0	50.8	-3.1	53.8
Q2	-3.4	-1.8	-5.5	-2.5	6.4	135.3	79.6	55.7	1.5	54.2
Q3 <sup>(p)</sup>	-5.0	-3.2	-5.0	1.7	1.5	76.0	57.5	18.5	-1.6	20.0
Growth rates										
2005 Dec.	1.7	-4.3	-3.2	5.4	22.9	14.8	15.3	13.6	7.7	14.2
2006 Dec.	-1.6	-14.0	-5.8	5.1	-11.6	21.8	23.7	17.4	-4.2	19.5
2007 Mar.	-1.3	-15.2	-6.1	4.6	6.8	26.4	28.7	21.2	-4.4	23.5
June	-0.9	-7.7	-5.9	2.0	17.3	29.0	30.1	26.5	-7.4	29.7
Sep. <sup>(p)</sup>	-1.1	-8.2	-6.3	2.3	9.7	26.2	28.1	21.9	-8.8	24.6

### 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>**

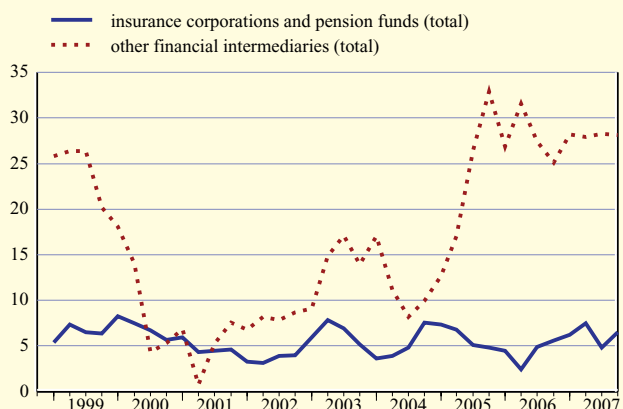
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

**1. Deposits by financial intermediaries**

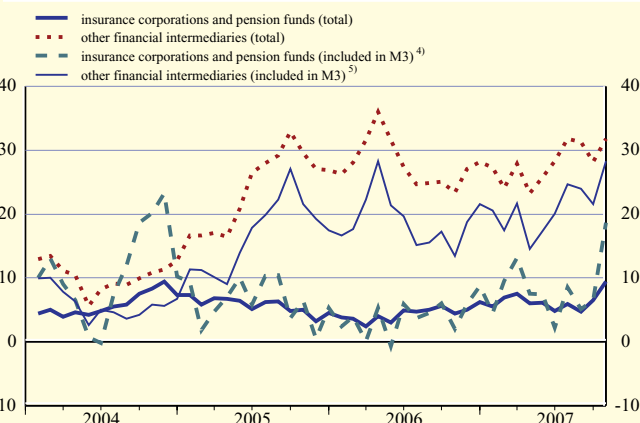
	Insurance corporations and pension funds							Other financial intermediaries <sup>3)</sup>						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 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	1,264.7	318.6	267.7	515.7	11.4	0.3	151.0
Q2	656.4	65.0	58.0	512.2	0.8	1.2	19.2	1,347.3	321.0	288.2	571.7	11.5	0.2	154.6
2007 July	670.8	72.7	61.2	514.0	0.9	1.2	20.8	1,369.0	321.9	290.7	589.2	13.4	0.3	153.6
Aug.	665.7	61.4	68.0	513.6	0.8	1.1	20.8	1,364.2	302.0	303.0	588.6	11.8	0.2	158.6
Sep.	676.6	67.8	62.9	522.9	0.8	1.1	21.0	1,386.5	326.2	305.9	581.0	13.0	0.8	159.5
Oct. <sup>(p)</sup>	695.3	73.7	73.5	524.5	0.8	1.1	21.8	1,425.3	317.8	340.2	599.3	12.4	0.8	154.6
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	124.8	35.8	16.2	46.2	0.7	0.0	26.0
Q2	-2.8	-7.7	-0.3	9.2	-0.2	0.0	-3.7	82.8	3.0	21.0	56.5	0.1	0.0	2.2
2007 July	14.5	7.7	3.3	1.8	0.1	0.0	1.6	23.0	1.1	2.9	18.0	1.9	0.0	-1.0
Aug.	-5.2	-11.3	6.8	-0.4	-0.1	-0.1	0.0	-5.1	-20.0	12.3	-0.7	-1.6	-0.1	4.9
Sep.	13.6	6.5	-4.9	11.7	0.0	0.0	0.3	26.8	25.4	4.6	-9.4	1.2	0.6	4.3
Oct. <sup>(p)</sup>	18.9	6.0	10.7	1.5	0.0	0.0	0.8	41.2	-7.8	35.0	19.3	-0.5	0.0	-4.8
Growth rates														
2005 Dec.	4.5	12.4	-1.2	4.3	36.0	-	-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	-	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	-	16.0	27.9	15.6	37.6	38.1	4.1	-	12.4
June	4.8	-5.6	21.1	5.7	-20.8	-	-13.3	28.3	13.5	35.6	41.4	5.9	-	10.5
2007 July	5.9	10.8	18.0	5.2	-11.7	-	-16.6	31.8	20.2	37.6	42.6	36.0	-	12.5
Aug.	4.7	-0.8	30.8	4.4	-21.3	-	-27.7	31.3	15.6	41.6	42.4	25.3	-	12.8
Sep.	6.5	1.4	23.4	6.6	-18.2	-	-13.7	28.2	18.7	31.1	38.5	29.0	-	11.0
Oct. <sup>(p)</sup>	9.5	11.6	52.6	6.9	-19.9	-	-22.1	31.8	21.1	44.0	36.9	22.9	-	15.1

**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>

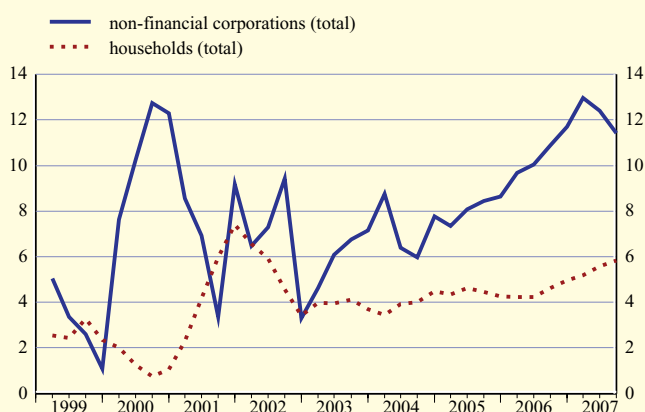
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 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
Outstanding amounts														
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
Q2	1,386.0	861.6	392.5	68.2	36.1	1.3	26.4	4,678.1	1,785.8	802.3	577.1	1,329.0	106.2	77.7
2007 July	1,385.6	840.5	415.5	67.8	34.7	1.5	25.6	4,679.9	1,766.6	832.9	572.2	1,318.8	106.8	82.6
Aug.	1,388.7	825.8	435.1	68.0	31.9	1.5	26.6	4,678.2	1,739.4	860.4	569.0	1,315.2	107.2	87.0
Sep.	1,405.3	845.1	438.5	64.3	31.6	1.4	24.4	4,706.2	1,754.3	886.4	565.7	1,308.0	107.9	84.0
Oct. <sup>(p)</sup>	1,415.4	836.9	459.6	64.2	29.0	1.4	24.3	4,854.9	1,730.5	927.4	559.6	1,442.2	109.0	86.3
Transactions														
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
Q2	38.1	29.2	13.6	-0.6	-3.4	0.0	-0.6	89.5	58.5	58.0	-15.9	-13.1	0.8	1.4
2007 July	0.2	-20.8	23.4	-0.3	-1.3	0.1	-0.8	2.2	-19.1	30.9	-4.8	-10.2	0.7	4.8
Aug.	3.0	-14.8	19.5	0.2	-2.9	0.0	-2.3	-27.3	27.4	-3.5	-3.6	0.4	4.4	
Sep.	20.5	20.5	4.8	-2.4	-0.2	0.0	-2.2	29.5	15.3	27.0	-3.2	-7.2	0.7	-3.0
Oct. <sup>(p)</sup>	10.7	-7.6	20.5	-0.1	-2.0	-0.1	-0.1	2.5	-23.8	40.3	-4.4	-13.0	1.1	2.3
Growth rates														
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
June	12.4	10.1	26.2	-4.8	-18.0	-29.5	20.0	5.6	3.2	40.2	-6.3	-2.5	19.2	32.9
2007 July	12.9	8.6	32.5	-4.2	-19.6	-26.2	9.0	5.4	2.5	41.1	-6.6	-3.2	18.4	31.1
Aug.	12.0	7.4	32.6	-4.1	-26.7	-59.9	3.6	5.6	2.8	41.9	-7.0	-3.3	16.9	30.1
Sep.	11.4	7.2	32.4	-8.6	-28.4	-26.9	-2.9	5.8	2.7	43.9	-7.2	-3.5	16.0	29.6
Oct. <sup>(p)</sup>	11.5	7.4	31.1	-8.7	-30.8	-32.0	-2.6	5.8	1.8	46.5	-7.4	-4.1	14.6	29.0

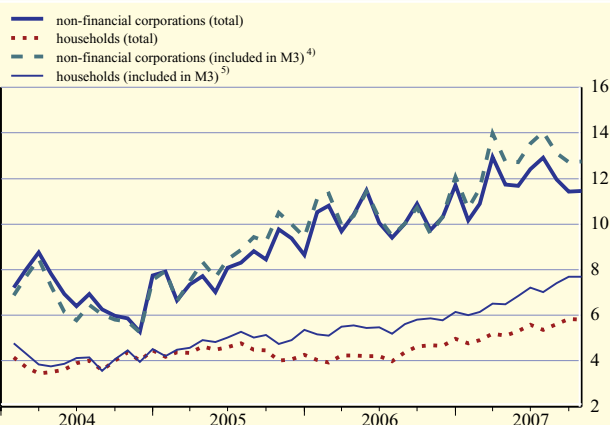
### C10 Total deposits by sector <sup>2)</sup>

(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>**

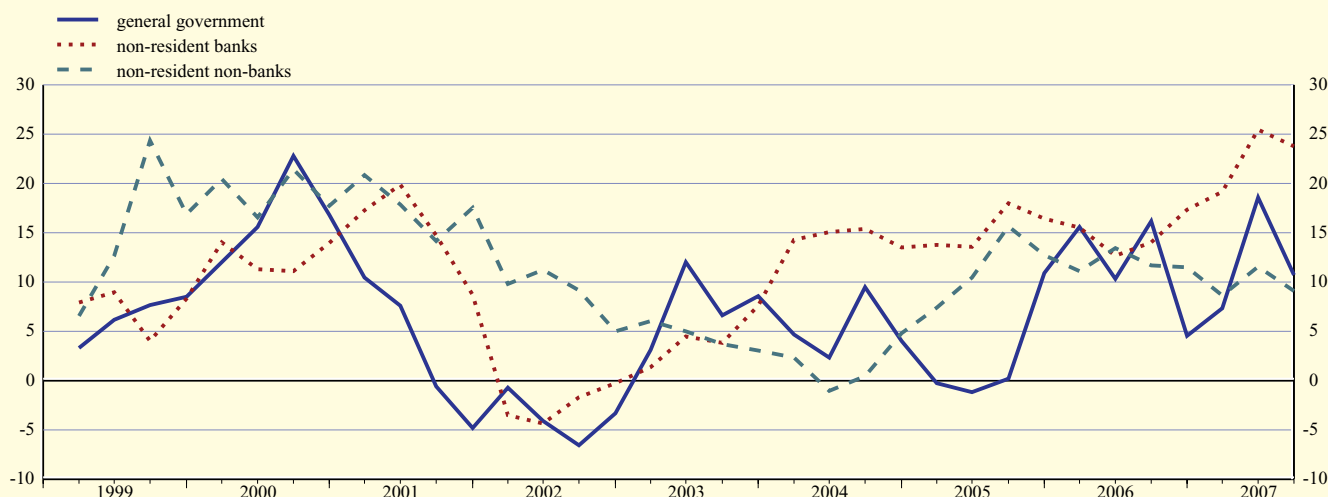
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

**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										
2005	313.1	149.2	38.3	80.9	44.7	3,050.5	2,250.5	800.0	125.8	674.2
2006	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	380.2	169.8	43.8	95.2	71.4	3,821.5	2,898.7	922.8	137.5	785.3
Q3 <sup>(p)</sup>	373.4	144.2	60.0	97.5	71.7	3,873.9	2,946.7	927.2	145.5	781.7
Transactions										
2005	30.8	11.2	7.8	11.5	0.3	381.1	292.8	88.3	22.4	66.0
2006	14.2	-24.5	7.0	8.7	22.9	476.6	385.8	90.8	2.8	88.0
2007 Q1	7.8	14.1	-3.3	-3.3	0.2	256.6	237.2	19.4	3.6	15.8
Q2	42.4	30.8	1.7	6.4	3.5	177.7	136.1	41.6	5.2	36.4
Q3 <sup>(p)</sup>	-7.4	-26.2	16.1	2.3	0.4	127.0	103.9	23.1	8.0	15.1
Growth rates										
2005 Dec.	10.9	8.1	25.4	16.6	0.6	15.4	16.4	12.7	21.6	11.2
2006 Dec.	4.5	-16.5	18.4	10.8	51.3	15.8	17.3	11.5	2.2	13.2
2007 Mar.	7.3	-6.3	10.4	12.3	38.6	16.4	19.2	8.6	3.1	9.6
June	18.5	21.9	10.5	12.2	25.3	21.8	25.4	11.5	7.1	12.3
Sep. <sup>(p)</sup>	10.7	-3.6	44.0	13.6	19.0	19.9	23.8	9.1	9.0	9.1

**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.

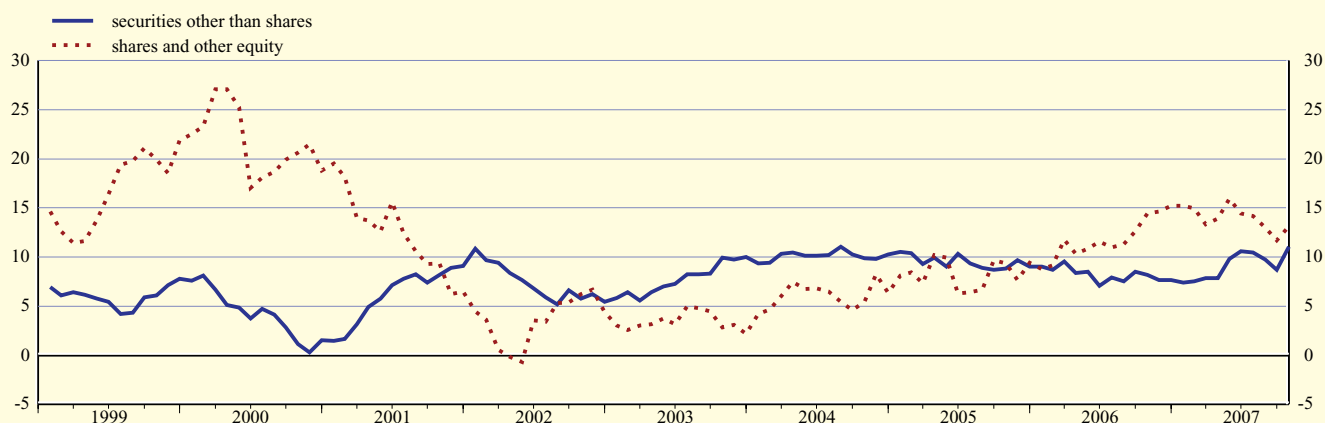
## 2.6 MFI holdings of securities, breakdown <sup>1), 2)</sup>

(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
Q2	5,010.6	1,637.2	78.9	1,266.1	15.6	727.1	34.1	1,251.6	1,623.3	406.8	867.1	349.4
2007 July	5,045.7	1,651.0	88.7	1,242.4	15.4	741.2	35.8	1,271.3	1,607.5	407.2	852.9	347.4
Aug.	5,002.0	1,649.3	83.7	1,213.4	15.2	746.5	33.9	1,260.1	1,587.6	407.2	841.1	339.2
Sep.	4,973.6	1,646.8	82.1	1,199.8	14.7	768.4	35.6	1,226.1	1,606.6	412.3	843.6	350.8
Oct. <sup>(p)</sup>	5,066.8	1,649.8	84.6	1,199.6	14.7	823.8	39.1	1,255.2	1,655.2	426.8	880.8	347.6
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
Q2	172.3	26.3	2.4	-0.1	0.3	73.1	0.2	70.2	35.2	5.5	16.6	13.2
2007 July	43.0	12.9	10.1	-23.3	-0.2	14.6	2.0	26.8	-10.8	1.2	-10.7	-1.3
Aug.	-43.9	-2.1	-5.2	-29.4	-0.3	5.8	-1.9	-10.8	-17.4	0.1	-10.5	-7.0
Sep.	-4.6	-3.5	0.8	-13.3	0.0	22.0	2.8	-13.4	18.5	6.0	1.9	10.5
Oct. <sup>(p)</sup>	146.2	46.5	3.3	4.5	0.2	44.1	3.9	43.6	52.2	28.0	26.6	-2.4
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
June	10.6	8.6	25.9	-8.8	-7.1	28.0	43.4	29.5	14.4	17.8	7.5	31.0
2007 July	10.5	8.5	34.4	-9.3	-7.8	28.1	47.0	27.7	14.2	19.6	5.9	32.4
Aug.	9.7	7.7	27.2	-9.7	-10.5	29.4	35.7	25.8	13.0	18.5	5.2	29.3
Sep.	8.7	6.4	27.2	-9.8	-5.7	31.2	48.8	21.2	11.7	19.2	3.7	25.4
Oct. <sup>(p)</sup>	11.0	8.6	31.3	-8.8	-3.6	35.8	57.3	23.1	13.1	26.9	4.9	20.1

## 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 Q2	-0.8	-0.2	-0.3	-0.3	-0.4	0.0	0.0	-0.4	-1.4	0.0	-0.5	-0.8
2007 July	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.3	-0.1	-0.1	-0.2
Aug.	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.3	0.0	-0.1	-0.2
Sep.	-0.4	-0.1	-0.1	-0.2	-0.3	0.0	0.0	-0.2	-0.7	-0.1	-0.3	-0.3
Oct. <sup>(p)</sup>	-0.3	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.5	-0.1	-0.2	-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 Q2	-3.0	-0.4	-1.4	-1.2	-1.2	0.0	-1.2
2007 July	-0.5	-0.1	-0.1	-0.3	0.0	0.0	0.0
Aug.	-0.5	-0.1	-0.2	-0.2	0.0	0.0	0.0
Sep.	-0.8	-0.1	-0.5	-0.3	-0.1	0.0	-0.1
Oct. <sup>(p)</sup>	-0.8	0.0	-0.5	-0.2	-0.9	-0.9	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 Q2	-4.0	-0.7	0.0	-3.8	-0.1	0.0	-0.1	0.6	12.7	1.7	6.8	4.2
2007 July	-1.2	0.4	0.1	0.4	0.0	-0.3	-0.1	-1.7	-3.3	-0.6	-2.0	-0.6
Aug.	-0.4	0.0	0.1	0.3	0.0	-0.3	0.0	-0.4	-2.9	-0.1	-1.6	-1.2
Sep.	-0.9	0.3	-0.1	-0.2	-0.1	-0.1	0.0	-0.6	0.6	-1.0	0.5	1.1
Oct. <sup>(p)</sup>	-8.0	-1.8	0.0	-2.0	0.0	-3.4	-0.1	-0.8	-5.0	-7.8	0.5	2.3

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													
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	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	5,395.9	90.5	9.5	5.6	0.5	1.4	1.2	8,199.9	96.3	3.7	2.3	0.3	0.1	0.6
Q2	5,572.9	90.5	9.5	5.8	0.4	1.3	1.1	8,448.1	96.3	3.7	2.3	0.3	0.1	0.6
Q3 <sup>4)</sup>	5,693.4	91.2	8.8	5.4	0.4	1.3	0.9	8,548.0	96.1	3.9	2.4	0.3	0.1	0.6
	By non-euro area residents													
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	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	2,898.7	45.0	55.0	34.8	2.6	2.4	11.8	922.8	51.2	48.8	32.3	1.3	1.8	9.7
Q3 <sup>4)</sup>	2,946.7	46.0	54.0	34.1	2.7	2.4	11.5	927.2	49.8	50.2	33.4	1.1	1.9	9.7

### 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
2005	4,051.7	81.2	18.8	9.6	1.8	1.9	3.2
2006	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	4,797.0	80.2	19.8	10.1	1.6	1.8	3.7
Q3 <sup>4)</sup>	4,859.7	80.8	19.2	9.7	1.6	1.8	3.6

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													
2005	4,569.7	-	-	-	-	-	9,112.0	96.3	3.7	1.6	0.2	1.3	0.5	
2006	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	5,264.6	-	-	-	-	-	10,510.8	96.2	3.8	1.8	0.2	1.0	0.6	
Q3 <sup>(p)</sup>	5,422.1	-	-	-	-	-	10,738.7	96.1	3.9	1.9	0.2	1.0	0.5	
	To non-euro area residents													
2005	1,722.1	48.5	51.5	30.5	4.3	2.0	763.1	38.2	61.8	43.7	1.8	4.1	8.6	
2006	2,061.0	50.7	49.3	28.9	2.0	2.3	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	904.6	41.3	58.7	41.8	1.0	4.1	8.1	
Q2	2,334.3	50.3	49.7	28.7	1.9	2.4	952.0	39.4	60.6	43.1	1.0	3.8	8.4	
Q3 <sup>(p)</sup>	2,354.1	48.9	51.1	28.6	2.0	2.5	947.3	38.8	61.2	43.6	1.1	3.8	8.3	

**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													
2005	1,517.7	95.6	4.4	2.0	0.3	0.4	1,980.9	97.8	2.2	1.1	0.3	0.1	0.5	
2006	1,632.8	95.6	4.4	2.3	0.2	0.3	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	1,968.0	97.5	2.5	1.3	0.3	0.1	0.8	
Q2	1,716.1	95.4	4.6	2.2	0.3	0.3	2,042.9	97.6	2.4	1.3	0.3	0.1	0.7	
Q3 <sup>(p)</sup>	1,728.9	95.3	4.7	2.3	0.3	0.2	2,018.6	97.5	2.5	1.4	0.3	0.1	0.7	
	Issued by non-euro area residents													
2005	397.5	51.0	49.0	28.5	0.8	0.5	522.8	38.3	61.7	35.0	7.8	0.8	12.6	
2006	514.4	52.2	47.8	28.8	0.7	0.4	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	636.3	38.2	61.8	36.9	4.4	0.6	14.8	
Q2	584.1	51.9	48.1	28.5	0.7	0.5	667.6	37.4	62.6	36.9	4.3	0.7	15.7	
Q3 <sup>(p)</sup>	576.2	53.8	46.2	26.8	0.7	0.4	650.0	35.4	64.6	38.8	4.3	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				
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	5,137.9	316.9	1,908.6	145.2	1,763.3	1,777.9	601.0	180.3	353.2
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	5,712.9	332.4	2,031.5	181.0	1,850.6	2,068.7	718.7	188.9	372.7
Q2 <sup>(p)</sup>	6,002.9	349.7	2,042.3	192.8	1,849.4	2,216.4	784.5	194.7	415.3

### 2. Liabilities

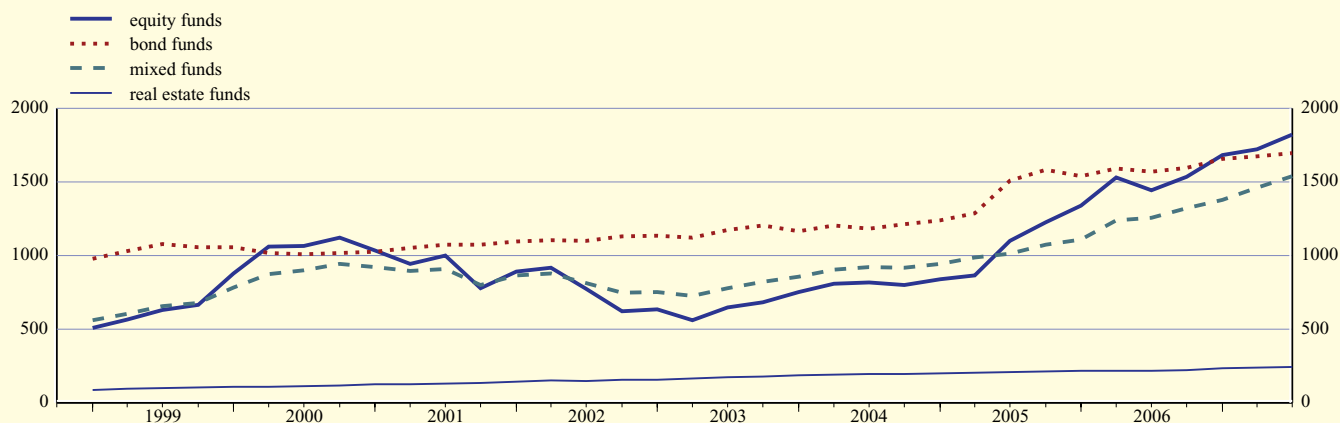
	Total 1	Deposits and loans taken 2	Investment fund shares 3	Other liabilities 4
2006 Q1	5,199.6	73.6	4,871.3	254.7
Q2	5,137.9	76.4	4,789.5	272.0
Q3	5,359.0	75.9	4,999.5	283.7
Q4	5,551.3	77.8	5,217.0	256.4
2007 Q1	5,712.9	82.2	5,349.4	281.7
Q2 <sup>(p)</sup>	6,002.9	90.8	5,596.6	315.5

### 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	
2006 Q1	5,199.6	1,531.9	1,592.6	1,239.4	214.0	621.5	3,999.0	1,200.5	
Q2	5,137.9	1,443.3	1,569.3	1,257.0	217.4	650.9	3,913.2	1,224.7	
Q3	5,359.0	1,533.3	1,594.2	1,321.5	221.2	688.9	4,085.5	1,273.5	
Q4	5,551.3	1,680.5	1,657.0	1,376.0	231.8	606.0	4,252.1	1,299.2	
2007 Q1	5,712.9	1,723.2	1,674.9	1,459.3	238.4	617.1	4,372.4	1,340.6	
Q2 <sup>(p)</sup>	6,002.9	1,822.9	1,693.8	1,539.4	244.1	702.9	4,591.3	1,411.6	

## C14 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	Deposits	Holdings of securities other than shares			Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
			Total	Up to 1 year	Over 1 year				
	1	2	3	4	5	6	7	8	9
<b>Equity funds</b>									
2006 Q1	1,531.9	55.1	51.5	6.3	45.2	1,309.6	71.1	-	44.6
Q2	1,443.3	52.3	51.4	6.5	44.9	1,221.7	69.3	-	48.6
Q3	1,533.3	53.8	76.1	33.2	42.9	1,284.3	66.8	-	52.3
Q4	1,680.5	56.1	66.0	22.7	43.3	1,429.3	74.3	-	54.8
2007 Q1	1,723.2	59.3	65.7	25.7	40.0	1,461.2	78.4	-	58.6
Q2 <sup>(p)</sup>	1,822.9	60.9	67.9	27.4	40.5	1,545.4	83.9	-	64.9
<b>Bond funds</b>									
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	1,674.9	112.3	1,356.5	95.1	1,261.4	44.5	52.5	-	109.0
Q2 <sup>(p)</sup>	1,693.8	115.1	1,346.9	99.6	1,247.3	62.9	55.7	-	113.2
<b>Mixed funds</b>									
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	318.7	253.6	0.2	128.5
Q3	1,321.5	68.5	510.6	45.2	465.4	332.3	272.3	0.3	137.4
Q4	1,376.0	71.0	519.4	43.4	476.0	364.2	292.8	0.4	128.2
2007 Q1	1,459.3	73.8	530.5	45.5	485.0	380.8	322.3	0.3	151.5
Q2 <sup>(p)</sup>	1,539.4	83.6	528.9	50.2	478.8	400.2	346.1	0.9	179.6
<b>Real estate funds</b>									
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	238.4	18.9	6.7	1.9	4.8	2.3	9.6	188.4	12.6
Q2 <sup>(p)</sup>	244.1	18.9	6.6	1.9	4.7	2.1	10.1	193.1	13.2

**2. Funds by type of investor**

	Total	Deposits	Holdings of securities other than shares	Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
<b>General public funds</b>							
2006 Q1	3,999.0	263.4	1,334.4	1,551.3	427.5	150.2	272.2
Q2	3,913.2	257.1	1,321.4	1,449.8	452.2	151.2	281.5
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	4,372.4	274.3	1,420.7	1,693.3	529.0	155.6	299.5
Q2 <sup>(p)</sup>	4,591.3	284.5	1,430.0	1,817.2	576.9	160.1	322.7
<b>Special investors' funds</b>							
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	1,340.6	58.0	610.8	375.4	189.7	33.3	73.2
Q2 <sup>(p)</sup>	1,411.6	65.3	612.3	399.2	207.6	34.7	92.6

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 Q2						
<b>External account</b>						
Exports of goods and services						487.7
<i>Trade balance</i> <sup>1)</sup>						-31.9
<b>Generation of income account</b>						
Gross value added (basic prices)						
Taxes less subsidies on products						
Gross domestic product (market prices)						
Compensation of employees	1,052.2	107.5	671.9	52.7	220.1	
Other taxes less subsidies on production	39.6	6.1	26.4	3.8	3.3	
Consumption of fixed capital	316.7	86.3	178.2	11.1	41.1	
<i>Net operating surplus and mixed income</i> <sup>1)</sup>	561.4	285.8	249.5	26.2	0.0	
<b>Allocation of primary income account</b>						
Net operating surplus and mixed income						4.1
Compensation of employees						
Taxes less subsidies on production						
Property income	903.2	46.4	364.2	423.2	69.3	133.2
Interest	456.0	44.3	76.0	266.5	69.3	79.6
Other property income	447.2	2.2	288.2	156.8	0.0	53.7
<i>Net national income</i> <sup>1)</sup>	1,883.6	1,580.8	29.8	38.1	234.8	
<b>Secondary distribution of income account</b>						
Net national income						
Current taxes on income, wealth, etc.	285.7	210.4	57.9	17.0	0.4	4.8
Social contributions	393.8	393.8				0.8
Social benefits other than social transfers in kind	393.0	1.4	17.4	25.7	348.4	0.6
Other current transfers	176.9	69.6	23.4	46.9	37.0	7.2
Net non-life insurance premiums	44.7	32.9	10.3	0.9	0.7	1.1
Non-life insurance claims	44.6			44.6		0.7
Other	87.6	36.8	13.1	1.4	36.3	5.4
<i>Net disposable income</i> <sup>1)</sup>	1,867.0	1,382.3	-39.4	34.8	489.2	
<b>Use of income account</b>						
Net disposable income						
Final consumption expenditure	1,680.1	1,238.5			441.6	
Individual consumption expenditure	1,507.9	1,238.5			269.4	
Collective consumption expenditure	172.1				172.1	
Adjustment for the change in net equity of households in pension fund reserves	17.9	0.1	3.6	14.2	0.0	0.1
<i>Net saving/current external account</i> <sup>1)</sup>	187.0	161.7	-43.0	20.7	47.7	-8.0
<b>Capital account</b>						
Net saving / current external account						
Gross capital formation	495.7	165.1	268.2	10.3	52.1	
Gross fixed capital formation	496.5	165.3	269.1	10.1	52.0	
Changes in inventories and acquisitions less disposals of valuables	-0.8	-0.2	-0.9	0.2	0.1	
Consumption of fixed capital						
Acquisitions less disposals of non-produced non-financial assets	0.5	-0.1	0.7	0.2	-0.3	-0.5
Capital transfers	35.0	8.9	2.1	1.9	22.1	4.4
Capital taxes	5.9	5.7	0.2	0.0	0.0	0.0
Other capital transfers	29.1	3.2	1.8	1.9	22.1	4.4
<i>Net lending (+)/net borrowing (-) (from capital account)</i> <sup>1)</sup>	9.6	83.0	-120.2	20.1	26.7	-9.6
Statistical discrepancy	0.0	-5.0	5.0	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
2007 Q2						
<b>External account</b>						
Imports of goods and services						455.8
<i>Trade balance</i>						
<b>Generation of income account</b>						
Gross value added (basic prices)	1,969.9	485.6	1,126.0	93.8	264.5	
Taxes less subsidies on products	237.7					
Gross domestic product (market prices) <sup>2)</sup>	2,207.6					
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	561.4	285.8	249.5	26.2	0.0	
Compensation of employees	1,053.7	1,053.7				2.6
Taxes less subsidies on production	278.5				278.5	-1.2
Property income	893.2	287.8	144.6	435.1	25.7	143.2
Interest	450.6	69.0	41.2	332.6	7.7	85.0
Other property income	442.7	218.8	103.4	102.5	18.0	58.2
<i>Net national income</i>						
<b>Secondary distribution of income account</b>						
Net national income	1,883.6	1,580.8	29.8	38.1	234.8	
Current taxes on income, wealth, etc.	289.8				289.8	0.6
Social contributions	393.6	1.1	17.9	40.6	334.0	1.0
Social benefits other than social transfers in kind	391.0	391.0				2.5
Other current transfers	158.3	84.6	11.7	45.8	16.3	25.9
Net non-life insurance premiums	44.6			44.6		1.2
Non-life insurance claims	44.2	34.3	8.8	0.9	0.3	1.1
Other	69.5	50.3	2.9	0.3	16.0	23.6
<i>Net disposable income</i>						
<b>Use of income account</b>						
Net disposable income	1,867.0	1,382.3	-39.4	34.8	489.2	
Final consumption expenditure						
Individual consumption expenditure						
Collective consumption expenditure						
Adjustment for the change in net equity of households in pension fund reserves	18.0	18.0				0.0
<i>Net saving/current external account</i>						
<b>Capital account</b>						
Net saving / current external account	187.0	161.7	-43.0	20.7	47.7	-8.0
Gross capital formation						
Gross fixed capital formation						
Changes in inventories and acquisitions less disposals of valuables						
Consumption of fixed capital	316.7	86.3	178.2	11.1	41.1	
Acquisitions less disposals of non-produced non-financial assets						
Capital transfers	37.1	9.0	15.5	0.8	11.9	2.3
Capital taxes	5.9				5.9	0.0
Other capital transfers	31.2	9.0	15.5	0.8	6.0	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 intermediaries	Insurance corporations and pension funds	General government	Rest of the world
<b>2007 Q2</b>								
<b>Opening balance sheet, financial assets</b>								
Total financial assets		17,278.4	13,870.3	20,882.9	9,703.0	6,071.4	2,742.5	13,961.2
Monetary gold and special drawing rights (SDRs)				185.0				
Currency and deposits		5,364.8	1,630.7	2,404.3	1,367.9	751.6	529.4	3,785.2
Short-term debt securities		45.6	123.4	102.3	257.2	227.6	25.4	774.2
Long-term debt securities		1,419.4	158.2	3,449.2	1,882.7	1,927.2	206.3	2,153.2
Loans		21.4	1,744.7	11,370.6	1,326.2	350.5	355.3	1,427.4
<i>of which long-term</i>		18.0	964.9	8,567.3	999.5	296.8	316.2	.
Shares and other equity		5,129.4	7,552.3	1,795.8	4,585.9	2,376.5	1,083.9	5,100.7
Quoted shares		1,252.5	1,915.3	688.6	2,394.8	852.9	393.3	.
Unquoted shares and other equity		2,213.0	5,218.4	831.4	1,524.9	460.8	549.6	.
Mutual fund shares		1,663.9	418.5	275.8	666.3	1,062.8	141.0	.
Insurance technical reserves		5,003.1	133.2	1.9	0.0	145.9	3.1	192.1
Other accounts receivable and financial derivatives		294.8	2,527.8	1,573.8	283.1	292.1	539.1	528.4
<i>Net financial worth</i>								
<b>Financial account, transactions in financial assets</b>								
Total transactions in financial assets		156.8	196.2	722.7	294.1	74.4	115.5	477.5
Monetary gold and special drawing rights (SDRs)				-0.6				0.6
Currency and deposits		103.6	38.3	90.1	81.6	5.5	91.1	188.3
Short-term debt securities		-1.5	5.0	10.0	31.8	10.3	7.1	36.5
Long-term debt securities		-0.9	14.8	144.9	33.0	44.7	4.5	109.2
Loans		0.5	46.6	338.0	35.4	4.0	3.1	24.1
<i>of which long-term</i>		0.5	11.3	213.0	34.3	-1.1	0.0	.
Shares and other equity		17.0	84.7	33.0	119.3	8.2	3.2	108.8
Quoted shares		2.4	38.2	0.0	50.0	-0.7	0.1	.
Unquoted shares and other equity		9.7	57.2	27.1	23.6	6.5	-0.5	.
Mutual fund shares		4.9	-10.7	5.9	45.7	2.4	3.5	.
Insurance technical reserves		58.0	0.9	0.0	0.0	3.6	0.0	3.3
Other accounts receivable and financial derivatives		-19.9	5.8	107.2	-6.9	-1.9	6.5	6.9
<i>Changes in net financial worth due to transactions</i>								
<b>Other changes account, financial assets</b>								
Total other changes in financial assets		-29.8	199.1	22.8	-0.8	13.4	49.5	107.9
Monetary gold and special drawing rights (SDRs)				-7.0				
Currency and deposits		-5.3	-3.2	-11.9	-2.1	2.9	0.2	-24.1
Short-term debt securities		-0.6	4.5	1.9	1.7	0.7	0.1	-2.5
Long-term debt securities		-55.2	-5.2	-8.8	-54.4	-26.7	-3.2	-42.7
Loans		0.0	6.7	-23.5	-9.7	0.3	-1.3	12.6
<i>of which long-term</i>		0.0	7.8	-10.4	-10.0	0.2	-1.3	.
Shares and other equity		35.6	178.3	55.6	85.5	41.9	53.6	153.1
Quoted shares		40.8	36.4	50.6	77.7	5.6	46.6	.
Unquoted shares and other equity		-28.0	139.2	2.6	3.8	10.4	3.8	.
Mutual fund shares		22.8	2.7	2.4	4.0	25.9	3.2	.
Insurance technical reserves		-2.3	0.0	0.0	0.0	-5.0	0.0	-4.7
Other accounts receivable and financial derivatives		-2.0	18.1	16.5	-21.8	-0.7	0.0	16.2
<i>Other changes in net financial worth</i>								
<b>Closing balance sheet, financial assets</b>								
Total financial assets		17,405.4	14,265.6	21,628.4	9,996.3	6,159.3	2,907.5	14,546.0
Monetary gold and special drawing rights (SDRs)				177.5				
Currency and deposits		5,463.1	1,665.8	2,482.5	1,447.4	760.0	620.6	3,949.4
Short-term debt securities		43.5	133.0	114.2	290.7	238.7	32.6	808.1
Long-term debt securities		1,363.2	167.8	3,585.3	1,861.3	1,945.2	207.7	2,219.7
Loans		21.8	1,798.0	11,685.1	1,351.9	354.9	357.2	1,464.1
<i>of which long-term</i>		18.5	984.0	8,770.0	1,023.8	295.8	314.9	.
Shares and other equity		5,182.1	7,815.3	1,884.3	4,790.7	2,426.5	1,140.7	5,362.6
Quoted shares		1,295.7	1,989.9	739.2	2,522.5	857.9	440.0	.
Unquoted shares and other equity		2,194.7	5,414.9	861.1	1,552.2	477.6	552.9	.
Mutual fund shares		1,691.7	410.5	284.1	716.0	1,091.1	147.8	.
Insurance technical reserves		5,058.7	134.0	1.9	0.0	144.5	3.1	190.6
Other accounts receivable and financial derivatives		273.0	2,551.7	1,697.4	254.3	289.5	545.7	551.6
<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
<b>2007 Q2</b>								
<b>Opening balance sheet, liabilities</b>								
Total liabilities		5,544.0	22,276.5	21,296.4	9,641.0	6,192.2	6,760.0	12,614.6
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			23.5	12,883.2	214.0	3.9	337.5	2,371.6
Short-term debt securities			281.0	357.4	69.1	0.1	612.5	235.6
Long-term debt securities			429.5	2,594.0	1,375.9	26.1	4,358.6	2,412.1
Loans		5,096.7	6,380.1		1,294.5	183.7	1,080.2	2,560.8
<i>of which long-term</i>		4,771.7	4,300.3		601.6	78.7	922.4	.
Shares and other equity			12,497.1	3,360.5	6,470.4	662.4	4.9	4,629.2
Quoted shares			4,664.1	1,100.2	342.0	328.4	0.0	.
Unquoted shares and other equity			7,833.0	1,244.5	858.8	334.0	4.9	.
Mutual fund shares				1,015.9	5,269.6			.
Insurance technical reserves		32.6	329.8	53.2	0.6	5,062.6	0.5	
Other accounts payable and financial derivatives		414.7	2,335.4	2,048.1	216.4	253.5	365.8	405.3
<i>Net financial worth</i> <sup>1)</sup>	-1,161.6	11,734.5	-8,406.2	-413.6	62.0	-120.8	-4,017.5	
<b>Financial account, transactions in liabilities</b>								
Total transactions in liabilities		78.7	311.5	705.7	281.6	83.8	88.8	487.1
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	484.1	4.9	0.0	-12.7	122.3
Short-term debt securities			22.8	12.8	-3.1	0.1	43.4	23.3
Long-term debt securities			15.9	83.0	65.9	-0.3	63.5	122.3
Loans		97.5	202.9		52.5	16.0	-8.8	91.6
<i>of which long-term</i>		90.7	104.8		20.6	-0.3	-11.1	.
Shares and other equity			58.1	46.1	165.9	2.7	0.0	101.3
Quoted shares			34.9	0.5	2.6	0.3	0.0	.
Unquoted shares and other equity			23.2	2.8	20.5	2.4	0.0	.
Mutual fund shares				42.8	142.8			.
Insurance technical reserves		-0.1	2.0	0.4	0.0	63.3	0.0	
Other accounts payable and financial derivatives		-18.7	9.7	79.3	-4.5	2.0	3.5	26.3
<i>Changes in net financial worth due to transactions</i> <sup>1)</sup>	9.6	78.0	-115.3	17.0	12.5	-9.4	26.7	-9.6
<b>Other changes account, liabilities</b>								
Total other changes in liabilities		8.7	389.2	-30.3	70.3	12.3	-98.1	17.0
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	-22.7	1.9	0.0	0.0	-22.7
Short-term debt securities			0.6	0.9	-0.1	0.0	-0.1	4.3
Long-term debt securities			-6.8	-7.6	-21.6	-0.5	-116.1	-43.7
Loans		6.3	11.0		-12.1	-6.7	-0.1	-13.2
<i>of which long-term</i>		7.8	21.6		-9.0	-4.9	-0.1	.
Shares and other equity			369.7	3.9	89.1	25.9	0.7	114.4
Quoted shares			361.9	20.4	18.1	9.4	0.0	.
Unquoted shares and other equity			7.8	-21.6	18.1	16.4	0.7	.
Mutual fund shares				5.2	52.9			.
Insurance technical reserves		0.0	0.0	0.0	0.0	-12.0	0.0	
Other accounts payable and financial derivatives		2.4	14.7	-4.8	13.1	5.6	17.5	-22.2
<i>Other changes in net financial worth</i> <sup>1)</sup>	-97.9	-38.6	-190.1	53.1	-71.1	1.1	147.6	91.0
<b>Closing balance sheet, liabilities</b>								
Total liabilities		5,631.4	22,977.1	21,971.9	9,992.9	6,288.3	6,750.6	13,118.6
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			23.5	13,344.6	220.8	3.8	324.8	2,471.2
Short-term debt securities			304.4	371.1	66.0	0.2	655.8	263.3
Long-term debt securities			438.6	2,669.4	1,420.2	25.3	4,306.0	2,490.8
Loans		5,200.4	6,594.1		1,334.9	193.1	1,071.3	2,639.2
<i>of which long-term</i>		4,870.2	4,426.7		613.2	73.5	911.3	.
Shares and other equity			12,925.0	3,410.6	6,725.4	690.9	5.6	4,844.9
Quoted shares			5,060.9	1,121.1	362.7	338.1	0.0	.
Unquoted shares and other equity			7,864.0	1,225.7	897.4	352.8	5.6	.
Mutual fund shares				1,063.8	5,465.3			.
Insurance technical reserves		32.5	331.8	53.6	0.6	5,113.9	0.5	
Other accounts payable and financial derivatives		398.4	2,359.8	2,122.6	225.0	261.1	386.7	409.4
<i>Net financial worth</i> <sup>1)</sup>	-1,249.9	11,773.9	-8,711.6	-343.5	3.4	-129.0	-3,843.2	

Source: ECB.

### 3.2 Euro area non-financial accounts

(EUR billions; four-quarter cumulated flows)

Uses	2003	2004	2005	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2
<b>Generation of income account</b>								
Gross value added (basic prices)								
Taxes less subsidies on products								
Gross domestic product (market prices)								
Compensation of employees	3,664.0	3,770.3	3,876.2	3,952.4	3,991.6	4,027.3	4,069.2	4,109.1
Other taxes less subsidies on production	110.7	123.0	130.8	132.9	133.5	131.1	131.4	132.2
Consumption of fixed capital	1,074.6	1,122.3	1,174.8	1,200.5	1,213.2	1,225.2	1,235.9	1,246.3
<i>Net operating surplus and mixed income</i> <sup>1)</sup>	1,890.8	1,989.2	2,049.6	2,093.0	2,122.8	2,162.6	2,199.2	2,235.8
<b>Allocation of primary income account</b>								
Net operating surplus and mixed income								
Compensation of employees								
Taxes less subsidies on production								
Property income	2,281.3	2,332.6	2,543.9	2,711.1	2,801.3	2,914.8	3,003.7	3,100.6
Interest	1,267.0	1,241.2	1,325.0	1,438.6	1,515.7	1,591.6	1,659.0	1,721.1
Other property income	1,014.3	1,091.4	1,219.0	1,272.6	1,285.7	1,323.2	1,344.7	1,379.5
<i>Net national income</i> <sup>1)</sup>	6,407.5	6,689.6	6,909.3	7,069.6	7,150.7	7,232.9	7,328.8	7,417.7
<b>Secondary distribution of income account</b>								
Net national income								
Current taxes on income, wealth, etc.	856.8	882.3	932.0	972.0	990.6	1,023.4	1,037.1	1,059.9
Social contributions	1,388.3	1,427.2	1,468.6	1,499.4	1,516.1	1,530.1	1,541.3	1,554.2
Social benefits other than social transfers in kind	1,408.0	1,452.8	1,496.8	1,520.2	1,531.2	1,541.8	1,548.9	1,558.9
Other current transfers	658.3	683.2	702.5	700.4	702.9	704.7	708.8	717.5
Net non-life insurance premiums	174.0	175.8	175.8	175.4	175.5	174.8	175.5	176.7
Non-life insurance claims	174.6	176.3	176.7	175.9	175.7	174.8	175.8	176.9
Other	309.8	331.1	350.1	349.1	351.8	355.2	357.6	363.9
<i>Net disposable income</i> <sup>1)</sup>	6,337.6	6,612.0	6,823.3	6,984.9	7,064.2	7,143.8	7,239.8	7,329.3
<b>Use of income account</b>								
Net disposable income								
Final consumption expenditure	5,854.3	6,075.9	6,307.3	6,442.1	6,501.2	6,562.3	6,615.9	6,664.1
Individual consumption expenditure	5,232.7	5,430.7	5,645.2	5,770.6	5,825.9	5,880.9	5,929.0	5,974.2
Collective consumption expenditure	621.5	645.1	662.1	671.4	675.3	681.4	686.9	690.0
Adjustment for the change in net equity of households in pension funds reserves	54.5	57.5	59.1	60.7	61.3	61.7	61.9	62.4
<i>Net saving</i> <sup>1)</sup>	483.5	536.4	516.4	543.2	563.3	581.9	624.3	665.4
<b>Capital account</b>								
Net saving								
Gross capital formation	1,526.8	1,606.5	1,693.9	1,769.5	1,810.4	1,838.3	1,878.9	1,914.3
Gross fixed capital formation	1,525.8	1,597.4	1,682.3	1,745.4	1,773.6	1,809.3	1,854.8	1,889.0
Changes in inventories and acquisitions less disposals of valuables	1.1	9.1	11.6	24.1	36.8	29.1	24.0	25.3
Consumption of fixed capital								
Acquisitions less disposals of non-produced non-financial assets	0.6	-1.1	-0.1	1.1	1.3	1.3	1.1	1.1
Capital transfers	182.6	166.9	179.3	162.2	174.8	190.5	191.1	191.7
Capital taxes	35.9	29.8	24.2	23.8	22.5	22.3	22.9	23.4
Other capital transfers	146.8	137.1	155.1	138.4	152.4	168.2	168.2	168.3
<i>Net lending (+)/net borrowing (-) (from capital account)</i> <sup>1)</sup>	42.9	69.9	11.0	-14.4	-22.5	-18.9	-4.4	11.2

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 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2
<b>Generation of income account</b>								
Gross value added (basic prices)	6,740.1	7,004.9	7,231.5	7,378.8	7,461.0	7,546.2	7,635.7	7,723.4
Taxes less subsidies on products	760.8	796.4	838.8	874.5	885.1	903.3	922.4	936.2
Gross domestic product (market prices) <sup>2)</sup>	7,500.9	7,801.3	8,070.2	8,253.3	8,346.1	8,449.5	8,558.1	8,659.6
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	1,890.8	1,989.2	2,049.6	2,093.0	2,122.8	2,162.6	2,199.2	2,235.8
Compensation of employees	3,671.2	3,777.4	3,881.8	3,958.1	3,997.4	4,033.1	4,075.2	4,115.1
Taxes less subsidies on production	880.7	933.1	981.1	1,017.7	1,028.7	1,044.4	1,061.8	1,076.0
Property income	2,246.2	2,322.5	2,540.8	2,711.9	2,803.1	2,907.6	2,996.3	3,091.4
Interest	1,236.2	1,210.5	1,298.9	1,414.3	1,493.5	1,568.2	1,633.9	1,698.8
Other property income	1,010.0	1,112.0	1,241.9	1,297.6	1,309.6	1,339.3	1,362.4	1,392.6
<i>Net national income</i>								
<b>Secondary distribution of income account</b>								
Net national income	6,407.5	6,689.6	6,909.3	7,069.6	7,150.7	7,232.9	7,328.8	7,417.7
Current taxes on income, wealth, etc.	858.7	885.4	935.7	976.6	995.2	1,028.2	1,042.3	1,066.8
Social contributions	1,387.3	1,426.2	1,468.1	1,498.9	1,515.5	1,529.6	1,540.8	1,553.6
Social benefits other than social transfers in kind	1,401.5	1,445.3	1,489.2	1,512.7	1,523.7	1,534.4	1,541.1	1,550.9
Other current transfers	593.9	610.9	620.9	619.1	619.8	618.7	622.9	630.7
Net non-life insurance premiums	174.6	176.3	176.7	175.9	175.7	174.8	175.8	176.9
Non-life insurance claims	171.3	173.5	174.3	173.2	172.9	172.3	173.1	174.4
Other	248.0	261.2	269.9	270.0	271.2	271.6	274.0	279.4
<i>Net disposable income</i>								
<b>Use of income account</b>								
Net disposable income	6,337.6	6,612.0	6,823.3	6,984.9	7,064.2	7,143.8	7,239.8	7,329.3
Final consumption expenditure								
Individual consumption expenditure								
Collective consumption expenditure								
Adjustment for the change in net equity of households in pension funds reserves	54.7	57.6	59.4	61.0	61.6	62.0	62.2	62.7
<i>Net saving</i>								
<b>Capital account</b>								
Net saving	483.5	536.4	516.4	543.2	563.3	581.9	624.3	665.4
Gross capital formation								
Gross fixed capital formation								
Changes in inventories and acquisitions less disposals of valuables								
Consumption of fixed capital	1,074.6	1,122.3	1,174.8	1,200.5	1,213.2	1,225.2	1,235.9	1,246.3
Acquisitions less disposals of non-produced non-financial assets								
Capital transfers	194.8	183.5	192.9	174.8	187.6	204.1	206.4	206.5
Capital taxes	35.9	29.8	24.2	23.8	22.5	22.3	22.9	23.4
Other capital transfers	158.9	153.8	168.7	151.0	165.1	181.8	183.5	183.2
<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 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2
<b>Income, saving and changes in net worth</b>								
Compensation of employees (+)	3,671.2	3,777.4	3,881.8	3,958.1	3,997.4	4,033.1	4,075.2	4,115.1
Gross operating surplus and mixed income (+)	1,230.9	1,285.0	1,334.8	1,368.6	1,389.3	1,410.2	1,431.2	1,452.2
Interest receivable (+)	237.5	230.4	226.9	237.7	246.3	255.9	262.3	268.8
Interest payable (-)	124.1	124.1	127.6	137.1	146.6	154.5	161.8	169.1
Other property income receivable (+)	615.3	648.0	694.0	718.2	722.0	733.0	739.6	749.2
Other property income payable (-)	8.7	9.2	9.4	9.4	9.5	9.4	9.5	9.5
Current taxes on income and wealth (-)	702.5	706.5	739.4	763.6	770.8	788.6	796.9	810.0
Net social contributions (-)	1,384.5	1,423.4	1,464.5	1,495.1	1,511.7	1,525.8	1,536.9	1,549.8
Net social benefits (+)	1,396.7	1,440.3	1,483.9	1,507.2	1,518.2	1,528.9	1,535.5	1,545.4
Net current transfers receivable (+)	65.1	64.7	68.2	65.5	63.9	63.9	65.7	65.8
<b>= Gross disposable income</b>	4,997.0	5,182.7	5,348.7	5,450.2	5,498.6	5,546.7	5,604.5	5,658.2
Final consumption expenditure (-)	4,316.1	4,482.4	4,649.1	4,749.6	4,792.8	4,836.7	4,874.8	4,911.6
Changes in net worth in pension funds (+)	54.4	57.3	58.9	60.6	61.1	61.5	61.7	62.2
<b>= Gross saving</b>	735.2	757.5	758.5	761.2	766.9	771.5	791.4	808.8
Consumption of fixed capital (-)	288.0	303.3	318.7	326.5	330.5	334.5	337.6	340.6
Net capital transfers receivable (+)	12.6	18.9	24.4	22.2	27.2	30.2	28.6	25.9
Other changes in net worth <sup>1)</sup> (+)	247.1	285.3	600.1	481.4	333.3	456.9	366.8	476.5
<b>= Changes in net worth <sup>1)</sup></b>	706.9	758.4	1,064.4	938.3	796.9	924.1	849.2	970.6
<b>Investment, financing and changes in net worth</b>								
Net acquisition of non-financial assets (+)	497.9	527.3	558.9	583.6	597.7	609.6	625.2	636.2
Consumption of fixed capital (-)	288.0	303.3	318.7	326.5	330.5	334.5	337.6	340.6
<b>Financial investment (+)</b>								
Currency and deposits	222.3	248.5	240.1	247.4	267.3	279.0	276.0	289.0
<i>of which M3 deposits <sup>2)</sup></i>	166.1	168.5	207.7	215.7	226.1	242.1	251.6	279.1
Short-term debt securities	-34.4	7.0	-18.7	2.9	12.8	16.0	23.0	13.0
Long-term debt securities	18.4	67.8	22.2	28.2	70.0	61.3	52.6	44.2
Shares and other equity	85.5	-13.5	116.0	22.1	-26.9	-33.7	-3.6	14.1
Quoted shares	27.1	-47.7	3.5	-27.0	-31.4	-13.2	2.0	-0.8
Unquoted shares and other equity	-19.2	36.7	56.8	26.7	20.5	8.2	24.3	32.4
Mutual fund shares	77.6	-2.5	55.7	22.4	-16.0	-28.7	-29.9	-17.5
<i>of which money market fund shares</i>	14.4	-19.4	-10.1	-8.9	-9.8	-4.8	2.2	9.6
Life insurance and pension fund reserves	231.0	251.2	300.3	300.8	297.9	276.5	255.3	252.6
<b>Financing (-)</b>								
Loans	264.2	314.2	391.7	415.7	413.0	392.4	384.3	365.9
<i>of which from euro area MFIs</i>	219.9	288.9	371.7	397.9	386.5	360.4	352.8	334.0
Other changes in financial assets (+)								
Shares and other equity	265.5	235.1	522.3	433.0	331.2	430.7	337.7	498.2
Life insurance and pension fund reserves	29.0	56.9	129.4	68.9	55.2	48.8	33.5	44.0
Remaining net flows (+)	-56.0	-4.2	-95.7	-6.3	-64.7	-37.2	-28.5	-114.2
<b>= Changes in net worth <sup>1)</sup></b>	706.9	758.4	1,064.4	938.3	796.9	924.1	849.2	970.6
<b>Financial balance sheet</b>								
<b>Financial assets (+)</b>								
Currency and deposits	4,579.1	4,827.3	5,078.3	5,181.8	5,204.8	5,343.0	5,364.8	5,463.1
<i>of which M3 deposits <sup>2)</sup></i>	3,405.1	3,576.6	3,787.0	3,887.9	3,911.3	4,025.1	4,073.0	4,175.5
Short-term debt securities	24.7	32.7	15.6	33.6	37.0	30.2	45.6	43.5
Long-term debt securities	1,304.1	1,356.4	1,338.8	1,373.1	1,383.2	1,391.5	1,419.4	1,363.2
Shares and other equity	3,699.5	3,921.1	4,559.3	4,669.8	4,798.4	4,956.3	5,129.4	5,182.1
Quoted shares	774.1	832.0	1,000.7	1,041.7	1,128.4	1,192.1	1,252.5	1,295.7
Unquoted shares and other equity	1,437.1	1,592.2	1,918.2	1,998.9	2,042.1	2,119.0	2,213.0	2,194.7
Mutual fund shares	1,488.3	1,496.9	1,640.5	1,629.2	1,627.9	1,645.2	1,663.9	1,691.7
<i>of which money market fund shares</i>	263.8	249.0	235.3	215.9	211.1	186.3	195.1	208.5
Life insurance and pension fund reserves	3,541.0	3,849.1	4,278.8	4,426.1	4,517.4	4,604.0	4,668.9	4,722.8
Remaining net assets	188.7	224.3	174.4	193.3	189.0	195.1	203.1	199.7
<b>Liabilities (-)</b>								
Loans	3,929.4	4,256.5	4,632.8	4,837.4	4,919.5	5,017.1	5,096.7	5,200.4
<i>of which from euro area MFIs</i>	3,561.4	3,860.7	4,257.3	4,456.6	4,534.8	4,617.9	4,696.2	4,781.3
<b>= Net financial wealth</b>	9,407.7	9,954.3	10,812.4	11,040.2	11,210.2	11,503.0	11,734.5	11,773.9

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 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2
<b>Income and saving</b>								
Gross value added (basic prices) (+)	3,831.0	3,983.2	4,102.4	4,180.8	4,226.0	4,282.6	4,338.4	4,396.2
Compensation of employees (-)	2,309.7	2,379.8	2,442.3	2,490.3	2,515.2	2,540.1	2,568.0	2,598.4
Other taxes less subsidies on production (-)	59.1	66.2	72.1	73.2	73.4	73.6	73.8	74.4
= <b>Gross operating surplus (+)</b>	1,462.2	1,537.2	1,587.9	1,617.4	1,637.4	1,668.9	1,696.7	1,723.4
Consumption of fixed capital (-)	608.8	633.5	663.2	676.3	682.9	689.4	695.1	700.6
= <b>Net operating surplus (+)</b>	853.4	903.7	924.8	941.0	954.5	979.6	1,001.6	1,022.7
Property income receivable (+)	320.1	372.6	426.4	442.7	450.1	461.2	465.5	478.8
Interest receivable	126.6	121.7	131.1	140.9	147.2	152.5	156.7	161.1
Other property income receivable	193.5	251.0	295.3	301.8	302.9	308.7	308.8	317.7
Interest and rents payable (-)	228.2	226.3	234.7	252.5	264.2	277.3	289.5	300.6
= <b>Net entrepreneurial income (+)</b>	945.3	1,050.0	1,116.5	1,131.2	1,140.4	1,163.5	1,177.6	1,200.9
Distributed income (-)	692.3	751.0	834.2	865.0	873.6	897.1	904.7	919.5
Taxes on income and wealth payable (-)	116.6	134.6	147.4	159.6	170.0	184.8	189.6	198.2
Social contributions receivable (+)	73.4	73.6	74.2	75.5	76.3	76.7	77.3	75.7
Social benefits payable (-)	59.8	60.4	62.2	62.2	62.4	61.9	62.0	63.6
Net other current transfers payable (-)	42.7	49.6	48.8	46.7	46.4	45.6	46.7	47.6
Changes in net worth of households in pension funds (-)	13.0	12.8	11.8	13.3	14.0	14.7	14.7	14.6
= <b>Net saving</b>	94.3	115.1	86.3	59.9	50.3	36.1	37.2	33.1
<b>Investment, financing and saving</b>								
Net acquisition of non-financial assets (+)	192.3	210.7	232.4	266.1	282.8	285.7	299.1	316.9
Gross fixed capital formation (+)	801.5	839.7	884.4	918.8	932.4	948.1	973.1	995.8
Consumption of fixed capital (-)	608.8	633.5	663.2	676.3	682.9	689.4	695.1	700.6
Net acquisition of other non-financial assets (+)	-0.4	4.5	11.1	23.6	33.3	27.0	21.1	21.7
Financial investment (+)								
Currency and deposits	106.6	91.0	144.9	154.5	145.7	167.4	194.1	185.2
<i>of which M3 deposits <sup>1)</sup></i>	63.0	73.8	99.3	108.9	116.8	138.5	157.7	158.1
Debt securities	-27.2	-55.1	-21.9	-0.5	-13.6	3.7	-9.0	0.2
Loans	139.1	66.4	132.5	130.6	136.9	161.1	175.9	189.0
Shares and other equity	175.4	183.0	173.4	221.6	183.3	186.4	198.6	217.2
Remaining net assets (+)	41.7	80.3	54.2	122.5	147.1	147.3	128.3	120.9
Financing (-)								
Debt	297.0	216.4	397.2	556.2	602.4	633.7	650.2	683.9
Loans	219.1	195.6	382.4	530.2	560.4	578.2	593.9	613.9
<i>of which from euro area MFIs</i>	110.3	169.1	269.2	380.2	431.3	452.5	449.8	492.0
Debt securities	62.9	7.3	2.2	12.6	28.2	41.1	43.8	58.9
Pension fund reserves	15.1	13.5	12.6	13.4	13.8	14.5	12.5	11.2
Shares and other equity	190.2	188.5	172.0	227.5	164.4	202.0	215.9	227.7
Quoted shares	19.2	11.9	100.5	114.2	37.3	33.4	43.2	60.2
Unquoted shares and other equity	171.0	176.6	71.4	113.3	127.1	168.6	172.7	167.6
Net capital transfers receivable (-)	46.4	56.3	60.0	51.3	65.0	79.8	83.6	84.8
= <b>Net saving</b>	94.3	115.1	86.3	59.9	50.3	36.1	37.2	33.1
<b>Financial balance sheet</b>								
Financial assets								
Currency and deposits	1,164.3	1,237.8	1,393.2	1,452.1	1,491.3	1,563.9	1,630.7	1,665.8
<i>of which M3 deposits <sup>1)</sup></i>	984.2	1,042.9	1,147.3	1,167.0	1,199.4	1,277.4	1,284.5	1,322.7
Debt securities	406.9	322.8	290.3	306.6	292.7	287.3	281.6	300.8
Loans	1,341.7	1,394.9	1,521.5	1,596.3	1,627.1	1,694.8	1,744.7	1,798.0
Shares and other equity	4,823.8	5,319.7	6,273.3	6,643.7	6,946.8	7,302.5	7,552.3	7,815.3
Remaining net assets (+)	233.4	279.5	261.1	323.2	304.4	299.0	349.0	349.4
Liabilities								
Debt	6,029.2	6,211.5	6,606.7	6,977.2	7,088.2	7,226.8	7,420.4	7,668.8
Loans	5,112.5	5,242.5	5,622.6	5,965.0	6,069.7	6,200.9	6,380.1	6,594.1
<i>of which from euro area MFIs</i>	3,092.6	3,215.1	3,478.1	3,714.3	3,806.7	3,918.3	4,034.0	4,189.8
Debt securities	628.2	667.8	670.2	691.5	694.0	697.7	710.4	742.9
Pension fund reserves	288.5	301.2	313.8	320.7	324.4	328.3	329.8	331.8
Shares and other equity	8,069.9	8,979.1	10,458.1	11,016.1	11,375.5	12,087.8	12,497.1	12,925.0
Quoted shares	2,732.0	2,987.1	3,681.0	3,945.4	4,082.5	4,457.1	4,664.1	5,060.9
Unquoted shares and other equity	5,337.9	5,992.0	6,777.1	7,070.8	7,293.0	7,630.7	7,833.0	7,864.0

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 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2
<b>Financial account, financial transactions</b>								
Financial investment (+)								
Currency and deposits	29.7	50.0	25.6	36.6	48.9	64.8	81.7	72.6
<i>of which M3 deposits <sup>1)</sup></i>	7.0	12.4	7.0	7.8	8.2	12.4	17.9	2.3
Short-term debt securities	10.8	22.4	20.5	-0.4	-8.8	0.2	12.6	26.5
Long-term debt securities	140.8	132.8	129.2	133.6	145.0	143.9	148.7	161.9
Loans	11.6	6.6	-2.6	10.2	10.7	4.5	-9.2	-6.9
Shares and other equity	58.9	45.2	137.1	144.9	141.4	124.8	89.3	69.0
Quoted shares	9.5	13.0	31.6	24.1	14.7	16.9	12.4	5.3
Unquoted shares and other equity	5.1	-1.1	18.2	21.5	25.5	20.3	13.0	15.3
Mutual fund shares	44.3	33.3	87.3	99.2	101.1	87.5	63.8	48.4
<i>of which money market fund shares</i>	6.8	3.3	-0.9	-4.3	-5.6	2.3	3.3	-0.5
Remaining net assets (+)	-3.6	9.9	9.1	8.2	15.0	13.0	26.5	24.6
Financing (-)								
Debt securities	5.0	-1.8	0.1	-0.4	-0.4	4.0	4.0	3.6
Loans	12.4	4.4	12.5	27.6	37.1	32.6	33.9	43.5
Shares and other equity	11.4	12.9	8.5	6.8	10.8	7.1	9.4	11.1
Insurance technical reserves	237.0	261.2	335.3	335.0	334.1	314.0	299.5	297.0
Net equity of households in life insurance and pension fund reserves	210.3	229.5	291.8	296.0	291.4	267.0	249.0	247.6
Prepayments of insurance premiums and reserves for outstanding claims	26.8	31.6	43.5	39.0	42.7	47.0	50.5	49.4
<b>= Changes in net financial worth due to transactions</b>	<b>-17.7</b>	<b>-9.8</b>	<b>-37.5</b>	<b>-35.9</b>	<b>-29.3</b>	<b>-6.5</b>	<b>2.8</b>	<b>-7.4</b>
<b>Other changes account</b>								
Other changes in financial assets (+)								
Shares and other equity	107.3	110.3	190.4	127.3	125.2	192.1	153.6	245.7
Other net assets	-10.1	159.2	43.5	-14.9	0.7	-51.5	-67.6	-82.9
Other changes in liabilities (-)								
Shares and other equity	98.3	20.7	117.4	83.9	86.2	49.9	36.4	101.2
Insurance technical reserves	33.7	84.3	139.4	72.4	61.3	58.0	44.5	39.1
Net equity of households in life insurance and pension fund reserves	34.2	64.6	145.6	75.1	63.9	62.0	47.0	46.6
Prepayments of insurance premiums and reserves for outstanding claims	-0.5	19.8	-6.2	-2.7	-2.6	-4.0	-2.5	-7.5
<b>= Other changes in net financial worth</b>	<b>-34.8</b>	<b>164.3</b>	<b>-22.9</b>	<b>-43.9</b>	<b>-21.6</b>	<b>32.6</b>	<b>5.1</b>	<b>22.5</b>
<b>Financial balance sheet</b>								
Financial assets (+)								
Currency and deposits	579.0	630.8	659.3	684.3	704.3	724.3	751.6	760.0
<i>of which M3 deposits <sup>1)</sup></i>	121.1	132.6	141.6	139.7	143.3	153.4	154.7	143.2
Short-term debt securities	69.5	205.9	212.1	213.4	213.4	212.7	227.6	238.7
Long-term debt securities	1,489.0	1,659.4	1,808.8	1,843.4	1,910.8	1,902.5	1,927.2	1,945.2
Loans	363.5	358.9	362.5	372.2	371.8	361.7	350.5	354.9
Shares and other equity	1,528.9	1,684.3	2,011.8	2,111.9	2,213.0	2,328.7	2,376.5	2,426.5
Quoted shares	526.1	574.9	701.5	717.2	761.2	832.1	852.9	857.9
Unquoted shares and other equity	306.4	336.6	397.1	422.0	435.3	457.5	460.8	477.6
Mutual fund shares	696.4	772.9	913.2	972.7	1,016.5	1,039.1	1,062.8	1,091.1
<i>of which money market fund shares</i>	65.8	69.0	83.3	87.0	87.2	87.3	89.5	90.0
Remaining net assets (+)	106.7	122.5	159.6	167.4	176.4	176.5	180.7	169.1
Liabilities (-)								
Debt securities	23.4	21.9	22.0	22.3	23.0	26.2	26.1	25.5
Loans	126.8	120.0	132.0	158.1	169.0	164.9	183.7	193.1
Shares and other equity	429.7	463.3	589.3	578.6	628.5	646.3	662.4	690.9
Insurance technical reserves	3,789.4	4,134.9	4,609.6	4,777.8	4,882.9	4,981.5	5,062.6	5,113.9
Net equity of households in life insurance and pension fund reserves	3,208.5	3,502.6	3,940.0	4,092.8	4,183.6	4,268.9	4,335.9	4,387.1
Prepayments of insurance premiums and reserves for outstanding claims	580.9	632.3	669.6	685.0	699.3	712.6	726.7	726.8
<b>= Net financial wealth</b>	<b>-232.8</b>	<b>-78.2</b>	<b>-138.7</b>	<b>-144.2</b>	<b>-113.7</b>	<b>-112.5</b>	<b>-120.8</b>	<b>-129.0</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).



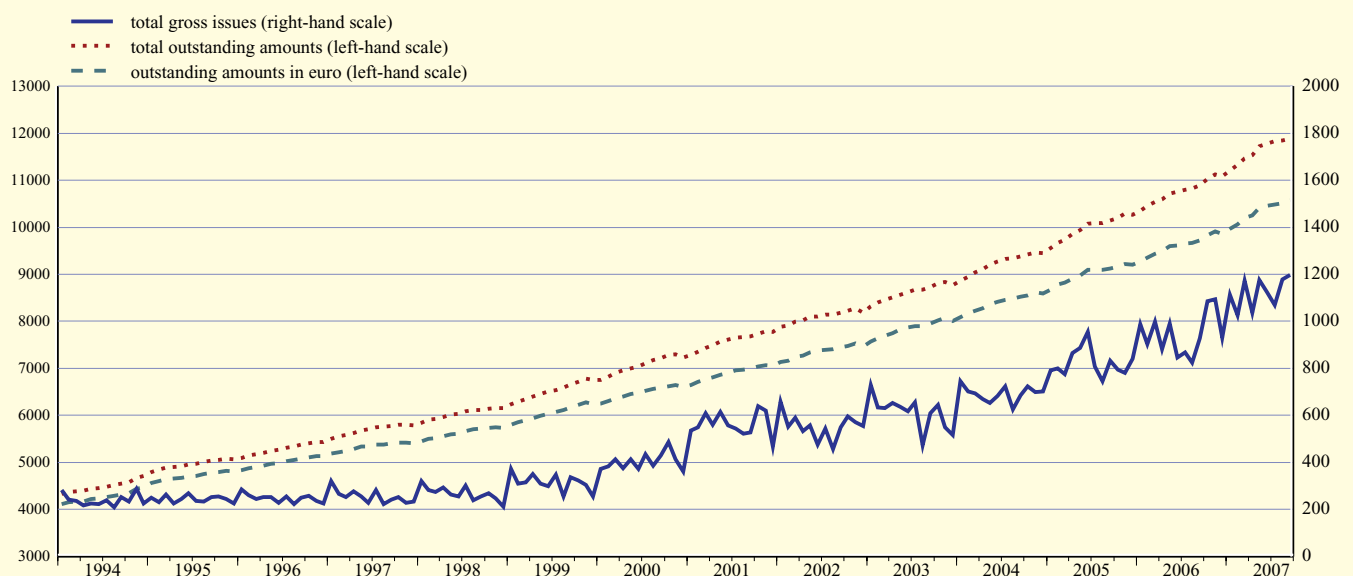
# FINANCIAL MARKETS

## 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					
				Outstanding amounts	Gross issues	Net issues	Outstanding amounts	Gross issues	Net issues	Annual growth rates	Seasonally adjusted <sup>2)</sup>	
											Net issues	Net issues
1	2	3	4	5	6	7	8	9	10	11	12	
Total												
2006 Sep.	11,522.2	1,004.2	120.2	9,723.4	882.1	50.1	10,896.5	928.0	56.9	7.3	63.0	6.9
Oct.	11,617.7	1,106.3	93.3	9,826.8	1,023.0	101.6	11,031.9	1,086.0	122.2	7.9	112.7	8.0
Nov.	11,756.2	1,134.7	137.7	9,918.2	1,036.6	90.8	11,123.2	1,092.7	107.4	8.2	94.7	8.2
Dec.	11,732.4	977.3	-24.7	9,863.7	885.4	-55.8	11,078.7	930.1	-59.8	7.9	51.6	8.6
2007 Jan.	11,831.0	1,145.7	98.9	9,960.8	1,052.1	97.5	11,205.7	1,111.7	116.0	7.9	74.8	8.9
Feb.	11,940.9	1,044.7	110.0	10,057.3	958.3	96.6	11,321.8	1,024.4	123.5	8.2	94.8	9.3
Mar.	12,172.5	1,258.0	230.4	10,194.1	1,119.0	135.5	11,464.3	1,171.6	141.7	8.5	107.4	10.1
Apr.	12,195.2	1,039.8	22.4	10,249.3	981.4	54.8	11,530.1	1,036.4	72.0	8.5	63.2	9.0
May	12,408.6	1,216.4	214.3	10,410.4	1,113.9	162.0	11,718.8	1,175.4	183.9	9.0	138.0	9.7
June	12,538.9	1,219.7	130.2	10,454.6	1,067.5	44.2	11,776.3	1,123.7	54.7	9.2	48.6	9.6
July	12,546.0	1,074.8	6.0	10,486.7	1,002.6	31.2	11,826.6	1,068.3	52.4	9.2	68.1	9.5
Aug.	12,575.2	1,183.1	29.4	10,513.9	1,130.5	27.4	11,849.2	1,178.9	28.4	9.2	85.5	9.2
Sep.	12,669.2	1,240.7	92.3	10,573.5	1,151.4	58.0	11,879.7	1,196.8	46.9	9.1	58.4	8.2
Long-term												
2006 Sep.	10,473.0	218.6	94.0	8,823.6	156.8	55.2	9,858.2	176.2	63.3	7.5	58.1	7.3
Oct.	10,574.2	224.8	98.8	8,894.0	173.9	68.4	9,951.3	207.0	86.7	8.1	95.1	8.2
Nov.	10,709.3	226.0	134.2	8,988.6	167.2	93.9	10,044.7	193.4	108.6	8.3	93.8	9.0
Dec.	10,730.7	171.6	18.8	9,007.7	133.1	16.1	10,071.4	153.2	13.1	8.2	59.3	9.1
2007 Jan.	10,806.9	231.3	76.2	9,058.0	176.6	50.5	10,140.3	200.4	61.5	8.1	67.7	9.3
Feb.	10,906.1	237.4	99.4	9,140.9	189.6	83.1	10,237.0	223.2	104.6	8.4	82.4	9.5
Mar.	11,043.4	277.6	137.2	9,237.0	212.6	95.9	10,336.0	233.4	101.0	8.6	77.8	9.9
Apr.	11,084.8	181.7	41.1	9,268.3	155.2	31.0	10,373.2	176.9	44.7	8.6	52.9	8.9
May	11,271.3	266.4	188.2	9,403.4	198.7	136.7	10,529.2	225.0	152.0	9.1	108.3	9.1
June	11,371.5	258.6	98.8	9,468.3	190.2	63.5	10,609.8	216.6	77.0	8.9	46.7	8.8
July	11,401.5	197.8	29.5	9,482.9	161.6	14.3	10,636.5	187.6	28.5	8.8	49.7	8.4
Aug.	11,395.4	102.4	-6.6	9,475.7	86.6	-7.7	10,634.4	103.8	-2.6	8.6	50.4	7.7
Sep.	11,420.6	155.1	23.8	9,493.4	130.3	16.4	10,623.8	142.8	13.5	8.0	9.0	6.2

## 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
Total												
2005	10,269	4,119	933	607	4,327	283	9,874	6,988	325	1,031	1,435	95
2006	11,079	4,563	1,167	636	4,408	305	11,334	8,377	420	1,113	1,339	85
2006 Q4	11,079	4,563	1,167	636	4,408	305	3,109	2,364	147	334	241	23
2007 Q1	11,464	4,758	1,260	648	4,489	309	3,308	2,446	140	285	415	23
Q2	11,776	4,865	1,318	684	4,601	308	3,335	2,359	117	453	389	18
Q3	11,880	4,951	1,356	677	4,586	310	3,444	2,601	87	392	345	19
2007 June	11,776	4,865	1,318	684	4,601	308	1,124	785	37	164	132	6
July	11,827	4,902	1,347	693	4,577	307	1,068	749	46	152	115	6
Aug.	11,849	4,930	1,358	683	4,571	308	1,179	920	22	135	97	5
Sep.	11,880	4,951	1,356	677	4,586	310	1,197	932	20	105	132	8
Short-term												
2005	945	482	7	90	361	5	7,797	6,046	45	943	729	33
2006	1,007	568	12	94	329	4	9,172	7,372	60	1,023	686	31
2006 Q4	1,007	568	12	94	329	4	2,555	2,085	14	305	144	7
2007 Q1	1,128	621	12	106	385	4	2,651	2,132	16	271	222	8
Q2	1,166	623	11	120	407	5	2,717	2,072	12	413	210	9
Q3	1,256	712	12	117	409	7	3,010	2,404	9	378	207	11
2007 June	1,166	623	11	120	407	5	907	686	5	145	69	3
July	1,190	642	10	128	406	5	881	672	3	142	60	3
Aug.	1,215	666	11	119	413	5	1,075	862	3	134	72	3
Sep.	1,256	712	12	117	409	7	1,054	870	2	102	75	5
Long-term <sup>1)</sup>												
2005	9,323	3,637	926	516	3,966	278	2,077	942	280	88	706	61
2006	10,071	3,995	1,155	542	4,079	301	2,162	1,005	360	90	653	54
2006 Q4	10,071	3,995	1,155	542	4,079	301	554	279	133	29	97	16
2007 Q1	10,336	4,137	1,248	542	4,105	304	657	313	123	13	192	14
Q2	10,610	4,242	1,307	563	4,194	304	619	287	105	40	179	8
Q3	10,624	4,239	1,344	560	4,177	304	434	197	78	14	138	8
2007 June	10,610	4,242	1,307	563	4,194	304	217	99	32	19	64	3
July	10,637	4,261	1,337	566	4,171	302	188	77	43	10	55	3
Aug.	10,634	4,264	1,347	564	4,158	303	104	57	18	1	25	2
Sep.	10,624	4,239	1,344	560	4,177	304	143	62	17	3	58	3
Of which long-term fixed rate												
2005	6,724	2,020	462	408	3,616	217	1,229	414	92	53	622	48
2006	7,050	2,138	543	413	3,719	237	1,292	478	142	56	576	39
2006 Q4	7,050	2,138	543	413	3,719	237	281	117	46	18	90	10
2007 Q1	7,163	2,211	568	413	3,728	243	402	172	40	9	169	13
Q2	7,306	2,256	583	426	3,798	244	339	132	28	24	147	7
Q3	7,304	2,253	590	421	3,793	247	261	100	24	7	123	7
2007 June	7,306	2,256	583	426	3,798	244	120	51	5	11	50	2
July	7,297	2,267	588	426	3,771	245	109	41	10	5	50	3
Aug.	7,299	2,269	595	425	3,764	245	66	32	12	0	21	2
Sep.	7,304	2,253	590	421	3,793	247	86	27	2	1	52	3
Of which long-term variable rate												
2005	2,266	1,350	458	92	306	60	718	432	188	27	58	12
2006	2,603	1,507	604	115	314	64	716	405	215	31	51	15
2006 Q4	2,603	1,507	604	115	314	64	232	124	86	11	5	6
2007 Q1	2,725	1,560	670	115	320	61	213	114	82	4	13	1
Q2	2,846	1,603	714	126	343	59	227	111	76	16	23	1
Q3	2,869	1,605	741	127	338	57	135	69	50	7	8	1
2007 June	2,846	1,603	714	126	343	59	82	38	27	7	9	1
July	2,871	1,602	738	128	345	57	64	24	32	5	3	0
Aug.	2,866	1,606	740	127	336	57	27	19	5	1	2	1
Sep.	2,869	1,605	741	127	338	57	44	26	13	1	4	0

Source: ECB.

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

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

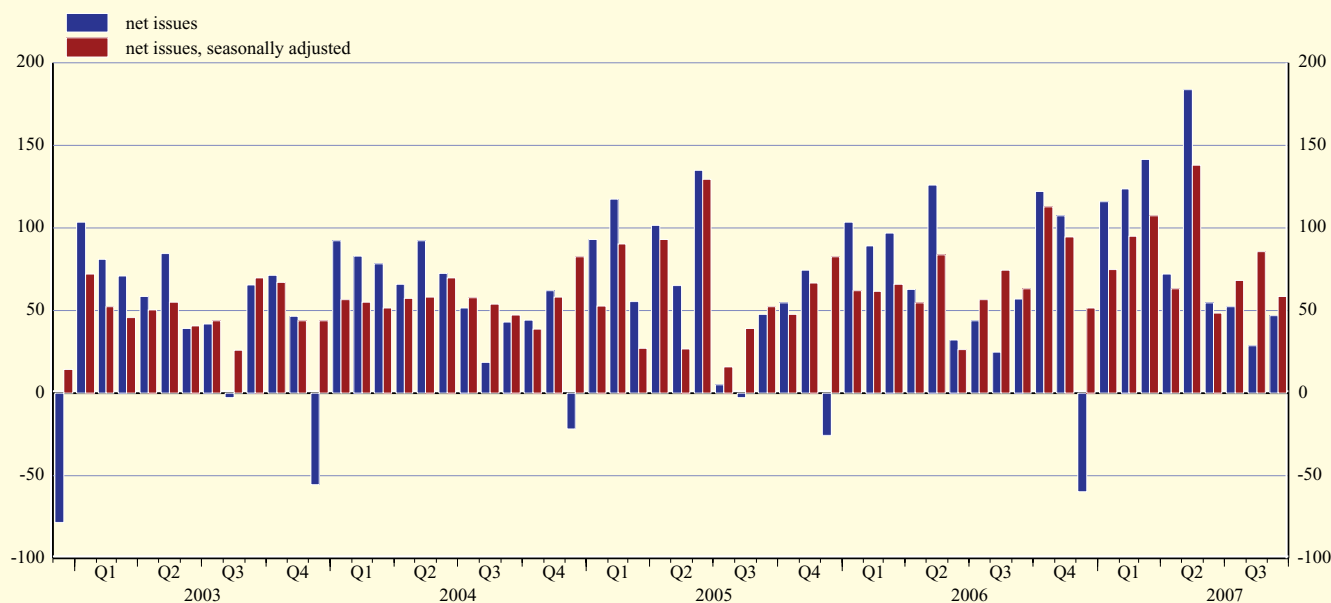
(EUR billions unless otherwise indicated; transactions during the period; nominal values)

### 2. Net issues

	Non-seasonally adjusted						Seasonally adjusted					
	Total	MFIs (including Eurosistem)	Non-MFI corporations		General government		Total	MFIs (including Eurosistem)	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	720.4	319.8	175.8	20.9	171.5	32.4	723.3	323.7	172.5	20.8	173.8	32.6
2006	805.6	418.6	241.7	32.5	90.5	22.4	807.2	423.9	238.0	32.8	90.1	22.4
2006 Q4	169.8	97.8	99.0	7.6	-41.2	6.7	258.9	133.1	70.8	11.9	38.2	5.0
2007 Q1	381.2	187.1	94.6	13.0	82.7	3.9	276.9	122.5	111.9	10.6	29.3	2.6
Q2	310.6	102.5	59.5	36.3	112.4	-0.1	249.8	110.7	46.1	28.1	65.7	-0.9
Q3	127.7	99.6	42.1	-4.9	-11.1	2.1	212.0	125.2	70.2	2.1	8.4	6.1
2007 June	54.7	-7.7	21.3	14.3	26.5	0.3	48.6	15.3	4.7	16.1	13.9	-1.4
July	52.4	37.1	29.3	10.1	-23.0	-1.1	68.1	33.0	32.5	8.5	-5.8	0.0
Aug.	28.4	33.6	10.8	-10.3	-6.3	0.6	85.5	53.1	30.6	-6.5	6.0	2.4
Sep.	46.9	29.0	2.0	-4.7	18.1	2.6	58.4	39.1	7.1	0.2	8.3	3.7
	Long-term											
2005	712.8	296.4	176.2	21.3	186.3	32.7	713.9	298.0	173.0	21.0	189.1	32.8
2006	758.8	348.5	236.3	29.2	121.5	23.3	758.8	350.4	232.8	29.0	123.3	23.3
2006 Q4	208.4	96.3	98.3	9.8	-3.2	7.2	248.1	121.2	70.1	7.3	44.0	5.5
2007 Q1	267.1	141.1	94.9	1.0	26.7	3.3	227.9	107.2	111.9	7.4	-0.9	2.1
Q2	273.7	101.3	60.6	22.3	90.2	-0.6	207.9	97.1	47.1	15.8	49.2	-1.3
Q3	39.4	13.2	41.5	-1.5	-14.0	0.3	109.1	26.9	70.0	1.1	7.0	4.1
2007 June	77.0	20.4	22.0	13.8	20.5	0.4	46.7	25.5	5.2	10.7	6.7	-1.5
July	28.5	18.8	30.2	2.4	-21.8	-1.2	49.7	17.2	33.7	1.2	-2.6	0.2
Aug.	-2.6	2.7	9.7	-1.7	-13.8	0.6	50.4	20.4	29.6	0.8	-2.6	2.3
Sep.	13.5	-8.3	1.6	-2.3	21.6	0.8	9.0	-10.6	6.6	-0.9	12.3	1.6

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

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



Source: ECB.

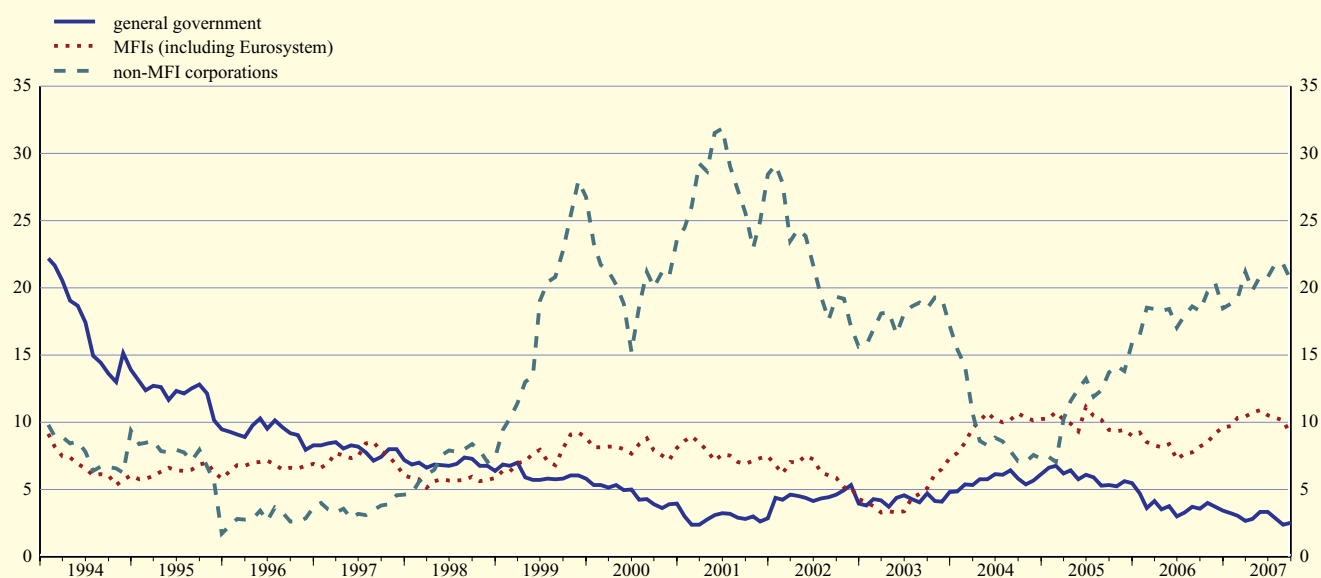
### 4.3 Growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup>

(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 Sep.	7.3	9.0	26.4	3.9	2.2	10.4	6.9	9.1	23.4	4.2	1.7	8.1
Oct.	7.9	9.6	29.1	3.5	2.6	9.5	8.0	10.2	27.8	4.1	2.3	8.5
Nov.	8.2	10.0	29.6	4.7	2.5	8.8	8.2	9.4	29.1	3.6	3.2	7.0
Dec.	7.9	10.2	26.0	5.4	2.1	7.9	8.6	10.9	26.8	4.1	3.2	5.6
2007 Jan.	7.9	10.5	26.6	4.5	1.9	7.4	8.9	11.9	27.9	4.9	2.7	4.4
Feb.	8.2	10.7	27.3	4.7	2.1	5.8	9.3	12.2	30.6	7.5	2.3	2.1
Mar.	8.5	10.4	30.0	5.7	2.4	6.7	10.1	11.8	36.7	7.3	3.1	5.1
Apr.	8.5	10.6	27.9	6.0	2.6	7.3	9.0	10.9	28.1	7.7	2.9	6.1
May	9.0	10.4	29.7	6.0	3.5	5.1	9.7	11.5	30.1	8.1	3.8	3.3
June	9.2	10.6	28.2	8.2	3.8	3.4	9.6	10.4	29.4	12.4	4.3	1.1
July	9.2	10.8	28.9	10.1	3.3	2.6	9.5	9.7	30.1	15.5	3.9	0.7
Aug.	9.2	11.0	28.9	9.7	3.1	2.6	9.2	9.9	27.5	12.0	3.9	3.0
Sep.	9.1	10.9	27.6	8.3	3.2	4.2	8.2	10.2	19.4	9.5	3.3	3.4
	Long-term											
2006 Sep.	7.5	8.2	26.1	5.3	3.1	10.9	7.3	8.7	22.6	4.9	2.6	8.5
Oct.	8.1	8.5	28.8	4.7	3.6	10.0	8.2	9.5	27.3	3.7	3.2	9.0
Nov.	8.3	9.2	29.3	5.1	3.3	9.4	9.0	10.6	28.8	2.5	3.9	7.6
Dec.	8.2	9.6	25.6	5.7	3.1	8.4	9.1	10.6	26.7	3.8	4.3	6.2
2007 Jan.	8.1	9.7	26.3	5.4	2.9	7.6	9.3	11.4	27.8	6.0	3.6	4.8
Feb.	8.4	10.3	27.1	4.8	2.9	6.0	9.5	12.4	30.8	6.2	2.6	2.6
Mar.	8.6	10.4	29.7	5.3	2.4	6.9	9.9	12.1	37.0	5.6	2.1	5.2
Apr.	8.6	10.7	27.8	4.8	2.5	7.4	8.9	11.9	28.5	5.8	1.7	5.8
May	9.1	10.9	29.7	4.2	3.2	5.1	9.1	11.2	30.4	6.0	2.5	2.8
June	8.9	10.5	28.4	6.3	3.3	3.4	8.8	10.4	29.9	8.8	2.4	0.6
July	8.8	10.3	29.3	7.2	2.9	2.7	8.4	9.3	30.9	8.3	2.1	0.6
Aug.	8.6	10.2	29.2	7.0	2.4	2.6	7.7	8.0	27.9	7.9	2.1	2.7
Sep.	8.0	9.0	27.9	5.9	2.4	3.5	6.2	6.1	19.7	6.3	2.8	1.9

### 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.

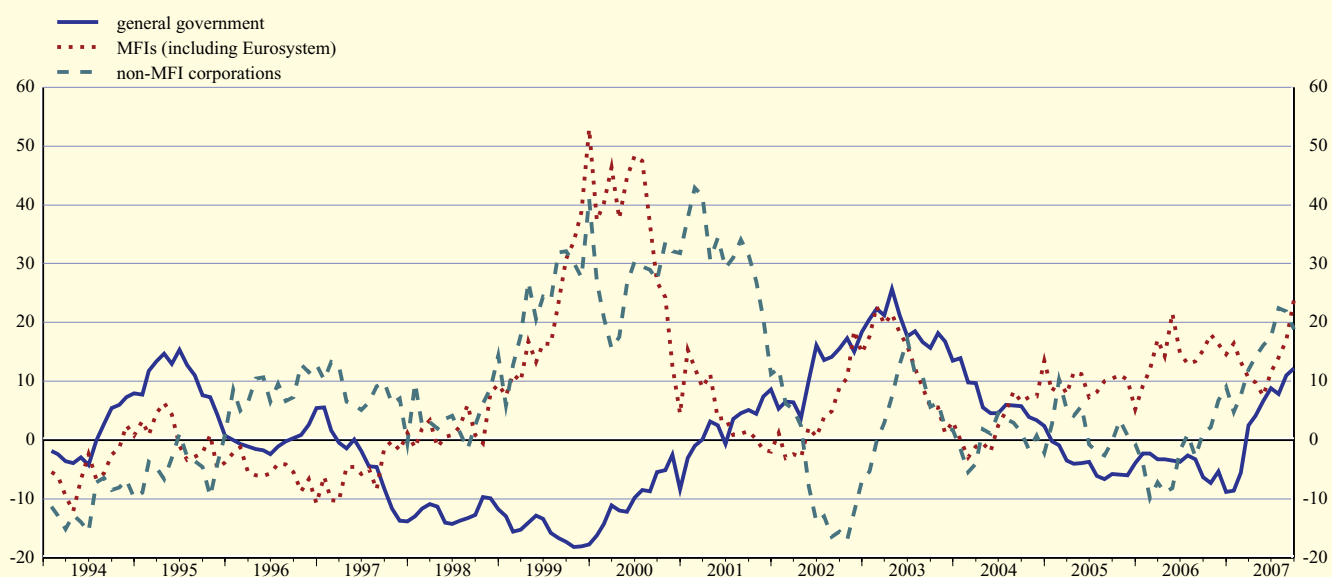
**4.3 Growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup> (cont'd)**

(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	5.5	0.4	5.5	15.0	19.5	18.6	35.6	22.3	9.9	4.8
2006	4.5	4.7	13.8	0.9	3.1	13.4	16.4	11.8	41.1	28.0	5.2	4.5
2006 Q4	5.1	5.5	19.9	1.1	3.1	11.1	15.5	11.0	36.2	27.3	5.5	4.8
2007 Q1	5.3	6.4	20.5	2.7	2.9	7.9	15.2	12.1	33.2	21.8	1.5	4.1
Q2	5.5	7.6	19.8	2.7	2.6	7.7	16.5	12.1	37.5	18.9	5.7	-0.7
Q3	5.4	8.0	17.5	4.6	2.3	5.1	16.2	11.1	39.3	19.5	4.7	-5.4
2007 Apr.	5.4	7.7	19.8	2.5	2.2	9.0	16.2	12.3	35.5	19.7	5.7	1.8
May	5.7	7.4	20.9	2.1	3.0	7.4	16.5	12.1	38.0	16.9	6.0	-3.3
June	5.7	8.2	17.0	3.9	3.0	5.3	16.9	11.8	39.2	19.6	7.0	-3.6
July	5.4	8.4	17.5	4.9	2.2	5.0	16.6	11.0	40.2	20.2	6.5	-6.1
Aug.	5.3	8.2	18.2	5.1	1.9	4.9	16.0	11.1	39.2	19.1	3.3	-5.7
Sep.	5.0	6.8	16.6	3.9	2.5	5.8	15.3	10.6	38.1	18.6	1.5	-5.1
In euro												
2005	4.3	0.9	8.9	-0.1	5.4	15.3	18.9	17.3	35.0	22.1	10.3	5.4
2006	3.8	3.1	11.2	0.1	3.2	13.6	15.2	10.1	37.6	30.9	5.4	3.6
2006 Q4	4.3	4.1	15.0	-0.3	3.3	11.1	14.5	9.5	33.4	30.2	5.6	3.8
2007 Q1	4.7	5.4	16.0	1.1	3.2	7.9	14.0	10.9	29.7	23.2	1.5	3.6
Q2	4.8	6.8	16.2	0.8	2.9	7.6	15.8	11.2	35.0	19.6	5.8	-1.3
Q3	4.7	7.1	14.5	3.3	2.5	5.3	15.7	10.3	37.6	18.6	4.8	-6.3
2007 Apr.	4.7	7.0	16.3	0.6	2.5	8.9	15.5	11.4	32.9	20.9	5.8	1.4
May	5.1	6.6	17.2	0.2	3.3	7.2	15.8	11.1	35.7	17.5	6.1	-3.9
June	5.0	7.2	14.0	2.3	3.2	5.3	16.4	10.9	37.5	19.4	7.1	-4.3
July	4.7	7.4	14.7	3.7	2.4	5.1	15.9	9.9	38.4	19.4	6.6	-7.0
Aug.	4.6	7.4	15.1	3.8	2.1	5.1	15.5	10.5	37.4	18.0	3.4	-6.7
Sep.	4.5	5.9	13.5	2.4	2.9	6.1	14.8	9.9	36.4	17.6	1.7	-6.1

**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)

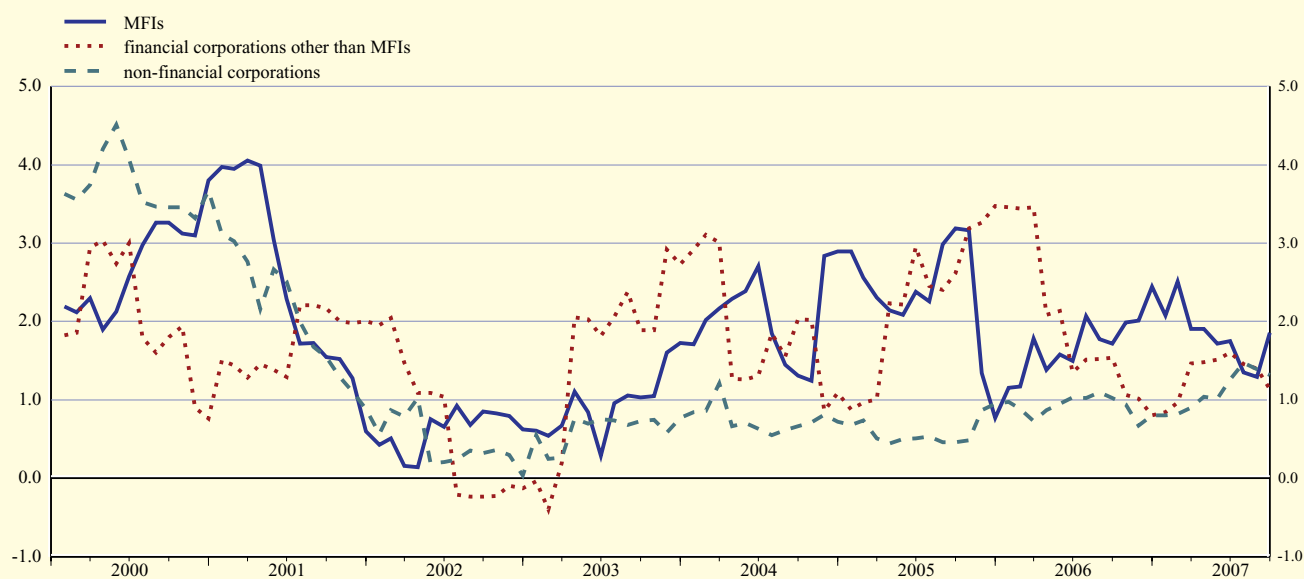
##### 1. Outstanding amounts and annual growth rates

(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 Sep.	4,834.1	103.0	1.1	764.1	3.2	484.8	2.6	3,585.2	0.5
Oct.	4,666.6	103.1	1.2	752.4	3.2	481.5	3.2	3,432.7	0.5
Nov.	4,889.2	103.4	1.2	809.2	1.3	514.6	3.3	3,565.4	0.9
Dec.	5,063.5	103.5	1.2	836.4	0.8	541.8	3.5	3,685.3	0.9
2006 Jan.	5,296.6	103.6	1.2	884.8	1.2	536.8	3.5	3,875.0	1.0
Feb.	5,436.6	103.6	1.2	938.8	1.2	562.7	3.4	3,935.1	0.9
Mar.	5,637.3	103.7	1.2	962.3	1.8	580.0	3.5	4,094.9	0.7
Apr.	5,662.8	103.8	1.1	948.8	1.4	573.9	2.1	4,140.1	0.9
May	5,373.0	103.9	1.2	896.7	1.6	534.5	2.1	3,941.8	0.9
June	5,384.8	104.0	1.1	905.0	1.5	530.6	1.3	3,949.1	1.0
July	5,381.0	104.1	1.3	918.4	2.1	544.4	1.5	3,918.2	1.0
Aug.	5,545.2	104.2	1.3	958.6	1.8	595.7	1.5	3,990.8	1.1
Sep.	5,684.5	104.2	1.2	986.1	1.7	607.7	1.5	4,090.7	1.0
Oct.	5,866.0	104.3	1.1	1,015.6	2.0	614.5	1.1	4,235.9	0.9
Nov.	5,922.6	104.4	0.9	1,024.3	2.0	603.8	1.0	4,294.5	0.7
Dec.	6,139.4	104.6	1.1	1,056.3	2.4	623.2	0.8	4,459.9	0.8
2007 Jan.	6,310.4	104.6	1.0	1,111.3	2.1	641.7	0.8	4,557.4	0.8
Feb.	6,223.4	104.8	1.1	1,081.2	2.5	633.4	1.0	4,508.8	0.8
Mar.	6,423.5	104.8	1.1	1,099.9	1.9	644.6	1.5	4,678.9	0.9
Apr.	6,671.7	105.0	1.2	1,156.5	1.9	670.5	1.5	4,844.7	1.0
May	6,944.3	105.1	1.2	1,161.3	1.7	684.0	1.5	5,099.0	1.0
June	6,862.1	105.4	1.4	1,115.5	1.8	671.8	1.6	5,074.8	1.3
July	6,639.8	105.7	1.5	1,081.1	1.4	607.5	1.5	4,951.1	1.5
Aug.	6,521.5	105.6	1.4	1,041.6	1.3	582.6	1.4	4,897.3	1.4
Sep.	6,651.9	105.7	1.4	1,030.5	1.9	595.9	1.1	5,025.5	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>**

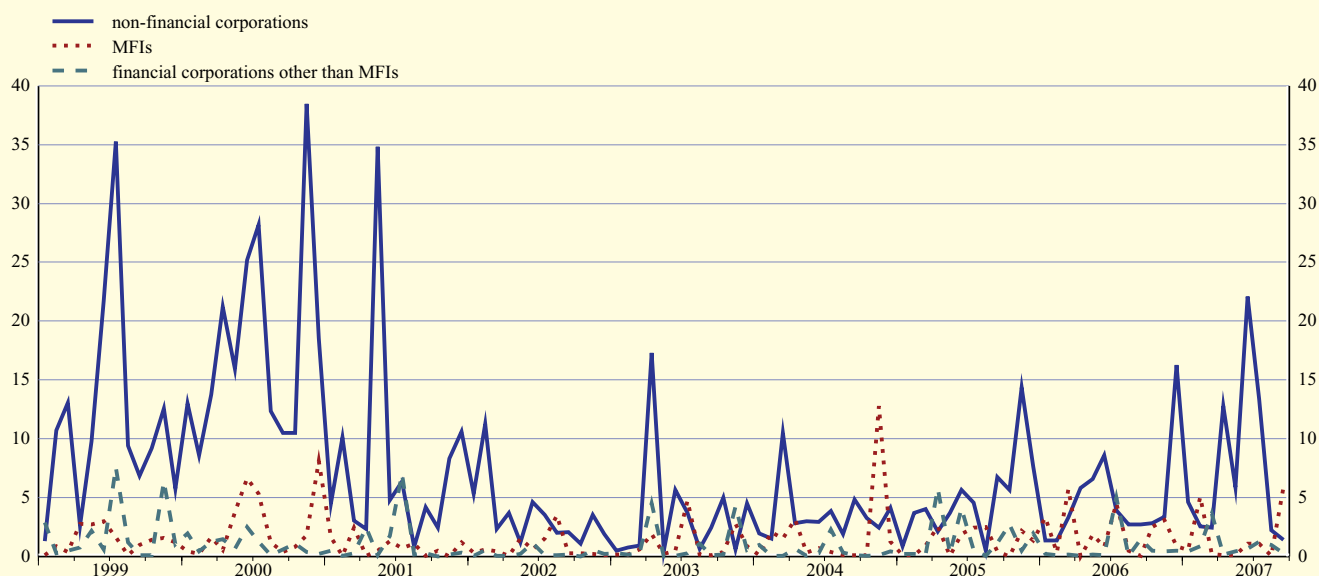
(EUR billions; market values)

**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 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	0.4	0.0	0.4	5.8	1.8	4.0
June	23.7	1.6	22.2	1.0	0.0	1.0	0.6	0.0	0.6	22.1	1.6	20.5
July	15.7	1.8	13.8	1.1	0.0	1.1	1.2	0.3	0.9	13.3	1.5	11.8
Aug.	3.2	6.6	-3.4	0.0	0.1	-0.1	1.0	1.4	-0.5	2.2	5.1	-2.8
Sep.	7.5	2.5	5.1	5.9	0.0	5.9	0.2	0.3	-0.1	1.4	2.1	-0.7

**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 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	3.46	3.66	3.23
Dec.	0.92	3.27	3.31	2.79	2.38	2.87	1.51	3.47	4.95	3.87	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	3.83	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	4.09	4.16	3.90
July	1.10	3.86	3.90	2.97	2.45	3.40	1.81	4.01	4.16	4.51	3.95
Aug.	1.14	3.93	3.93	3.01	2.53	3.46	1.89	4.08	4.33	4.20	3.93
Sep.	1.15	4.06	3.98	2.93	2.58	3.50	1.91	4.14	4.35	4.42	3.97

### 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 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	5.29	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	8.25	8.25	5.00	4.93	4.90	4.82	5.15	5.49	5.77	5.37
July	10.49	8.06	6.76	8.30	8.35	5.06	4.93	5.02	4.91	5.26	5.54	5.80	5.41
Aug.	10.55	8.43	6.85	8.31	8.48	5.15	4.98	5.08	4.90	5.24	5.36	5.93	5.47
Sep.	10.56	8.47	6.82	8.37	8.53	5.22	4.99	5.08	4.98	5.36	5.46	5.87	5.44

### 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		
								1	2
2006 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		4.51	4.69	4.71
Mar.		6.04	5.30	5.45	4.88		4.66	4.81	4.87
Apr.		6.12	5.37	5.47	4.88		4.70	4.99	4.90
May		6.12	5.43	5.57	4.95		4.72	5.10	5.12
June		6.17	5.53	5.70	5.03		4.89	5.28	5.17
July		6.30	5.58	5.77	5.09		4.90	4.95	5.17
Aug.		6.35	5.77	5.86	5.17		5.01	5.46	5.29
Sep.		6.49	5.93	5.88	5.17		5.20	5.58	5.40

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)

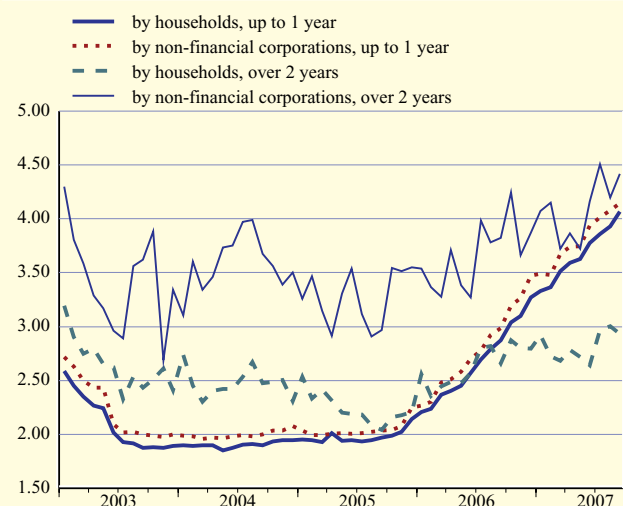
	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight <sup>1)</sup>	With agreed maturity		Redeemable at notice <sup>1),2)</sup>		Overnight <sup>1)</sup>	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	
2006 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
Aug.	1.14	3.58	3.03	2.53	3.46	1.89	4.03	4.07	3.89
Sep.	1.15	3.68	3.05	2.58	3.50	1.91	4.13	4.09	3.93

#### 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 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	5.44	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	5.20	4.53	4.86	8.68	6.94	6.01	5.62	5.09	4.96
July	5.28	4.57	4.89	8.80	6.95	6.06	5.70	5.15	5.00
Aug.	5.35	4.58	4.90	8.85	6.97	6.08	5.76	5.24	5.05
Sep.	5.36	4.64	4.94	9.02	7.00	6.13	5.91	5.33	5.13

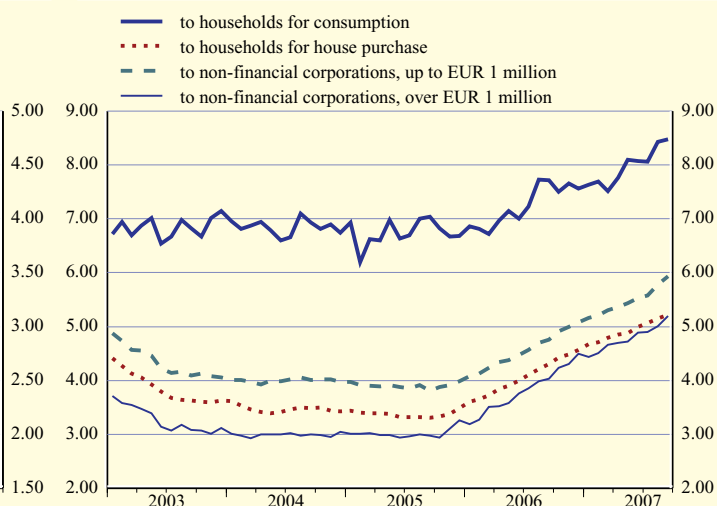
#### C21 New deposits with agreed maturity

(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.

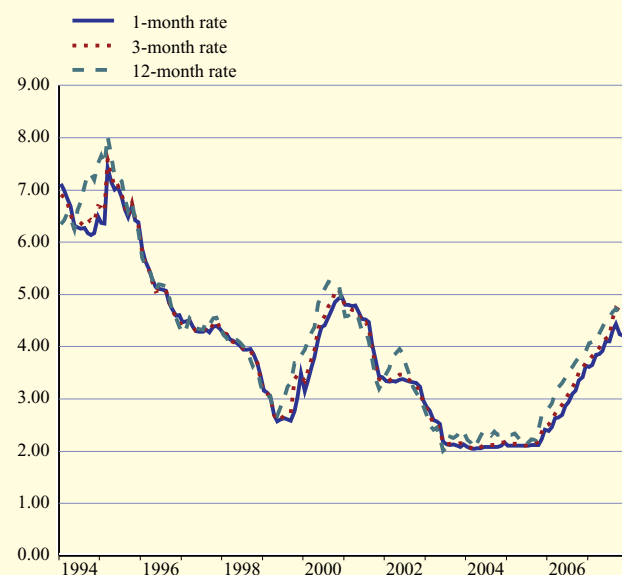
## 4.6 Money market interest rates

(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 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
Q3	4.05	4.28	4.49	4.56	4.65	5.45	0.89
2006 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
Sep.	4.03	4.43	4.74	4.75	4.72	5.49	0.99
Oct.	3.94	4.24	4.69	4.66	4.65	5.15	0.97
Nov.	4.02	4.22	4.64	4.63	4.61	4.96	0.91

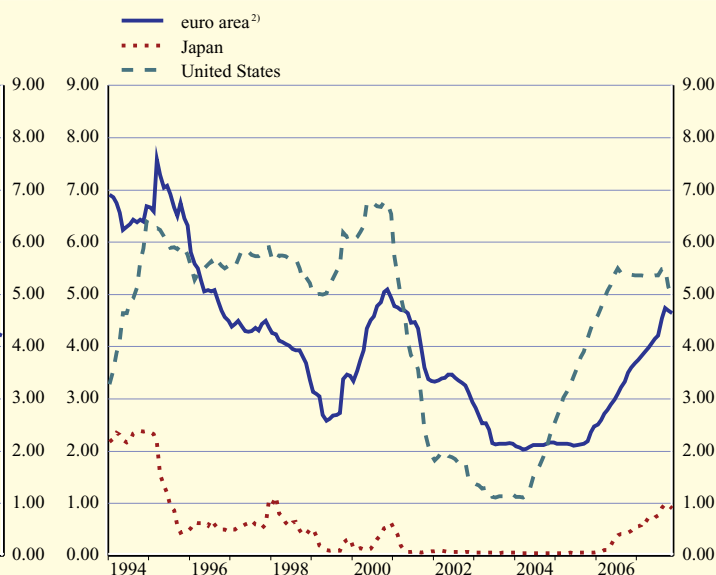
### C23 Euro area money market rates <sup>2)</sup>

(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.

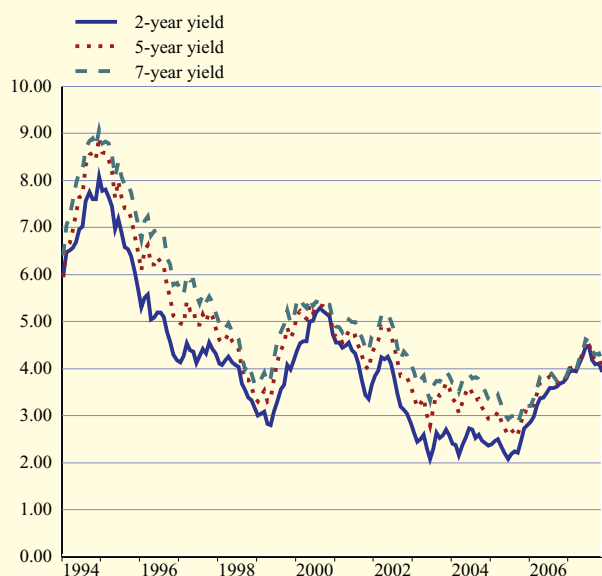
## 4.7 Government bond yields

(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 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
Q3	4.26	4.30	4.34	4.42	4.48	4.74	1.72
2006 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
Sep.	4.10	4.14	4.19	4.30	4.37	4.51	1.61
Oct.	4.11	4.16	4.21	4.32	4.40	4.52	1.66
Nov.	3.93	3.96	3.99	4.15	4.26	4.16	1.51

### 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.

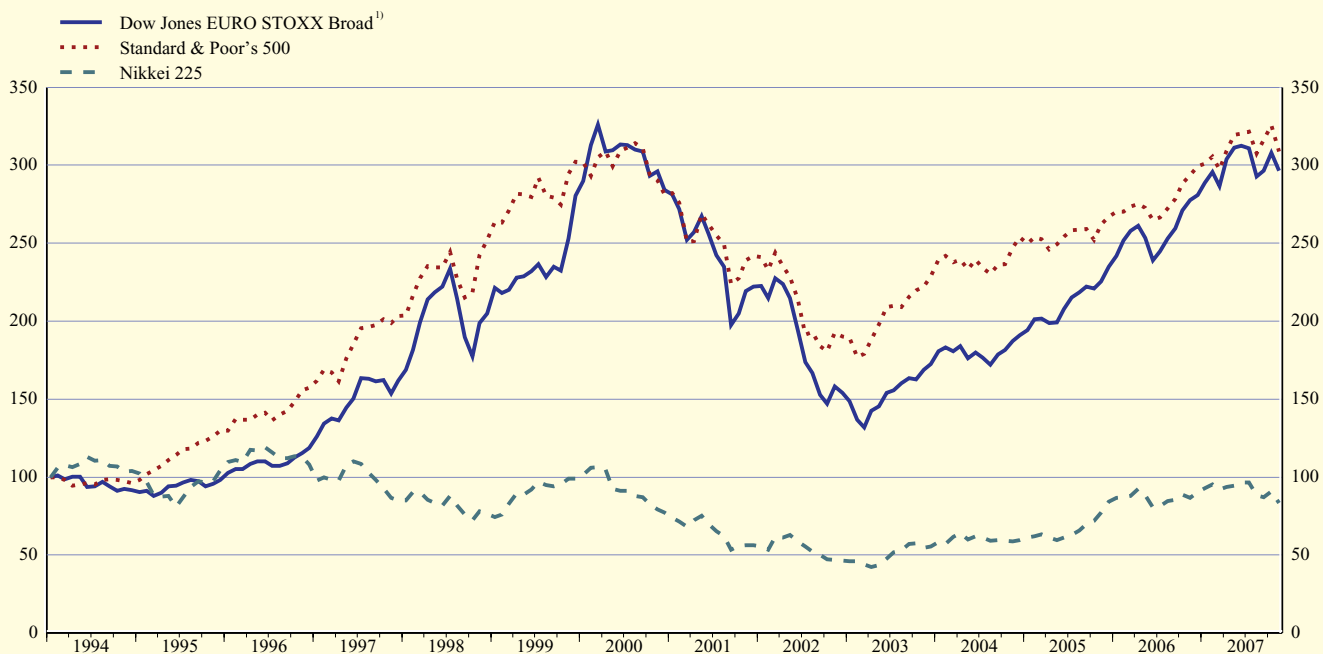
## 4.8 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX indices <sup>1)</sup>												United States	Japan
	Benchmark		Main industry indices										Standard & Poor's 500	Nikkei 225
	Broad	50	Basic materials	Consumer services	Consumer goods	Oil & gas	Financials	Industrials	Technology	Utilities	Telecom.	Health care		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
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 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
Q3	416.4	4,317.6	568.3	233.5	373.3	465.6	399.8	494.4	400.9	556.3	476.7	503.8	1,489.8	16,907.5
2006 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
Sep.	411.3	4,284.4	569.1	230.1	373.2	461.5	386.3	473.8	414.7	562.7	495.9	503.2	1,496.0	16,233.9
Oct.	427.1	4,430.8	587.6	234.9	394.6	463.8	399.4	492.9	419.5	602.4	527.9	507.6	1,539.7	16,910.4
Nov.	411.1	4,311.1	548.7	225.3	380.2	450.3	368.7	476.6	400.6	623.8	554.7	500.9	1,460.3	15,506.1

## 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 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	
Q3	104.4	1.9	2.0	1.5	2.5	0.5	1.0	0.9	0.2	0.7	0.6	1.8	2.1	
2007 June	104.5	1.9	1.9	1.5	2.6	0.2	0.2	0.3	0.1	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.	104.3	1.7	2.0	1.2	2.6	0.1	0.7	0.4	0.1	-0.9	0.1	1.7	2.1	
Sep.	104.7	2.1	2.0	1.9	2.5	0.2	0.7	0.2	0.1	0.6	0.1	2.1	2.1	
Oct.	105.2	2.6	2.1	2.6	2.5	0.4	1.2	0.9	0.2	0.6	0.2	2.6	2.2	
Nov. <sup>4)</sup>	.	3.0	.	.	.	.	.	.	.	.	.	.	.	

	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 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
Q3	2.5	2.5	2.4	0.9	1.0	0.7	2.7	2.0	2.4	-1.5	3.0	3.4
2007 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
Aug.	2.5	2.5	2.4	0.6	1.0	-0.9	2.7	2.0	2.4	-1.1	3.0	3.4
Sep.	2.7	3.1	2.1	1.5	1.0	3.0	2.7	2.0	2.4	-1.6	2.9	3.2
Oct.	3.5	3.8	3.1	2.1	1.1	5.5	2.7	2.0	2.5	-2.1	2.9	3.2

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										Construction <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	Intermediate 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	0.2	1.1	0.6	1.2	3.7	2.4	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	4.1	7.4	18.4	10.8	30.5
2005	110.1	4.1	3.2	1.8	2.9	1.4	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	4.1	6.5	19.7	24.8	52.9
2006 Q3	116.9	5.4	3.7	3.6	6.3	1.6	1.9	1.8	1.9	11.7	4.6	-	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	4.6	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	4.4	-	-5.5	15.7	44.8
Q2	118.5	2.4	2.6	3.2	5.5	2.0	1.7	1.8	1.6	-0.4	4.5	-	-3.1	13.8	51.0
Q3	119.3	2.1	2.7	3.0	4.3	1.6	2.4	1.8	2.5	-0.8	-	-	2.0	6.7	54.2
2007 June	118.8	2.3	2.6	3.1	5.1	1.9	1.7	1.8	1.6	-0.5	-	-	0.3	14.2	52.6
July	119.1	1.8	2.3	2.9	4.6	1.7	1.9	1.7	1.9	-1.9	-	-	-1.7	7.8	55.2
Aug.	119.2	1.8	2.3	3.0	4.3	1.7	2.4	1.8	2.5	-2.0	-	-	-3.4	5.4	52.4
Sep.	119.6	2.7	3.4	3.1	4.1	1.6	2.9	1.9	3.0	1.6	-	-	12.1	6.9	55.2
Oct.	120.4	3.3	3.9	3.1	4.0	1.5	3.3	1.8	3.5	4.0	-	-	19.5	3.5	57.7
Nov.	-	-	-	-	-	-	-	-	-	-	-	-	26.9	-0.1	62.8

### 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 <sup>8)</sup>
			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	110.8	3.2	2.9	4.0	3.3	4.0	3.0	2.4
2004	113.5	2.4	2.3	2.7	2.8	2.8	2.1	2.1
2005	116.5	2.7	2.7	2.7	2.6	2.5	2.8	2.1
2006	119.6	2.6	2.7	2.3	3.4	2.1	2.2	2.3
2006 Q3	119.9	2.6	2.7	2.4	3.7	1.9	2.0	2.1
Q4	120.6	2.4	2.4	2.1	2.8	2.2	2.2	2.5
2007 Q1	121.3	2.3	2.3	1.9	2.3	2.0	2.2	2.0
Q2	122.1	2.5	2.5	1.8	2.7	3.2	2.2	2.3
Q3	-	-	-	-	-	-	-	2.2

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) Input prices for residential buildings.

2) Experimental data based on non-harmonised national sources (see the ECB website for further details).

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.

8) Experimental data (see the ECB website for further details).

**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	106.7	1.9	6.2	0.4	3.4	2.1	1.8	3.1
2004	108.0	1.3	-7.9	-0.2	3.7	0.6	2.6	2.3
2005	109.1	1.0	6.8	-0.6	3.5	0.7	1.6	1.9
2006	110.0	0.8	1.7	-1.0	1.5	0.1	2.0	2.5
2006 Q2	110.2	1.2	1.4	-0.8	0.5	0.7	1.5	3.6
Q3	110.0	1.1	3.3	-0.8	1.6	-0.2	2.5	2.8
Q4	110.0	0.1	-0.2	-1.6	2.4	-0.5	2.2	0.9
2007 Q1	110.7	0.8	0.2	-1.4	1.8	-0.6	3.4	1.8
Q2	111.4	1.1	0.6	0.0	6.3	-0.1	3.1	0.6
Compensation per employee								
2003	107.7	2.3	2.5	2.2	2.9	2.0	2.5	2.5
2004	110.1	2.2	2.5	2.7	2.9	1.5	2.0	2.3
2005	112.0	1.8	1.7	1.5	2.4	1.7	2.0	1.9
2006	114.5	2.2	1.3	3.2	3.4	1.6	1.5	2.1
2006 Q2	114.5	2.4	0.2	3.1	3.2	1.8	1.2	3.0
Q3	114.6	2.4	2.5	3.4	3.4	1.2	1.6	2.5
Q4	115.1	1.8	2.4	3.0	3.6	1.8	1.7	0.6
2007 Q1	116.1	2.1	2.9	2.3	3.4	1.4	2.8	1.9
Q2	116.5	1.8	3.4	3.2	3.3	1.4	2.0	0.6
Labour productivity <sup>2)</sup>								
2003	101.0	0.4	-3.4	1.8	-0.5	-0.1	0.7	-0.6
2004	101.9	0.9	11.2	2.9	-0.8	0.9	-0.7	0.0
2005	102.6	0.7	-4.8	2.2	-1.0	1.0	0.3	0.1
2006	104.0	1.4	-0.4	4.3	1.9	1.5	-0.5	-0.4
2006 Q2	103.8	1.3	-1.2	4.0	2.7	1.0	-0.3	-0.5
Q3	104.2	1.2	-0.7	4.3	1.8	1.4	-0.8	-0.2
Q4	104.7	1.7	2.6	4.7	1.2	2.2	-0.5	-0.4
2007 Q1	104.9	1.4	2.7	3.7	1.7	1.9	-0.6	0.1
Q2	104.6	0.8	2.8	3.3	-2.8	1.5	-1.1	0.1

**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	2.0	2.1	2.4	1.2	-1.2	-1.7
2004	109.5	2.0	2.2	2.1	2.3	2.5	1.1	1.6
2005	111.6	1.9	2.3	2.1	2.6	2.4	2.6	3.8
2006	113.7	1.9	2.4	2.2	2.1	2.7	2.7	4.0
2006 Q3	114.0	2.0	2.4	2.1	2.2	2.8	2.7	3.6
Q4	114.5	1.7	1.7	1.8	0.6	2.7	2.0	2.0
2007 Q1	115.3	2.2	1.8	1.7	1.5	3.2	1.7	0.8
Q2	116.1	2.3	1.9	1.7	0.7	3.2	1.9	0.9
Q3	116.6	2.2	1.9	1.8	1.3	2.8	1.6	0.8

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	7,489.9	7,333.2	4,295.5	1,531.4	1,505.6	0.7	156.8	2,640.2	2,483.4
2004	7,774.6	7,614.2	4,449.6	1,587.1	1,572.8	4.7	160.3	2,844.4	2,684.0
2005	8,051.9	7,933.1	4,612.9	1,651.0	1,656.7	12.4	118.8	3,057.7	2,938.9
2006	8,440.7	8,338.6	4,801.5	1,719.2	1,790.4	27.5	102.0	3,391.1	3,289.1
2006 Q3	2,122.9	2,102.8	1,206.9	431.3	452.3	12.3	20.1	852.0	831.9
Q4	2,149.4	2,110.6	1,215.3	432.9	462.4	0.0	38.8	879.1	840.3
2007 Q1	2,180.6	2,147.1	1,220.3	439.7	475.7	11.4	33.5	890.5	857.0
Q2	2,202.3	2,160.0	1,235.1	441.4	479.0	4.3	42.3	905.1	862.8
Q3	2,227.6	2,187.4	1,247.3	446.1	485.3	8.8	40.2	929.4	889.1
	<i>percentage of GDP</i>								
2006	100.0	98.8	56.9	20.4	21.2	0.3	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 Q3	0.6	0.8	0.5	0.5	0.9	-	-	1.0	1.7
Q4	0.8	0.3	0.5	0.4	1.6	-	-	3.0	1.7
2007 Q1	0.8	1.0	0.0	0.9	1.8	-	-	0.9	1.4
Q2	0.3	0.0	0.6	0.2	0.0	-	-	0.8	0.1
Q3	0.7	0.8	0.5	0.6	0.9	-	-	2.5	2.7
	<i>annual percentage changes</i>								
2003	0.8	1.5	1.2	1.8	1.3	-	-	1.1	3.1
2004	2.0	1.8	1.6	1.3	2.2	-	-	7.0	6.7
2005	1.5	1.7	1.5	1.4	2.7	-	-	4.5	5.2
2006	2.8	2.6	1.8	1.9	4.9	-	-	7.8	7.6
2006 Q3	2.9	3.0	1.7	1.9	5.0	-	-	6.6	7.2
Q4	3.3	2.5	2.1	2.1	5.8	-	-	8.9	6.9
2007 Q1	3.2	2.9	1.4	2.0	7.1	-	-	6.6	6.1
Q2	2.5	2.1	1.5	2.0	4.3	-	-	5.9	4.9
Q3	2.7	2.1	1.6	2.0	4.4	-	-	7.4	6.0
	<i>contributions to quarter-on-quarter percentage changes of GDP in percentage points</i>								
2006 Q3	0.6	0.8	0.3	0.1	0.2	0.3	-0.2	-	-
Q4	0.8	0.3	0.3	0.1	0.3	-0.4	0.6	-	-
2007 Q1	0.8	0.9	0.0	0.2	0.4	0.4	-0.2	-	-
Q2	0.3	0.0	0.3	0.0	0.0	-0.4	0.3	-	-
Q3	0.7	0.8	0.3	0.1	0.2	0.2	-0.1	-	-
	<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	0.4	0.2	0.2	-	-
2005	1.5	1.7	0.9	0.3	0.5	0.0	-0.2	-	-
2006	2.8	2.6	1.0	0.4	1.0	0.1	0.2	-	-
2006 Q3	2.9	3.0	1.0	0.4	1.0	0.6	-0.1	-	-
Q4	3.3	2.5	1.2	0.4	1.2	-0.4	0.8	-	-
2007 Q1	3.2	2.9	0.8	0.4	1.5	0.2	0.3	-	-
Q2	2.5	2.1	0.9	0.4	0.9	-0.1	0.4	-	-
Q3	2.7	2.0	0.9	0.4	0.9	-0.2	0.6	-	-

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	6,728.9	150.9	1,394.6	390.8	1,427.6	1,831.6	1,533.5	761.1
2004	6,978.7	153.8	1,430.3	412.6	1,479.1	1,908.7	1,594.3	795.8
2005	7,213.2	142.2	1,458.0	438.7	1,518.4	1,999.6	1,656.4	838.6
2006	7,537.5	138.1	1,521.9	481.2	1,572.0	2,105.6	1,718.8	903.2
2006 Q3	1,898.5	34.9	383.1	122.2	396.5	530.0	431.9	224.4
Q4	1,916.6	35.3	387.3	124.8	400.1	535.7	433.3	232.9
2007 Q1	1,942.5	35.6	395.0	128.8	403.1	541.7	438.3	238.0
Q2	1,963.7	35.9	399.9	129.5	407.0	549.9	441.5	238.6
Q3	1,991.4	37.9	405.7	131.3	411.6	559.0	445.8	236.2
<i>percentage of value added</i>								
2006	100.0	1.8	20.2	6.4	20.9	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 Q3	0.6	-0.4	0.8	0.9	0.8	0.5	0.2	0.5
Q4	0.7	0.5	0.9	1.2	0.7	0.7	0.3	2.0
2007 Q1	0.9	1.4	1.2	2.1	0.7	0.8	0.6	-0.2
Q2	0.4	-1.1	0.5	-1.3	0.7	0.7	0.2	-0.6
Q3	0.7	-0.7	1.3	0.0	0.9	0.7	0.3	0.7
<i>annual percentage changes</i>								
2003	0.7	-6.0	0.4	0.1	0.6	1.5	0.9	1.6
2004	2.1	10.5	2.4	0.8	2.4	1.7	1.4	1.6
2005	1.5	-5.9	0.6	1.4	1.6	2.7	1.4	1.6
2006	2.7	-1.7	3.8	4.4	2.8	3.0	1.2	3.4
2006 Q3	2.9	-2.4	4.2	4.8	3.2	3.1	1.2	2.5
Q4	3.2	0.2	4.6	5.2	3.7	3.3	1.2	3.8
2007 Q1	3.2	1.7	4.0	7.4	3.4	3.3	1.4	2.7
Q2	2.6	0.5	3.6	3.0	2.9	2.8	1.3	1.6
Q3	2.7	0.1	4.0	2.1	3.0	3.0	1.4	1.8
<i>contributions to quarter-on-quarter percentage changes of value added in percentage points</i>								
2006 Q3	0.6	0.0	0.2	0.1	0.2	0.1	0.1	-
Q4	0.7	0.0	0.2	0.1	0.1	0.2	0.1	-
2007 Q1	0.9	0.0	0.2	0.1	0.1	0.2	0.1	-
Q2	0.4	0.0	0.1	-0.1	0.2	0.2	0.1	-
Q3	0.7	0.0	0.3	0.0	0.2	0.2	0.1	-
<i>contributions to annual percentage changes of value added in percentage points</i>								
2003	0.7	-0.1	0.1	0.0	0.1	0.4	0.2	-
2004	2.1	0.2	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 Q3	2.9	0.0	0.8	0.3	0.7	0.9	0.3	-
Q4	3.2	0.0	0.9	0.3	0.8	0.9	0.3	-
2007 Q1	3.2	0.0	0.8	0.5	0.7	0.9	0.3	-
Q2	2.6	0.0	0.7	0.2	0.6	0.8	0.3	-
Q3	2.7	0.0	0.8	0.1	0.6	0.9	0.3	-

Sources: Eurostat and ECB calculations.

1) Annual data are not adjusted for the variations in the number of working days.

## 5.2 Output and demand

(annual percentage changes, unless otherwise indicated)

### 3. Industrial production

	Total		Industry excluding construction								Construction	
	% of total <sup>1)</sup>	Total (s.a. index 2000 = 100)	Total	Industry excluding construction and energy							Energy	
				Manu- facturing	Total	Intermediate goods	Capital goods	Consumer goods				
								Total	Durable	Non-durable		
1	2	3	4	5	6	7	8	9	10	11	12	
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	1.4	-0.2
2006	3.8	108.0	4.0	4.3	4.4	4.9	5.9	2.4	4.2	2.1	0.9	4.1
2006 Q4	4.2	109.4	4.0	4.9	4.9	5.4	6.7	3.2	5.5	2.8	-3.2	7.0
2007 Q1	4.7	110.5	3.9	5.9	6.0	6.6	7.0	4.0	4.2	4.0	-7.6	10.9
Q2	3.0	111.0	2.7	3.2	3.2	3.1	4.6	2.1	1.3	2.3	-0.5	2.6
Q3	3.7	112.6	3.9	4.1	4.1	3.2	6.5	3.1	2.0	3.3	1.4	1.6
2007 Apr.	3.0	110.2	2.9	3.9	4.1	3.9	5.2	2.7	1.5	2.9	-3.2	3.7
May	2.6	111.3	2.7	2.9	2.9	2.6	3.9	2.1	0.4	2.4	2.0	2.8
June	3.3	111.3	2.5	2.8	2.7	2.7	4.6	1.6	2.1	1.5	-0.3	1.4
July	3.8	112.1	4.0	4.7	4.8	4.0	7.1	2.9	1.7	3.1	-1.0	1.5
Aug.	4.2	113.4	4.4	4.7	4.8	3.2	7.1	5.1	4.6	5.1	1.6	2.5
Sep.	3.2	112.5	3.3	3.1	3.0	2.5	5.5	1.7	0.9	1.8	3.8	1.0
<i>month-on-month percentage changes (s.a.)</i>												
2007 Apr.	-1.8	-	-0.8	-1.0	-1.5	-1.5	-0.9	-1.1	-1.8	-0.9	0.9	-1.2
May	1.0	-	1.0	0.8	1.0	0.8	1.1	0.8	1.6	0.6	2.8	0.2
June	0.6	-	0.0	0.0	0.1	0.2	0.3	-0.3	0.1	-0.4	1.0	0.0
July	0.4	-	0.7	0.8	0.7	0.5	1.5	0.3	-0.2	0.4	-0.2	0.2
Aug.	1.1	-	1.2	1.2	1.3	1.2	1.4	1.8	3.9	1.4	0.7	0.3
Sep.	-0.9	-	-0.8	-1.2	-1.3	-1.5	-1.0	-1.6	-3.7	-1.3	0.8	-0.1

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

	Industrial new orders		Industrial turnover		Retail sales							New passenger car registrations	
	Manufacturing <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			
1	2	3	4	5	6	7	8	9	10	11	12	13	
% of total <sup>1)</sup>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	43.7	56.3	10.6	14.8		
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	971	3.1
2006 Q4	122.9	7.3	121.9	7.6	3.4	109.8	2.3	-0.2	3.5	3.1	7.0	989	5.7
2007 Q1	124.9	7.9	124.5	7.6	2.6	109.6	1.6	0.4	2.4	4.2	4.2	950	-1.8
Q2	128.6	10.4	126.0	6.4	2.1	109.8	0.9	-0.2	1.7	3.0	2.3	952	-1.9
Q3	128.3	6.3	127.4	6.2	2.4	110.5	1.2	-0.7	2.4	5.1	2.3	960	0.7
2007 May	127.3	7.3	126.3	5.0	1.0	109.3	0.0	-0.4	0.0	-1.9	0.8	967	-0.8
June	132.7	13.5	127.7	5.2	2.4	110.0	1.1	-0.7	2.8	4.1	3.5	971	0.7
July	128.4	12.0	127.5	10.3	2.4	110.4	1.4	-1.8	3.5	5.6	4.1	949	0.9
Aug.	129.4	5.3	128.3	6.3	2.0	110.4	0.8	0.2	1.2	0.9	1.9	959	0.7
Sep.	127.2	1.8	126.3	2.4	2.7	110.6	1.5	-0.4	2.5	8.7	0.8	971	0.4
Oct.	.	.	.	.	2.7	109.8	0.2	0.6	0.1	.	.	960	-0.3
<i>month-on-month percentage changes (s.a.)</i>													
2007 May	-	1.2	-	1.9	-0.6	-	-0.7	-0.8	-0.8	-3.5	-0.4	-	5.4
June	-	4.2	-	1.1	0.8	-	0.6	-0.1	1.2	3.0	1.3	-	0.4
July	-	-3.2	-	-0.2	0.5	-	0.4	0.1	0.4	1.0	0.5	-	-2.2
Aug.	-	0.7	-	0.6	0.1	-	0.0	0.2	-0.2	-0.3	0.5	-	1.0
Sep.	-	-1.7	-	-1.6	0.5	-	0.2	0.2	0.2	1.9	-1.2	-	1.2
Oct.	-	.	-	.	-0.3	-	-0.7	-0.2	-1.1	.	.	-	-1.1

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 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	84.6	-2	-1	0	2	-7
Q3	109.3	4	5	5	13	84.3	-4	-2	-3	3	-7
2007 June	111.7	6	7	4	15	-	-2	-1	2	2	-7
July	111.0	5	6	5	14	84.3	-2	-1	1	0	-7
Aug.	110.0	5	7	5	13	-	-4	-2	-2	3	-7
Sep.	106.9	3	3	7	11	-	-6	-3	-7	6	-7
Oct.	106.0	2	1	7	11	84.2	-6	-3	-6	5	-10
Nov.	104.8	3	2	7	12	-	-8	-4	-11	7	-11
	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 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
Q3	-1	-8	7	1	7	14	10	20	16	20	24
2007 June	1	-5	6	2	4	12	13	21	18	20	25
July	0	-6	6	3	9	14	13	21	17	21	26
Aug.	-1	-9	6	3	10	14	13	21	17	21	24
Sep.	0	-8	8	-3	2	15	4	18	13	18	22
Oct.	-2	-9	6	-2	3	17	8	18	15	17	22
Nov.	-4	-12	4	2	6	15	15	14	10	12	18

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	84.6	15.4	4.2	17.6	7.6	25.1	15.5	30.1
	1	2	3	4	5	6	7	8	9	10
2003	136.153	0.4	0.4	0.8	-2.6	-1.4	0.5	0.8	0.9	1.6
2004	137.368	0.9	0.7	1.8	-0.8	-1.1	1.5	1.3	2.2	1.3
2005	138.546	0.9	1.0	0.0	-1.1	-1.3	2.5	0.7	2.4	1.4
2006	140.639	1.5	1.7	0.7	-1.2	-0.2	2.6	1.5	3.6	1.6
2006 Q2	140.542	1.7	1.8	1.0	-0.1	-0.1	1.9	1.9	3.6	1.8
Q3	140.893	1.6	1.7	0.6	-1.6	0.0	2.8	1.6	3.9	1.4
Q4	141.399	1.5	1.7	0.7	-2.5	-0.2	4.0	1.3	3.8	1.6
2007 Q1	142.210	1.8	2.1	-0.1	-1.0	0.3	5.8	1.3	3.8	1.4
Q2	142.983	1.7	2.1	-0.2	-2.2	0.4	5.8	1.1	4.0	1.3
	<i>quarter-on-quarter percentage changes (s.a.)</i>									
2006 Q2	0.822	0.6	0.6	0.5	0.6	0.1	1.3	0.7	0.9	0.5
Q3	0.351	0.3	0.4	-0.6	-1.4	0.0	0.8	0.2	1.0	0.1
Q4	0.506	0.4	0.4	0.0	-0.6	0.0	1.6	0.0	1.0	0.4
2007 Q1	0.811	0.6	0.6	0.4	0.4	0.2	1.9	0.5	0.9	0.4
Q2	0.773	0.5	0.5	0.5	-0.6	0.1	1.6	0.6	1.0	0.4

### 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		78.2		21.8		49.6		50.4	
	1	2	3	4	5	6	7	8	9	10
2003	12.638	8.6	9.852	7.6	2.786	16.3	6.307	7.7	6.331	9.8
2004	13.038	8.8	10.120	7.7	2.918	17.0	6.521	7.9	6.517	9.9
2005	13.268	8.9	10.332	7.8	2.935	17.2	6.684	8.0	6.583	9.9
2006	12.468	8.2	9.751	7.3	2.717	16.1	6.187	7.4	6.280	9.3
2006 Q3	12.243	8.1	9.605	7.1	2.639	15.7	6.056	7.2	6.187	9.2
Q4	11.953	7.9	9.308	6.9	2.646	15.7	5.900	7.0	6.053	9.0
2007 Q1	11.574	7.6	9.065	6.7	2.509	15.1	5.644	6.7	5.930	8.7
Q2	11.366	7.5	8.914	6.6	2.452	14.7	5.560	6.6	5.806	8.5
Q3	11.225	7.3	8.806	6.5	2.418	14.5	5.522	6.5	5.703	8.3
2007 May	11.374	7.5	8.920	6.6	2.454	14.7	5.566	6.6	5.808	8.5
June	11.323	7.4	8.873	6.5	2.451	14.7	5.550	6.6	5.774	8.5
July	11.276	7.4	8.847	6.5	2.429	14.6	5.538	6.6	5.738	8.4
Aug.	11.239	7.4	8.817	6.5	2.422	14.5	5.529	6.6	5.710	8.3
Sep.	11.159	7.3	8.755	6.4	2.404	14.4	5.498	6.5	5.661	8.3
Oct.	11.077	7.2	8.706	6.4	2.371	14.3	5.475	6.5	5.601	8.2

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						
	3	4	5	6	7	8	9	10	11	12	14			
1998	46.6	46.3	12.2	9.2	2.7	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	14.2	0.6	16.1	8.3	4.9	2.3	0.3	0.3	43.0
2000	46.6	46.4	12.7	9.5	2.9	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	9.3	2.7	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	45.0	44.4	11.4	8.9	2.3	13.5	0.4	15.8	8.2	4.7	2.1	0.6	0.5	41.2
2004	44.6	44.1	11.3	8.6	2.5	13.5	0.3	15.6	8.1	4.5	2.1	0.5	0.4	40.8
2005	45.0	44.5	11.6	8.6	2.6	13.7	0.3	15.5	8.1	4.5	2.2	0.5	0.3	41.1
2006	45.6	45.3	12.2	8.8	3.0	13.9	0.3	15.5	8.1	4.5	2.1	0.3	0.3	41.8

### 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						
	3	4	5	6	7	8	9	10	11	12	13	14		
1998	48.9	45.1	10.6	4.7	4.6	25.2	22.2	2.1	0.5	3.8	2.4	1.4	0.1	44.3
1999	48.4	44.5	10.6	4.8	4.1	25.1	22.1	2.1	0.5	3.9	2.5	1.4	0.1	44.4
2000	47.7	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	47.9	44.0	10.4	4.9	3.5	25.2	22.3	1.9	0.5	3.8	2.4	1.4	0.0	44.4
2003	48.1	44.2	10.5	4.9	3.3	25.4	22.6	1.9	0.5	4.0	2.5	1.4	0.1	44.8
2004	47.4	43.6	10.4	5.0	3.1	25.1	22.4	1.7	0.5	3.8	2.4	1.4	0.0	44.3
2005	47.5	43.6	10.4	5.1	3.0	25.2	22.4	1.7	0.5	3.9	2.5	1.4	0.0	44.5
2006	47.2	43.1	10.2	5.0	2.9	25.0	22.2	1.7	0.5	4.1	2.5	1.6	0.0	44.3

### 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)		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998	-2.3	-2.3	-0.2	0.1	0.1	2.3	19.8	10.6	4.7	4.8	1.8	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	1.8	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	1.8	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	1.8	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	1.8	2.1	8.2	12.0
2003	-3.1	-2.4	-0.5	-0.2	0.0	0.2	20.5	10.5	4.9	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	5.1	1.9	2.1	8.3	12.1
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	10.2	5.0	5.2	1.9	2.1	8.0	12.3

### 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	0.0	-4.0	0.4	-5.6	-0.2	-4.1	-3.5	0.5	-3.1	-1.6	-2.9	-2.7	2.5
2004	0.0	-3.8	1.3	-7.3	-0.3	-3.6	-3.5	-1.2	-1.7	-1.2	-3.4	-2.3	2.3
2005	-2.3	-3.4	1.2	-5.1	1.0	-2.9	-4.2	-0.1	-0.3	-1.6	-6.1	-1.5	2.7
2006	0.4	-1.6	2.9	-2.5	1.8	-2.5	-4.4	0.7	0.6	-1.4	-3.9	-1.2	3.8

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	74.1	2.8	16.2	6.4	48.8	55.6	28.4	13.6	13.7	18.4
1998	72.8	2.7	15.2	5.3	49.6	52.4	26.5	14.5	11.4	20.4
1999	72.0	2.9	14.4	4.2	50.5	48.8	25.3	13.8	9.6	23.2
2000	69.4	2.7	13.2	3.7	49.8	44.3	22.0	12.5	9.8	25.1
2001	68.3	2.8	12.4	4.0	49.2	42.1	20.6	11.2	10.3	26.3
2002	68.1	2.7	11.8	4.5	49.1	40.2	19.3	10.7	10.1	28.0
2003	69.1	2.0	12.3	5.0	49.7	39.4	19.4	11.2	8.8	29.8
2004	69.5	2.2	11.9	5.0	50.5	37.5	18.4	10.8	8.4	32.0
2005	70.3	2.4	11.8	4.7	51.4	35.5	17.3	10.9	7.2	34.8
2006	68.6	2.5	11.4	4.1	50.7	32.9	17.6	8.4	6.9	35.7

### 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	74.1	62.1	6.0	5.4	0.6	9.4	64.7	8.4	18.1	25.3	30.7	72.1	2.0
1998	72.8	61.1	6.1	5.3	0.4	8.1	64.6	7.5	15.4	26.4	30.9	70.9	1.8
1999	72.0	60.4	6.0	5.1	0.4	7.3	64.7	6.6	13.6	27.9	30.5	69.8	2.1
2000	69.4	58.2	5.9	4.9	0.4	6.5	62.9	5.8	13.4	27.9	28.1	67.5	1.9
2001	68.3	57.1	6.1	4.8	0.4	7.0	61.4	4.9	13.7	26.6	28.0	66.7	1.7
2002	68.1	56.7	6.3	4.8	0.4	7.6	60.5	4.9	15.3	25.0	27.8	66.7	1.5
2003	69.1	56.9	6.5	5.1	0.6	7.8	61.4	4.8	14.7	25.8	28.6	68.0	1.1
2004	69.5	57.3	6.6	5.1	0.4	7.8	61.7	4.6	14.7	26.2	28.7	68.5	1.1
2005	70.3	57.8	6.7	5.3	0.5	7.9	62.4	4.6	14.9	25.7	29.7	69.1	1.2
2006	68.6	56.1	6.6	5.4	0.6	7.5	61.2	4.5	14.4	24.8	29.5	67.7	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	63.8	31.1	97.9	48.7	62.9	104.3	6.3	52.0	64.6	56.9	27.9	44.3
2004	94.2	65.6	29.5	98.6	46.2	64.9	103.8	6.4	52.4	63.8	58.3	27.6	44.1
2005	92.2	67.8	27.4	98.0	43.0	66.7	106.2	6.2	52.3	63.4	63.7	27.4	41.4
2006	88.2	67.5	25.1	95.3	39.7	64.2	106.8	6.6	47.9	61.7	64.8	27.1	39.2

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	-1.6	-0.2	-0.2	3.6
2000	1.0	1.1	0.0	0.0	-0.1	0.0	-0.5	-0.3	1.9	-2.1	-2.0	-0.6	3.1
2001	1.9	1.9	-0.1	0.1	0.0	0.2	-0.2	0.4	1.4	-0.3	-0.5	-0.8	2.2
2002	2.1	2.7	-0.5	0.0	0.0	0.0	-0.2	0.7	1.6	-0.5	-0.5	-0.1	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	0.8	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	0.2	-0.1	2.6	-0.7	-0.4	0.5	3.8
2006	1.5	1.4	0.1	0.0	0.0	0.2	0.1	-0.4	1.6	-1.0	1.0	-2.1	2.5

**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	-0.5	0.1	0.1	0.0	0.0	0.0	-0.3	0.1	-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	0.1	-0.2	-0.1	0.0	0.1
2004	3.1	-2.8	0.2	0.3	0.2	0.0	0.1	0.0	-0.5	0.2	-0.1	-0.1	0.0	0.1
2005	3.1	-2.6	0.5	0.7	0.4	0.1	0.2	0.1	-0.3	0.2	0.1	0.1	-0.1	-0.2
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 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	39.7
Q4	49.1	48.7	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	45.2	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	39.6
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	41.4	9.7	12.8	15.5	1.7	0.7	0.5	0.2	38.3
Q2	45.9	44.4	12.0	12.7	15.7	2.0	1.3	1.5	1.2	41.6
Q3	42.8	42.3	10.8	12.7	15.5	1.9	0.7	0.5	0.2	39.2
Q4	49.2	48.2	13.1	14.2	16.2	2.9	0.8	1.0	0.3	43.8
2004 Q1	41.3	40.9	9.5	12.8	15.3	1.7	0.7	0.4	0.3	37.9
Q2	45.0	44.2	12.1	13.0	15.3	2.0	0.9	0.8	0.6	41.1
Q3	42.6	42.1	10.6	12.7	15.4	1.9	0.7	0.5	0.3	38.9
Q4	49.3	48.3	13.0	14.4	16.2	2.9	0.8	1.0	0.4	44.0
2005 Q1	42.0	41.5	9.9	12.9	15.3	1.7	0.6	0.5	0.3	38.4
Q2	44.8	44.1	11.9	13.3	15.2	2.0	1.0	0.6	0.3	40.7
Q3	43.3	42.6	11.0	12.9	15.2	1.9	0.8	0.7	0.3	39.5
Q4	49.4	48.7	13.4	14.3	16.2	3.0	0.9	0.8	0.3	44.2
2006 Q1	42.5	42.1	10.2	13.3	15.2	1.7	0.8	0.5	0.3	39.0
Q2	45.9	45.4	12.6	13.6	15.3	2.0	1.2	0.5	0.3	41.8
Q3	43.6	43.1	11.4	12.9	15.3	1.9	0.8	0.5	0.3	39.9
Q4	49.9	49.3	14.2	14.4	16.0	2.9	0.9	0.7	0.3	44.9
2007 Q1	42.4	41.9	10.4	13.4	14.9	1.7	0.9	0.5	0.3	38.9
Q2	46.4	45.8	13.1	13.7	15.1	1.9	1.2	0.5	0.3	42.2

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

	Total		Current expenditure					Capital expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)	
	1	2	Total	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social benefits	Subsidies	Investment			Capital transfers
2001 Q2	46.3	42.8	10.2	4.6	3.9	24.1	20.8	1.3	3.5	2.4	1.1	0.7	4.5
Q3	46.1	42.4	10.0	4.6	3.8	24.1	20.8	1.4	3.7	2.5	1.2	-2.7	1.2
Q4	51.2	46.3	11.0	5.7	3.6	25.9	22.1	1.7	4.9	3.2	1.8	-2.1	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	-0.7
Q2	46.7	43.2	10.3	4.9	3.6	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	46.8	43.3	10.3	4.5	3.5	25.0	21.5	1.3	3.5	1.9	1.6	-5.0	-1.5
Q2	47.3	43.7	10.4	4.8	3.4	25.2	21.7	1.3	3.6	2.3	1.2	-1.4	2.0
Q3	47.0	43.3	10.2	4.8	3.3	25.0	21.6	1.3	3.7	2.5	1.2	-4.2	-0.9
Q4	51.2	46.3	11.0	5.7	3.1	26.5	22.9	1.5	4.8	3.3	1.6	-1.9	1.2
2004 Q1	46.4	43.0	10.3	4.6	3.2	24.9	21.4	1.2	3.4	1.9	1.5	-5.1	-1.9
Q2	46.5	43.2	10.4	4.9	3.1	24.8	21.5	1.2	3.3	2.3	1.0	-1.5	1.6
Q3	46.1	42.7	9.9	4.7	3.2	24.9	21.5	1.3	3.4	2.5	1.0	-3.4	-0.3
Q4	50.7	45.8	11.0	5.7	3.0	26.2	22.7	1.4	4.9	3.1	1.8	-1.5	1.5
2005 Q1	46.9	43.2	10.2	4.7	3.1	25.2	21.4	1.2	3.7	1.9	1.9	-4.9	-1.8
Q2	46.4	43.0	10.2	5.0	3.2	24.6	21.4	1.1	3.4	2.4	1.1	-1.7	1.5
Q3	45.8	42.4	9.9	4.8	2.9	24.7	21.4	1.2	3.5	2.5	1.0	-2.5	0.4
Q4	50.7	45.9	11.1	5.8	2.8	26.2	22.7	1.4	4.8	3.1	1.7	-1.3	1.5
2006 Q1	45.5	42.4	10.1	4.5	2.9	24.9	21.3	1.2	3.1	1.9	1.2	-3.0	0.0
Q2	46.0	42.6	10.3	4.9	3.1	24.3	21.3	1.1	3.3	2.4	1.0	-0.1	3.0
Q3	46.2	42.0	9.8	4.7	2.9	24.6	21.2	1.2	4.2	2.5	1.8	-2.6	0.3
Q4	50.7	45.3	10.7	5.9	2.7	26.0	22.4	1.4	5.4	3.2	2.2	-0.8	1.9
2007 Q1	44.6	41.3	9.9	4.5	2.9	24.0	20.6	1.1	3.3	2.0	1.3	-2.2	0.7
Q2	45.2	41.8	10.0	4.9	3.1	23.8	20.8	1.1	3.4	2.4	1.0	1.2	4.4

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>**

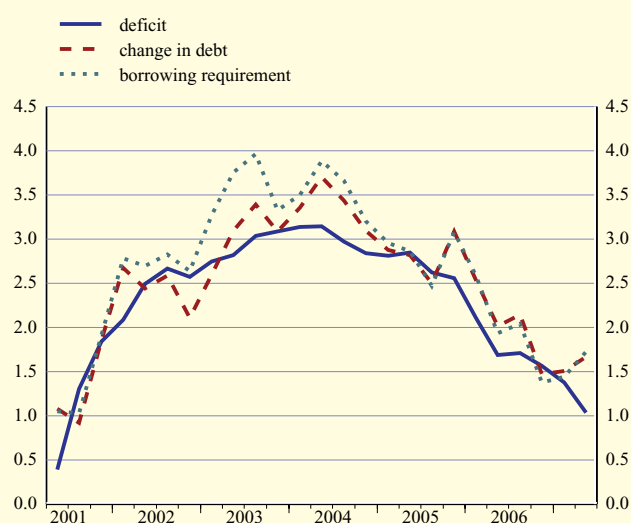
	Total 1	Financial instruments			
		Currency and deposits 2	Loans 3	Short-term securities 4	Long-term securities 5
2004 Q3	71.0	2.3	12.1	5.5	51.2
Q4	69.5	2.2	11.9	5.0	50.5
2005 Q1	70.9	2.2	11.9	5.2	51.5
Q2	71.6	2.3	11.7	5.2	52.4
Q3	71.1	2.4	11.8	5.2	51.8
Q4	70.3	2.4	11.8	4.7	51.4
2006 Q1	70.7	2.5	11.7	4.9	51.5
Q2	70.8	2.5	11.6	4.9	51.8
Q3	70.3	2.5	11.6	4.7	51.4
Q4	68.6	2.5	11.4	4.1	50.7
2007 Q1	68.9	2.4	11.4	4.8	50.3
Q2	69.1	2.2	11.1	5.1	50.7

**2. Euro area – deficit-debt adjustment**

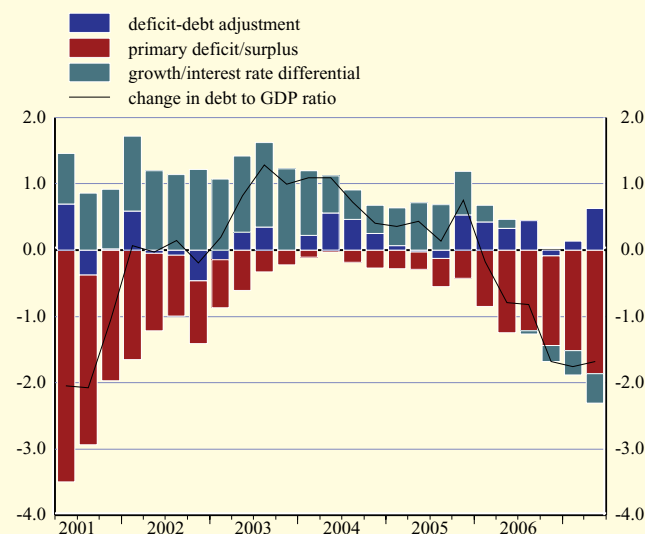
	Change in debt 1	Deficit (-)/ surplus (+) 2	Deficit-debt adjustment								Memo: Borrowing requirement 11
			Total 3	Transactions in main financial assets held by general government				Valuation effects and other changes in volume 9	Other 10		
				Total 4	Currency and deposits 5	Loans 6	Securities 7			Shares and other equity 8	
2004 Q3	1.8	-3.4	-1.6	-1.1	-1.4	0.0	0.2	0.1	-0.3	-0.2	2.1
Q4	-3.0	-1.5	-4.5	-3.3	-2.6	0.1	-0.2	-0.6	0.0	-1.2	-3.0
2005 Q1	7.2	-4.9	2.4	2.4	1.3	0.3	0.3	0.5	0.0	0.0	7.3
Q2	5.4	-1.7	3.7	3.3	2.5	0.0	0.3	0.5	0.1	0.3	5.3
Q3	0.6	-2.5	-2.0	-2.4	-2.3	0.0	0.3	-0.4	0.0	0.4	0.5
Q4	-0.6	-1.3	-1.9	-0.4	0.0	0.0	-0.3	-0.1	-0.1	-1.4	-0.5
2006 Q1	4.8	-3.0	1.9	1.3	1.0	0.1	0.6	-0.5	-0.3	0.9	5.1
Q2	3.3	-0.1	3.2	3.2	2.5	0.1	0.4	0.2	0.7	-0.6	2.6
Q3	1.2	-2.6	-1.4	-0.9	-0.7	-0.1	0.0	-0.1	0.1	-0.7	1.0
Q4	-3.0	-0.8	-3.8	-2.1	-1.2	-0.6	-0.1	-0.2	-0.1	-1.6	-2.9
2007 Q1	4.8	-2.2	2.6	1.8	1.0	0.2	0.6	0.0	-0.4	1.2	5.2
Q2	3.8	1.2	5.0	4.8	4.1	0.0	0.5	0.1	0.1	0.1	3.7

**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

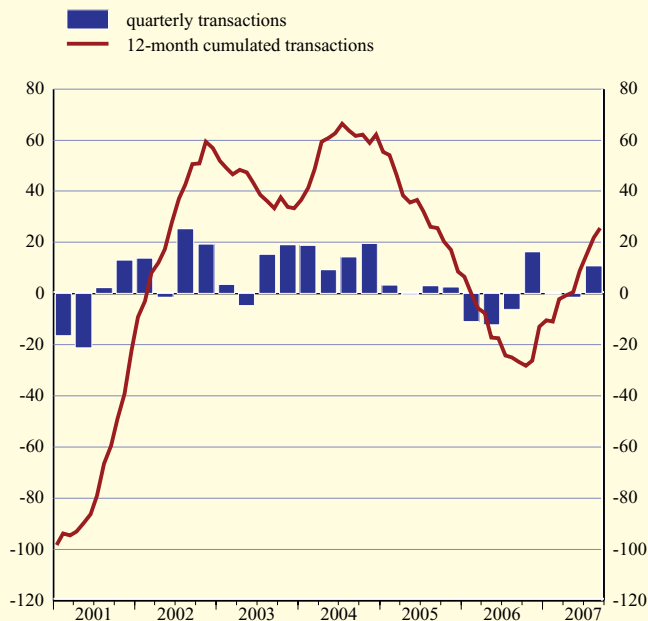
(EUR billions; net transactions)

### 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	62.0	102.9	28.7	-9.7	-59.9	16.4	78.4	-16.8	-66.8	72.1	-8.3	-26.2	12.5	-61.7
2005	8.5	47.9	31.6	1.9	-72.9	11.3	19.9	24.2	-208.8	141.3	-16.4	90.1	18.0	-44.1
2006	-12.9	23.0	35.1	6.1	-77.1	9.1	-3.7	118.0	-136.4	276.4	2.5	-23.2	-1.3	-114.3
2006 Q3	-6.1	6.7	10.2	1.3	-24.3	2.2	-3.9	41.3	-41.5	21.1	12.6	52.2	-3.2	-37.5
Q4	16.4	16.9	7.6	7.3	-15.4	4.6	21.0	-42.2	-52.5	116.9	-2.7	-101.4	-2.4	21.2
2007 Q1	-0.2	8.6	7.8	4.7	-21.2	5.0	4.8	4.7	-14.6	129.8	-16.4	-92.5	-1.6	-9.5
Q2	-1.4	20.3	14.4	-19.5	-16.6	2.6	1.2	23.2	-69.1	69.5	-14.1	41.0	-4.2	-24.4
Q3	10.7	19.5	12.9	1.7	-23.4	1.1	11.9	107.2	-29.7	98.3	-32.1	74.9	-4.2	-119.1
2006 Sep.	0.7	5.4	3.5	0.4	-8.6	0.1	0.8	36.3	-27.3	38.4	10.4	15.9	-1.0	-37.1
Oct.	0.5	5.2	2.4	1.1	-8.2	0.5	1.0	1.3	-14.2	34.9	5.7	-25.2	0.1	-2.3
Nov.	1.4	6.9	1.6	0.3	-7.4	0.7	2.2	-10.6	-13.7	57.6	-2.9	-51.0	-0.6	8.4
Dec.	14.5	4.8	3.5	5.9	0.2	3.3	17.8	-32.9	-24.6	24.3	-5.5	-25.3	-1.9	15.1
2007 Jan.	-3.7	-4.2	1.1	1.1	-1.7	2.2	-1.4	42.7	-13.8	42.7	-4.2	20.9	-3.0	-41.2
Feb.	-3.6	2.6	2.9	3.0	-12.1	1.1	-2.4	2.0	-3.2	22.9	-7.9	-9.3	-0.5	0.5
Mar.	7.1	10.1	3.8	0.6	-7.4	1.6	8.7	-39.9	2.4	64.2	-4.3	-104.1	1.9	31.2
Apr.	-3.6	4.5	3.5	-4.0	-7.6	0.6	-3.0	40.8	-7.4	-3.6	-3.6	56.9	-1.5	-37.8
May	-11.6	4.4	4.0	-14.9	-5.1	1.9	-9.7	2.0	-24.2	2.5	-0.8	25.2	-0.7	7.8
June	13.8	11.3	6.9	-0.6	-3.8	0.1	13.9	-19.5	-37.4	70.6	-9.7	-41.1	-1.9	5.6
July	4.8	9.4	4.6	-1.8	-7.4	0.9	5.7	47.1	0.1	30.2	-10.8	30.8	-3.2	-52.8
Aug.	1.5	4.5	3.5	1.3	-7.8	0.2	1.7	63.8	-7.2	21.9	-11.9	59.6	1.3	-65.5
Sep.	4.4	5.6	4.8	2.2	-8.2	0.1	4.5	-3.7	-22.6	46.2	-9.4	-15.6	-2.3	-0.8
<i>12-month cumulated transactions</i>														
2007 Sep.	25.5	65.3	42.7	-5.8	-76.6	13.3	38.8	93.0	-165.9	414.5	-65.2	-78.0	-12.4	-131.8

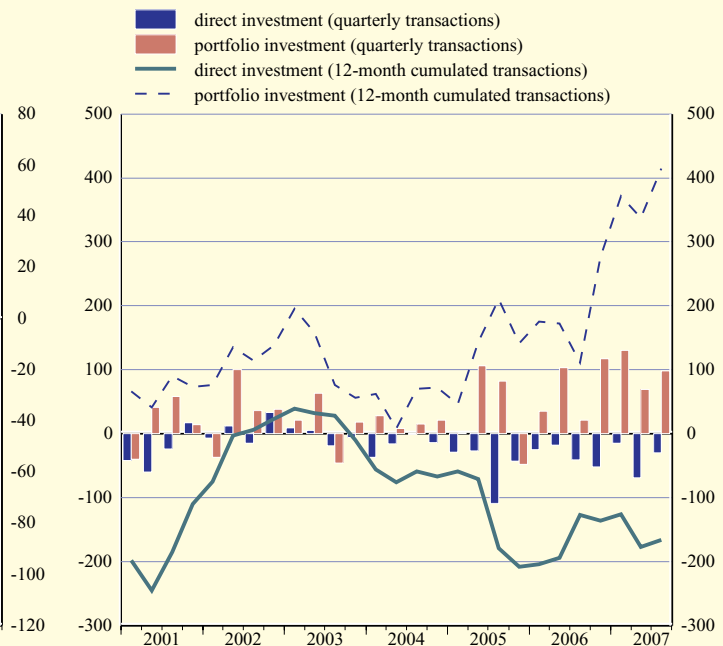
### C30 B.o.p. current account balance

(EUR billions)



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

(EUR billions)



Source: ECB.

**7.1 Balance of payments**

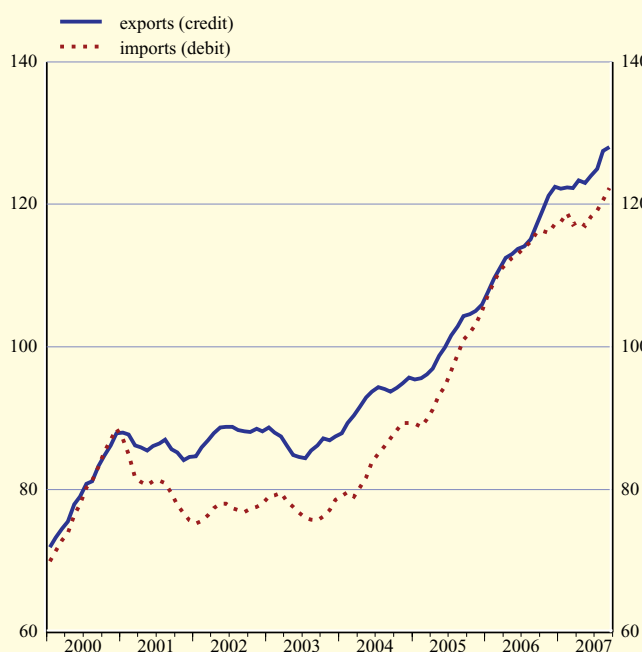
(EUR billions; transactions)

**2. Current and capital accounts**

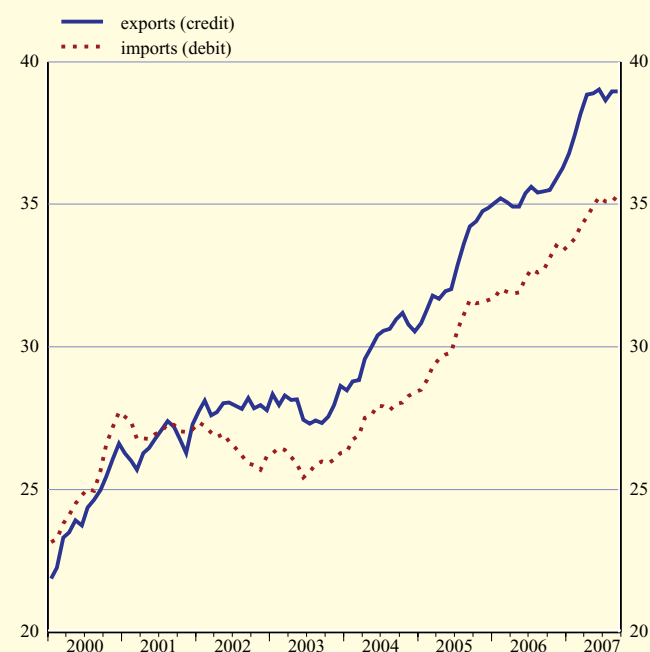
	Current account										Capital account		
	Total			Goods		Services		Income		Current transfers		Credit	Debit
	Credit	Debit	Net	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	
2004	1,864.7	1,802.7	62.0	1,127.6	1,024.7	363.9	335.2	291.3	301.0	81.9	141.7	24.4	8.0
2005	2,071.2	2,062.6	8.5	1,222.2	1,174.2	399.7	368.2	364.2	362.3	85.1	158.0	24.1	12.8
2006	2,368.9	2,381.7	-12.9	1,392.0	1,369.0	426.1	391.0	463.9	457.8	86.9	164.0	23.7	14.5
2006 Q3	586.2	592.3	-6.1	343.3	336.6	114.0	103.8	113.1	111.8	15.8	40.1	4.5	2.3
Q4	639.7	623.3	16.4	374.8	357.9	109.3	101.6	127.6	120.3	28.1	43.5	8.8	4.2
2007 Q1	615.8	616.0	-0.2	361.3	352.8	105.3	97.5	122.4	117.7	26.7	48.0	7.8	2.8
Q2	647.0	648.4	-1.4	373.2	353.0	116.7	102.3	138.6	158.1	18.5	35.0	4.9	2.4
Q3	646.7	635.9	10.7	375.7	356.1	125.3	112.4	129.2	127.5	16.5	39.9	3.7	2.6
2007 July	220.3	215.4	4.8	129.7	120.3	42.8	38.1	42.4	44.2	5.4	12.8	1.8	0.9
Aug.	210.5	209.0	1.5	120.0	115.5	42.2	38.7	42.2	40.9	6.2	14.0	1.1	0.9
Sep.	215.8	211.5	4.4	126.0	120.4	40.4	35.6	44.6	42.4	4.9	13.1	0.9	0.8
	Seasonally adjusted												
2006 Q3	598.1	607.4	-9.3	351.3	347.9	106.4	98.1	119.4	119.7	21.0	41.7	.	.
Q4	621.9	619.6	2.3	367.3	351.8	108.8	100.1	123.5	123.9	22.2	43.8	.	.
2007 Q1	630.4	622.5	7.9	366.7	351.6	114.5	102.7	126.6	128.1	22.6	40.1	.	.
Q2	642.8	635.4	7.5	371.9	354.7	117.1	105.8	131.7	134.9	22.2	40.0	.	.
Q3	659.4	650.4	8.9	384.0	366.8	116.8	106.0	136.5	136.3	22.1	41.4	.	.
2007 Jan.	204.3	202.4	1.9	120.2	116.5	37.1	34.1	41.3	41.2	5.7	10.6	.	.
Feb.	214.3	212.8	1.5	122.7	119.5	38.3	34.2	42.5	42.3	10.7	16.8	.	.
Mar.	211.8	207.2	4.5	123.8	115.6	39.1	34.3	42.8	44.7	6.1	12.7	.	.
Apr.	210.4	210.7	-0.3	123.5	117.9	39.1	35.2	41.1	43.0	6.7	14.6	.	.
May	212.9	212.0	0.9	121.7	117.4	38.5	35.4	44.7	45.9	8.0	13.2	.	.
June	219.5	212.7	6.9	126.7	119.3	39.5	35.3	45.9	45.9	7.5	12.2	.	.
July	217.6	213.8	3.8	126.5	120.7	38.0	34.7	45.3	44.6	7.8	13.7	.	.
Aug.	221.3	216.7	4.5	129.4	121.6	39.4	35.3	45.0	45.4	7.5	14.4	.	.
Sep.	220.5	219.9	0.6	128.1	124.4	39.4	36.0	46.1	46.2	6.9	13.2	.	.

**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	15.3	7.6	275.9	293.4	99.6	78.4	12.8	12.6	23.8	54.2	72.6	75.6	67.2	72.6
2005	15.4	9.2	348.8	353.1	127.0	89.1	14.2	13.6	31.7	69.6	82.1	80.4	93.9	100.4
2006	16.0	9.9	447.8	447.9	151.4	94.2	18.5	16.7	39.0	99.0	101.5	87.2	137.4	150.9
2006 Q2	4.0	2.5	114.1	128.1	38.5	21.6	4.5	4.0	13.7	42.6	24.4	23.1	33.0	36.7
Q3	4.0	3.0	109.2	108.8	34.9	23.4	4.6	4.2	8.7	21.5	26.3	21.2	34.8	38.6
Q4	4.2	2.6	123.4	117.8	42.5	26.2	5.2	5.0	8.2	19.1	27.9	23.4	39.6	44.1
2007 Q1	4.0	1.9	118.5	115.8	34.4	22.5	5.1	4.9	9.6	18.2	27.8	25.4	41.6	44.8
Q2	4.0	2.5	134.6	155.6	38.8	22.8	5.7	4.9	16.0	52.8	28.6	28.1	45.4	47.1

### 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	-163.1	-171.1	-21.4	-149.7	8.0	0.1	7.9	96.3	97.1	0.7	96.5	-0.9	0.6	-1.5
2005	-355.4	-296.6	-12.1	-284.5	-58.8	-0.2	-58.6	146.7	116.8	1.0	115.9	29.9	-0.3	30.2
2006	-334.3	-265.2	-35.4	-229.8	-69.1	0.0	-69.0	197.9	172.3	4.9	167.5	25.6	0.1	25.5
2006 Q3	-77.2	-67.9	-10.7	-57.2	-9.3	0.9	-10.2	35.8	31.0	1.7	29.2	4.8	-0.7	5.5
Q4	-74.0	-50.9	-15.9	-35.1	-23.1	-0.6	-22.5	21.5	16.6	0.9	15.8	4.9	-0.1	4.9
2007 Q1	-92.0	-59.6	-4.7	-54.9	-32.4	2.1	-34.5	77.4	48.3	0.9	47.4	29.1	-0.8	29.9
Q2	-109.4	-83.5	-6.1	-77.4	-25.9	-1.5	-24.5	40.3	42.4	-1.0	43.5	-2.1	0.7	-2.9
Q3	-77.9	-48.2	-14.6	-33.6	-29.7	0.0	-29.6	48.1	25.1	0.2	24.8	23.1	0.7	22.4
2006 Sep.	-54.3	-45.0	-5.4	-39.7	-9.3	0.3	-9.6	27.0	19.2	0.6	18.6	7.8	-0.2	8.0
Oct.	-23.3	-14.5	-5.9	-8.6	-8.8	0.2	-9.0	9.1	3.7	1.1	2.6	5.4	1.5	3.8
Nov.	-13.3	-16.4	-2.0	-14.4	3.1	-0.2	3.3	-0.4	0.0	-0.2	0.2	-0.4	-1.7	1.3
Dec.	-37.4	-20.0	-8.0	-12.0	-17.4	-0.6	-16.8	12.8	12.9	-0.1	13.0	-0.1	0.0	-0.1
2007 Jan.	-25.7	-24.1	-2.3	-21.8	-1.6	2.3	-3.9	11.9	5.8	0.3	5.6	6.0	-1.0	7.0
Feb.	-36.7	-15.4	5.6	-21.0	-21.3	-0.3	-21.0	33.5	25.7	4.2	21.5	7.8	0.2	7.5
Mar.	-29.6	-20.1	-8.0	-12.1	-9.5	0.1	-9.6	32.0	16.7	-3.6	20.4	15.3	-0.1	15.4
Apr.	-25.3	-16.9	-1.6	-15.4	-8.4	-0.4	-7.9	17.9	13.5	-0.6	14.2	4.4	0.4	4.0
May	-41.3	-37.1	-3.4	-33.7	-4.2	0.1	-4.3	17.1	23.4	0.1	23.3	-6.3	0.4	-6.7
June	-42.8	-29.4	-1.1	-28.3	-13.4	-1.2	-12.2	5.3	5.5	-0.5	5.9	-0.2	0.0	-0.1
July	-12.9	-8.6	-0.7	-7.9	-4.3	0.0	-4.3	13.0	4.3	0.0	4.3	8.7	-0.2	8.9
Aug.	-26.1	-19.3	-3.2	-16.1	-6.8	0.7	-7.6	18.9	6.6	-0.1	6.7	12.4	-0.2	12.6
Sep.	-38.9	-20.3	-10.8	-9.6	-18.5	-0.8	-17.8	16.3	14.2	0.3	13.9	2.1	1.1	0.9

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				
	Eurosystème	MFIs excluding Eurosystème	Non-MFIs			Eurosystème	MFIs excluding Eurosystème	Non-MFIs		Eurosystème	MFIs excluding Eurosystème	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	129.7	0.4	-81.9	-98.8	-2.1	270.8	0.0	-43.1	-14.8	0.1	16.2
2005	-0.1	-14.2	-119.9	-3.5	263.0	-0.7	-116.5	-143.2	-0.8	237.1	0.1	-14.5	-2.9	0.1	53.3
2006	0.0	-18.1	-138.2	-6.2	309.2	-2.6	-169.1	-137.8	-1.1	500.1	-8.0	-48.6	-12.6	0.1	2.1
2006 Q3	0.0	0.8	-32.6	-0.9	60.1	-0.4	-52.3	-19.5	-0.2	87.1	-0.1	-24.9	-0.8	3.1	3.9
Q4	0.0	-14.6	-17.8	-1.8	83.9	-2.9	-39.6	-46.7	-0.8	186.1	-1.4	-18.5	-4.1	4.0	-7.5
2007 Q1	0.0	-19.0	1.4	-0.8	113.5	-0.7	-50.4	-42.6	-1.2	141.8	0.7	-23.3	-13.4	-5.5	21.9
Q2	0.0	-4.9	-5.3	-1.5	71.5	-0.3	-65.7	-50.9	-0.5	110.9	-0.1	-13.4	-9.2	-4.5	36.9
Q3	0.0	4.0	5.7	-	45.3	-0.5	-24.5	-26.4	-	43.6	0.0	22.6	14.9	-	13.7
2006 Sep.	0.0	-1.4	-7.9	-	24.8	-0.6	-30.0	-6.0	-	61.3	-0.2	-7.0	-0.2	-	5.8
Oct.	0.0	-5.7	-5.3	-	24.3	-1.8	-15.2	-21.1	-	58.0	-0.3	-5.8	-6.2	-	14.2
Nov.	0.0	-0.7	-10.2	-	27.9	-0.5	-25.6	-11.4	-	69.6	-0.4	-9.6	4.3	-	14.0
Dec.	0.0	-8.2	-2.2	-	31.7	-0.6	1.1	-14.2	-	58.4	-0.8	-3.1	-2.2	-	-35.7
2007 Jan.	0.0	-3.8	1.4	-	49.9	-0.1	-31.9	-9.9	-	34.4	0.5	-7.8	-7.9	-	17.8
Feb.	0.0	-19.0	-10.6	-	36.5	-0.1	-16.2	-9.2	-	39.8	0.1	-5.2	-2.2	-	9.0
Mar.	0.0	3.8	10.5	-	27.1	-0.6	-2.2	-23.5	-	67.6	0.2	-10.4	-3.3	-	-5.0
Apr.	0.0	1.5	-13.5	-	-11.7	0.0	-24.2	-9.1	-	35.1	0.0	-2.6	1.4	-	19.5
May	0.0	-9.0	6.8	-	12.2	-0.1	-28.0	-23.3	-	36.4	0.0	-6.5	-3.7	-	17.7
June	0.0	2.6	1.3	-	71.0	-0.2	-13.4	-18.5	-	39.4	-0.1	-4.3	-6.9	-	-0.3
July	0.0	-1.7	-0.5	-	49.8	-0.5	-23.3	-11.5	-	14.6	0.0	-1.9	4.2	-	0.9
Aug.	0.0	9.5	-2.3	-	-21.0	0.0	-0.6	-10.3	-	21.5	0.1	10.2	13.0	-	2.0
Sep.	0.0	-3.8	8.5	-	16.5	0.1	-0.6	-4.6	-	7.5	-0.1	14.3	-2.3	-	10.8

**6. Other investment by sector**

	Total		Eurosystème		General government		MFIs (excluding Eurosystème)						Other sectors			
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Total		Long-term		Short-term		Assets	Liabilities		
							Assets	Liabilities	Assets	Liabilities	Assets	Liabilities				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
2004	-310.7	284.5	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	34.8
2005	-566.8	656.9	-0.9	6.7	4.6	-2.4	-2.2	-395.2	483.3	-97.0	55.1	-298.2	428.1	-175.3	-3.9	169.2
2006	-721.5	698.3	-2.9	18.5	1.8	-3.1	1.4	-524.1	495.7	-134.2	82.6	-389.9	413.1	-196.2	-26.4	182.6
2006 Q3	-139.9	192.1	0.5	4.9	12.0	8.5	6.3	-119.8	160.7	-32.8	21.3	-87.0	139.4	-32.6	6.8	20.2
Q4	-268.6	167.2	-1.1	4.7	-5.5	-3.2	-3.2	-210.8	98.9	-73.0	26.6	-137.7	72.2	-51.3	5.9	66.8
2007 Q1	-373.0	280.5	-5.3	5.4	7.2	5.2	1.6	-290.4	266.7	-76.5	29.7	-213.9	237.0	-84.6	-39.2	6.9
Q2	-191.1	232.1	-3.5	10.9	-17.5	-17.4	-0.2	-131.7	178.7	-39.3	46.1	-92.4	132.7	-38.4	3.9	42.7
Q3	-229.0	303.9	-1.6	-1.3	18.2	14.1	3.2	-81.9	134.1	-61.7	10.5	-20.1	123.7	-163.7	-21.7	167.8
2006 Sep.	-92.9	108.8	0.5	2.6	4.3	1.4	4.8	-79.4	79.4	-15.2	6.1	-64.3	73.3	-18.2	1.2	22.1
Oct.	-105.3	80.1	-0.5	-1.1	-2.4	-4.1	-2.1	-78.4	63.8	-41.9	5.0	-36.5	58.8	-24.0	-3.0	19.5
Nov.	-142.8	91.8	0.5	3.2	-3.8	-4.3	1.6	-106.5	71.6	-10.6	27.3	-95.9	44.2	-33.0	-8.3	15.5
Dec.	-20.5	-4.7	-1.1	2.6	0.7	5.2	-2.6	-25.9	-36.5	-20.6	-5.7	-5.3	-30.8	5.7	17.2	31.8
2007 Jan.	-140.9	161.9	-1.4	3.8	4.5	1.3	-5.0	-100.6	154.6	-31.9	10.3	-68.7	144.2	-43.4	-33.4	8.4
Feb.	-117.9	108.6	-3.6	-0.4	0.1	1.5	4.8	-90.0	81.5	-7.9	8.6	-82.1	72.9	-24.5	-7.6	22.8
Mar.	-114.2	10.0	-0.3	2.0	2.6	2.4	1.7	-99.8	30.6	-36.7	10.8	-63.1	19.8	-16.8	1.8	-24.4
Apr.	-136.5	193.4	0.6	2.9	0.5	-2.9	0.5	-127.0	165.9	-9.9	12.3	-117.1	153.7	-10.6	-3.9	24.0
May	-51.9	77.2	-2.5	-0.8	-5.8	-6.1	-0.3	-27.1	76.2	-6.0	24.8	-21.1	51.4	-16.5	2.2	2.1
June	-2.6	-38.4	-1.5	8.8	-12.1	-8.4	-0.4	22.3	-63.3	-23.4	9.0	45.7	-72.4	-11.3	5.6	16.6
July	-6.2	37.1	0.5	-6.7	18.0	14.1	-1.9	-38.0	48.4	-13.7	12.1	-24.3	36.3	13.3	5.5	-2.7
Aug.	-26.1	85.7	-2.6	4.3	0.6	0.9	4.0	-10.9	56.9	-23.3	0.5	12.3	56.3	-13.2	-5.0	20.6
Sep.	-196.7	181.1	0.5	1.2	-0.4	-0.8	1.1	-32.9	28.9	-24.7	-2.2	-8.2	31.1	-163.8	-22.2	150.0

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	6.7	0.0	0.0	5.8	8.2	-2.4	-1.2	0.0	-1.9	-0.3	
2006	-2.9	0.0	18.5	0.0	0.0	2.6	5.7	-3.1	-0.8	0.0	1.5	-0.1	
2006 Q2	0.9	0.0	2.1	0.0	0.0	-11.4	0.8	-12.2	-0.3	0.0	0.3	0.1	
Q3	0.5	0.0	4.9	0.0	0.0	11.9	3.5	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	-3.2	0.0	
2007 Q1	-5.3	0.0	5.3	0.1	0.0	7.4	2.2	5.2	-0.2	0.0	1.7	-0.1	
Q2	-3.5	0.0	10.9	-0.1	0.0	-17.1	0.3	-17.4	-0.3	0.0	-0.3	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	23.8	1.6		
2005	-392.1	-3.1	481.7	1.6	-9.0	-149.4	-145.4	-3.9	-17.0	13.5	149.2	6.5		
2006	-520.0	-4.1	492.5	3.2	-5.4	-178.6	-152.1	-26.4	-12.3	11.9	159.7	11.0		
2006 Q2	-58.0	0.5	14.1	-5.6	-3.3	-32.6	-25.6	-7.0	2.6	2.9	54.2	-4.3		
Q3	-118.8	-1.0	158.5	2.3	2.9	-30.9	-37.6	6.8	-4.7	2.9	12.7	4.6		
Q4	-211.1	0.4	98.2	0.6	-2.0	-48.9	-54.8	5.9	-0.4	3.2	60.9	2.8		
2007 Q1	-282.1	-8.3	264.7	1.9	-2.2	-74.3	-35.0	-39.2	-8.1	-2.1	3.6	5.4		
Q2	-127.1	-4.6	177.7	1.1	-2.7	-29.6	-33.5	3.9	-6.1	5.0	37.1	0.5		

### 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	5.7	0.2	7.2	0.0	-4.8	3.2	0.0	0.0
2006	-1.3	4.2	-0.5	5.2	-10.2	6.1	-2.7	0.0	-19.4	5.7	0.0	0.0
2006 Q2	-1.6	1.4	0.0	-0.5	-2.5	0.9	3.0	0.0	-7.2	0.7	0.0	0.0
Q3	-3.2	0.9	-0.3	0.8	-4.5	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	-1.6	0.4	0.0	0.8	-2.9	1.4	-5.0	0.4	-5.8	6.1	0.0	0.0
Q2	-4.2	0.7	-0.1	-0.5	-4.2	-0.8	-0.3	-0.1	-2.3	-0.7	0.0	0.0

Source: ECB.

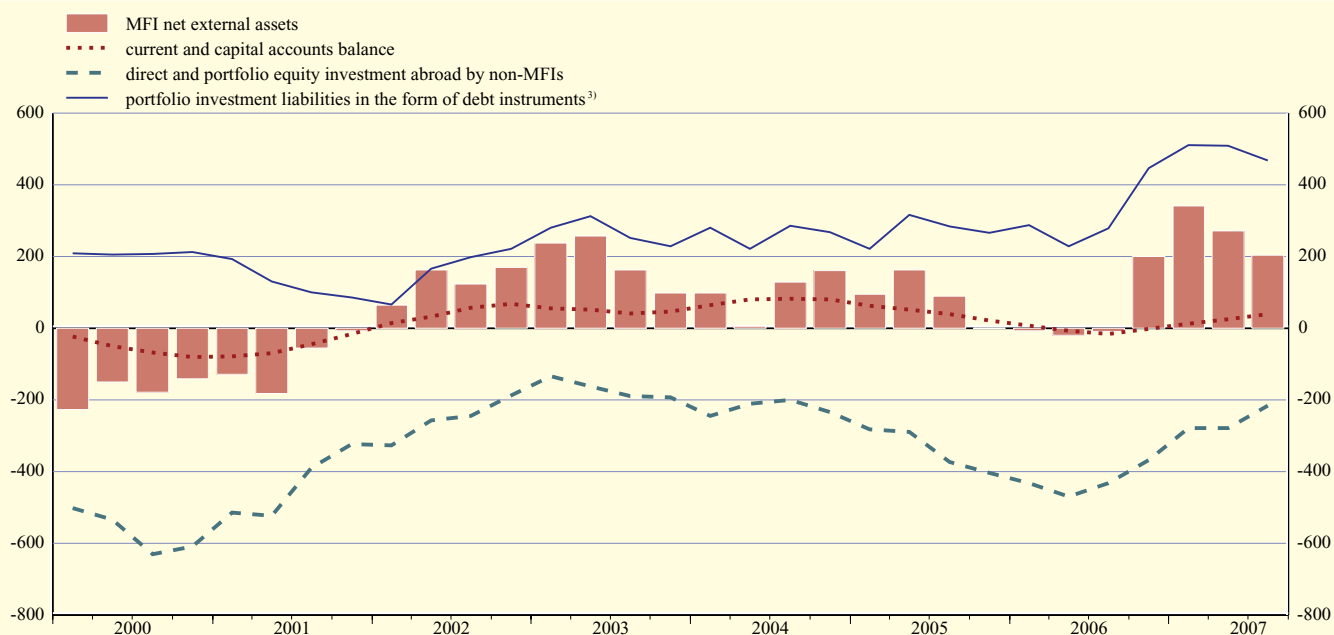
7.2 Monetary presentation of the balance of payments <sup>1)</sup>

(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	80.3	-141.8	95.5	-197.3	119.9	267.5	-51.0	30.6	-8.3	-61.2	134.1	161.2
2005	21.5	-343.2	147.1	-265.6	220.0	266.7	-170.7	167.0	-16.4	-43.9	-17.7	0.0
2006	-1.6	-298.8	197.8	-288.1	248.3	446.4	-194.2	183.7	2.5	-115.0	181.1	200.1
2006 Q3	-3.2	-67.4	36.3	-52.9	26.8	81.4	-20.5	26.4	12.6	-37.4	2.1	2.1
Q4	21.6	-57.4	21.6	-68.4	67.8	159.2	-56.8	63.5	-2.7	21.2	169.6	176.0
2007 Q1	4.8	-89.5	78.3	-54.6	94.8	150.8	-77.4	8.4	-16.4	-9.5	89.7	101.9
Q2	1.2	-101.8	39.6	-65.4	60.7	117.5	-55.8	42.5	-14.1	-24.4	-0.1	-8.2
Q3	11.9	-63.2	47.5	-5.8	35.4	39.3	-145.6	171.1	-32.1	-119.1	-60.7	-67.0
2006 Sep.	1.1	-49.3	27.2	-14.1	4.6	61.4	-13.8	26.8	10.4	-37.0	17.2	17.2
Oct.	1.1	-17.5	7.5	-32.7	13.8	55.8	-26.4	17.3	5.7	-2.8	21.9	25.8
Nov.	2.3	-11.0	1.3	-17.2	32.5	78.6	-36.8	17.0	-2.9	8.3	72.0	69.2
Dec.	18.1	-28.9	12.8	-18.5	21.6	24.9	6.4	29.2	-5.5	15.7	75.7	81.0
2007 Jan.	-1.4	-25.7	12.9	-16.3	39.9	45.7	-38.9	3.5	-4.2	-41.2	-25.8	-22.9
Feb.	-2.4	-42.0	33.3	-22.0	41.1	44.3	-24.3	27.6	-7.9	0.5	48.0	40.5
Mar.	8.7	-21.7	32.1	-16.3	13.7	60.7	-14.1	-22.6	-4.3	31.2	67.5	84.3
Apr.	-3.0	-23.3	17.5	-21.1	-14.3	33.5	-10.1	24.5	-3.6	-37.8	-37.7	-40.1
May	-9.7	-38.0	16.7	-20.2	10.9	40.3	-22.4	1.8	-0.8	7.8	-13.5	-15.1
June	13.9	-40.5	5.4	-24.1	64.1	43.6	-23.4	16.1	-9.7	5.6	51.1	47.0
July	5.7	-12.2	13.2	-7.7	35.2	11.4	31.3	-4.6	-10.8	-52.8	8.6	5.8
Aug.	1.7	-23.7	19.1	0.3	-11.1	26.5	-12.6	24.6	-11.9	-65.5	-52.6	-51.4
Sep.	4.5	-27.3	15.1	1.6	11.3	1.4	-164.2	151.1	-9.4	-0.8	-16.7	-21.4
	<i>12-month cumulated transactions</i>											
2007 Sep.	39.4	-311.9	186.9	-194.2	258.6	466.7	-335.6	285.4	-65.2	-131.8	198.4	202.7

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 Q3 to 2007 Q2	1	2	3	4	5	6	7	8	9	10	11	12
Credits												
<b>Current account</b>	2,488.7	947.2	52.1	80.2	486.9	267.2	60.7	33.1	56.0	159.2	398.3	894.9
Goods	1,452.6	528.3	33.0	53.2	229.7	212.2	0.1	17.9	34.8	82.8	197.9	591.0
Services	445.2	160.3	9.1	12.0	106.3	27.1	5.8	6.6	10.5	43.0	79.6	145.2
Income	501.7	193.7	9.5	14.4	138.2	25.3	6.4	8.0	10.5	27.6	112.9	149.1
of which: investment income	485.6	188.3	9.4	14.3	136.5	25.1	3.1	7.9	10.4	21.1	111.4	146.4
Current transfers	89.1	64.9	0.5	0.6	12.7	2.6	48.5	0.6	0.3	5.8	7.9	9.5
<b>Capital account</b>	26.1	20.6	0.0	0.0	0.9	0.1	19.5	0.0	0.4	0.4	0.9	3.7
Debits												
<b>Current account</b>	2,480.0	818.6	41.3	75.9	395.1	209.0	97.3	26.1	91.1	154.9	360.2	1,029.1
Goods	1,400.2	413.5	28.0	49.0	170.7	165.8	0.0	12.0	54.7	71.9	134.2	713.8
Services	405.2	131.2	7.5	9.8	84.6	29.1	0.1	5.9	7.6	31.8	86.2	142.5
Income	508.0	169.9	5.4	16.1	130.1	10.3	8.0	6.3	28.4	45.7	132.8	124.8
of which: investment income	498.0	164.1	5.3	16.1	128.8	6.0	8.0	6.2	28.3	45.2	131.9	122.3
Current transfers	166.6	104.0	0.4	0.8	9.7	3.8	89.2	1.8	0.4	5.4	7.0	47.9
<b>Capital account</b>	11.7	1.5	0.0	0.1	0.8	0.3	0.2	0.1	0.1	0.5	1.6	7.9
Net												
<b>Current account</b>	8.7	128.5	10.8	4.4	91.8	58.2	-36.6	7.0	-35.1	4.3	38.1	-134.2
Goods	52.4	114.7	5.0	4.2	59.0	46.5	0.1	5.9	-19.9	10.9	63.7	-122.8
Services	40.0	29.1	1.6	2.2	21.7	-2.0	5.7	0.7	2.9	11.2	-6.6	2.7
Income	-6.2	23.8	4.1	-1.8	8.1	15.0	-1.6	1.7	-17.9	-18.1	-20.0	24.3
of which: investment income	-12.4	24.2	4.1	-1.8	7.7	19.1	-4.9	1.7	-17.8	-24.1	-20.5	24.2
Current transfers	-77.5	-39.1	0.1	-0.2	3.0	-1.2	-40.8	-1.2	-0.2	0.4	0.9	-38.4
<b>Capital account</b>	14.3	19.1	0.0	0.0	0.1	-0.2	19.3	-0.1	0.4	-0.1	-0.7	-4.2

### 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 Q3 to 2007 Q2	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Direct investment</b>	-177.6	-34.8	4.4	0.0	-11.2	-28.1	0.1	-18.3	1.5	-25.5	7.4	-23.9	-84.1
Abroad	-352.6	-108.5	-1.1	-6.8	-68.1	-32.6	0.0	-25.3	-5.7	-31.5	-66.7	-34.4	-80.5
Equity/reinvested earnings	-261.9	-82.9	-1.6	-3.6	-44.8	-32.8	0.0	-17.8	-4.5	-19.2	-54.3	-21.3	-61.9
Other capital	-90.7	-25.7	0.5	-3.1	-23.2	0.2	0.0	-7.5	-1.2	-12.3	-12.3	-13.2	-18.6
In the euro area	175.0	73.7	5.5	6.8	56.8	4.5	0.1	7.0	7.2	6.0	74.1	10.5	-3.6
Equity/reinvested earnings	138.4	58.4	7.0	4.5	44.9	1.9	0.1	-0.1	2.9	4.6	64.1	2.9	5.4
Other capital	36.6	15.3	-1.5	2.3	11.9	2.6	0.0	7.0	4.3	1.4	10.0	7.6	-9.0

Source: ECB.

## 7.3 Geographical breakdown of the balance of payments and international investment position

(EUR billions)

## 3. Balance of payments: portfolio investment assets by instrument

(cumulated transactions)

	Total	European Union 27 (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2006 Q3 to 2007 Q2	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Portfolio investment assets</b>	-572.7	-168.9	-15.1	-17.3	-122.7	-8.8	-5.0	-5.3	7.1	-11.0	-229.9	-98.1	-66.5
Equity	-92.1	-10.2	-3.2	-2.4	-3.2	-1.1	-0.1	2.7	-2.4	-8.2	-38.6	-38.0	2.6
Debt instruments	-480.6	-158.7	-11.9	-14.9	-119.5	-7.6	-4.8	-8.0	9.5	-2.8	-191.4	-60.1	-69.1
Bonds and notes	-372.1	-122.7	-11.8	-15.4	-86.8	-4.5	-4.2	-6.9	-4.5	-1.6	-146.0	-33.8	-56.6
Money market instruments	-108.5	-36.0	-0.1	0.5	-32.7	-3.1	-0.6	-1.1	14.0	-1.2	-45.4	-26.3	-12.6

## 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 Q3 to 2007 Q2	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>Other investment</b>	-100.7	-194.8	-16.0	5.4	-183.1	-15.4	14.3	-0.4	45.0	16.8	50.3	-0.2	8.2	-25.5
Assets	-972.6	-653.2	-17.5	-3.0	-589.0	-40.8	-2.8	-1.0	16.6	-52.9	-141.4	-50.0	-8.0	-82.9
General government	-3.7	-9.9	-1.5	0.8	-9.1	0.1	-0.2	-0.1	-0.4	0.0	0.1	0.1	-1.0	7.5
MFIs	-762.1	-500.5	-13.7	-5.4	-442.2	-39.0	-0.2	2.6	9.1	-50.9	-109.5	-37.8	-7.1	-68.0
Other sectors	-206.9	-142.7	-2.3	1.6	-137.6	-2.0	-2.4	-3.6	7.9	-2.0	-32.0	-12.2	0.1	-22.4
Liabilities	872.0	458.4	1.5	8.4	405.8	25.5	17.1	0.6	28.4	69.6	191.7	49.7	16.2	57.4
General government	4.5	4.5	-0.1	0.0	-1.1	0.0	5.7	0.0	-0.3	-0.3	0.0	0.1	2.7	-2.2
MFIs	730.9	376.4	1.4	5.7	341.9	22.4	5.1	-1.6	26.9	53.8	138.8	45.6	13.4	77.5
Other sectors	136.6	77.4	0.3	2.7	65.1	3.1	6.2	2.2	1.8	16.2	52.8	4.0	0.0	-17.9

## 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							
2006	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>Direct investment</b>	417.1	-47.3	-7.2	-21.0	-218.6	199.8	-0.3	37.3	-6.2	78.1	-24.5	-5.6	-0.2	385.4
Abroad	3,075.9	1,147.6	35.1	83.4	803.8	225.2	0.0	90.2	68.2	300.0	608.0	329.1	0.0	532.8
Equity/reinvested earnings	2,510.5	934.2	32.0	58.1	644.5	199.5	0.0	71.0	63.5	250.1	453.1	306.8	0.0	431.7
Other capital	565.4	213.4	3.1	25.3	159.3	25.7	0.0	19.2	4.7	49.9	154.9	22.2	0.0	101.1
In the euro area	2,658.8	1,194.9	42.3	104.4	1,022.5	25.4	0.3	52.8	74.4	221.8	632.5	334.7	0.3	147.4
Equity/reinvested earnings	2,039.8	958.9	36.8	86.2	825.4	10.2	0.2	47.0	60.7	163.9	477.0	208.9	0.0	123.4
Other capital	619.0	236.0	5.5	18.2	197.1	15.2	0.1	5.8	13.7	57.9	155.5	125.8	0.3	24.0
<b>Portfolio investment assets</b>	4,441.3	1,375.2	65.5	140.8	1,002.5	97.9	68.6	84.5	262.7	141.1	1,452.6	527.7	32.1	565.3
Equity	2,012.0	487.1	12.3	58.0	393.0	23.6	0.1	22.6	181.0	128.6	670.9	216.5	1.4	303.9
Debt instruments	2,429.3	888.1	53.2	82.8	609.5	74.2	68.4	61.9	81.7	12.5	781.7	311.2	30.7	261.4
Bonds and notes	2,051.5	730.9	48.4	70.9	471.2	72.3	68.2	59.7	62.2	8.4	657.6	271.9	29.7	231.1
Money market instruments	377.8	157.2	4.8	11.9	138.3	2.0	0.2	2.2	19.6	4.0	124.1	39.4	1.0	30.3
<b>Other investment</b>	-200.0	103.9	86.3	13.3	121.7	31.3	-148.7	-1.4	-37.5	-49.3	-5.4	-212.8	-20.0	22.6
Assets	4,392.0	2,306.6	111.2	69.0	1,986.6	130.4	9.4	19.4	73.6	263.1	585.9	438.3	45.7	659.4
General government	117.1	25.2	2.1	0.1	14.2	1.5	7.4	0.0	0.2	0.1	3.1	1.4	38.5	48.6
MFIs	2,947.1	1,730.6	95.5	47.7	1,489.5	97.2	0.6	11.0	38.8	162.3	344.0	274.4	6.6	379.5
Other sectors	1,327.9	550.9	13.6	21.2	482.9	31.7	1.4	8.4	34.7	100.7	238.8	162.5	0.6	231.4
Liabilities	4,592.0	2,202.8	25.0	55.7	1,864.9	99.1	158.1	20.8	111.2	312.4	591.4	651.1	65.6	636.8
General government	47.8	24.1	0.0	0.3	2.4	0.0	21.4	0.0	0.7	0.0	6.2	0.2	2.7	13.8
MFIs	3,567.5	1,662.0	19.4	35.0	1,433.5	77.1	97.0	13.9	60.2	252.4	416.2	580.4	60.4	522.0
Other sectors	976.8	516.7	5.5	20.4	429.0	22.0	39.8	6.8	50.3	59.9	169.0	70.5	2.6	101.0

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							
2003	-790.7	-10.6	85.1	-930.5	-19.8	-232.3	306.7
2004	-888.7	-11.4	78.2	-1,044.7	-37.3	-165.8	281.0
2005	-837.7	-10.4	361.8	-1,233.9	-46.1	-239.6	320.1
2006	-1,024.4	-12.1	417.1	-1,523.9	-43.5	-200.0	325.8
2007 Q1	-1,033.5	-12.1	407.6	-1,566.2	-23.9	-182.6	331.5
Q2	-1,173.7	-13.6	494.9	-1,701.8	-19.9	-272.2	325.3
Outstanding assets							
2003	7,989.5	106.7	2,169.3	2,655.4	152.1	2,706.1	306.7
2004	8,799.2	113.0	2,321.2	3,036.5	157.9	3,002.7	281.0
2005	10,998.0	136.5	2,809.4	3,876.6	222.9	3,769.1	320.1
2006	12,518.5	148.4	3,075.9	4,441.3	283.4	4,392.0	325.8
2007 Q1	13,115.6	153.4	3,142.4	4,597.6	328.2	4,715.8	331.5
Q2	13,654.9	157.9	3,254.7	4,817.5	384.3	4,873.1	325.3
Outstanding liabilities							
2003	8,780.2	117.3	2,084.2	3,585.9	171.9	2,938.3	-
2004	9,687.9	124.4	2,243.0	4,081.3	195.1	3,168.5	-
2005	11,835.7	146.9	2,447.6	5,110.5	269.0	4,008.6	-
2006	13,542.9	160.5	2,658.8	5,965.2	326.9	4,592.0	-
2007 Q1	14,149.0	165.5	2,734.8	6,163.7	352.1	4,898.4	-
Q2	14,828.6	171.5	2,759.9	6,519.3	404.2	5,145.3	-

### 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	
2003	1,726.8	124.6	1,602.2	442.5	2.1	440.4	1,510.1	46.2	1,463.9	574.1	3.2	570.9
2004	1,893.0	149.1	1,743.8	428.2	4.3	423.9	1,669.7	51.9	1,617.7	573.3	8.4	564.9
2005	2,290.8	178.0	2,112.8	518.6	4.2	514.4	1,841.2	55.2	1,786.0	606.5	8.4	598.0
2006	2,510.5	211.2	2,299.3	565.4	3.6	561.7	2,039.8	59.8	1,980.1	619.0	7.8	611.1
2007 Q1	2,548.5	219.7	2,328.8	593.9	4.3	589.7	2,063.0	55.8	2,007.2	671.8	10.1	661.6
Q2	2,632.1	228.5	2,403.7	622.6	5.8	616.8	2,101.0	57.3	2,043.7	658.9	10.5	648.4

### 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	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15			
2003	1.7	53.5	11.5	1,023.9	1,571.4	9.3	460.2	8.0	845.9	1,774.4	1.1	191.5	0.6	48.2	240.0			
2004	2.1	73.8	16.3	1,157.5	1,766.2	8.1	541.8	9.7	940.3	2,089.1	0.9	231.4	0.4	54.3	226.0			
2005	3.0	99.5	27.2	1,595.3	2,434.4	8.6	692.5	11.6	1,122.9	2,371.1	0.8	262.1	0.4	52.8	304.9			
2006	2.8	119.4	37.0	1,852.8	2,932.5	10.8	818.7	13.4	1,208.6	2,738.8	8.7	301.8	0.3	67.0	293.9			
2007 Q1	2.8	138.4	37.9	1,881.9	3,063.8	10.9	859.2	14.6	1,240.9	2,790.4	8.0	325.5	5.8	71.6	309.5			
Q2	3.0	148.6	41.3	1,985.5	3,318.6	11.2	912.3	14.8	1,262.9	2,857.5	8.1	341.8	10.4	77.5	343.1			

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	
2003	5.2	0.7	66.0	0.2	24.0	61.1	55.3	5.8	42.4	0.0	42.3	3.8
2004	4.7	0.3	74.5	0.2	23.5	64.4	56.2	8.3	42.6	0.0	42.3	3.5
2005	5.4	0.4	82.1	0.2	19.7	60.8	49.0	11.8	47.1	0.0	40.5	3.8
2006	8.4	0.4	99.9	0.2	14.1	57.8	42.4	15.4	45.1	0.0	43.9	3.8
2007 Q1	13.6	0.3	105.1	0.3	14.0	50.2	39.9	10.2	44.8	0.0	46.6	3.7
Q2	17.5	0.3	115.8	0.3	13.7	67.1	39.6	27.5	45.0	0.0	46.2	4.3

	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	
2003	1,734.6	38.5	2,241.9	31.3	164.9	550.0	221.7	328.3	84.8	110.8	396.3	45.7
2004	1,950.8	45.4	2,423.3	42.1	170.1	607.0	277.1	329.9	93.8	115.3	417.5	49.8
2005	2,458.5	56.2	3,045.8	52.3	189.5	800.8	455.2	345.6	130.7	133.1	580.8	70.1
2006	2,879.1	59.2	3,413.5	53.8	187.7	988.7	613.5	375.2	151.5	144.5	744.5	87.7
2007 Q1	3,141.4	70.1	3,657.9	57.3	196.6	1,031.5	588.3	443.2	153.3	141.0	786.0	100.3
Q2	3,256.4	71.6	3,815.4	62.7	198.7	1,043.1	621.8	421.4	159.6	147.1	843.6	109.8

**5. International reserves**

	Reserve assets													Memo		
	Total	Monetary gold		Special drawing rights	Reserve position in the IMF	Foreign exchange							Other claims	Claims on euro area residents in foreign currency	Predetermined short-term net drains in foreign currency	
		In EUR billions	In fine troy ounces (millions)			Total	Currency and deposits		Securities			Financial derivatives				
							With monetary authorities and the BIS	With banks	Total	Equity	Bonds and notes					Money market instruments
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
<b>Eurosystem</b>																
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	56.6	37.6	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	69.4	38.0	-0.2	0.0	25.6	-17.9
2006	325.8	176.3	365.213	4.6	5.2	139.7	6.3	22.5	110.7	0.5	79.3	30.8	0.3	0.0	24.6	-21.5
2007 Q1	331.5	180.4	363.109	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
Q2	325.3	172.8	358.768	4.7	4.3	143.5	5.7	27.7	110.1	0.2	84.5	25.5	0.0	0.0	26.6	-24.6
2007 Aug.	330.4	175.2	357.219	4.8	4.0	146.5	6.2	28.5	111.5	-	-	-	0.2	0.0	28.5	-27.6
Sep.	340.5	187.0	356.925	4.7	3.8	144.9	7.5	27.5	109.6	-	-	-	0.4	0.0	26.2	-26.8
Oct.	346.6	194.4	355.749	4.6	3.7	143.9	6.7	26.6	110.1	-	-	-	0.5	0.0	26.1	-26.4
<b>of which held by the European Central Bank</b>																
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	7.8	13.2	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	10.4	13.2	0.0	0.0	2.9	-0.9
2006	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
Q2	40.5	9.4	19.442	0.4	0.0	30.7	1.2	3.0	26.5	0.0	20.7	5.8	0.0	0.0	3.2	-1.6
2007 Aug.	40.4	9.5	19.442	0.5	0.0	30.4	1.2	2.4	26.8	-	-	-	0.0	0.0	3.4	-1.0
Sep.	40.1	10.2	19.442	0.5	0.0	29.4	1.3	2.2	26.0	-	-	-	0.0	0.0	3.1	-0.7
Oct.	39.9	10.6	19.442	0.5	0.0	28.8	0.9	2.4	25.5	-	-	-	0.0	0.0	3.4	-0.8

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	1,059.0	500.9	221.7	299.8	916.9	986.9	553.0	165.0	240.5	708.4	109.0
2004	8.9	9.4	1,146.0	544.9	247.2	314.9	995.9	1,073.4	603.6	184.3	256.2	767.8	128.9
2005	7.8	13.5	1,240.5	590.9	270.1	335.0	1,070.0	1,225.7	704.8	208.1	276.5	842.9	186.2
2006	12.1	14.5	1,394.9	675.1	295.1	372.5	1,194.2	1,404.3	835.8	219.7	307.4	952.8	224.4
2006 Q1	17.1	23.4	337.0	161.4	73.2	91.2	287.2	340.9	201.3	55.6	75.1	228.3	54.9
Q2	10.2	16.1	341.5	165.1	73.0	91.6	292.4	349.3	207.4	56.0	76.3	236.1	57.3
Q3	8.8	11.3	349.6	170.8	72.5	92.7	299.8	355.2	213.8	53.9	76.9	240.3	59.9
Q4	12.8	8.6	366.8	177.8	76.5	96.9	314.8	358.8	213.3	54.2	79.1	248.1	52.2
2007 Q1	8.8	4.8	370.4	177.8	78.1	97.5	318.0	360.6	213.7	53.6	79.6	254.4	47.3
Q2	8.7	2.8	369.6	178.0	78.3	98.4	316.1	359.3	217.1	50.8	79.0	248.0	52.6
2007 Mar.	6.4	0.2	123.4	59.4	26.1	32.5	105.9	117.8	69.8	16.7	26.5	83.5	15.3
Apr.	10.7	5.3	121.1	58.7	26.2	32.3	104.3	119.3	71.9	16.8	26.2	81.7	17.2
May	6.1	0.6	122.3	58.7	26.0	32.7	104.0	119.0	72.3	16.8	26.0	81.9	17.6
June	9.3	2.8	126.2	60.6	26.2	33.4	107.8	121.0	73.0	17.2	26.7	84.4	17.9
July	13.6	9.1	124.6	60.3	25.7	33.3	107.2	124.1	74.5	17.6	27.0	86.0	19.2
Aug.	11.3	4.3	128.9	61.9	27.0	33.6	110.5	124.4	74.0	17.5	27.6	86.9	18.9
Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2003	1.0	3.6	108.5	106.3	106.9	113.2	108.4	102.1	100.3	97.3	109.8	100.2	103.0
2004	9.0	6.5	117.6	115.4	120.1	118.5	118.1	108.1	104.1	109.4	117.7	108.3	104.9
2005	4.9	5.1	123.8	120.3	129.6	123.6	124.3	114.3	107.6	124.2	123.7	116.4	109.6
2006	8.3	6.8	134.5	131.9	139.0	133.3	135.1	122.1	115.4	131.0	132.9	127.3	109.5
2006 Q1	11.7	9.5	130.3	127.1	137.4	131.0	130.3	118.4	111.5	129.9	129.2	122.2	104.7
Q2	5.9	5.4	132.3	130.0	137.9	130.8	133.1	121.2	113.8	133.5	133.0	127.1	107.5
Q3	5.8	5.4	134.8	132.9	137.4	132.8	135.8	122.9	117.1	129.7	132.7	127.8	116.8
Q4	10.1	7.0	140.5	137.4	143.3	138.6	141.2	126.0	119.0	130.9	136.7	131.9	108.9
2007 Q1	7.1	5.8	141.0	135.7	145.8	138.3	141.7	126.3	118.5	130.6	137.3	134.4	101.5
Q2	5.7	2.4	139.2	134.4	145.3	138.8	139.8	124.3	118.2	125.2	135.5	131.1	106.0
2007 Mar.	4.6	1.2	140.6	135.9	144.7	138.3	141.2	123.6	115.9	123.0	137.0	132.7	97.2
Apr.	7.9	5.7	137.3	133.5	145.9	137.1	138.8	124.3	118.2	123.9	134.5	129.4	105.3
May	3.0	1.4	138.2	133.0	144.6	137.9	137.9	124.1	118.8	124.8	134.3	130.1	106.9
June	6.1	0.5	142.2	136.7	145.5	141.4	142.7	124.4	117.6	126.8	137.7	133.6	105.7
July	10.3	7.5	140.4	136.2	142.2	140.2	141.9	127.7	119.8	130.3	138.4	135.9	112.6
Aug.	9.0	4.9	146.0	140.1	150.2	142.7	146.9	129.0	120.4	130.5	141.8	138.6	113.8
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	101.3	97.1	97.3	98.4	91.8	98.9	96.3	99.6
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	137.6
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	106.2	101.6	113.0	122.7	93.3	105.6	101.6	170.6
Q2	4.0	10.1	103.3	103.7	98.3	106.9	101.2	113.0	123.8	91.5	104.2	101.0	173.5
Q3	2.8	5.6	103.8	104.9	98.1	106.6	101.7	113.3	124.0	90.5	105.3	102.2	166.6
Q4	2.5	1.5	104.5	105.6	99.2	106.7	102.7	111.6	121.8	90.1	105.1	102.2	156.1
2007 Q1	1.6	-1.0	105.1	107.0	99.5	107.6	103.4	112.0	122.6	89.5	105.4	102.8	151.6
Q2	2.8	0.4	106.2	108.1	100.2	108.2	104.2	113.4	124.8	88.4	105.9	102.9	161.4
2007 Mar.	1.7	-1.0	105.4	107.1	100.4	107.4	103.7	112.1	122.7	88.9	105.4	102.6	153.2
Apr.	2.5	-0.4	105.8	107.7	100.2	107.8	103.9	113.0	123.9	88.5	106.4	102.9	159.1
May	3.0	-0.8	106.3	108.1	100.1	108.5	104.2	112.8	124.1	88.1	105.6	102.6	160.2
June	3.0	2.2	106.5	108.6	100.3	108.2	104.4	114.5	126.5	88.5	105.8	103.0	165.1
July	3.0	1.5	106.5	108.5	100.7	108.8	104.4	114.4	126.8	88.4	106.5	103.1	166.4
Aug.	2.1	-0.6	106.0	108.3	100.1	107.7	104.0	113.4	125.3	87.9	106.0	102.3	162.2

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





## EXCHANGE RATES

### 8.1 Effective exchange rates <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	103.5	101.0	103.7	111.2	105.6	
2005	103.3	104.2	102.5	102.3	99.4	102.1	109.7	103.7	
2006	103.6	104.5	102.9	102.3	99.8	101.7	110.0	103.4	
2006 Q3	104.5	105.4	103.7	103.0	101.2	102.7	111.2	104.5	
Q4	104.6	105.4	104.1	103.2	99.7	101.0	111.3	104.3	
2007 Q1	105.5	106.1	104.5	104.0	99.8	102.2	112.0	104.8	
Q2	107.1	107.7	104.6	105.4	101.1	103.2	113.5	106.0	
Q3	107.6	108.2	104.9	.	.	.	114.1	106.4	
2006 Nov.	104.5	105.3	103.9	-	-	-	111.1	104.2	
Dec.	105.5	106.1	104.9	-	-	-	112.3	105.0	
2007 Jan.	104.9	105.6	104.4	-	-	-	111.5	104.3	
Feb.	105.4	106.1	104.6	-	-	-	111.9	104.6	
Mar.	106.1	106.7	104.7	-	-	-	112.7	105.4	
Apr.	107.1	107.8	105.0	-	-	-	113.7	106.3	
May	107.3	107.9	104.6	-	-	-	113.6	106.1	
June	106.9	107.4	104.2	-	-	-	113.1	105.6	
July	107.6	108.1	104.7	-	-	-	113.9	106.3	
Aug.	107.1	107.7	104.7	-	-	-	113.7	106.0	
Sep.	108.2	108.8	105.5	-	-	-	114.7	107.0	
Oct.	109.4	110.0	106.4	-	-	-	115.7	107.9	
Nov.	111.0	111.6	107.8	-	-	-	117.6	109.6	
	<i>% change versus previous month</i>								
2007 Nov.	1.4	1.5	1.3	-	-	-	1.6	1.6	
	<i>% change versus previous year</i>								
2007 Nov.	6.2	6.0	3.8	-	-	-	5.8	5.2	

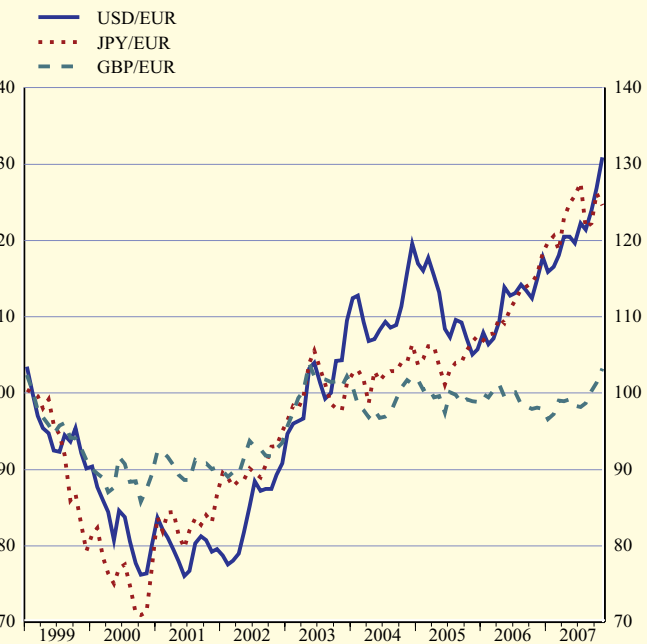
### C35 Effective exchange rates

(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.







## 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
HICP														
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
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
Q3	9.0	2.7	1.0	6.7	2.3	10.4	5.9	7.3	0.4	2.4	5.1	1.4	1.4	1.8
2007 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
Aug.	9.3	2.6	0.9	6.1	2.2	10.2	5.6	7.1	0.6	2.1	5.0	1.2	1.2	1.8
Sep.	11.0	2.8	1.2	7.5	2.3	11.5	7.1	6.4	0.9	2.7	6.1	1.7	1.6	1.8
Oct.	10.6	4.0	1.8	8.7	2.7	13.2	7.6	6.9	1.6	3.1	6.9	2.4	1.9	2.1
General government deficit (-)/surplus (+) as a % of GDP														
2004	2.3	-3.0	1.9	1.8	-4.1	-1.0	-1.5	-6.5	-4.9	-5.7	-1.5	-2.4	0.8	-3.4
2005	2.0	-3.5	4.6	1.9	-2.4	-0.4	-0.5	-7.8	-3.1	-4.3	-1.4	-2.8	2.4	-3.3
2006	3.2	-2.9	4.6	3.6	-1.2	-0.3	-0.6	-9.2	-2.5	-3.8	-1.9	-3.7	2.5	-2.7
General government gross debt as a % of GDP														
2004	37.9	30.4	44.0	5.1	70.2	14.5	19.4	59.4	72.7	45.7	18.8	41.4	52.4	40.4
2005	29.2	30.2	36.3	4.4	69.1	12.5	18.6	61.6	70.8	47.1	15.8	34.2	52.2	42.1
2006	22.8	30.1	30.3	4.0	65.2	10.6	18.2	65.6	64.7	47.6	12.4	30.4	47.0	43.2
Long-term government bond yield as a % per annum, period average														
2007 May	4.26	4.23	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
Aug.	4.79	4.48	4.39	-	4.44	5.32	4.80	6.80	4.94	5.68	6.93	4.65	4.25	5.19
Sep.	4.44	4.54	4.36	-	4.45	5.21	4.72	6.67	4.85	5.69	6.93	4.61	4.22	5.05
Oct.	4.59	4.50	4.39	-	4.60	5.06	4.72	6.61	4.92	5.64	6.93	4.64	4.31	5.00
3-month interest rate as a % per annum, period average														
2007 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	4.48	4.78	6.92	4.34	3.78	6.02
Aug.	4.80	3.28	4.66	4.94	4.43	7.99	5.25	7.83	4.36	4.91	6.69	4.33	3.96	6.42
Sep.	5.25	3.46	4.85	5.21	4.31	11.06	5.59	7.72	4.37	5.09	6.82	4.32	4.22	6.65
Oct.	5.59	3.55	4.84	5.22	4.34	12.75	5.93	7.60	4.37	5.13	6.82	4.33	4.37	6.27
Real GDP														
2005	6.2	6.5	3.1	10.2	3.9	10.6	7.9	4.1	3.1	3.6	4.2	6.6	3.3	1.8
2006	6.1	6.4	3.5	11.2	3.8	11.9	7.7	3.9	3.2	6.2	7.7	8.5	4.1	2.8
2007 Q1	6.2	6.2	2.9	10.1	4.0	11.2	7.6	2.6	3.5	6.7	6.0	8.3	3.2	3.1
Q2	6.6	6.0	0.5	7.6	3.8	11.0	7.6	1.6	3.7	6.6	5.6	9.3	2.9	3.1
Q3	.	.	1.7	.	.	.	11.6	.	.	5.8	5.7	9.4	2.6	3.2
Current and capital accounts balance as a % of GDP														
2005	-11.0	-1.5	4.5	-9.3	-5.3	-11.2	-5.9	-6.0	-5.5	-1.3	-7.9	-8.5	6.9	-2.3
2006	-15.0	-2.8	2.6	-13.2	-5.7	-21.1	-9.6	-5.9	-3.7	-2.6	-10.5	-7.1	6.3	-3.2
2006 Q4	-25.3	-4.8	1.2	-14.1	-25.4	-26.0	-10.5	-4.1	-4.0	-3.3	-10.0	-6.2	7.1	-3.8
2007 Q1	-27.3	2.1	-2.1	-21.1	-13.2	-24.4	-12.2	-5.0	-10.1	-2.4	-16.9	1.0	9.4	-3.6
Q2	-19.2	-4.8	2.8	-12.9	-2.9	-22.7	-14.6	-6.6	-4.7	-4.2	-16.0	-6.9	5.0	-2.4
Unit labour costs														
2005	2.4	-0.7	0.9	2.6	1.4	15.2	5.9	3.1	0.3	0.3	.	4.3	0.0	3.9
2006	4.5	1.0	2.2	8.0	-0.2	14.0	8.5	.	0.5	.	.	1.7	0.4	2.5
2007 Q1	14.6	3.1	4.4	16.0	-	-	4.6	-	-0.3	-	-	2.5	4.1	0.5
Q2	13.2	2.6	6.3	20.1	-	-	7.7	-	-0.2	-	-	-0.4	3.7	2.5
Q3	.	.	3.9	.	-	-	.	-	.	-	-	0.3	2.8	.
Standardised unemployment rate as a % of labour force (s.a.)														
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	6.9	5.6	7.4	7.3	13.8	7.3	13.3	7.1	5.3
2007 Q1	7.7	5.8	4.0	4.9	4.0	6.4	4.7	7.3	6.6	10.8	6.4	11.3	6.5	5.4
Q2	7.0	5.5	3.7	5.1	3.9	5.8	4.4	7.2	6.4	9.9	6.7	11.3	6.1	5.3
Q3	6.5	5.2	3.2	5.5	3.8	5.3	4.3	7.2	6.3	9.2	7.2	11.2	5.7	.
2007 June	6.8	5.4	3.7	5.2	3.8	5.6	4.2	7.2	6.4	9.6	6.8	11.3	5.8	5.2
July	6.7	5.3	3.3	5.4	3.9	5.5	4.4	7.2	6.3	9.5	7.1	11.2	5.6	5.2
Aug.	6.5	5.2	3.3	5.5	3.8	5.3	4.2	7.3	6.3	9.2	7.2	11.2	5.8	5.2
Sep.	6.3	5.1	3.2	5.6	3.7	5.2	4.2	7.2	6.3	8.9	7.3	11.2	5.9	.
Oct.	6.2	5.0	2.9	5.4	3.8	5.0	4.3	7.3	6.2	8.8	7.3	11.2	5.8	.

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

## 9.2 In the United States and Japan

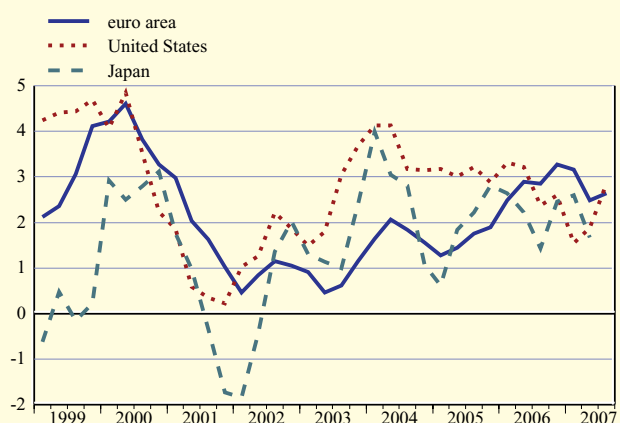
(annual percentage changes, unless otherwise indicated)

### 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	-4.4	48.9
2005	3.4	-0.5	3.1	4.0	5.1	4.4	3.56	4.28	1.2441	-3.6	49.2
2006	3.2	-1.5	2.9	5.0	4.6	4.8	5.19	4.79	1.2556	-2.6	48.7
2006 Q3	3.3	-3.9	2.4	6.1	4.7	4.6	5.43	4.90	1.2743	-2.9	48.6
Q4	1.9	0.4	2.6	3.6	4.5	4.9	5.37	4.63	1.2887	-2.1	48.7
2007 Q1	2.4	0.9	1.5	2.3	4.5	5.4	5.36	4.68	1.3106	-3.0	49.7
Q2	2.7	2.4	1.9	2.0	4.5	6.2	5.36	4.84	1.3481	-2.6	48.7
Q3	2.4	2.8	2.8	1.9	4.6	6.4	5.45	4.74	1.3738	.	.
2007 July	2.4	-	-	2.4	4.6	6.0	5.36	5.01	1.3716	-	-
Aug.	2.0	-	-	1.6	4.6	6.6	5.48	4.68	1.3622	-	-
Sep.	2.8	-	-	1.7	4.7	6.7	5.49	4.51	1.3896	-	-
Oct.	3.5	-	-	2.4	4.7	6.3	5.15	4.52	1.4227	-	-
Nov.	.	-	-	.	.	.	4.96	4.16	1.4684	-	-
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 Q3	0.6	-2.8	1.4	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	2.5	3.0	4.0	1.0	0.62	1.68	156.43	.	.
Q2	-0.1	.	1.5	2.4	3.8	1.5	0.69	1.74	162.89	.	.
Q3	-0.1	.	2.2	2.7	3.8	1.9	0.89	1.72	161.90	.	.
2007 July	0.0	.	-	3.2	3.6	2.1	0.77	1.89	166.76	-	-
Aug.	-0.2	.	-	4.4	3.8	1.8	0.92	1.65	159.05	-	-
Sep.	-0.2	.	-	0.8	4.0	1.8	0.99	1.61	159.82	-	-
Oct.	0.3	.	-	4.7	4.0	1.9	0.97	1.66	164.95	-	-
Nov.	.	-	-	.	.	.	0.91	1.51	162.89	-	-

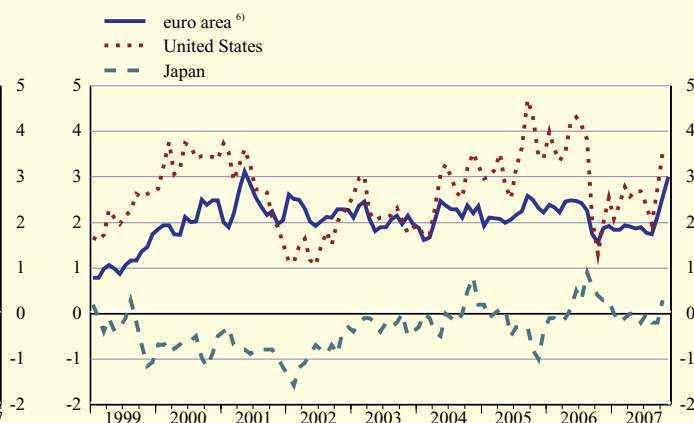
### C37 Real gross domestic product

(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 December 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>. Additional references about the methodologies and sources used in the euro area b.o.p. and i.i.p. statistics can be found in the ECB publication entitled “European Union balance of payments/

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.

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.cmfb.org](http://www.cmfb.org)). The annual quality report on the euro area b.o.p./i.i.p., which is based on the Task Force’s recommendations, is available on the ECB’s website. The presentation of net transactions in the financial account follows the sign convention of the IMF Balance of Payments Manual: an increase of assets appears with a minus sign, while an increase of liabilities appears with a plus sign. In the current account and capital account, both credit and debit transactions are presented with a plus sign.

The euro area b.o.p. is compiled by the ECB. The recent monthly figures should be regarded as provisional. Data are revised when figures for the following month and/or the detailed quarterly b.o.p. are published. Earlier data are revised periodically or as a result of methodological changes in the compilation of the source data.

In Section 7.1, Table 2 contains seasonally adjusted data for the current account. Where appropriate, the adjustment covers also 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, 6 SEPTEMBER, 4 OCTOBER, 8 NOVEMBER AND 6 DECEMBER 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 third quarter of 2007 TARGET processed a daily average of 361,130 payments, with a total daily average value of €2,436 billion. Compared with the previous quarter, this represents a decrease of 2% in terms of volume, but an increase of 1% in terms of value. When compared with the same period last year, an increase of 15% in volume and 20% 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 28 September, the last day of the quarter, when a total of 515,573 payments were processed.

day in the third quarter of 2007. This represents a decrease of 2% in volume and 1% in value as compared with the previous quarter. In comparison with the corresponding period in 2006, the volume and value increased by 16%. Intra-Member State traffic accounted for 78% of the total volume and 63% 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, 64% of payments were below €50,000, while 10% were above €1 million. On average, there were 185 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 28 September, when a total of 398,081 payments were processed.

## INTRA-MEMBER STATE PAYMENTS

TARGET processed a daily average of 280,952 intra-Member State payments with a total average value of €1,536 billion per business

## INTER-MEMBER STATE PAYMENTS

At the inter-Member State level, TARGET processed a daily average of 80,178 payments with a total daily average value of €900 billion

**Table 1 Payment instructions processed by TARGET and other selected interbank funds transfer systems: volume of transactions**

(number of payments)

	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3
<b>TARGET</b>					
All TARGET payments					
Total volume	20,313,134	22,062,699	22,069,092	22,882,111	23,473,483
Daily average	313,247	350,202	344,830	369,066	361,130
Intra-Member State TARGET payments					
Total volume	15,686,100	17,153,073	17,071,952	17,746,830	18,261,887
Daily average	241,873	272,271	266,749	286,239	280,952
Inter-Member State TARGET payments					
Total volume	4,627,034	4,909,629	4,997,140	5,135,281	5,211,596
Daily average	71,374	77,931	78,080	82,827	80,178
<b>Other systems</b>					
<b>EURO1 (EBA)</b>					
Total volume	11,712,173	12,390,099	12,540,775	13,252,906	13,210,577
Daily average	180,593	196,668	195,876	213,757	203,240
<b>Paris Net Settlement (PNS)</b>					
Total volume	1,587,129	1,700,859	1,678,885	1,659,684	1,636,102
Daily average	24,512	26,998	26,235	26,769	25,171
<b>Pankkien On-line Pikasiirrot ja Sekit-järjestelmä (POPS)</b>					
Total volume	144,456	136,200	136,111	173,124	150,046
Daily average	2,224	2,162	2,126	2,792	2,308

**Table 2 Payment instructions processed by TARGET and other selected interbank funds transfer systems: value of transactions**

(EUR billions)

	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3
<b>TARGET</b>					
All TARGET payments					
Total value	131,843	137,943	143,598	150,143	158,305
Daily average	2,031	2,190	2,244	2,422	2,436
Intra-Member State TARGET payments					
Total value	85,847	90,307	93,776	95,905	99,826
Daily average	1,322	1,434	1,465	1,547	1,536
Inter-Member State TARGET payments					
Total value	45,995	47,637	49,822	54,237	58,478
Daily average	709	756	778	875	900
<b>Other systems</b>					
EURO1 (EBA)					
Total value	12,399	12,766	13,480	13,876	15,112
Daily average	191	203	210	224	233
Paris Net Settlement (PNS)					
Total value	3,572	3,795	3,883	4,459	4,571
Daily average	55	60	61	72	70
Pankkien On-line Pikasiirrot ja Sekit-järjestelmä (POPS)					
Total value	111	114	128	115	111
Daily average	2	2	2	2	2

in the third quarter of 2007. Compared with the previous quarter, this represents a decrease of 3% in terms of volume, but an increase of 3% in terms of value. In comparison with the corresponding period in 2006, an increase of 12% in volume and 27% in value is observed. The proportion of interbank payments in average daily inter-Member State traffic was 48% in terms of volume and 95% in terms of value. The average value of interbank payments increased from €21.1 million to €22.2 million and that of customer payments remained at €1.1 million. 64% of the inter-Member State payments had a value below €50,000, while 15% 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 28 September, when a total of 117,492 payments were processed.

#### **TARGET AVAILABILITY AND BUSINESS PERFORMANCE**

In the third quarter of 2007 TARGET achieved an overall availability of 99.94%, compared with 99.88% in the previous quarter. The number of incidents with an effect on TARGET's availability was 9, which is 4 fewer 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 third quarter of 2007 no incident lasted more than two hours. However, one incident resulted in TARGET closing 30 minutes late on 20 September. Table 3 shows the availability figures for each national TARGET component and the ECB payment mechanism. In the quarter under review 97.84% of inter-Member State payments were processed in less than 5 minutes, 2.02% needed between 5 minutes and 15 minutes, and 0.47% required between 15 minutes and 30 minutes. On average, the processing time

**Table 3 TARGET availability for each national component and the ECB payment mechanism (EPM)**

National TARGET component	Availability Q3 2007
Belgium	100.00%
Denmark	99.96%
Germany	100.00%
Estonia	100.00%
Ireland	100.00%
Greece	100.00%
Spain	99.96%
France	99.86%
Italy	100.00%
Luxembourg	99.95%
Netherlands	100.00%
Austria	100.00%
Poland	100.00%
Portugal	99.75%
Finland	99.54%
United Kingdom	100.00%
ECB payment mechanism	99.96%
Overall TARGET availability	99.94%

exceeded 30 minutes for 50 payments per day, which should be seen in the context of the 80,178 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 September and November 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).

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### 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”.

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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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