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SEPTEMBER

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## ABBREVIATIONS

### COUNTRIES

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

### OTHERS

BIS	Bank for International Settlements
b.o.p.	balance of payments
BPM5	IMF Balance of Payments Manual (5th edition)
CD	certificate of deposit
c.i.f.	cost, insurance and freight at the importer's border
CPI	Consumer Price Index
ECB	European Central Bank
EER	effective exchange rate
EMI	European Monetary Institute
EMU	Economic and Monetary Union
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
EU	European Union
EUR	euro
f.o.b.	free on board at the exporter's border
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
HWWI	Hamburg Institute of International Economics
ILO	International Labour Organization
IMF	International Monetary Fund
MFI	monetary financial institution
NACE Rev. 1	Statistical classification of economic activities in the European Community
NCB	national central bank
OECD	Organisation for Economic Co-operation and Development
PPI	Producer Price Index
SITC Rev. 4	Standard International Trade Classification (revision 4)
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 4 September 2008, 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 has confirmed that annual inflation rates are likely to remain well above levels consistent with price stability for a protracted period of time and that upside risks to price stability over the medium term prevail. While the growth of broad money and credit aggregates is now showing some signs of moderation, the still strong underlying pace of monetary expansion points to continued upside risks to price stability over the medium term. The latest economic data also confirm the weakening of real GDP growth in mid-2008. This reflects partly an expected technical reaction to the strong growth seen in the first quarter as well as dampening effects from global and domestic factors, including direct and indirect effects from high commodity prices. In this environment, it remains imperative to avoid broad-based second-round effects in price and wage-setting. In full accordance with its mandate, the Governing Council emphasises that maintaining price stability in the medium term is its primary objective and that it is resolute in its determination to keep medium and long-term inflation expectations firmly anchored in line with price stability. This will preserve purchasing power in the medium term and support sustainable growth and employment. On the basis of the Governing Council's assessment, the current monetary policy stance will contribute to achieving the objective of price stability. The Governing Council will continue to monitor very closely all developments over the period ahead.

Starting with the economic analysis, according to Eurostat's first estimate, following strong quarterly growth of 0.7% in the first quarter, euro area real GDP contracted by 0.2% in the second quarter of 2008. In terms of quarter-on-quarter growth, private consumption declined by 0.2% and there was a perceptible weakness in investment, which fell by 1.2%. Both euro area imports and exports declined by 0.4%.

Taking into account all available information, the euro area economy is currently experiencing an episode of weak activity characterised by high commodity prices weighing on consumer confidence and demand, as well as by dampened investment growth. This episode is expected to be followed by a gradual recovery. In particular, if persistent, the fall in oil prices from their peak in July will help strengthen real disposable income, with the level of employment remaining high and the unemployment rate low by historical standards. Moreover, growth in the world economy is expected to remain relatively resilient, benefiting mainly from sustained growth in emerging economies. This should support external demand for euro area goods and services and thereby investment.

This outlook is also reflected in the September 2008 ECB staff macroeconomic projections for the euro area. The exercise projects average annual real GDP growth of between 1.1% and 1.7% in 2008, and between 0.6% and 1.8% in 2009. In comparison with the June Eurosystem staff projections, real GDP growth figures for 2008 and 2009 are lower.

In the view of the Governing Council, the uncertainty surrounding this outlook for economic activity is particularly high at the current juncture and, generally, downside risks prevail. Risks stem particularly from renewed increases in energy and food prices, which could dampen consumption and investment. Moreover, downside risks continue to relate to the potential for the financial market tensions to affect the real economy more adversely than currently foreseen. The possibility of disorderly developments owing to global imbalances also implies downside risks to the outlook for economic activity, as do concerns about rising protectionist pressures.

With regard to price developments, annual HICP inflation has remained considerably above the level consistent with price stability since last autumn, standing at 3.8% in August according to Eurostat's flash estimate, after 4.0% in June and July 2008. This worrying level

of inflation is largely the result of both the direct and indirect effects of past surges in energy and food prices at the global level. Moreover, wage growth has been picking up in recent quarters, at a time when labour productivity growth has decelerated, resulting in sharp increases in unit labour costs.

Looking ahead, on the basis of current commodity futures prices, the annual HICP inflation rate is likely to remain well above levels consistent with price stability for quite some time, moderating only gradually during the course of 2009. Consistent with this view, the September ECB staff projections foresee average annual HICP inflation at between 3.4% and 3.6% in 2008, and between 2.3% and 2.9% in 2009. The higher inflation projections for 2008 and 2009 mainly reflect higher energy prices and, to a lesser extent, higher food and services prices than assumed previously.

In this context, it is important to recall the conditional nature of the ECB staff projections. They are based on a number of assumptions that are of a purely technical nature and unrelated to policy intentions. In particular, the technical assumptions for short-term interest rates reflect market expectations as at mid-August. Moreover, it should be noted that the projections are based on the assumption that oil and non-oil commodity prices, while remaining at elevated levels, will exhibit greater stability over the projection horizon than has been the case in recent months, in line with prevailing futures prices.

It is the Governing Council's view that, at the policy-relevant medium-term horizon, there are upside risks to the outlook for price developments. These risks include the possibility of renewed increases in commodity prices and of previous rises having further and stronger indirect effects on consumer prices. There is particularly a very strong concern that the emergence of broad-based second-round effects in price and wage-setting behaviour could add significantly to inflationary pressures. Moreover, the upside risks to price stability could be aggravated by unexpected rises in indirect taxes and administered prices.

Against this background, it is imperative to ensure that medium to longer-term inflation expectations remain firmly anchored at levels in line with price stability. Broad-based second-round effects stemming from the impact of higher energy and food prices on price and wage setting behaviour must be avoided. The Governing Council is monitoring price-setting behaviour and wage negotiations in the euro area with particular attention. All parties concerned – in both the private and the public sectors – must meet their responsibilities in this regard. The Governing Council has repeatedly expressed its concern about the existence of schemes in which nominal wages are indexed to consumer prices. Such schemes involve the risk of upward shocks in inflation leading to a wage-price spiral, which would be detrimental to employment and competitiveness in the countries concerned. The Governing Council calls for these schemes to be abolished.

The monetary analysis confirms the prevailing upside risks to price stability at medium to longer-term horizons. In line with the ECB's monetary policy strategy, the Governing Council takes the view that the sustained underlying strength of monetary and credit expansion in the euro area over the past few years has created upside risks to price stability. Over recent quarters, these risks appear to have become manifest as inflation has trended upwards.

Not least in the face of the ongoing tensions in financial markets, the monetary analysis helps to support the necessary medium-term orientation of monetary policy by focusing attention on the upside risks to price stability prevailing at medium to longer horizons. While the growth of broad money and credit aggregates is now showing some signs of moderation, reflecting the policy measures taken since 2005 to address risks to price stability, the strong underlying pace of monetary expansion points to continued upside risks to price stability over the medium term.

The currently flat yield curve has given rise to a substitution from longer maturity assets into monetary instruments, which offer similar

remuneration but greater liquidity and less risk. This substitution has led the current headline rate of M3 growth to overstate the underlying pace of monetary expansion. At the same time, shifts out of overnight deposits drove the annual growth rate of M1 down further in July. These effects, as well as other temporary factors, must be taken into account when assessing monetary developments and their implications. A broad-based analysis of the data, taking the appropriate medium-term perspective and allowing for these considerations, confirms the underlying strength of money growth.

In particular, the pace, maturity and sectoral composition of borrowing from banks suggest that, at the level of the euro area as a whole, the availability of bank credit has, as yet, not been significantly affected by the ongoing financial tensions. This notwithstanding, growth in loans now shows signs of moderation, as previously anticipated, with corporate demand for credit slowing. At the same time, the growth of loans to households continues to follow the downward trend observed over the past few years, as a result of higher short-term interest rates and housing market weakness in several parts of the euro area.

To sum up, a cross-check of the outcome of the economic analysis with that of the monetary analysis clearly confirms the assessment of upside risks to price stability over the medium term. The information that has become available since the last meeting of the Governing Council has confirmed that annual inflation rates are likely to remain well above levels consistent with price stability for a protracted period of time. The growth of broad money and credit aggregates is now showing some signs of moderation, but the still strong underlying pace of monetary expansion points to continued risks to price stability over the medium term. The latest economic data also confirm the weakening of real GDP growth in mid-2008. This reflects partly an expected technical reaction to the strong growth seen in the first quarter as well as dampening effects from global and domestic factors, including direct and indirect effects

from high commodity prices. Against this background, it remains imperative to avoid broad-based second-round effects in wage and price-setting. In full accordance with its mandate, the Governing Council emphasises that maintaining price stability in the medium term is its primary objective and that it is resolute in its determination to keep medium and long-term inflation expectations firmly anchored in line with price stability, thereby preserving purchasing power in the medium term and supporting sustainable growth and employment in the euro area. On the basis of the Governing Council's assessment, the current monetary policy stance will contribute to achieving the objective of price stability. The Governing Council will continue to monitor very closely all developments over the period ahead.

Regarding fiscal policy, budget plans for 2009 should fully reflect existing policy commitments. This implies that euro area countries with relatively large fiscal deficits need to specify much more ambitious and concrete consolidation measures, especially on the expenditure side. Countries that have already achieved their medium-term budgetary objectives need to ensure that they maintain sound structural fiscal positions. At the current juncture, the steady pursuit of stability-oriented fiscal policies would help to contain inflationary pressures and provide the required budgetary room for manoeuvre to allow automatic stabilisers to contribute to smoothing the business cycle.

Turning to structural policies, measures that reduce adjustment costs and promote moderate unit labour cost growth are of the utmost importance in the current economic circumstances. While this is crucial in all euro area countries, it is particularly pressing in those that have experienced a significant loss of cost and price competitiveness over recent years and where unemployment has already started to rise. Moreover, fostering productivity through enhanced investment in innovation and education enlarges the scope for increases in real incomes in the longer run.





# ECONOMIC AND MONETARY DEVELOPMENTS

## I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

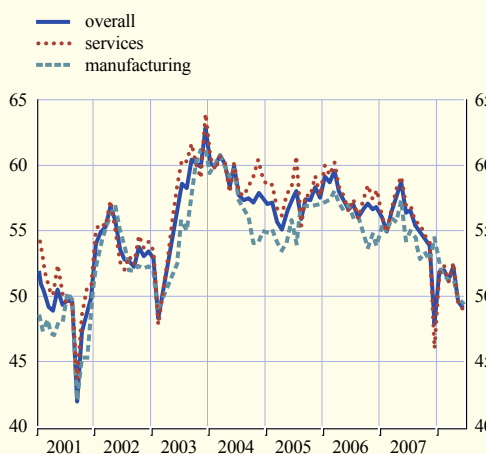
Over the past three months global economic conditions have been characterised by headwinds to economic activity and continued inflationary pressures. Persistent financial market strains in combination with high commodity prices and the ongoing housing market adjustments in a number of advanced economies have continued to weigh on global activity. Meanwhile, sustained growth in emerging economies has continued to support overall global growth. At the same time, global inflationary pressures have been mounting, heightened by high commodity prices. On balance, the risks to the outlook for global growth remain on the downside.

### I.1 DEVELOPMENTS IN THE WORLD ECONOMY

Over the past three months global economic conditions have been characterised by headwinds to economic activity, continued inflationary pressures and a high degree of uncertainty overall. Persistent financial market strains in combination with high commodity prices and the ongoing housing market adjustments in a number of advanced economies have continued to weigh on global growth. The global repercussions of the US downturn appear to have left a noticeable mark on the global economic cycle. Meanwhile, resilient domestic demand has continued to support economic growth in emerging economies. The external environment of the euro area has continued to weaken in the past quarter. This is consistent with survey evidence on global business conditions. In July the global all-industry output PMI remained slightly below the 50-point threshold between economic expansion and contraction (see Chart 1), thus indicating subdued market conditions overall in both the manufacturing and services sectors.

Chart 1 Global Purchasing Managers' Index

(output; diffusion index; seasonally adjusted)



Source: Markit Economics.

Global inflation has surged in the past three months, heightened by pressures from past rises in the prices of oil and non-energy commodities. Overall, headline consumer price inflation in OECD countries rose to 4.8% in the year to July 2008, above the average of the previous three months. Excluding food and energy, consumer prices rose by 2.3% in the year to July. Survey evidence points to continued upward pressure on prices in the near term, as indicators of cost pressures remain on an upward trend. However, the global PMI input index, which exhibits strong correlations with global inflation rates, decreased slightly in July, although remaining close to its survey record high of June 2008. This slight decline may be a sign of some levelling-off of inflationary pressures, in line with the recent decrease in commodity prices.

### UNITED STATES

In the United States, after several years of robust GDP growth, the pace of economic expansion decelerated markedly towards the end of 2007 and remained weak in the first quarter of 2008. This downturn reflected the ongoing housing market correction, tighter credit conditions and elevated energy prices. While domestic demand has been relatively subdued, net exports have emerged as a major contributor to growth, supported by resilient foreign demand and a weaker US dollar.

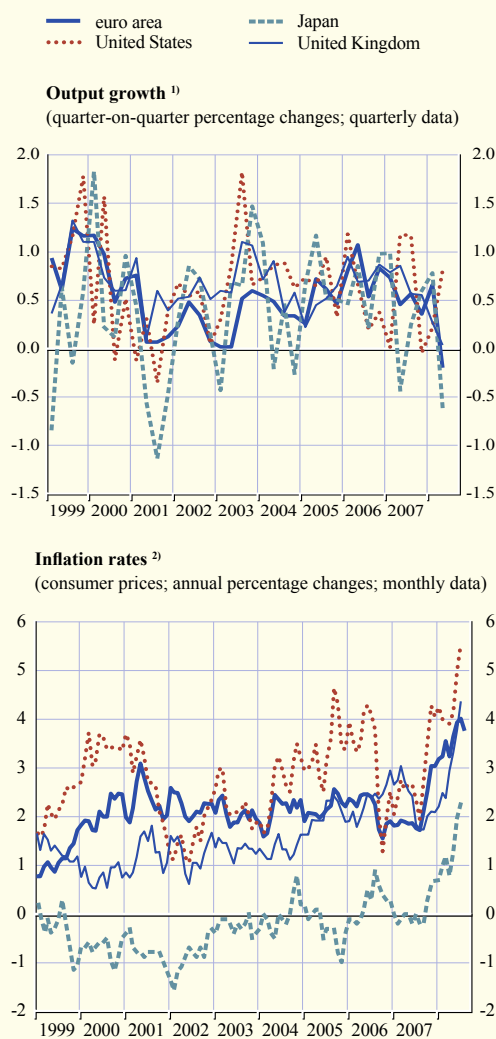
According to preliminary estimates, real GDP growth picked up to a quarterly annualised rate of 3.3% in the second quarter of 2008, compared with 0.9% in the first quarter (see Chart 2). This reflects not only the strong contribution of net exports, but also some acceleration in personal consumption expenditure, boosted by temporary fiscal stimulus measures. Residential investment continued to contract, although the quarterly pace of decline was slower than in previous periods.

As regards price developments, annual CPI inflation increased to 5.6% in July, which compares with an average of 4.2% in the first half of 2008 and 2.9% in 2007. This acceleration stems mainly from the sharp increases in energy costs. The annual rate of inflation excluding food and energy stood at 2.5% in July, slightly higher than the average for the first half of the year.

Looking ahead, economic activity is expected to remain subdued in the second half of 2008. The outlook for personal consumption is clouded by adverse employment and real income dynamics, which will affect household finances more noticeably once the supportive effects of the fiscal stimulus package have faded later this year. Persistent financial market strains, high energy prices and slowing foreign demand pose additional risks to the economic outlook. Consumer price inflation is likely to remain elevated in the near term, reflecting commodity price developments. However, below average capacity utilisation rates and the emerging labour market slack should exert some downward pressure on prices in the coming months.

Following cumulative reductions of the target for the federal funds rate amounting to 3.25 percentage points between September 2007 and April 2008, the US Federal Open Market Committee decided to keep the target unchanged at 2.0% at its meetings on 25 June and 5 August. In addition, the Federal Reserve System has recently announced further steps to enhance the effectiveness of its liquidity-providing operations, citing continued fragile circumstances in the financial markets as the reason.

**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 slowed noticeably, reflecting weakness in both exports and domestic demand. According to the first preliminary estimate by Japan's Cabinet Office, real GDP decreased by 0.6% quarter on quarter in the second quarter of 2008. This contraction, largely offsetting the fairly strong increases recorded for the first quarter of 2008 (0.8% quarter on quarter, revised down from 1.0%), was relatively broadly based across the various demand components. Private consumption decreased by 0.5% quarter on quarter, following an increase of 0.7% in the first quarter, reflecting lower real incomes and uncertain labour market prospects. Residential investment declined strongly, contracting by 3.4%, down from +4.3% in the first quarter. Public spending declined by 0.9%, driven largely by a 5.2% decline in public investment. With both exports and imports falling substantially (-2.3% and -2.8% quarter on quarter respectively), the contribution of net external demand to GDP was effectively nil.

Consumer price inflation has increased over recent months, with the average CPI increase in the second quarter amounting to 1.4% year on year. Annual CPI inflation increased further to 2.3% in July, up from 2.0% in June, to a large extent reflecting developments in petrol prices. Annual CPI inflation excluding food and energy stood at 0.2% in July, after 0.1% in June.

At its most recent meeting on 19 August 2008, as in all its monetary policy meetings since February 2007, the Bank of Japan decided to leave its target for the uncollateralised overnight call rate unchanged at 0.5%.

Looking ahead, economic activity in Japan is likely to remain relatively subdued in the second half of the year. Private consumption is expected to remain weak, as inflation continues to erode real incomes and labour market conditions deteriorate further. In addition, continued sluggish external demand may weigh on the outlook for the contribution of net exports to GDP growth.

## UNITED KINGDOM

In the United Kingdom, GDP growth has come to a standstill and HICP inflation has picked up further. The quarterly rate of output growth has gradually slowed over the past year. The first release estimate of output growth in the second quarter of 2008 (0.0%, well below the long-term average of 0.7%) confirmed the ongoing slowdown. In line with weak growth in retail sales, private consumption did not grow at all in the second quarter. Given recent confidence indicators, which have generally followed a downward trend and remained below long-term averages, output growth is expected to remain subdued in the coming quarters. This is in line with market expectations: the consensus forecast of GDP growth in 2008 was 1.4% in August (largely unrevised over the past six months), while the outlook for 2009 has deteriorated significantly. The correction in the housing market has continued. According to the Halifax index, in July house prices fell by around 11% year on year, while the Nationwide index suggests a 10.1% decline in August. In the second quarter of 2008 output in construction contracted by 1.1% quarter on quarter.

Annual HICP inflation rose to 4.4% in July, up from 3.8% in June. This was mainly due to higher food and energy prices, while HICP inflation excluding food and energy was more moderate. The Bank of England expects inflation to increase further in the second half of 2008.

On 4 September 2008 the Bank of England's Monetary Policy Committee decided to keep its main policy rate unchanged at 5.00% for the fifth consecutive month.



## OTHER EUROPEAN COUNTRIES

In other EU countries outside the euro area, output growth has generally been mixed over past quarters. At the same time, inflation has increased substantially in all countries in recent months, owing largely to rising food and energy prices.

In Sweden, quarterly growth has decelerated in recent quarters, standing at 0.0% in the second quarter of 2008 (well below the long-term average of 0.8%). In Denmark, the slowdown in recent quarters has been much more pronounced, with quarterly real GDP growth reaching -0.8% in the first quarter (compared with the long-term average of 0.5%), but growth picked up again to 0.6% in the second quarter. In July consumer and retail confidence indicators declined further in both countries, suggesting high uncertainty surrounding developments in economic activity in the quarters ahead. HICP inflation has accelerated in both countries in 2008, mainly as a result of rising food and energy prices. In July annual HICP inflation reached 4.4% in Denmark and 4.1% in Sweden. In both countries inflation is expected to decrease to some extent, but to remain at elevated levels in the quarters ahead. On 4 September 2008 Sveriges Riksbank decided to increase its main policy rate by 25 basis points to 4.75%.

Looking at the four largest central and eastern European EU countries, in the Czech Republic and Poland quarterly growth has been robust in recent quarters, but has shown some signs of weakening compared with the end of last year, standing at 0.9% in the Czech Republic in the first quarter of 2008, and at 1.5% in Poland in the second quarter of 2008. By contrast, Romania has enjoyed very robust growth in recent quarters, with growth reaching 8.2% year on year in the first quarter and 9.3% in the second quarter. In Hungary, quarterly growth remained sluggish, but has been picking up somewhat in recent quarters, reaching 0.6% in the first and second quarters of 2008 (up from 0.3% in the last quarter of 2007). Indicators for retail sales and consumer confidence deteriorated to some extent in the months up to July in the Czech Republic and Poland, while in Hungary these indicators improved and in Romania they were stable. Inflation rates increased in all four countries in 2008, reaching 9.1% in Romania, 7.0% in Hungary, 6.8% in the Czech Republic and 4.5% in Poland in July 2008. The increase in HICP inflation mainly reflected rising food and energy prices. Looking ahead, HICP inflation is expected to decrease somewhat, but to remain at elevated levels in all four countries. On 31 July 2008 concerns about inflation led the Board of Banca Națională a României to increase interest rates by 25 basis points to 10.25%. On 7 August Česká národní banka decided to lower its main policy rate by 25 basis points to 3.5%.

In the smaller non-euro area EU countries, growth patterns have been mixed in recent quarters. While economic activity in Slovakia and Bulgaria has remained very strong, domestic demand has decreased sharply in the Baltic countries (especially in Estonia), owing to slower credit and real income growth and a substantial decline in house prices. European Commission confidence indicators suggest that these trends will be sustained in the near term. Annual HICP inflation has increased strongly in 2008 in the Baltic countries and Bulgaria, ranging between 11.2% and 16.5% in July. This rise primarily reflects higher food and energy prices. In Slovakia, the increase was less pronounced, with HICP inflation climbing to 4.4% in July. Box 1 briefly reviews food price developments in the central and eastern European EU countries outside the euro area and their impact on HICP inflation.

In Russia, economic expansion has continued at a robust pace. During the first quarter of 2008 real GDP growth decelerated slightly to 8.5% year on year, after an exceptionally strong fourth quarter of 2007 (9.5% year on year). At the same time, concerns over increasing foreign borrowing by Russian companies and liquidity tensions in the banking sector are on the rise. Inflationary pressures have remained strong, with annual consumer price inflation standing at close to 15% since May 2008 (14.9% in August).



Box I

**FOOD PRICE DEVELOPMENTS IN THE CENTRAL AND EASTERN EUROPEAN EU COUNTRIES OUTSIDE THE EURO AREA**

Since 2006 the world economy has experienced a significant increase in the price of food at both the producer and consumer levels. Within the EU, the central and eastern European countries outside the euro area (CEE countries)<sup>1</sup> have been greatly affected by this shock, with all CEE countries reporting greater food price increases than in the euro area.

**Recent developments in agricultural prices and their impact on the HICP**

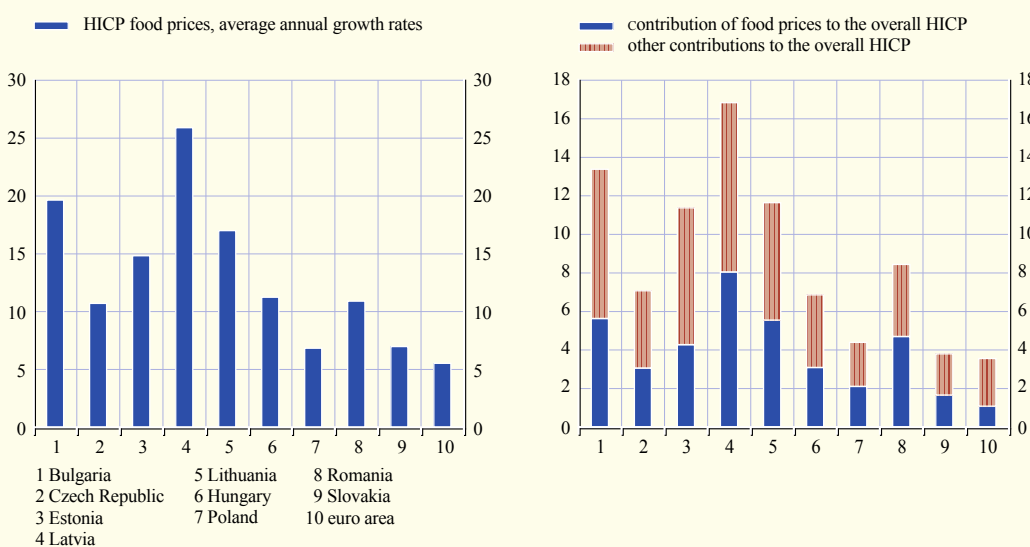
Food prices started to increase significantly in 2007 and, during the period January-July 2008, in all CEE countries the growth rate of consumer food prices and the contribution of those prices to the overall annual HICP were greater than in the euro area (see Chart A). During this period Bulgaria, Latvia and Lithuania saw the greatest increases in food prices, by 19.6%, 25.9% and 17.0% respectively. These countries also reported the largest contributions of consumer food prices to HICP inflation for the same period.

The strong contribution of food prices to HICP inflation is partly related to the high weight of food in the HICP indices in the CEE countries. In all CEE countries, the weight of (processed and unprocessed) food in 2008 is above the euro area level of around 20% (see Chart B).

1 CEE countries are those EU Member States outside the euro area that have joined the EU since May 2004.

**Chart A Food price increases and contributions to the overall HICP during the period January-July 2008**

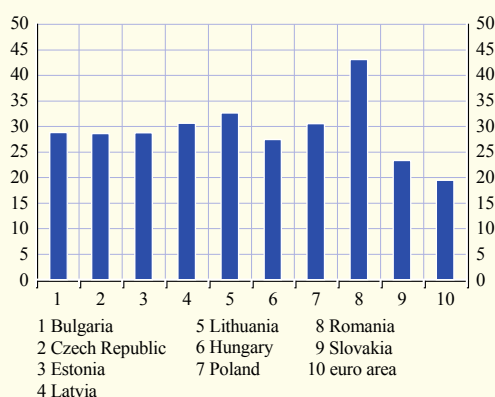
(annual percentage changes; percentage points)



Sources: Eurostat and ECB.

**Chart B Weight of food in the HICP (2008)**

(percentages)

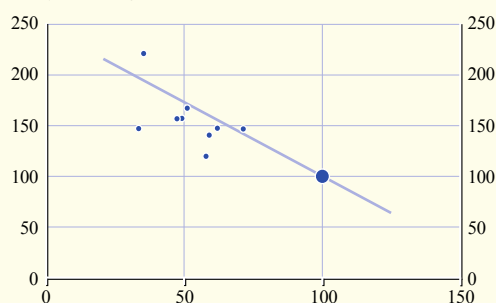


Sources: Eurostat and ECB.

**Chart C Weight of food in the HICP (2008) versus GDP per capita (2007)**

(euro area = 100)

x-axis: GDP per capita in purchasing power parity terms  
y-axis: weight of food in the HICP



Sources: Eurostat and ECB.

Chart C shows that the weight of food in the HICP basket is closely related to the level of GDP per capita (in terms of purchasing power parity). Hence, it is not surprising that the decrease in the share of the food component in most CEE countries in recent years has been strongly correlated with their increase in per capita income. Indeed, changes in the weight of food in the HICP basket between 2003 and 2008 were heterogeneous across countries. The weight decreased in particular in the fast-growing CEE countries Latvia, Lithuania and Slovakia.

### The drivers of food price increases

Food price increases at both the consumer and producer level can be explained by various temporary as well as more permanent structural factors. Food prices in all CEE countries have been affected by the increase in global food prices owing to, inter alia, the increasing demand for food in emerging economies, a greater demand for crops for the production of biofuels, and weather-related crop shortfalls.<sup>2</sup>

In addition, food prices in many CEE countries have been affected by (often temporary) country-specific factors, such as weak agricultural harvests or strong wage growth, which have contributed significantly to the rising costs and prices in the food industry and intensified the pass-through to consumer food prices. The increase in tobacco taxation (tobacco is part of the food component of the HICP) and VAT also contributed to the greater increase (in relative terms) of consumer food prices in most CEE countries than in the euro area. Moreover, energy price increases were stronger in most CEE countries than in the euro area. This, together with the fact that food production is more energy-intensive in most of the CEE countries than in the euro area, also contributed to higher production costs and prices in the food industry compared with the euro area.

<sup>2</sup> See also the box entitled "What accounts for the surge in global food prices?" in the June 2008 issue of the Monthly Bulletin.

Institutional factors have also contributed to food price increases in the CEE countries. The Common Agricultural Policy (CAP) imposes two important types of direct supply constraint: quota regimes and “set-aside” obligations. Production quotas are imposed on certain products (in particular milk and sugar) which, if exceeded, result in penalties, such as milk super-levies, which the CAP applies EU-wide. The impact of these supply constraints appears to have been particularly significant in certain CEE countries.

In most CEE countries, anecdotal evidence suggests that the level of competition in the retail food sector has not been sufficient to contain profit margins at the retail level. A further liberalisation of the food market at the retail level would help to keep consumer prices down in several countries.

Given that food products are highly tradable, food price arbitrage with the euro area appears to have played an important role in the increase of food prices in some CEE countries with initially relatively low price levels. In the CEE countries with the lowest price levels, the contribution of (unprocessed) food to the (final) retail price also tends to be greater, which leads to higher percentage increases in the retail prices.

Food price increases appear to have been more moderate in those CEE countries which have a relatively significant degree of nominal exchange rate flexibility (e.g. the Czech Republic, Poland, Romania and Slovakia). Currency appreciation appears to have had a dampening effect on food prices in those countries; first, by directly reducing the price of importing food and second, by reducing energy costs and, therefore, also the cost of producing food domestically.

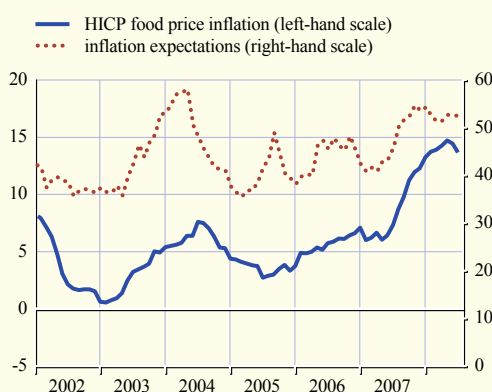
### Some macroeconomic and policy implications

Turning to the macroeconomic implications of the recent strong increase in food prices, a relatively close link between food price inflation and consumers’ inflation expectations can be observed in the CEE countries (see Chart D).<sup>3</sup> Food price inflation has also affected the information content of some traditional indicators of monetary policy. Core inflation measures, which exclude items such as food and energy, have increasingly diverged from headline inflation.<sup>4</sup>

The increase in food prices has had a negative impact on the purchasing power of households. Moreover, since the CEE countries have a lower GDP per capita than the euro area and – as

Chart D Inflation expectations and the HICP food component in the CEE countries

(annual percentage changes; percentage balances)



Sources: European Commission and ECB.

<sup>3</sup> Inflation expectations reported by the European Commission correspond to the difference between the weighted proportion of respondents stating that consumer prices will rise “very much”, “quite a bit” or “a little” over the next 12 months, and the weighted proportion of respondents stating that consumer prices will “fall” or “stay broadly the same” over the same period. Hence, the indicator takes the form of a “balance statistic” and only gives qualitative information on the directional change in inflation expectations over the next 12 months.

<sup>4</sup> This applies to both HICP and CPI inflation, notwithstanding some country-specific differences.

mentioned above – consumers in the CEE countries spend a higher proportion of their income on food, food price increases have a greater impact on the purchasing power of households in the CEE countries than in the euro area.

Given that the process of economic and price level convergence between the CEE countries and the euro area has not yet come to an end, the CEE countries continue to face a stronger risk of upward pressures on inflation via food prices than the euro area countries. The CEE countries' key policy challenge arising from the strong increase in food prices is to anchor inflation expectations and contain the possible second-round effects of the recent sharp increase in inflation.

### EMERGING ASIA

In emerging Asia, in the first half of 2008 economic activity decelerated, especially in small open economies such as Singapore, Taiwan and Hong Kong SAR, but overall it remained robust. Although the global economic slowdown has broadened and intensified in recent months, exports from this region as a whole have held up well. Growth was mainly driven by domestic demand, which remained resilient in most countries despite the erosion of consumer purchasing power owing mainly to higher food prices. Rising commodity prices have fuelled further increases in consumer prices and monetary authorities in the region have started tightening their policy stances. However, policy interest rates remain very low or negative in real terms throughout the region.

In China, GDP growth decelerated gradually and stood at 10.1% in year-on-year terms in the second quarter of 2008 (after 10.6% in the first quarter). Growth is increasingly being supported by domestic demand. Retail sales are accelerating in real terms, thus pointing to resilient consumer demand despite high food prices and deteriorating conditions in the equity and property markets. The annual growth rate of nominal fixed asset investments, although slowing, particularly in the real estate sector, remained above 25%. Despite a rebound in July, export growth lost momentum in the first seven months of 2008. As a result, in this period the trade surplus in dollar terms was 9.6% smaller than in the same period of 2007, also owing to rising import values fuelled by high commodity prices. Annual consumer price inflation continued to decline in July, falling to 6.3% from 8.7% in February, mainly reflecting developments in meat prices. Nevertheless, historically high producer price inflation and the hike of administered energy prices in June are both expected to put upward pressure on consumer prices in the coming months.

In Korea, real GDP grew at an annual rate of 4.8% in the second quarter of 2008, slowing from 5.8% in the previous quarter. Annual CPI inflation edged up to 5.9% in July from 5.5% in the previous month. In India, economic activity remained sustained, with GDP growing by 8.8% in the first quarter, similar to the previous quarter. Wholesale price inflation, the Reserve Bank of India's main inflation measure, increased to 12% in July from around 4% early in the year.

Overall, the broadening global economic slowdown, together with the tightening of the monetary policy stance in a number of countries in the region which have not pegged their currencies to the US dollar, are likely to moderate growth in the coming months. Nevertheless, for the time being the growth outlook remains relatively favourable in emerging Asia, owing mainly to resilient domestic demand, especially in the largest economies in the region.

## LATIN AMERICA

In Latin America, the pace of economic activity moderated somewhat during the first half of 2008, as the impact of the global economic slowdown and some domestic factors came into play. At the same time, inflationary pressures persist on account of rising food and commodity prices and, as a result, monetary authorities in the region have been tightening their policy stances.

In Mexico, real GDP grew by 2.8% year on year in the second quarter of 2008. Meanwhile, annual CPI inflation continued to increase, reaching 5.4% in July. In response, the Banco de México raised the overnight rate by 25 basis points to 8.25% on 15 August. In Brazil, available information suggests that domestic demand remained robust in the second quarter, with retail sales growing by 10.1% compared with the previous quarter. Industrial production growth was broadly the same as in the first quarter, increasing by 6.4% year on year. Annual CPI inflation increased further, reaching 6.4% in July. In Argentina, economic activity decelerated in the second quarter, with industrial production increasing by 5.5% compared with the previous year, down from 6.9% in the first quarter. This deceleration in industrial activity can be attributed mostly to energy constraints. Annual consumer price inflation decreased slightly to 9.1% in July.

Overall, regional output growth is expected to moderate gradually, owing to tighter financial conditions and weaker external demand. However, the outlook for most Latin American countries continues to be broadly favourable, reflecting robust domestic demand and the positive terms-of-trade effects stemming from high commodity prices in several economies.

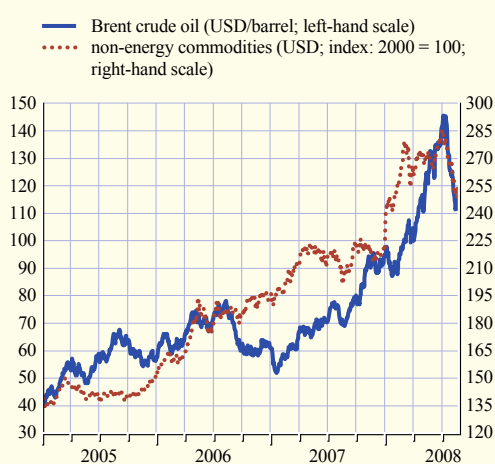
## 1.2 COMMODITY MARKETS

Oil prices continued to surge in June, peaking at USD 147.5 on 11 July (see Chart 3). Subsequently, prices declined sharply, standing at USD 111.5 on 2 September, which is still 18% higher than at the beginning of the year (in euro terms, the increase is around 20%). This decline was triggered in part by better than expected figures on US inventories and less negative supply prospects. Over the medium term, market participants expect prices to remain elevated, with futures prices for December 2009 standing at USD 116. Box 2 examines the role of financial activity in driving oil price dynamics.

Regarding developments in underlying market fundamentals, demand is reacting to higher prices and the slowdown in economic activity in OECD countries, which has resulted in an increase in US inventories. However, this is likely to be offset by robustly growing demand in developing economies. On the supply side, conditions have eased somewhat following a significant increase in production from OPEC countries in July.

Notwithstanding these developments, the supply/demand balance in global oil markets continues to be relatively tight and the risk of future price increases remains high.

Chart 3 Main developments in commodity markets



Sources: Bloomberg and HWWI.



Weather-related uncertainty remains, and prices may react strongly to geopolitical developments which could lead to supply disruptions.

The prices of non-energy commodities have also decreased after reaching record highs at the beginning of July (see Chart 3). Metal prices have been decreasing amid concerns over a global economic slowdown and reductions in freight costs. Looking at food commodities, maize and soybean prices fell from the levels recorded at the end of June amid favourable weather conditions which hinted at good crop prospects. By contrast, conditions in the wheat markets have been tighter, as a result of concerns over the crop in the southern hemisphere. In aggregate terms, the price index for non-energy commodities (denominated in US dollars) was approximately 21% higher year on year at the end of August.

## Box 2

### FINANCIAL ACTIVITY IN THE OIL MARKETS

Oil prices have experienced high volatility recently, reaching a peak of USD 147.5 in July 2008 before falling abruptly. Such sharp movements in oil prices naturally raise questions as to the reasons for such volatile developments. It is widely acknowledged that the physical oil market is very tight, given the buoyant demand from developing countries and the uncertainty surrounding supply prospects, which together have led to historically low spare capacity. However, financial activity in oil futures markets has also been mentioned as one possible determinant of the recent price developments. This box examines this issue and finds that, overall, there is scant evidence to suggest that financial activity has a strong and lasting impact on oil prices. At the same time, it points to the need for reliable data and, thus, increased transparency on the fundamental determinants underpinning the functioning of oil markets.

#### The oil futures market

In the oil futures market, standardised oil futures contracts are purchased and sold at an agreed price, for delivery on a specific date. One of the main characteristics of the market is that it separates the ownership of commodity price risk from the ownership of the physical commodity. Therefore, trading in futures enables those who produce/consume the physical commodities to hedge against unpredictable price changes. Accordingly, it serves as a way to transfer risk from the producers and holders of certain commodities to agents willing to accept this price risk. The futures market thus contributes to economic welfare, as it generates a more efficient allocation of the existing risks.

There are both commercial and non-commercial players in the oil futures market. Commercial players hedge against price fluctuations. Agents physically involved in the production and consumption of oil still represent the dominant share of positions in the futures market. Producers may want to sell futures (i.e. hold short positions) and tie down the price for the oil they plan to extract in the future. Users of oil (e.g. airlines) are usually on the opposite side (i.e. hold long positions).

Non-commercial players are not interested in any physical delivery of oil. Among these, speculators (active investors) exploit their supposedly better information by trading in the oil market and trying to make a profit by anticipating market movements in commodity prices. Therefore, speculators may hold either long or short positions, depending on their sentiment.

Index funds (long term-oriented, passive investors) have only emerged more recently and reflect the desire to add commodities to portfolios in view of their risk/return profile. For example, they add commodities to their portfolios in order to hedge against adverse risks from the oil-sensitive assets they hold. Therefore, these funds are “long-only” players; they buy oil futures and roll them over as their expiry dates approach in order to avoid the delivery of the commodity.

### The role of index funds

Since index funds, by design, create additional demand for oil futures, it is sometimes argued that they push up oil prices. It is true that the size of index funds has surged since 2001, from USD 10 billion to more than USD 200 billion. However, part of this growth is due to index appreciation and only part of it is invested in oil; the remainder is allocated to other commodities. Put into perspective in terms of the physical oil market, it is estimated that the additional oil demand generated by inflows in index funds for the whole of 2007 corresponded to less than the global oil demand for one day.

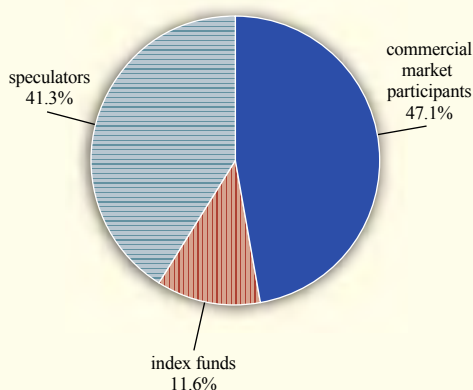
Furthermore, if portfolio shifts towards commodity markets were driving commodity prices, it could be expected that commodities which are not exchange-traded would be isolated from this trend. Instead, the prices of commodities which are not exchange-traded – such as cadmium or steel – have risen at least as strongly as those of exchange-traded commodities, suggesting a stronger role of supply and demand fundamentals.

### The role of speculators

It is common to mechanistically associate speculation with a destabilising process. However, this argumentation is too simplistic. When speculators receive new information about factors that change their outlook for the oil price, they place their orders accordingly. Pricing in this new information helps to determine the new market price instantaneously. It is important to

**Chart A Crude oil futures and options positions on the NYMEX**

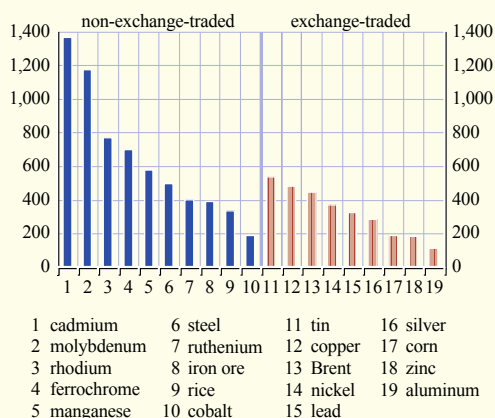
(as a percentage of total positions; May 2008)



Sources: US Commodity Futures Trading Commission and Goldman Sachs.

**Chart B Price developments for exchange-traded and non-exchange-traded commodities**

(in percentages; April 2008 vs January 2002)



Source: Bloomberg.

note, however, that both supply and demand in oil markets tend to respond very inelastically to changes in prices. Therefore, a relatively small change in the supply/demand balance can have very strong repercussions for prices.

In recent years speculators have assumed long positions by correctly anticipating tight supply/demand conditions leading to higher oil prices. In fact, expectations of stronger supply or weaker demand growth were repeatedly unrealised, which justified ex post speculators' assessment and, thus, higher oil prices. This, in turn, provided an early signal to producers and consumers to adapt their activities accordingly (e.g. to extract more oil or to reduce consumption).

Speculation cannot permanently drive the price away from its long-term equilibrium. When short-term oil demand is very inelastic to price changes, rising input prices only marginally affect refineries' profits since higher costs can be passed on to consumer prices. However, if prices move too far away from fundamentals, the demand response might be more intense and producers may find it increasingly difficult to sell the extracted oil as demand falls.

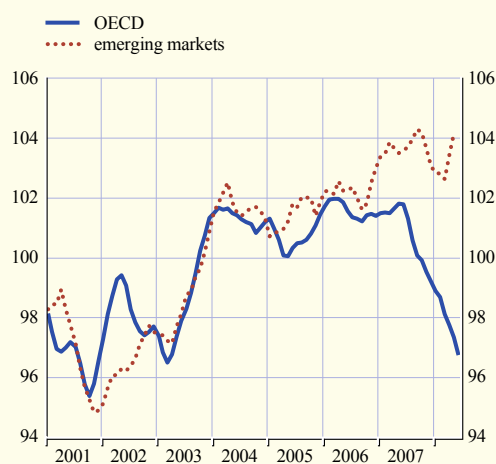
Therefore, while it is possible that speculative activity leads to greater oil price fluctuations in the short term, speculation may also eventually facilitate price determination and, thus, a smooth and efficient functioning of the market. It is crucial, however, that market participants can operate on the basis of reliable data. Lack of transparency concerning oil market fundamentals and, more specifically, regarding the prospects for supply in a situation of buoyant demand, as well as the level of oil inventories, generates significant market uncertainty. This, in turn, results in increased sensitivity of oil prices to any news or even rumours concerning the fundamentals in oil markets and their prospects. Therefore, it is important to foster transparency and encourage the compilation of appropriate supply, demand and, in particular, stock and inventory statistics.

### 1.3 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

The global growth slowdown is dampening the prospects for foreign demand for euro area goods and services. The OECD composite leading indicator (CLI) for June signals a continued weakening of the outlook for economic activity in the OECD area (see Chart 4). For major non-OECD countries, this indicator points to a relatively robust expansion in economic activity in China and Brazil, while the outlook for Russia and India shows some signs of moderation. This outlook is broadly consistent with the evidence presented in the August Ifo World Economic Climate survey, which recorded a more unfavourable current global economic situation compared with three months earlier and also revised the outlook for the coming six months downwards again. Notwithstanding this expected slowdown, growth in the world economy is expected to remain relatively resilient.

Chart 4 OECD composite leading indicator

(monthly data; amplitude-adjusted)



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

The uncertainty surrounding this outlook for global economic growth remains high and, on balance, the risks continue to be tilted to the downside. These risks stem particularly from renewed increases in energy and food prices. Moreover, downside risks continue to relate to the potential for the financial market tensions to affect the real economy more adversely than currently foreseen. The possibility of disorderly developments owing to global imbalances also implies downside risks to the outlook for economic activity, as do concerns about rising protectionist pressures.

## 2 MONETARY AND FINANCIAL DEVELOPMENTS

### 2.1 MONEY AND MFI CREDIT

While the growth of broad money and credit aggregates is now showing some signs of moderation, reflecting the policy measures adopted since 2005 in order to address risks to price stability, the fact that the underlying pace of monetary expansion remains strong points to continued upside risks to price stability over the medium term. The annual growth rate of M3 remained vigorous in July, standing at 9.3%, but continues to overstate underlying monetary growth, as shifts into monetary instruments from riskier longer-maturity assets outside M3 are being encouraged by the current flat euro area yield curve. As regards the components of M3, shifts out of overnight deposits resulted in the annual growth rate of M1 declining further in July. Those shifts were largely into short-term time deposits, with the result that the contribution of short-term deposits other than overnight deposits (i.e. M2-M1) remained strong. The moderation of broad money and credit growth – albeit from high rates by historical standards – mainly reflects the lagged impact of higher interest rates, tighter financing conditions and slower economic growth. Only specific components and counterparts are being affected by the ongoing financial tensions, and there is no evidence of supply-side credit constraints associated with those tensions.

#### THE BROAD MONETARY AGGREGATE M3

The annual growth rate of M3 remained vigorous in the second quarter of 2008, despite declining somewhat to stand at 10.0%, down from the peak of 12.0% observed in the fourth quarter of 2007 (see Chart 5). The annual growth rate of M3 declined further in July, falling to 9.3%, down from 9.5% in June. The annualised three and six-month rates of growth confirm that M3 dynamics have moderated since the start of 2008. In particular, the annualised three-month rate of growth declined from above 11% in December 2007 to stand at 7.2% in July 2008.

The fact that annual M3 growth remains vigorous partly reflects the stimulative impact of the flat yield curve, which encourages shifts from riskier longer-maturity assets outside M3 into shorter-term monetary assets. As a result, the current headline annual growth rate of M3 continues to overstate the underlying pace of monetary expansion.

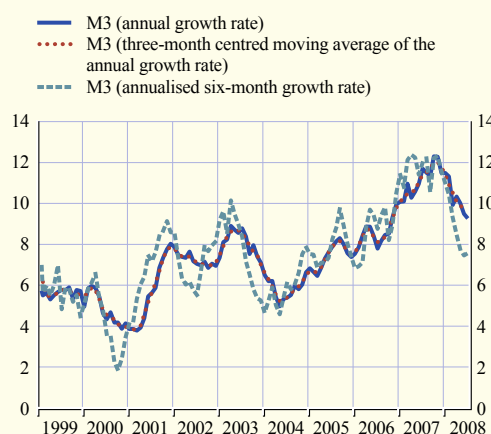
At the same time, the current structure of the spreads between the interest rates paid on the various types of deposit has also triggered further shifts within M3, reducing the growth rate of M1 while further increasing the growth rate of short-term time deposits.

Broadly speaking, there are signs of moderation in the growth of both broad money and credit aggregates, in line with the lagged impact of higher interest rates, tighter financing conditions and slower economic growth. However, the underlying rate of money growth still remains robust, supported by the continued strong annual growth rate of loans to the private sector.

The recent pattern of loans to households and non-financial corporations is consistent with historical regularities as regards their reaction

Chart 5 M3 growth

(percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.



to interest rates and the economic cycle and – particularly in the case of loans to households – is in line with the slowdown observed in the housing market. More moderate loan growth does not imply supply-side credit constraints associated with the current financial tensions. However, there is evidence that the financial tensions have affected specific counterparts of M3 that are closely related to the nature of the turmoil, particularly MFI credit to other financial intermediaries (OFIs).

### MAIN COMPONENTS OF M3

The gradual moderation observed in annual M3 growth in the second quarter of 2008 (as well as in July) continued to be driven by declines in the contributions of M1 and marketable instruments, which were only partly offset by the stronger contribution of short-term deposits other than overnight deposits (see Table 1).

In the second quarter of 2008 the annual rate of growth of M1 declined further to stand at 2.2%, down from 3.8% in the first quarter. It then weakened further to stand at 0.5% in July, the lowest level since the start of Stage Three of EMU. The deceleration observed in M1 in recent months mainly reflects developments in overnight deposits, the annual growth rate of which declined to 1.2% in the second quarter of 2008, down from 3.1% in the previous quarter. In July 2008 the annual growth rate of overnight deposits fell further and became slightly negative at -0.8%, down from 0.1% in June.

The decline in overnight deposits' contribution to M1 growth continues to reflect developments in interest rates. More precisely, the gradual increase in interest rates since December 2005 has steadily increased the opportunity cost of holding such instruments. The current, somewhat unusual, yield curve, which exhibits a “hump” at a maturity of just less than one year and is otherwise relatively flat, has encouraged shifts from overnight deposits into short-term time deposits, which also helps to explain the strength of short-term deposits other than overnight deposits. At the same time, in the current market environment, short-term time deposits are an attractive source of funding for

**Table 1 Summary table of monetary variables**

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

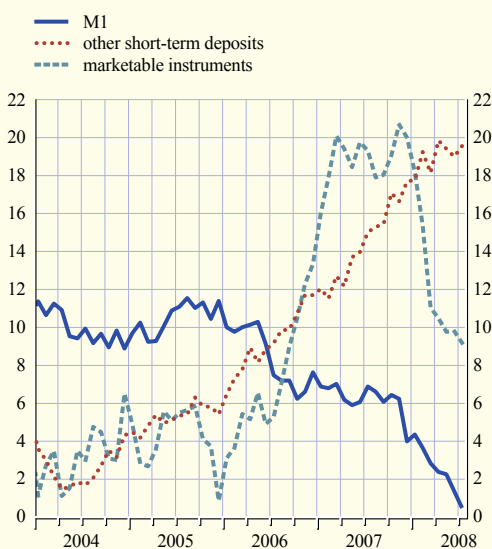
	Outstanding amount as a percentage of M3 <sup>1)</sup>	Annual growth rates					
		2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 June	2008 July
<b>M1</b>	<b>42.0</b>	<b>6.5</b>	<b>5.9</b>	<b>3.8</b>	<b>2.2</b>	<b>1.4</b>	<b>0.5</b>
Currency in circulation	7.1	8.9	8.0	7.8	7.8	8.0	7.1
Overnight deposits	34.9	6.1	5.5	3.1	1.2	0.1	-0.8
<b>M2 - M1 (= other short-term deposits)</b>	<b>43.0</b>	<b>15.0</b>	<b>16.8</b>	<b>18.3</b>	<b>19.3</b>	<b>19.0</b>	<b>19.6</b>
Deposits with an agreed maturity of up to two years	26.2	37.6	40.6	41.4	40.3	38.7	39.1
Deposits redeemable at notice of up to three months	16.8	-3.2	-3.9	-3.3	-2.3	-2.0	-2.1
<b>M2</b>	<b>85.1</b>	<b>10.3</b>	<b>10.7</b>	<b>10.3</b>	<b>10.0</b>	<b>9.4</b>	<b>9.3</b>
<b>M3 - M2 (= marketable instruments)</b>	<b>14.9</b>	<b>18.7</b>	<b>19.6</b>	<b>16.3</b>	<b>10.2</b>	<b>9.8</b>	<b>9.2</b>
<b>M3</b>	<b>100.0</b>	<b>11.5</b>	<b>12.0</b>	<b>11.2</b>	<b>10.0</b>	<b>9.5</b>	<b>9.3</b>
<b>Credit to euro area residents</b>		<b>8.7</b>	<b>9.2</b>	<b>10.0</b>	<b>9.6</b>	<b>9.1</b>	<b>9.1</b>
Credit to general government		-4.0	-4.1	-2.5	-1.2	-0.9	-0.1
Loans to general government		-0.8	-1.8	-0.9	0.8	2.0	1.6
Credit to the private sector		11.6	12.2	12.7	11.9	11.2	11.1
Loans to the private sector		11.0	11.1	11.1	10.5	9.9	9.4
<b>Longer-term financial liabilities (excluding capital and reserves)</b>		<b>10.3</b>	<b>8.5</b>	<b>6.9</b>	<b>4.6</b>	<b>3.8</b>	<b>3.2</b>

Source: ECB.

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

Chart 6 Main components of M3

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



Source: ECB.

banks, and this has led banks to step up their efforts to attract such deposits, largely at the expense of overnight deposits.

Short-term deposits other than overnight deposits (i.e. M2-M1) remained the largest contributor to annual M3 growth in the second quarter of 2008, and this continued in July. These developments reflect further strong increases in deposits with an agreed maturity of up to two years (i.e. short-term time deposits), the growth rate of which rose from 18.3% in the first quarter of 2008 to 19.3% in the second quarter, thereby recording the highest quarterly growth rate since the start of Stage Three of EMU (see Chart 6). The annual growth rate of short-term time deposits increased from 38.7% in June to 39.1% in July. By contrast, savings deposits (i.e. deposits redeemable at notice of up to three months), the other main component of short-term deposits other than overnight deposits, continued to decline in the second quarter of 2008, although at a reduced rate by

comparison with the previous quarter, thereby also contributing to the strengthening of growth in other short-term deposits. In July the annual rate of decline of savings deposits remained broadly unchanged from the previous month.

As in the past few months, the exceptionally strong dynamics of short-term time deposits largely reflects the current yield curve, as mentioned above. Unlike interest rates on overnight and short-term savings deposits, the remuneration of short-term time deposits has followed the rise in term money market rates relatively closely. This has fuelled the growth of short-term time deposits at the expense not only of overnight deposits, but also of savings deposits. Moreover, the fact that the yield curve remains flat suggests that short-term time deposits are also attractive when compared with longer-maturity assets outside M3, as they offer greater liquidity and less risk at little cost in terms of return.

The annual growth rate of marketable instruments included in M3 (i.e. M3-M2) decreased further in the second quarter of 2008, falling to 10.2%, down from 16.3% in the previous quarter. This resulted from marked declines in the annual growth rates of money market fund shares/units (the largest sub-component) and debt securities with a maturity of up to two years. By contrast, the growth rate of the third sub-component, i.e. repurchase agreements, remained broadly stable. In July the annual growth rate of marketable instruments declined further to stand at 9.2%, down from 9.8% in June. Having been very strong during most of 2007, the growth rate of marketable instruments has fallen significantly in 2008. Moreover, monthly flows into money market fund shares/units continue to be characterised by significant and increasing levels of volatility, a pattern which has become more marked over time, especially since the onset of the tensions in financial markets. Investors' apprehension regarding money market fund shares in the initial months of the financial turmoil appeared to dissipate in early 2008, but the renewed outflows observed in the second quarter of 2008, as well as in July, suggest that some apprehension may remain.

The sectoral breakdown of monetary growth is based on data for short-term deposits and repurchase agreements (“M3 deposits”). The annual growth rate of this aggregate (which is the broadest for which reliable information on sectoral holdings is available) continued to moderate gradually in the second quarter of 2008, declining to 11.0%, down from 11.3% in the previous quarter. This moderation continued in July 2008, with the annual growth rate declining to 10.2% in that month, down from 10.4% in June.

Household deposits continued to make the largest contribution to overall annual M3 deposit growth in the second quarter of 2008. In July the annual growth rate of household M3 deposits increased further to 9.2%, up from 8.6% in June (see Chart 7). This reflected shifts into monetary assets as a result of the flat yield curve, which led to an increase in the share of monetary instruments within households’ overall wealth portfolio. By contrast, the growth rate of M3 deposits held by non-financial corporations decreased further in the second quarter of 2008, and this continued in July. The recent moderation in the earnings growth of non-financial corporations is likely to have played a role in this decline. The annual growth rate of M3 deposits held by non-monetary financial intermediaries (i.e. OFIs) decreased in the second quarter of 2008, as well as in July. Despite moderating during the first half of 2008, the annual growth rate of M3 deposits held by OFIs remains more dynamic than those observed for other sectoral sub-components. This reflects, *inter alia*, investment funds’ demand for larger liquidity buffers at a time when withdrawals could occur, as well as MFIs’ increased preference, observed since the onset of the financial tensions, for secured interbank lending through electronic trading platforms (resulting in an increase in OFIs’ holdings of repurchase agreements).

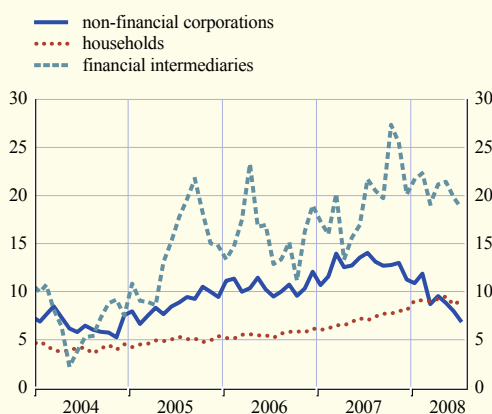
### MAIN COUNTERPARTS OF M3

As regards the counterparts of M3, the growth rate of total MFI credit to euro area residents decreased to 9.6% in the second quarter of 2008, down from 10.0% in the first quarter (see Table 1), reversing the upward trend observed previously. Within total MFI credit, credit to general government continued to decline on an annual basis, albeit at a slower rate than in the previous quarter (-1.2% in the second quarter of 2008, compared with -2.5% in the first quarter). The moderation in the growth of total credit is attributable to developments in the growth rate of credit to the private sector, which has declined in recent months (standing at 11.9% in the second quarter of 2008, down from 12.7% in the first quarter, and declining further to stand at 11.1% in July).

The decline recorded in the growth rate of credit to the private sector in the second quarter of 2008 was observed across all credit sub-components, albeit to differing degrees. The annual growth rate of MFI holdings of private sector securities other than shares remained very vigorous at 39.6% in the second quarter (albeit down slightly from the 43.0% recorded in the first quarter), mainly reflecting MFIs’ purchases of securities issued by OFIs. These purchases could reflect either a direct or an indirect effect of the financial turmoil, as they can be associated not only with the funding of affiliated special-purpose vehicles, but also with the reorganisation of some of the activities

**Chart 7 Short-term deposits and repurchase agreements**

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



Source: ECB.  
Note: MFI sector excluding the Eurosystem.

of international banking groups, which have relocated various off-balance sheet vehicles in the euro area. There is also evidence that MFIs have, in recent months, securitised part of their loan portfolios and held the resulting securities on their own balance sheets, rather than selling them to the market. These transactions have also influenced MFI loan developments, which therefore need to be interpreted with care (see Box 3 for further information on the impact of securitisation on loan developments).

The annual growth rate of loans to the private sector – the largest component of credit to the private sector – declined to 10.5% in the second quarter of 2008 (before moderating further to stand at 9.4% in July), down from 11.1% in the first quarter (see Table 1). This moderation resulted from a slowdown in loans to the non-financial private sector, while the growth rate of loans to non-monetary financial intermediaries remained strong (at 25.0% in the second quarter and 23.6% in July, having stood at 24.9% in the first quarter). The growth rate of MFI loans to the non-financial private sector moderated in the second quarter, reflecting gradual declines in both the annual growth rate of loans to non-financial corporations (which stood at 14.5% in the second quarter and 13.2% in July, down from 14.6% in the first quarter) and the annual growth rate of loans to households (which stood at 5.0% in the second quarter and 4.1% in July, down from 5.9% in the first quarter). The recent pattern of loan growth is consistent with historical regularities, reflecting the impact of the increases in bank lending rates since late 2005, the slowdown in the housing market, the tightening of credit standards (attributed primarily to the deteriorating expectations regarding general economic activity and the worsening outlook for the housing market) and the overall business cycle. There is little evidence that the financial market tensions have directly influenced MFI loan developments, for example through quantitative constraints on credit supply (see Sections 2.6 and 2.7 for a more detailed analysis of the financial flows and financial position of non-financial corporations and households).

### Box 3

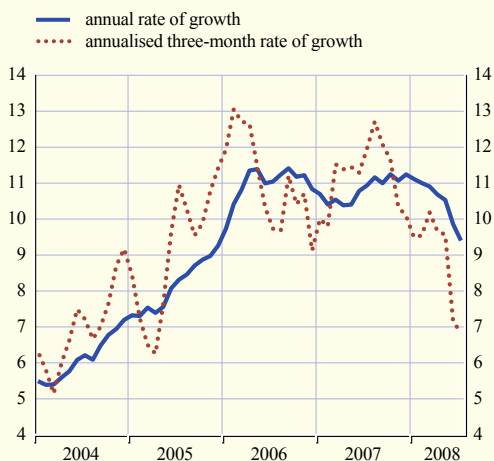
#### THE IMPACT OF TRADITIONAL TRUE-SALE SECURITISATION ON RECENT MFI LOAN DEVELOPMENTS

During the ongoing financial market tensions, the analysis of short-term developments in MFI loans to the private sector has received increased attention. An evaluation of whether or not the banking system can provide sufficient financing to households and non-financial corporations has proved essential in assessing macroeconomic prospects. One crucial element of such an analysis is to distinguish between, on the one hand, the fundamental factors driving loan supply or demand and, on the other hand, short-term developments in the loan data that result from temporary factors, such as specific loan securitisation<sup>1</sup> transactions conducted by euro area MFIs. In order to shed light on recent MFI loan developments, this box updates the estimates provided in a number of previous Monthly Bulletin boxes as regards the impact of traditional true-sale securitisation on MFI loan growth.<sup>2</sup>

- 1 For a discussion of loan origination and securitisation, see the article entitled “Securitisation in the euro area” in the February 2008 issue of the Monthly Bulletin.
- 2 For previous assessments of the impact of traditional true-sale securitisation on loan growth, see: the box entitled “The impact of MFI loan securitisation on monetary analysis in the euro area” in the September 2005 issue of the Monthly Bulletin; Box 2 in the article entitled “Securitisation in the euro area” in the February 2008 issue of the Monthly Bulletin; and the box entitled “The importance of accounting standards for interpreting MFI loan statistics” in the March 2008 issue of the Monthly Bulletin.

Chart A MFI loans to the private sector

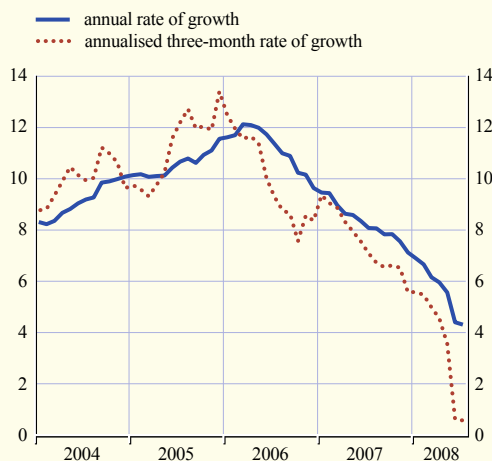
(annual percentage changes; adjusted for seasonal effects)



Sources: ECB and ECB calculations.

Chart B MFI lending to households for house purchase

(annual percentage changes; adjusted for seasonal effects)



Sources: ECB and ECB calculations.

### True-sale securitisation and MFI loan statistics

At the euro area level, the dynamics of total loans to the private sector have moderated since mid-2007, broadly in line with what would have been expected on the basis of developments in the conventional economic and financial determinants of loan demand. However, towards the end of the second quarter of 2008 flows of MFI loans to the private sector – and in particular loans to households for house purchase – fell sharply (see Charts A and B), in a manner that was difficult to explain solely in terms of fundamental factors.

In order to assess whether the observed declines represented a change in the behaviour of banks and/or borrowers or merely reflected technical factors, an analysis of the impact of securitisation – and in particular “true-sale” securitisation – is required. Traditional true-sale securitisation is associated with the sale of loans by MFIs to non-MFIs, with these loans then being removed from the MFIs’ balance sheets. In recent years such securitisation has become an important element of banks’ business models, allowing them to share credit risk and create liquid instruments out of normally illiquid loans. However, such securitisation can distort the information contained in MFI loan statistics, since loans to the private sector that have been originated by MFIs are taken out of the MFI loan data once they are removed from the MFIs’ balance sheets.

As a result, in interpreting the MFI loan series, it is important to understand whether or not the relevant accounting rules allowed the MFIs that originally granted the loans to remove them from their balance sheets (formally, to “derecognise” them) in the course of securitisation transactions.

These accounting rules differ across euro area countries. As a result, it is often the nature of the accounting rules applied – rather than the type of economic transaction – that determines whether or not a certain securitisation transaction qualifies as traditional true-sale securitisation,

and thus whether or not it affects the MFI loan statistics.<sup>3</sup> Consequently, the loan data need to be interpreted carefully if meaningful information is to be extracted for monetary policy purposes. In order to reflect the importance of the accounting rules over the type of economic transaction, the following assessment will refer to “derecognised” rather than “securitised” loans.

### “Retained” securitisation reduced MFI loans for house purchase in the second quarter of 2008

Estimates using information available at the ECB allow a rough assessment of the impact of loan derecognition on MFI loan statistics.<sup>4</sup> Such estimates reveal that the downward impact that derecognised loans had on MFI loans to the private sector between April and June 2008 was around €50 billion on a seasonally adjusted basis. This is the strongest effect observed over the available estimation period, which dates back to 1999.

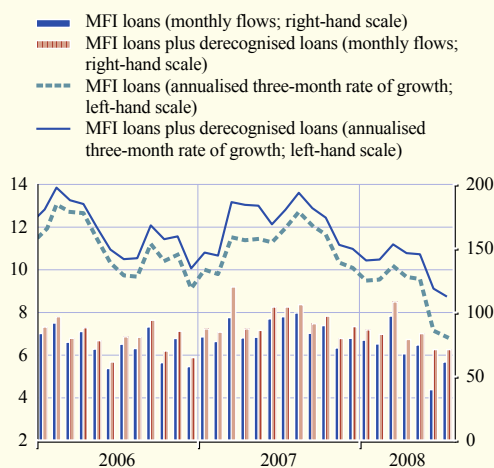
At first glance, the observation of such intense loan derecognition owing to loan securitisation during the ongoing financial market tensions appears to be at odds with the low levels of activity seen in the markets in which the instruments created by securitisation are placed. However, traditional true-sale securitisation transactions in 2008 have largely taken the form of “retained” securitisation by MFIs. In other words, rather than selling them in the market or placing them with investors privately, MFIs are themselves purchasing the securities created during the traditional true-sale securitisation process.

3 For example, the application of the International Financial Reporting Standards (specifically International Accounting Standard No 39) in a number of euro area countries, combined with the application of certain supervisory policies in particular EU Member States where the “originate and distribute” banking model has become increasingly popular in recent years, has largely prevented credit institutions from removing loans from their balance sheets after a sale to a special-purpose vehicle. For a more detailed description, see the box entitled “The importance of accounting standards for interpreting MFI loan statistics” in the March 2008 issue of the Monthly Bulletin.

4 Improved and harmonised statistics on MFI loan securitisation are currently being developed and are expected to become available in 2010.

**Chart C MFI loans to the private sector**

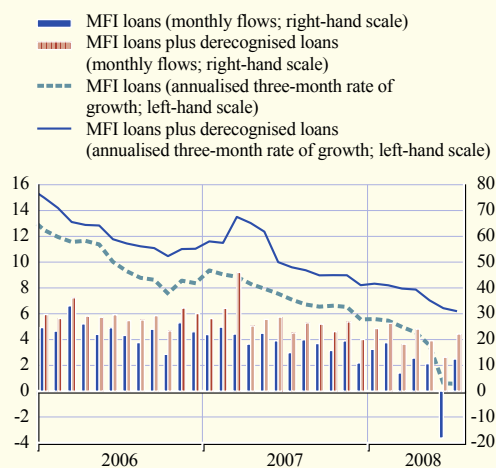
(annual percentage changes; flows in EUR billions; adjusted for seasonal effects)



Sources: ECB and ECB estimates.

**Chart D MFI lending to households for house purchase**

(annual percentage changes; flows in EUR billions; adjusted for seasonal effects)



Sources: ECB and ECB estimates.



Although the available information on derecognised loans does not allow the underlying loans to be broken down by sector or by purpose, it is likely that most of the derecognised loans are loans to households for house purchase. The estimate of derecognised loans can be used to adjust the MFI loan series – particularly MFI lending to households for house purchase – for the impact of derecognised loans. For example, by summing the estimate of derecognised loans and the flows of MFI loans for house purchase, one can develop a better picture of the flow of loans originated by MFIs for house purchase.

In order to illustrate the impact of loan derecognition on short-term developments in MFI loans, Chart C shows monthly flows and the annualised three-month growth rate for MFI loans to the private sector. Chart D shows the same series for MFI loans to households for house purchase. In both cases, a comparison is made between the reported data and data corrected for the estimated impact of loan derecognition.

These charts provide two clear messages. First, a moderation can be seen in both MFI loans to the private sector and MFI loans to households for house purchase, independently of any correction reflecting the derecognition of loans and their removal from MFI balance sheets. Second, although the official MFI loan series fell sharply towards the end of the second quarter of 2008, the pace of moderation seen in recent months does not appear disorderly or exceptional once a correction has been made for the impact of loan derecognition. In mid-2008 the difference between the corrected and uncorrected annualised three-month rates of growth reached the highest level seen since 1999 for both loans to the private sector and loans for house purchase, with a difference of around 2 percentage points for loans to the private sector and a difference of around 6 percentage points for loans for house purchase.

Correcting the official loan series for the impact of loan derecognition thus has a significant effect on the data and their interpretation. Once such a correction has been made, the growth of MFI loans (and loans for house purchase in particular) appears to continue to moderate in line with its traditional determinants. Consequently, the sharp fall in loan growth in June does not give cause for concern regarding the supply of bank credit, as an initial interpretation of the data might otherwise imply.

Turning to the other counterparts of M3, the annual growth rate of MFI longer-term financial liabilities (excluding capital and reserves) has fallen further in recent quarters (see Chart 8). This decline reflects a slowdown in all sub-components. In particular, the fall in the growth rate of long-term deposits reflects the flat yield curve, which encourages shifts from long-term deposits into shorter-term deposits.

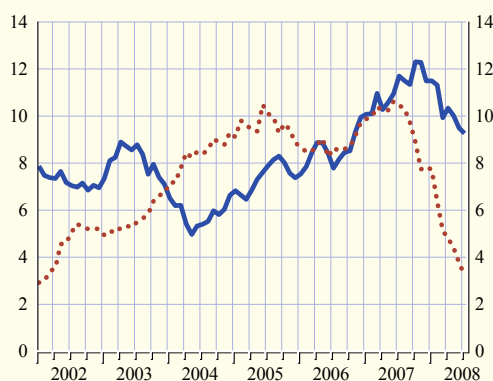
As regards the external counterparts of M3, successive outflows have been observed in recent quarters in MFIs' net external asset position, with annual outflows reaching €304 billion in July 2008 (see Chart 9). These considerable outflows reflect a rebalancing of international portfolios with shifts out of euro area assets. However, there has also been some evidence of an impact resulting from restructuring activities undertaken by euro area credit institutions, which have apparently shifted affiliated financial vehicle corporations located abroad into euro area entities.

Overall, money and credit data up to July 2008 confirm the assessment that, despite their recent moderation, the underlying pace of monetary growth remains strong. The ongoing moderation of growth in MFI loans to the non-financial private sector largely reflects the regular impact of

**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)

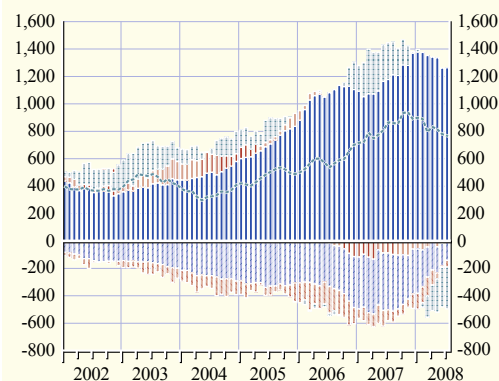


Source: ECB.

**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.

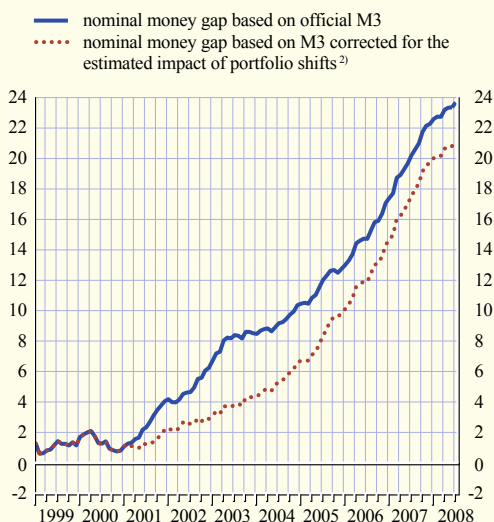
developments in economic activity and tighter credit conditions, with no signs of the financial tensions having an additional effect through, for example, banks' capital positions and thus their supply of loans. The direct impact of the financial tensions remains visible mainly in the strong growth of securities purchased from OFIs in the context of securitisation activities. Looking ahead, historical regularities and expected developments in fundamental determinants would suggest a further moderation of loan growth in the coming months.

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

The accumulation of monetary liquidity in the euro area moderated in the second quarter of 2008, as reflected in developments in the nominal and real money gaps. Such measures of the liquidity situation need to be interpreted with caution, as they rely on an assessment of equilibrium money holdings, which is always uncertain and especially so at present. Indeed, the differences between the various money gap measures may be taken as an indication of the considerable uncertainty surrounding the liquidity situation in the euro area at the current juncture. Bearing in mind these caveats, the latest available measures of the liquidity situation in the euro area suggest that measures derived from deviations of monetary growth from the ECB's reference value broadly stabilised in the second quarter of 2008, having increased significantly between 2004 and 2007 (see Charts 10 and 11). The nominal money gap – i.e. the difference between the actual level of M3 and the level corresponding to monetary expansion at the reference value – increased slightly further in the second quarter of 2008. Alternative liquidity measures which correct for some limitations of the nominal money gap – notably the money gap constructed on the basis of the M3 series adjusted for portfolio shifts, and the real money gap, which takes into account the fact that part of the accumulated liquidity has been absorbed by higher prices – imply a substantially lower and more stable (but nonetheless still ample) stock of monetary liquidity.

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)



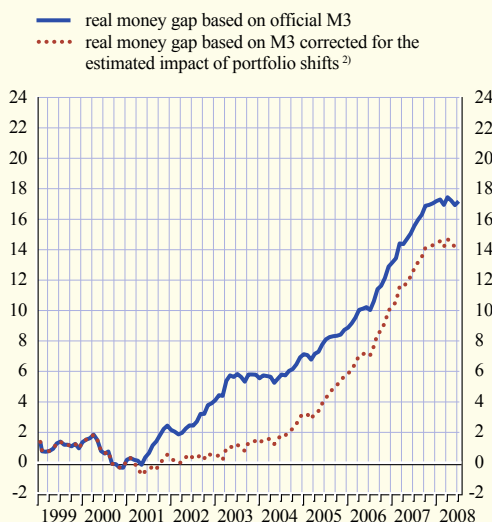
Source: ECB.

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.

Nonetheless, the overall conclusion stemming from the examination of these measures – particularly that derived from the broad monetary analysis geared towards identifying the underlying growth of M3 – is that liquidity conditions in the euro area remain ample. Overall, while the growth of broad money and credit aggregates is now showing signs of moderation, reflecting the policy measures adopted since 2005 in order to address risks to price stability, the fact that the underlying pace of monetary expansion remains strong in the context of ample monetary liquidity points to continued upside risks to price stability over the medium term.

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

*In the first quarter of 2008 the annual growth rate of total financial investment by the non-financial sectors decreased further. This decline was broadly based across the household, non-financial corporate and government sectors. Annual flows into investment funds declined strongly further in the first quarter, while the decline in the annual growth rate of financial investment by insurance corporations and pension funds did not continue.*

### NON-FINANCIAL SECTORS

In the first quarter of 2008 (the most recent quarter for which data are available) the annual growth rate of total financial investment by the non-financial sectors declined further to stand at 3.8%,

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

	Outstanding amount as a percentage of financial assets <sup>1)</sup>	Annual growth rates									
		2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1
<b>Financial investment</b>	<b>100</b>	<b>5.1</b>	<b>4.8</b>	<b>4.8</b>	<b>4.7</b>	<b>4.7</b>	<b>4.9</b>	<b>5.1</b>	<b>4.9</b>	<b>4.4</b>	<b>3.8</b>
Currency and deposits	23	6.5	6.4	6.4	7.1	7.0	7.4	8.0	7.3	6.7	6.5
Debt securities, excl. financial derivatives	6	-1.0	0.8	1.9	3.7	5.9	4.6	3.5	3.2	3.6	2.9
<i>of which: short-term</i>	1	-10.7	6.9	4.6	7.7	17.9	13.5	15.6	28.0	35.8	29.2
<i>of which: long-term</i>	5	-0.1	0.3	1.7	3.4	4.9	3.7	2.3	0.8	0.8	0.2
Shares and other equity, excl. mutual fund shares	31	3.5	2.5	2.8	1.9	1.7	2.0	2.2	2.7	3.0	3.2
<i>of which: quoted shares</i>	9	0.7	-1.0	0.2	0.9	0.0	1.0	1.4	1.5	2.8	3.6
<i>of which: unquoted shares and other equity</i>	22	4.6	3.9	3.7	2.3	2.5	2.4	2.5	3.2	3.1	3.1
Mutual fund shares	6	4.3	3.1	2.0	0.1	-0.7	-0.5	-0.4	-2.7	-4.2	-6.0
Insurance technical reserves	16	7.5	7.6	7.5	7.3	6.7	6.4	6.3	5.9	5.5	4.9
Other <sup>2)</sup>	18	6.8	6.5	6.4	6.8	7.4	8.2	8.4	8.5	6.7	4.8
M3 <sup>3)</sup>		7.4	8.4	8.4	8.5	9.9	11.0	11.0	11.3	11.5	9.9

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.

down from 4.4% in the fourth quarter of 2007 (see Table 2). A breakdown by investment instrument shows that this decrease reflects, inter alia, declines in the annual growth rates of investment in mutual fund shares, insurance technical reserves and, although to a lesser extent, debt securities and currency and deposits. By contrast, growth in investment in shares and other equity (excluding mutual fund shares) continued to strengthen.

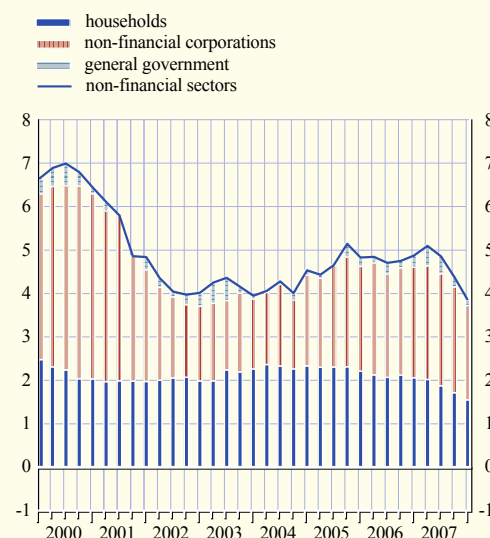
A breakdown by non-financial sector shows that the decline observed in the growth rate of total financial investment in the first quarter of 2008 was broadly based (see Chart 12). The annual growth rate of financial investment by households fell further to stand at 3.1%, the lowest level since the start of Stage Three of EMU. Although the growth rate of financial investment by non-financial corporations also declined further, it is, at 5.3%, still relatively robust when compared with the growth rates of other sectors and the growth rates observed during the period of slow economic growth in 2002 and 2003 (for more detailed information on developments in financial investment by sector, see Sections 2.6 and 2.7).

#### INSTITUTIONAL INVESTORS

The value of the total assets of euro area investment funds (excluding money market funds) declined strongly in the first quarter

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

(annual percentage changes; contributions in percentage points)



Source: ECB.

of 2008, falling by 9.9% compared with the first quarter of 2007. This represents the first year-on-year decline since the period of financial uncertainty between 2001 and 2003. The decline in the first quarter of 2008 resulted mainly from a fall in the value of holdings of securities, including equity. Newly available data on transactions suggest that the decline in the value of total investment fund assets in the first quarter of 2008 can be ascribed primarily to valuation effects, and only to a limited extent to shifts in the allocation of assets. Box 4, entitled “Impact of transactions and valuation effects on the value of euro area investment funds”, looks at this issue in greater detail.

Data provided by EFAMA<sup>1</sup> for the net sales of different types of investment fund in the first quarter of 2008 suggest that there have again been net annual outflows from both equity funds and bond funds, with both increasing further compared with the previous quarter (see Chart 13). By contrast, mixed/balanced funds and money market funds continued to record inflows, although of somewhat smaller magnitudes than in previous quarters. Taken together, these recent developments imply that there has been some unwinding of the relatively strong inflows into investment funds in 2005 and 2006.

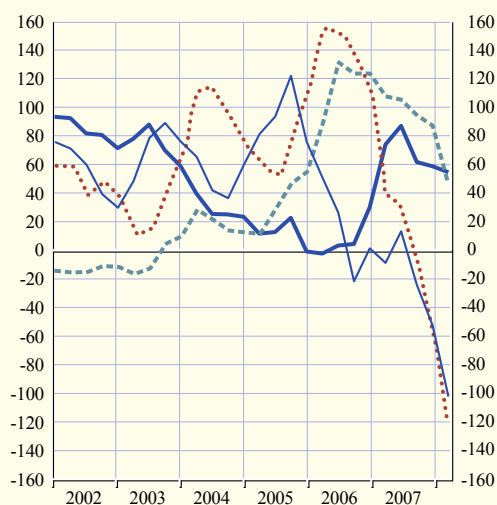
The annual growth rate of total financial investment by insurance corporations and pension funds in the euro area was 4.9% in the first quarter of 2008, broadly unchanged from the fourth quarter of 2007. Thus, the marked decline observed in this growth rate during 2007 did not continue

1 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>
- - - balanced funds<sup>1)</sup>
- bond funds<sup>1)</sup>



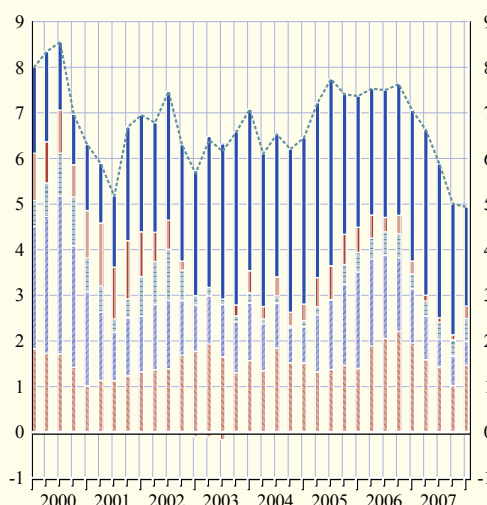
Sources: ECB and EFAMA.

1) ECB calculations based on 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.

(see Chart 14). The broadly unchanged growth rate recorded in the first quarter of 2008 conceals the reduced contributions of investment in debt securities (excluding financial derivatives) and mutual fund shares, which were largely offset by the increased contributions of investment in other categories, particularly investment in loans and deposits (included under “other” financial investment).

#### Box 4

### IMPACT OF TRANSACTIONS AND VALUATION EFFECTS ON THE VALUE OF EURO AREA INVESTMENT FUNDS

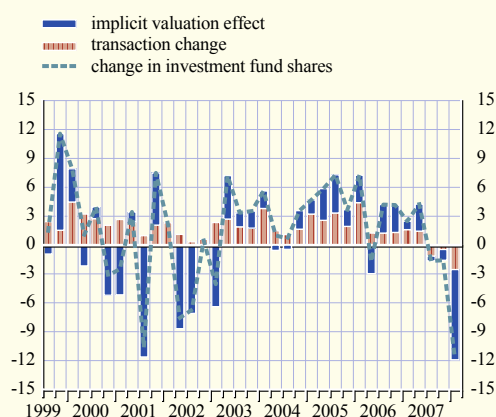
In the first quarter of 2008 the value of the total assets/liabilities of euro area investment funds (excluding money market funds) fell by 9.9% compared with the previous year. Such strong declines in asset values have been observed on previous occasions (such as the period of financial uncertainty between 2001 and 2003), and their assessment depends on the extent to which they arise from changes in transactions or valuation changes. This assessment can now be enhanced using newly available data on transactions.

The ECB has published euro area investment fund statistics since January 2003. While until mid-2008 the published data consisted only of outstanding amounts, in its data release on 10 July 2008 for the first quarter of 2008, the ECB published for the first time data on transactions involving shares issued by investment funds.<sup>1</sup> These transactions comprise investors’ total net inflows into investment funds, which are calculated by adding investors’ net purchases of investment fund shares to the income received by investment funds and subtracting dividends paid by funds. These data cannot yet be broken down by type of investment fund. Starting in the third quarter of 1999, they complement the data on outstanding amounts, which date back to the fourth quarter of 1998.

Chart A shows how quarter-on-quarter changes in the value of investment funds’ assets are broken down into changes in transactions and valuation changes. The latter mostly reflect changes in asset prices, but also include the impact of exchange rate movements and incidental statistical reclassifications. It appears that the decline in the value of funds’ assets in the first quarter of 2008 was due mostly to negative valuation effects, with only a small amount attributable to reduced transactions. This seems to hold also for other declines in asset values observed since the start of Stage

Chart A Contributions to changes in investment fund shares

(quarter-on-quarter percentage changes; percentage points)



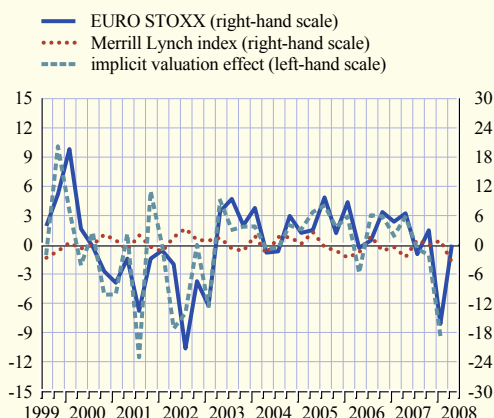
Note: Data are available up to the first quarter of 2008.

<sup>1</sup> These new transaction data allow a more elaborate analysis of investment fund shares, which currently represent around 94% of total investment fund liabilities. The new transaction data can be found in the Statistical Data Warehouse (<http://sdw.ecb.europa.eu>) on the ECB’s website.



**Chart B Valuation effects, stock market prices and bond prices**

(percentages)



Sources: Bloomberg, ECB and Merrill Lynch.

Notes: "EURO STOXX" refers to the EURO STOXX stock market price index. "Merrill Lynch index" refers to the Merrill Lynch EMU Price Return index for bonds. Data for stock market prices and bond prices are quarter-on-quarter growth rates (data available up to the second quarter of 2008). Data on valuation effects are expressed as percentages of total outstanding amounts for investment fund shares (data available up to the first quarter of 2008).

2001 and 2002, shows some important differences. Notably, stock prices also fell strongly in the third quarter of 2001 and the second quarter of 2002, but bond prices, as measured by the Merrill Lynch EMU Price Return index, increased significantly. By contrast, the first quarter of 2008 was characterised by both falling stock prices and only moderate increases in bond prices.

Overall, this analysis highlights the fact that an assessment of the changes in investment funds' asset values benefits from a distinction being made between changes owing to transactions and shifts in portfolio allocations on the one hand, and valuation changes and the underlying asset price movements on the other hand. The calculation of such a breakdown has also revealed that the recent marked decline in the value of investment funds' assets is of a somewhat different nature to those observed in 2001 and 2002.

### 2.3 MONEY MARKET INTEREST RATES

*Unsecured money market interest rates have risen since the beginning of June 2008. The spreads between unsecured and secured money market rates have declined somewhat over this period. The money market yield curve derived on the basis of unsecured rates has steepened somewhat since June, with the spread between unsecured twelve-month and one-month money market interest rates rising to stand at 81 basis points on 3 September, significantly higher than the levels observed in the first half of 2008.*

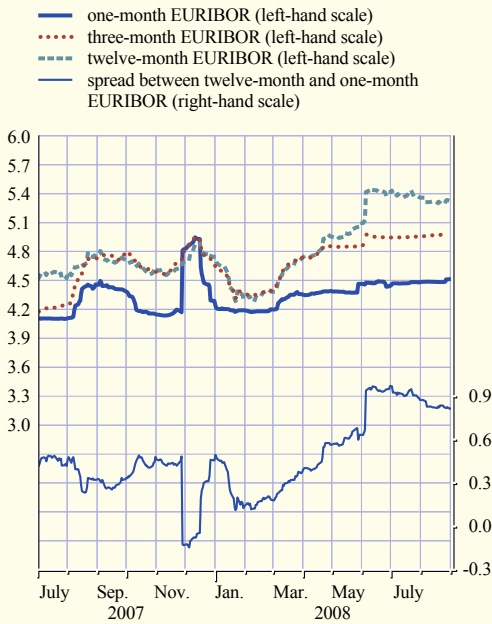
Unsecured money market interest rates have risen since the beginning of June 2008. On 3 September the one-month, three-month, six-month and twelve-month EURIBOR rates stood at 4.51%, 4.96%, 5.16% and 5.32% respectively, i.e. 5, 10, 24 and 23 basis points higher than the levels observed on 2 June 2008 (see Chart 15).

Three of EMU, such as that recorded in the third quarter of 2001. However, the developments in the second half of 2007 and the first quarter of 2008 are somewhat unprecedented, as for the first time net outflows from investment funds have occurred.

Chart B shows that the valuation effects shown in Chart A are closely correlated with euro area stock price changes as measured by the EURO STOXX index. A one-to-one co-movement is not to be expected, as valuation effects for investment fund shares also reflect changes in stock prices outside the euro area, as well as price changes for other asset categories such as bonds. In particular, the slightly lower amplitude of the valuation effects relative to that of the stock price changes mainly reflects bond price movements, which are less volatile than changes in stock prices. In this respect, a comparison with previous episodes characterised by similar valuation effects, such as those observed in

**Chart 15 Money market interest rates**

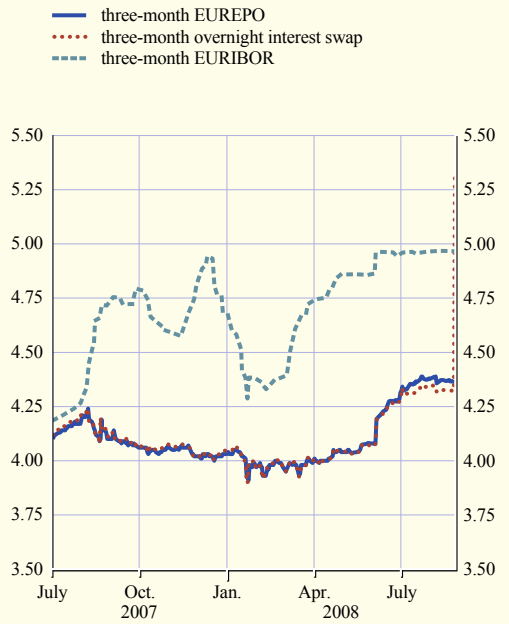
(percentages per annum; daily data)



Sources: ECB and Reuters.

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

(percentages per annum; daily data)



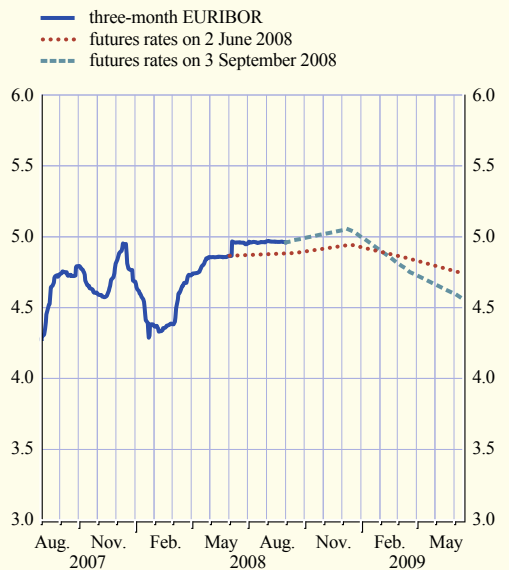
Sources: ECB and Reuters.

The spread between the twelve-month and one-month EURIBOR rates was 81 basis points on 3 September, compared with 63 basis points in early June (see Chart 15). This steepening of the money market yield curve took place mainly in June and reflected increases in market expectations regarding the future path of key ECB interest rates. These increases affected rates with longer maturities more than those with shorter maturities. Following its steepening at the beginning of June, the slope of the money market yield curve has flattened somewhat as expectations of higher short-term interest rates have receded. However, the yield curve remains steeper than in the first half of 2008.

Changes in spreads between the unsecured EURIBOR and secured rates (such as the EUREPO or those derived from the EONIA swap index) have also contributed to the flattening of the slope of the money market yield curve. These spreads, which rose again in the second quarter of 2008 in the context

**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.

of ongoing money market tensions, have declined somewhat since the beginning of June. At a three-month maturity, the spread between the unsecured EURIBOR and secured rates fell from 78 basis points on 2 June 2008 to levels around 60 basis points in August (see Chart 16).

The interest rates implied by the prices of three-month EURIBOR futures maturing in December 2008 and March and June 2009 stood at 5.07%, 4.78% and 4.58% respectively on 3 September, representing an increase of 10 basis points for the December rate and decreases of 10 and 18 basis points for the March and June rates by comparison with the levels observed on 2 June 2008 (see Chart 17). The implied volatility derived from options on three-month EURIBOR futures rose at the beginning of June, but resumed its decline as of mid-June (see Chart 18).

As regards very short-term interest rates, in its communication the ECB has continued to emphasise the importance of keeping overnight interbank interest rates stable and close to the minimum bid rate. Although volatility in the EONIA has remained somewhat higher than was observed prior to the emergence of money market tensions in August 2007, the ECB has largely been successful in meeting this objective. In order to accommodate counterparties' need to fulfil their reserve requirements early on in the maintenance period, the ECB has continued allocating liquidity in excess of the benchmark amount in its main refinancing operations while still aiming for balanced liquidity conditions at the end of the maintenance period. The EONIA rose by around 25 basis points at the beginning of July, in line with the Governing Council's decision to increase ECB interest rates. Since then, the EONIA has remained broadly stable at around 4.30% (see Chart 19). These developments and the policy operations conducted by the ECB are described in more detail in Box 5.

**Chart 18 Implied volatility derived from options on three-month EURIBOR futures maturing in December 2008**

(percentages per annum; basis points; daily data)

- percentages per annum (left-hand scale)
- ..... basis points (right-hand scale)

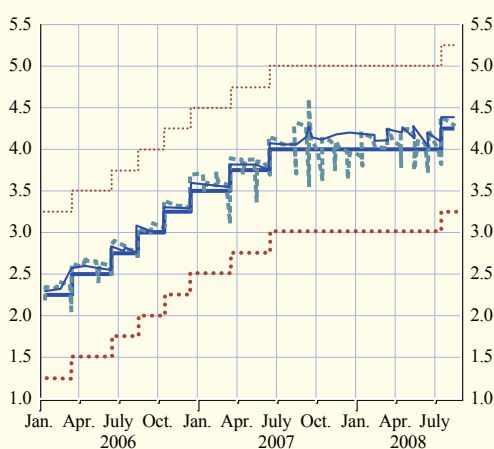


Sources: Bloomberg, Reuters and ECB calculations.  
Note: The basis point measure is obtained as the product of implied volatility in percentages and the corresponding interest rate (see also the box entitled "Measures of implied volatility derived from options on short-term interest rate futures" in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

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

(percentages per annum; daily data)

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



Sources: ECB and Reuters.

### LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 14 MAY 2008 TO 12 AUGUST 2008

During the three maintenance periods under review there were some signs of an easing in the tensions seen at the short end of the euro money market since August 2007. Nevertheless, the ECB's liquidity management continued to address the tensions in various ways.

First, the ECB continued to "frontload" the provision of liquidity, with the aim of facilitating the fulfilment of counterparties' reserve requirements early in the maintenance period. This is achieved by allotting more than the benchmark amount in the main refinancing operations (MROs) at the beginning of the maintenance period (the benchmark amount being the allotment amount that allows counterparties to fulfil their reserve requirements evenly in the course of a reserve maintenance period), while absorbing the resulting surplus liquidity towards the end of the maintenance period so that the average supply of liquidity in any maintenance period remains unchanged. In the maintenance periods ending on 10 June and 12 August 2008 the ECB slightly reduced the amount of frontloading on account of the easing in the tensions at the short end of the money market. However, in line with the statement published on 9 June 2008,<sup>1</sup> the ECB increased the amount of frontloading during the maintenance period that ended on 8 July 2008 in order to alleviate the tensions associated with the end-of-semester effect.

Second, as announced in March 2008, the two supplementary three-month longer-term refinancing operations (LTROs), which were first carried out in August and September 2007, were rolled over for the third time when they matured in May and June 2008, and a second supplementary LTRO with a six-month maturity was carried out in July. The Eurosystem also announced in July that it would renew the two outstanding supplementary three-month operations when they matured in August and September 2008.

Finally, over the periods under review the ECB continued providing US dollar liquidity to euro area banks in cooperation with the Federal Reserve System's Term Auction Facility. In these operations, which do not affect the supply of euro liquidity,<sup>2</sup> US dollar liquidity is provided against collateral eligible in the Eurosystem's operations.

#### Liquidity needs of the banking system

In the three maintenance periods under review, banks' average liquidity needs rose by €2.3 billion by comparison with the preceding three periods. This can be explained by a €4.8 billion increase in reserve requirements, which was partially offset by a €2.5 billion decrease in liquidity needs resulting from autonomous factors. On average, total liquidity needs resulting from reserve requirements stood at €211.3 billion, and those resulting from autonomous factors averaged €249.8 billion (see Chart A).

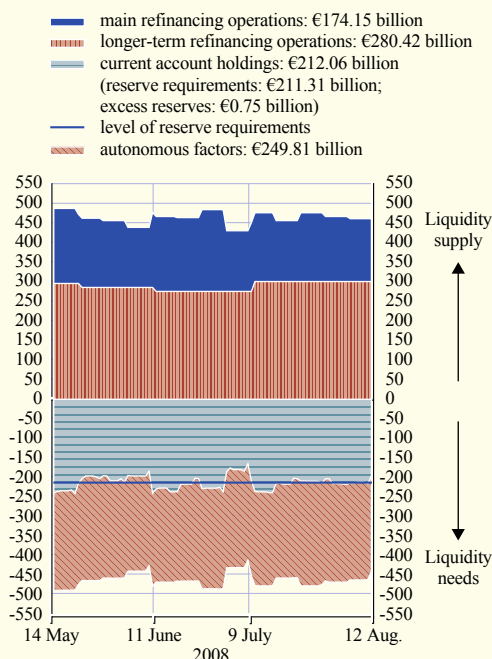
The level of excess reserves (i.e. the daily average of current account holdings in excess of reserve requirements) increased slightly, by €43 million, in the three periods under review, thus averaging €0.75 billion (see Chart B). This is in line with the average seen since the changes to the monetary policy implementation framework in March 2004.

1 The following statement was issued: "The ECB continues to closely monitor liquidity conditions and notes some tensions in money market rates for maturities over the end-of-semester. The ECB remains ready, if needed, to smooth conditions around the end-of-semester."

2 Please refer to <http://www.ecb.europa.eu/mopo/implement/omo/html/communication.en.html> for the statements communicated by the ECB.

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

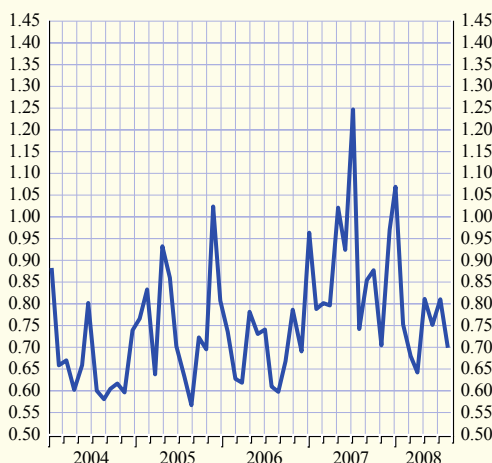
(EUR billions; daily averages for the whole period are shown next to each item)



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.

### Liquidity supply and interest rates

The total volume of outstanding open market operations (denominated in euro) rose as a result of the increase in reserve requirements. As the size of the two outstanding supplementary three-month LTROs was reduced slightly from €60 billion to €50 billion, and the second of the two six-month supplementary LTROs (€25 billion each) was only settled at the end of the period under review, the shares of LTROs and MROs in the total volume of outstanding open market operations remained broadly unchanged at an average of 60% and 40% respectively over the entire period. However, towards the end of the period, when the outstanding LTRO amount stabilised at €300 billion, the share of LTROs grew slightly to around 64%.

On 3 July 2008 the Governing Council of the ECB decided to increase the key ECB interest rates by 25 basis points, which meant that the minimum bid rate and the rates on the deposit and marginal lending facilities rose to 4.25%, 3.25% and 5.25% respectively. This change was effective as of 9 July 2008, the first day of the subsequent reserve maintenance period.

In connection with the Federal Reserve System's Term Auction Facility, the ECB continued to offer US dollar funding to Eurosystem counterparties during the period under review, with such funding secured using collateral eligible in the Eurosystem. In line with the ECB's announcement on 2 May 2008, these operations were conducted on a bi-weekly basis for an amount of USD 25 billion each. They did not affect the supply of euro liquidity.

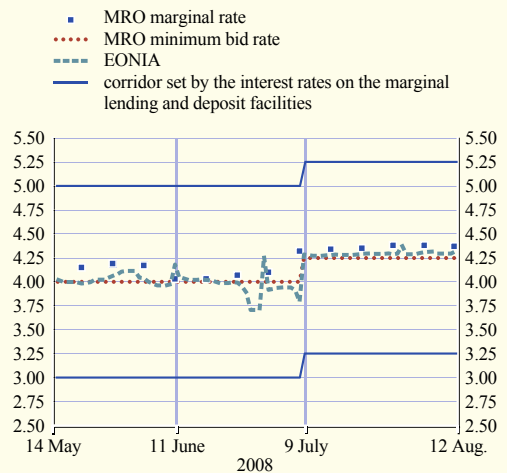
On 30 July 2008 the ECB announced its intention to establish, in conjunction with the Federal Reserve System, a cycle of 84-day Term Auction Facility operations of USD 10 billion, with the first operation to be settled on 14 August 2008. It also announced

that it intended to conduct bi-weekly operations, alternating between operations of USD 20 billion with a 28-day maturity and operations of USD 10 billion with an 84-day maturity.

In the maintenance period ending on 10 June 2008 the ECB allotted €25 billion, €18 billion, €15 billion and €3.5 billion in excess of the benchmark amount in its MROs. During the first two weeks of the maintenance period the EONIA was stable around the minimum bid rate, although it exhibited some volatility around the end of May, when it temporarily drifted well above the minimum bid rate. On 30 May 2008, the last day of the month, the EONIA stood at 4.114% (see Chart C). The ECB absorbed €14 billion in a fine-tuning operation on the last day of the maintenance period, which ended with net recourse to the marginal lending facility of €161 million and the EONIA at 4.179%.

**Chart C The EONIA and the ECB interest rates**

(daily interest rates in percentages)



Source: ECB.

In the maintenance period ending on 8 July 2008 the ECB allotted €20 billion in excess of the benchmark amount in each of the first two MROs, €35 billion in excess of the benchmark amount in the third MRO, which covered the end of June, and €3 billion in excess of the benchmark amount in the final MRO. While the EONIA stood very close to the minimum bid rate in the first two weeks of the maintenance period, pronounced, but nevertheless well-contained, volatility was observed around the end of June. The EONIA fell below the minimum bid rate in the week prior to the end of June before drifting significantly above it on the last day of the month, standing at 4.265% on that day. It then returned to levels slightly below the minimum bid rate during the last few days of the maintenance period. The ECB launched a liquidity-absorbing fine-tuning operation for an amount of €21 billion on the last day of the maintenance period. However, counterparties only submitted bids for a total of €14.6 billion. As a result, the maintenance period ended with net recourse to the deposit facility of €4.8 billion and the EONIA at 3.792%.

In the maintenance period ending on 12 August 2008 the ECB allotted €18 billion, €14 billion, €10 billion, €8 billion and €3 billion in excess of the benchmark amount in its MROs. The EONIA stood slightly above the minimum bid rate for the entire maintenance period and increased to 4.371% on the last day of July owing to the usual calendar effects. On the last day of the maintenance period the ECB launched a fine-tuning operation and absorbed €21.0 billion. The maintenance period ended with limited net recourse to the deposit facility of €588 million and the EONIA at 4.318%.

Overall, during the period under review, counterparties' bidding behaviour was less aggressive than in previous months, possibly indicating that tensions at the short end of the money market had eased somewhat. In particular, during the second maintenance period under review, the spread between the minimum bid rate and the marginal rate (i.e. the lowest rate at which



bidders receive liquidity) narrowed to 3 basis points, a level similar to that observed before the onset of financial tensions in August 2007. This was also confirmed by the decrease in the weighted average rate for MRO allotments (i.e. the average of the bid rates weighted by the amounts of the respective bids), which reflects the decrease in the number of aggressive bidders in MRO tenders.

## 2.4 BOND MARKETS

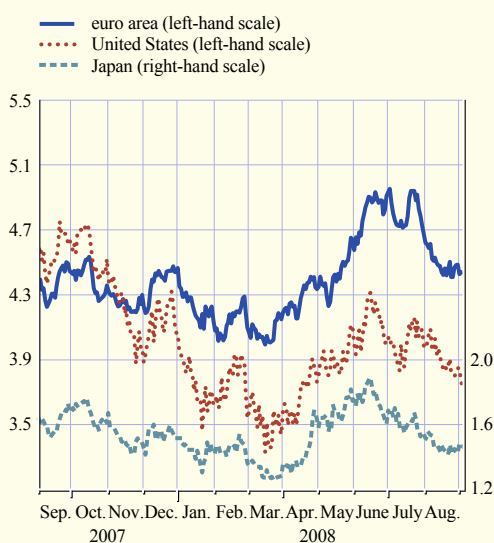
*Over the past three months, long-term government bond yields have decreased in the major markets. In May and the first half of June, yields tended to increase, amid perceptions of heightened global inflation risks. Thereafter, renewed concerns with respect to the financial sector may have led investors to prefer safe government bonds to equities, thereby pushing yields down. Real long-term government bond yields in the euro area declined over the second half of the period under review, in line with investors' perceptions of a deterioration in the macroeconomic outlook. Finally, long-term implied forward break-even inflation rates in the euro area changed little between end-May and early September, while medium to long-term spot break-even inflation rates were more sensitive to changes in commodity prices and actual inflation.*

Since the end of May, long-term government bond yields have decreased both in the euro area and in the United States. Overall, ten-year government bond yields in the euro area declined by around 20 basis points between end-May and 3 September 2008, when they stood at 4.4% (see Chart 20). At the same time, the yields on ten-year government bonds in the United States decreased by around 35 basis points and ended the period under review at 3.7%. Although the developments in long-term interest rates in the two economies tended, as usual, to mirror each other, the differential between the yields on US and euro area ten-year government bonds widened by around 15 basis points between end-May and 3 September, when it stood at around -70 basis points. In Japan, ten-year government bond yields decreased by about 30 basis points, standing at 1.5% on 3 September.

In the euro area, implied bond market volatility remained broadly unchanged between the end of May and early September, suggesting that, overall, market participants' uncertainty regarding the short-term outlook for long-term bond yields changed little. In the United States, the implied bond market volatility ended the review period at levels that were somewhat lower than those prevailing at the end of May. In Japan, the implied bond market volatility decreased significantly over the period under consideration.

Chart 20 Long-term government bond yields

(percentages per annum; daily data)



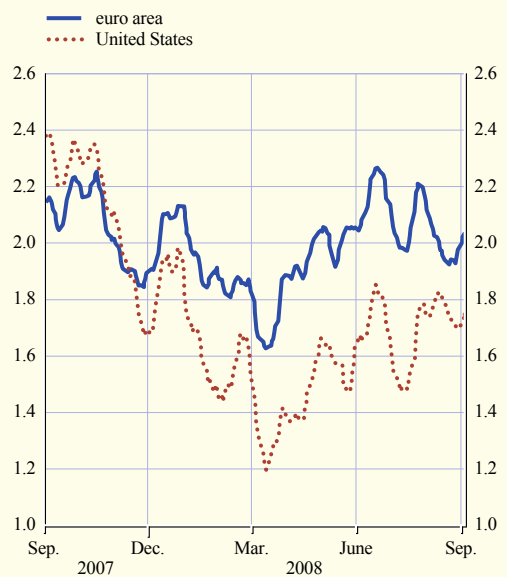
Sources: Bloomberg and Reuters.

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

In the United States, the upward trend in bond yields, which had already started in the first quarter, continued until about mid-June. Since then, overall bond yields have decreased. While perceptions of global inflation risks were predominant in the first half of the period under consideration, contributing to the increase in yields, concerns about the financial sector and, in particular, the pressures on the US government-sponsored enterprises Fannie Mae and Freddie Mac since July may have induced investors to prefer safe government bonds to equities, thereby pushing yields down. Until end-July, real government bond yields and nominal long-term yields in the United States mirrored one another, suggesting that investors' expectations about inflation changed modestly. However, since the end of July, while ten-year nominal bond yields have declined, real yields have remained broadly unchanged, which indicates that investors' concerns about inflation have abated somewhat. In particular, the decline in commodity prices may have contributed to these developments (see Chart 21).

**Chart 21 Zero-coupon inflation-linked bond yields**

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



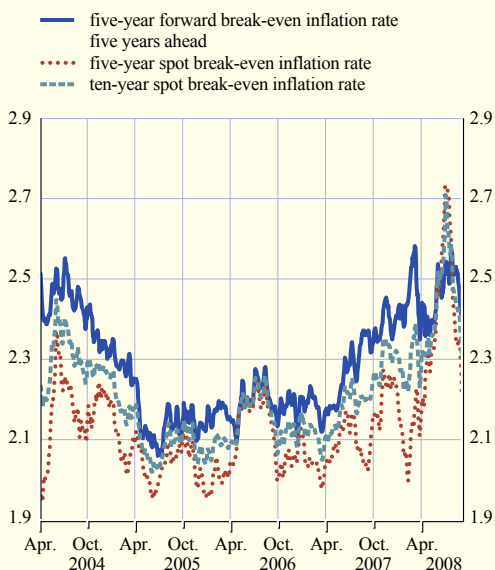
Sources: Bloomberg, Reuters and ECB calculations.  
Note: Ten-year spot zero-coupon inflation-linked bond yields.

In the euro area, the increase in yields was longer-lived than in the United States, lasting until around the beginning of July. This probably reflects market expectations about a tightening in monetary policy, which materialised on 3 July with an increase of 25 basis points in the key ECB interest rates. Thereafter euro area bond yields declined, amid some volatility. In the euro area spot real bond yields increased until mid-June, reflecting expectations of further tightening in monetary policy, in an environment of increasing inflation expectations. From mid-July, the decrease in nominal and real yields may have harbingered not only a decline in inflation expectations, but also a deterioration in the macroeconomic outlook.

The five-year forward break-even inflation rates five years ahead – a measure of market participants' long-term inflation expectations and related risk premia – declined slightly at the end of period under review, and stood at a rather high level of 2.4% on 3 September (see Chart 22). Ten-year spot break-even inflation rates rose by about 15 basis points between end-May and early July, but have decreased somewhat since then and stood at about 2.3% in early September. Over short to medium-term horizons, inflation expectations have exhibited quite high volatility. In particular, inflation expectations in the first half of the period under review were strongly affected by the surge in commodity prices, specifically oil prices, and actual inflation, which led to a significant increase in five-year spot break-even inflation rates. Since mid-July, however, the decline in oil prices and, more recently, renewed market concerns about the outlook for euro area growth appear to have triggered significant downward revisions to short to medium-term inflation expectations. In early September, the five-year spot break-even inflation rate stood at 2.2%. In interpreting these results, one should nevertheless take into account that, in periods of turmoil, break-even inflation rates are somewhat distorted as a result of flight-to-safety episodes. Box 6 provides an insight into inflation expectations across different horizons on the basis of financial market indicators.

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

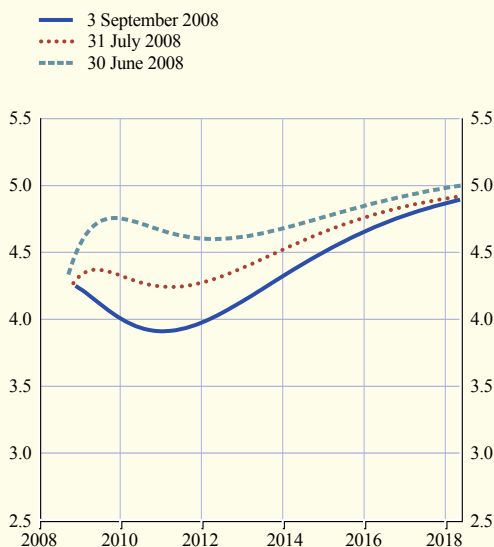
(percentages per annum; five-day moving averages of daily data; seasonally adjusted)



Sources: Reuters and ECB calculations.

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

(percentages per annum; daily data)



Sources: ECB, EuroMTS (underlying data) and Fitch Ratings (ratings).

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 is outlined in the “Euro area yield curve” section of the ECB’s website. The data used in the estimate are euro area AAA-rated government bond yields.

Between end-May and early September, the implied forward overnight interest rate curve for the euro area first shifted upwards and then turned downwards (see Chart 23). This may reflect changes in investors’ expectations regarding the path of short-term interest rates over short to medium-term horizons. However, the downward shift at the longer end of the forward yield curve between end-May and early September probably also reflects a decrease in the corresponding risk premia.

For lower-rated categories, corporate bond spreads for the euro area non-financial sector increased. Financial corporate bond spreads widened significantly further across all rating classes over the period under review. The persistently high spreads for the financial sector imply an increase in bank funding costs, which, in turn, can be expected to have implications for the credit markets.

## RECENT DEVELOPMENTS IN THE TERM STRUCTURE OF BREAK-EVEN INFLATION RATES IN THE EURO AREA

The ECB's Monthly Bulletin regularly provides detailed information on developments in indicators of inflation expectations extracted from financial instruments. The emphasis in the bond market section is mainly on long-term inflation expectations, but the inflation-linked bond and swap markets in the euro area provide information about inflation expectations (and related premia) over a wide range of horizons. In this regard, this box provides an overview of recent developments in the whole term structure of break-even inflation rates (BEIRs).

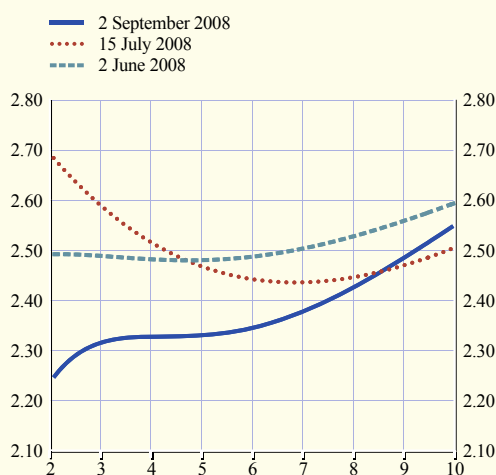
The estimated term structure of BEIRs has undergone significant changes since mid-May.<sup>1</sup> In particular, short to medium-term expectations have experienced significant volatility over this period. The surge in oil prices (from USD 90 at the beginning of 2008 to around USD 145 in mid-July) and the rise in actual inflation (4.1% in July, up from 3.7% in May) triggered strong increases at the short end of the break-even curve from early June. Such increases – of, for example, around 25 basis points at the one-year forward BEIR two years ahead – led to an inversion of the forward (and spot) BEIR curves (see Chart A). From mid-July onwards, however, there has been a gradual moderation in inflation expectations (and related premia), most probably on account both of the decline in oil prices (of around 20%) from the aforementioned peak and, more recently, of the market's perception of a slowdown in euro area economic activity related to the release of growth figures for the second quarter and the deterioration of confidence indicators.

Long-term inflation expectations (and associated inflation risk premia) have remained elevated. Ten-year spot BEIRs rose by around 25 basis points between mid-May and early July, but have moderated somewhat since then, to stand at around 2.4% in late August (see Chart 22 in the main text). Long-term forward BEIRs have been broadly constant over the last three months, hovering around 2.5%. The moderation of short to medium-term inflation expectations since mid-July has not, however, been accompanied by similar changes at longer horizons, and the forward curve has steepened (see Chart A).

Developments in the term structure of inflation-linked swap rates over the last few months confirm the above assessment. In particular, the fluctuations in short to medium-term inflation-linked

Chart A Forward BEIR curve on different dates

(percentages per annum)

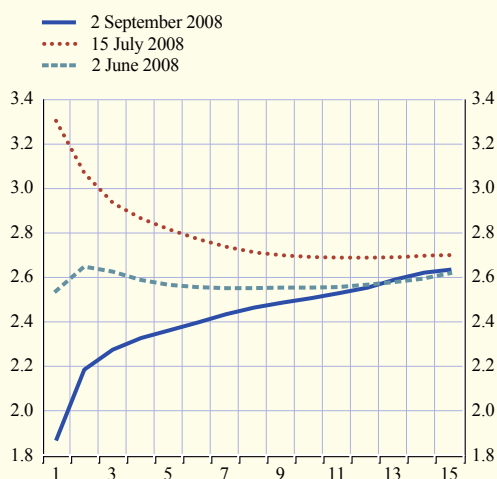


Sources: Reuters and ECB calculations.  
Note: The horizontal axis gives the maturity in years.

<sup>1</sup> See Ejsing, Garcia and Werner, "The term structure of euro area break-even inflation rates: the impact of seasonality", ECB Working Paper Series No 830, November 2007, for details of the estimation methodology.

Chart B Euro area inflation-linked swap curve

(percentages per annum)

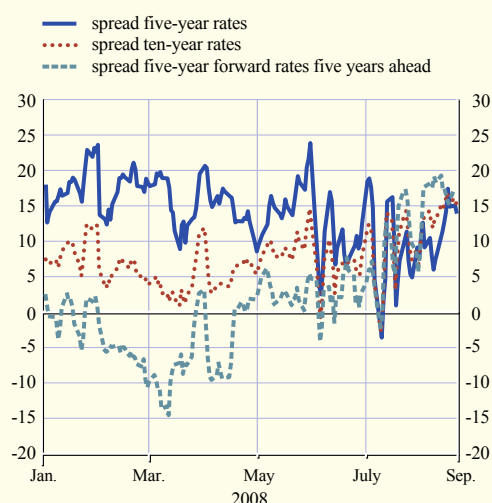


Source: Reuters.

Note: The horizontal axis gives the maturity in years.

Chart C Spread between inflation-linked swap rates and break-even inflation rates

(basis points)



Sources: Reuters and ECB calculations.

swap rates have broadly mirrored those in BEIRs over the same horizons. The sharp increases in short-term inflation-linked swap rates, which also led to an inversion of the spot (and forward) curve, have reversed in the last few weeks, supporting the assessment that short to medium-term inflation concerns among market participants have decreased significantly since mid-July, while remaining elevated (and higher than in mid-May) at longer horizons (see Chart B).

Long-term inflation-linked swap rates, in particular, remain at fairly elevated levels: ten-year rates stand at around 2.5% after having reached peaks close to 2.8% in the last few months. Moreover, long-term forward inflation-linked swap rates have been on an upward trend since last May and, unlike long-term forward BEIRs, have shown little decline in the last few weeks. The five-year forward inflation-linked swap rate five years ahead currently stands at around 2.7%, almost 25 basis points above its bond market counterpart.

Chart C displays the spread between five and ten-year inflation-linked swaps and BEIRs, as well as the long-term forward rate five years ahead, and illustrates that discrepancies between long-term forward inflation-linked swaps and BEIRs are not unusual, and can arise as a result of a number of technical market factors.<sup>2</sup> It should also be borne in mind that tensions in the stock markets have heightened since last May (see Section 2.6). In such a context, it is not inconceivable that flight-to-safety portfolio shifts have affected the bond market significantly, thereby making the interpretation of BEIRs more difficult.

The spreads between long-term forward inflation-linked swaps and BEIRs, having shown an upward trend in recent months, are high from a historical perspective. One-year forward inflation-linked swap rates nine years ahead, at around 2.7%, are also 20 basis points higher than

<sup>2</sup> Long-term forward BEIRs and inflation-linked swap rates also differed markedly around March of this year, although the circumstances were different. For details, see the box entitled "Recent developments in bond market liquidity premia and implications for break-even inflation rates" in the April 2008 issue of the Monthly Bulletin.

their BEIR counterparts. Relatively illiquid conditions in the inflation-linked market combined with the easing in BEIRs over recent weeks seem to have pushed spot BEIRs downwards by more than swaps, particularly at long horizons.

The term structures of break-even inflation rates and of inflation-linked swaps offer the possibility of monitoring inflation expectations over a wide range of horizons. Such information is important for monetary policy. For instance, the recent developments in the instruments reported in this box suggest that short to medium-term inflation expectations have moderated significantly over the last few weeks, but longer-term inflation expectations remain at more elevated levels. Such high levels and the current discrepancies between long-term break-even inflation rates and inflation-linked swap rates at the long end of the curves warrant close monitoring and confirm the need to consider a range of indicators of inflation expectations.

## 2.5 EQUITY MARKETS

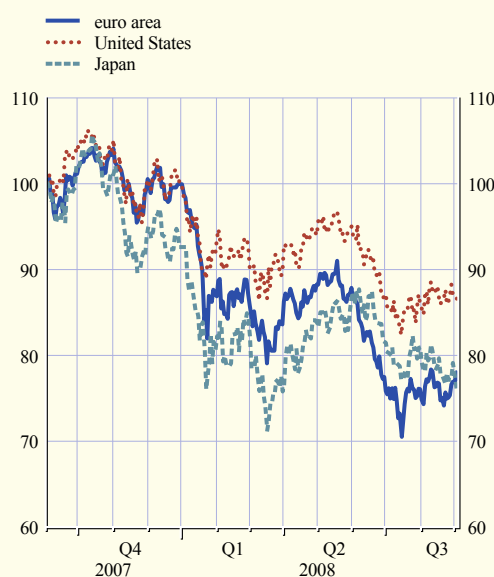
*Between end-May and mid-July global stock prices have declined significantly, mainly on account of renewed market concerns not only about the financial sector and, in particular, pressure on the US government-sponsored enterprises, but also about the outlook for the world economy and the rapid increase in commodity prices. Equity markets have rebounded somewhat since the second half of July, while commodity prices have fallen markedly from their earlier peaks. Accordingly, implied stock market volatility increased in the first part of the period under review, while it declined somewhat thereafter.*

Stock prices in the euro area, the United States and Japan, as measured by the Dow Jones EURO STOXX, the Standard & Poor's 500 and the Nikkei 225 indices respectively, declined sharply between end-May and mid-July. Since then, they have recovered somewhat, especially in the United States (see Chart 24). Overall, equity prices in the United States, the euro area and Japan declined by around 9%, 12% and 13% respectively between the end of May and 3 September 2008.

Short-term stock market uncertainty in the euro area, the United States and Japan, as reflected by the implied volatility extracted from stock options, exhibited an upward trend which started in the second half of May and continued until around mid-July, before declining somewhat thereafter (see Chart 25). The increase in implied volatility, compounded with the rise in spreads for high-yield and BBB-rated corporate bonds, may suggest a decline in investors' appetite for risk. Against this background, it is likely that equity risk

Chart 24 Stock price indices

(index: 1 September 2007 = 100; daily data)

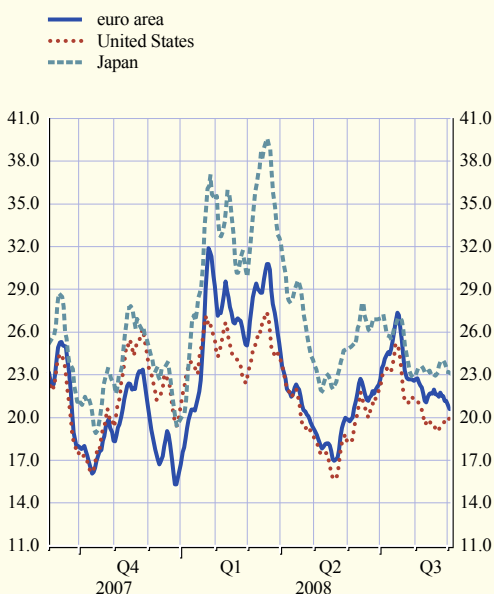


Sources: Reuters and Thomson Financial Datastream.  
Note: The indices used are the Dow Jones EURO STOXX broad index for the euro area, the Standard & Poor's 500 index for the United States and the Nikkei 225 index for Japan.



Chart 25 Implied stock market volatility

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

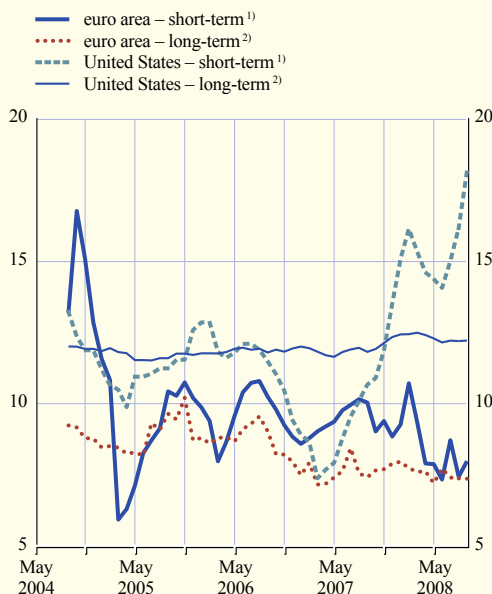


Source: Bloomberg.

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

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

(percentages per annum; monthly data)



Sources: Thomson Financial Datastream and ECB calculations.

Notes: Expected earnings growth of corporations on the Dow Jones EURO STOXX index for the euro area and on the 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).

premia in both the euro area and the United States have increased in recent months, thereby contributing to the observed downturn in stock prices.

In the United States, between end-May and mid-July, stock prices declined significantly on account of growing market concerns about the economic outlook and, in particular, inflation in the context of the rapid increase in commodity prices, especially oil prices. In addition, in July, renewed concerns about the financial sector and, in particular, pressure on the US government-sponsored enterprises Fannie Mae and Freddie Mac, as well as on bond insurers, dragged equity prices down further. As from mid-July, this negative trend was partially reversed as a result of a subsequent decline in commodity prices. Furthermore, the decision of the Federal Open Market Committee (FOMC) in early August to leave the federal funds rate unchanged, as well as moderating expectations of future rate increases, contributed to the recovery in the equity market.

In line with the decline in equity prices in the first part of the period under consideration, the number of companies and professional stock market analysts who revised their estimates of expected earnings per share in the next 12 months downwards was larger than the number of those who revised them upwards. Housing and credit market concerns and their adverse impacts on the real economy were among the factors that have contributed to shaping this rather negative view on the earnings outlook of listed US companies. The sharp increase in the growth of expected short-term earnings per share in the United States over the past three months, and their general tendency to rise since the summer of 2007 (see Chart 26), can be explained by a base

**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	Technology	Telecommunications	Utility	EURO STOXX
<b>Share of sector in market capitalisation</b> (end-of-period data)	8.4	5.9	11.6	7.1	29.0	3.3	11.8	5.0	7.2	10.7	100.0
<b>Price changes</b> (end-of-period data)											
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
2007 Q4	-1.2	-3.3	-1.6	-1.8	-4.9	2.1	0.1	-7.8	7.1	8.5	-1.2
2008 Q1	-9.1	-16.2	-13.7	-15.2	-16.6	-17.9	-18.1	-22.2	-20.8	-16.5	-16.4
2008 Q2	7.9	-13.9	-14.7	12.7	-14.8	-0.2	-7.0	-10.7	-5.8	0.6	-7.3
July	-6.6	-0.3	-0.1	-10.3	0.1	-5.4	-2.8	9.2	1.4	-3.0	-1.8
August	-1.6	5.6	3.2	1.1	0.5	5.6	1.5	1.3	1.2	-1.0	1.1
30 May - 03 Sep.	-15.1	-8.2	-10.2	-18.9	-13.7	-5.4	-14.5	-6.7	-2.6	-14.2	-12.4

Sources: Thomson Financial Datastream and ECB calculations.

effect because the level of actual earnings per share, especially in the case of financial firms, has declined more than the level expected by analysts 12 months ahead. At the same time, the expected growth in corporate earnings per share five years ahead remained broadly unchanged (see Chart 26).

In the period under consideration, euro area equity prices followed a pattern similar to that observed for US equities. However, after the trough reached in mid-July, the recovery in euro area equity prices was somewhat more modest than that in the US stock market. At the same time, analysts' expectations for growth in earnings per share over the next 12 months increased slightly, from 7.5% in May to 8.0% in August, whereas analysts' expectations for earnings growth over a longer-term horizon (three to five years ahead) declined, although moderately, over the past three months (see Chart 26).

Between end-May and early September, stock prices declined across all sectors in the euro area (see Table 3). Oil and gas sector stocks were among those affected most, probably on account of the decrease in oil prices over the review period. They underperformed the broad-based Dow Jones EURO STOXX index by about 7 percentage points. The financial sector performed marginally less well than the broad-based index. In the US equity market, the oil and gas sector stock prices notably underperformed the Standard & Poor's 500 index by about 8 percentage points. Health care was the only US sector to register a positive outcome in terms of performance over the review period.

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

*The real overall cost of the external financing of the non-financial corporate sector in the euro area increased further in the second quarter of 2008. Most of the increase was accounted for by higher market-based debt and equity financing costs in the wake of renewed financial market tensions. At the same time, the growth of external financing moderated, driven by a slowdown in the growth of lending by MFIs to non-financial corporations, which nevertheless remained at very robust levels. The leverage ratios of non-financial corporations continued the upward trend observed in previous quarters.*

## 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<sup>2</sup> – increased by 10 basis points in the second quarter of 2008 (see Chart 27). Mounting uncertainties about economic growth and the inflation outlook in the euro area, coupled with investors' worries about further losses in the banking sector, sparked higher corporate bond yields and an increase in the premium demanded by investors for investment in euro area equities. As a result, both market-based real debt financing and equity financing costs increased sharply in the second quarter, namely by 50 and 30 basis points respectively. Euro area firms' bank financing costs witnessed mixed developments, as evidenced by a decline of 25 basis points in real MFI rates on shorter maturities and increases of a similar magnitude in rates on longer maturities.

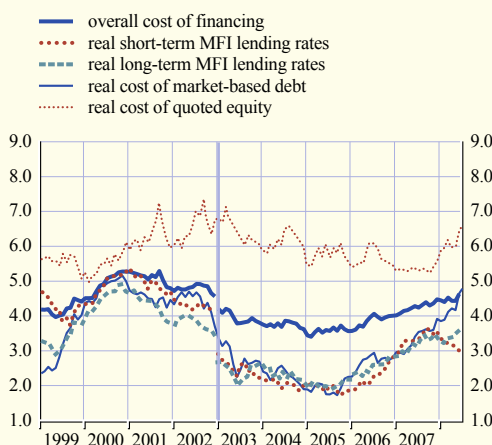
Taking a longer perspective, the increase in the real overall cost of financing for non-financial corporations in the euro area since the outbreak of the financial turmoil one year ago amounts to about 35 basis points. Most of this increase is related to higher market-based financing costs.

The pass-through of bank lending rates is an important link in the process of monetary policy transmission. The pass-through effect measures the degree to which changes in money market rates influence both long-term market interest rates and retail bank interest rates. As regards developments in the latter, all nominal MFI interest rates increased throughout the second quarter of 2008 (see Table 4). More specifically, short-term MFI interest rates on loans to non-financial corporations with an initial rate fixation period of up to one year rose by 18 to 25 basis points, depending on the size of the loans. Towards the end of the period under review, the rise may have already partly reflected expectations of the upward adjustment in monetary policy rates that materialised in July. Long-term MFI interest rates, i.e. those on loans with an initial rate fixation period of over five years, increased by similar amounts.

Developments in banks' funding costs are primarily affected by movements in the three-month EURIBOR, while banks' lending rates normally reflect movements in two to five-year government bond yields. Over the second quarter of 2008, the increases in most bank lending rates were broadly in line with those in the three-month EURIBOR. In stark contrast to this, both two and five-year government bond yields increased by more than 100 basis points over the same period, in the context of rising market concerns about the inflation outlook. As a result of the movements

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.

<sup>2</sup> For a detailed description of how the real cost of the external financing of euro area non-financial corporations is measured, see Box 4 in the March 2005 issue of the Monthly Bulletin.

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

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

	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 May	2008 June	Change in basis points up to June 2008 <sup>2)</sup>		
							2007 Dec.	2008 Mar.	2008 May
<b>MFI interest rates on loans</b>									
Bank overdrafts to non-financial corporations	6.18	6.50	6.63	6.55	6.57	6.68	6	13	11
Loans to non-financial corporations of up to €1 million									
with a floating rate and an initial rate fixation of up to one year	5.53	5.92	6.08	5.91	6.09	6.16	8	25	6
with an initial rate fixation of over five years	5.00	5.24	5.28	5.22	5.24	5.40	12	18	16
Loans to non-financial corporations of over €1 million									
with a floating rate and an initial rate fixation of up to one year	4.90	5.21	5.33	5.18	5.27	5.35	2	18	8
with an initial rate fixation of over five years	5.17	5.43	5.47	5.34	5.43	5.58	11	24	15
<b>Memo items</b>									
Three-month money market interest rate	4.15	4.74	4.85	4.60	4.86	4.94	9	34	8
Two-year government bond yield	4.45	4.10	4.05	3.54	4.14	4.72	67	118	59
Five-year government bond yield	4.57	4.19	4.14	3.65	4.20	4.75	61	110	55

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.

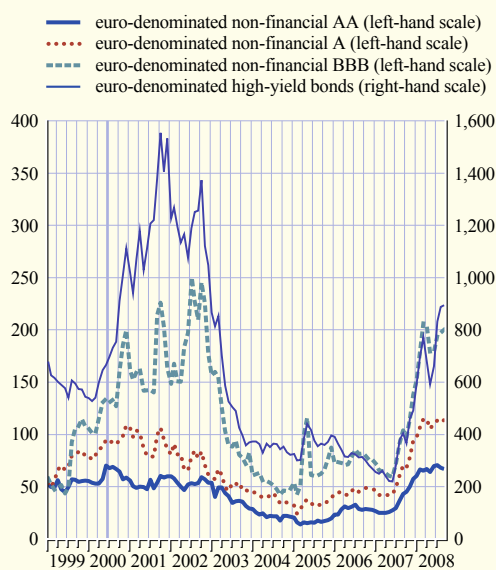
2) Figures may not add up due to rounding.

in both market and bank rates, it seems that the pass-through has been faster in the case of shorter-maturity bank lending rates, while adjustments have been more sluggish for longer-maturity bank lending rates. Despite the narrowing that occurred in the second quarter of 2008, the spreads between longer-maturity bank rates and government bond yields have tended to widen throughout the period of turmoil since June last year, contributing to the increase in banks' funding costs.

Additional information on banks' lending behaviour with respect to the non-financial sector can be found in the bank lending survey for the euro area. In the July 2008 survey, banks continued to report a significant net tightening of credit standards for loans to enterprises, albeit one that was slightly smaller than in the survey covering the first quarter of 2008. The most important factors driving the net tightening continued to be banks' risk perceptions regarding general economic activity and the industry or firm-specific outlook. The impact of all factors summarised in the cost of funds, and of the balance sheet constraints experienced by banks (i.e. their ability to access market financing, the costs related to their capital positions and their liquidity positions), was somewhat lower than

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

(basis points; monthly averages)



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

in the first quarter, thus standing in contrast to the increasing impact of their concerns about the economic outlook. Overall, the tightening continued to be stronger for large firms than for small and medium-sized enterprises.

The cost of real market-based debt financing increased significantly, namely by 50 basis points, in the second quarter of 2008. The increases were mainly due to the strong rebound in long-term government bond yields. At the same time, the credit spread, measured as the difference between the yields on corporate bonds and those on government bonds, narrowed somewhat in the case of the BBB-rated and high-yield segments (see Chart 28). Recently, in July and August, spreads have generally increased for these segments.

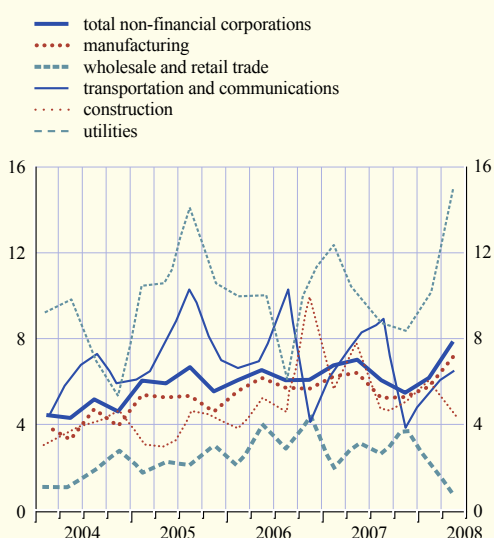
The cost of equity saw some strong fluctuations during the second quarter of 2008. In May and June, mounting uncertainty about the economic growth and inflation outlook induced investors to demand an, in general, higher premium on euro area stocks. The stock market sentiment deteriorated further in July when the US government-sponsored enterprises Fannie Mae and Freddie Mac came under pressure as concerns intensified about the adequacy of their capital base, which led to renewed increases in the cost of equity. Later on, in August, the real cost of equity stabilised.

## FINANCIAL FLOWS

Most indicators of euro area firms' profitability suggest that they have been able to weather the financial market turbulence surprisingly well. As seen in Chart 29, the ratio of net income to sales increased from 6.2% in the first quarter of 2008 to 7.9% in the second quarter. Firms included in the utilities, manufacturing, and transport and communication sectors supported the overall profitability ratios. All in all, the ratio of net income to sales declined for firms in the construction, wholesale and retail trade sectors over the same period.

Chart 29 Profit ratios of listed non-financial corporations

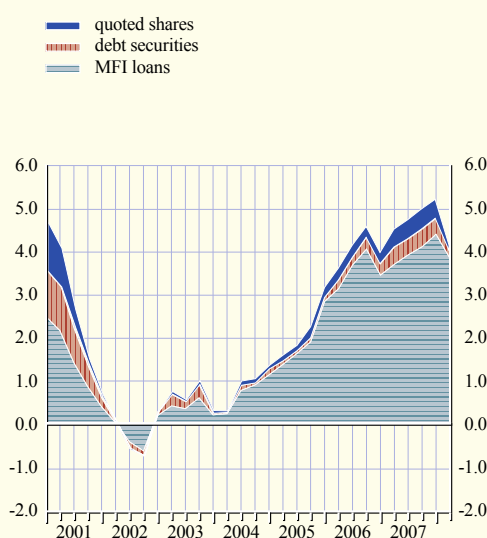
(net income to net sales ratios; quarterly data)



Sources: Thomson's DataStream and ECB calculations.

Chart 30 Breakdown of the real annual rate of growth of the financing of 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.

Looking ahead, and despite the expected gradual slowdown of economic activity within and outside the euro area, available data on the earnings expectations of listed companies suggest that non-financial firms' earnings per share will grow at an annual rate of around 10% over the next 12 months.

The slowdown in economic growth seems to have had a dampening impact on the growth of external financing. The real annual rate of growth of non-financial corporations' external financing (including MFI loans, debt securities and quoted shares) dropped to about 4.2% in the second quarter, compared with 5.2% in the previous quarter (see Chart 30). As usual, the contribution from MFI loans made up the bulk of the external financing, recording an annual growth rate of 3.8% in the second quarter of 2008, which was 0.6 percentage point lower than in the previous quarter. The contribution of financing via debt securities declined somewhat, to around 0.2 percentage point. The contribution from the issuance of quoted shares fell as well, from 0.4 percentage point to 0.1 percentage point over the same period.

Broader aggregates included in the euro area accounts confirm a slower growth of external financing. Data available up to the first quarter of 2008 show that the annual growth rate of financing to non-financial corporations declined to 4.4%, down from 4.9% in the last quarter of 2007 (see Table 5). This more comprehensive measure also includes unquoted equity, pension fund reserves and other net accounts payable as sources of financing. Confirming an overall lower credit growth, MFI lending to other financial intermediates (OFIs) has also abated over the past few months.

Chart 31 shows the various components that make up euro area firms' saving, financing and investments as reported in the euro area accounts. This broad indicator shows that firms have more outlays, on aggregate, for real and financial investments than funds generated internally.

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

	Annual growth rates (percentage changes; end of quarter)				
	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2
<b>MFI loans</b>	<b>13.2</b>	<b>14.0</b>	<b>14.5</b>	<b>14.9</b>	<b>13.7</b>
Up to one year	11.0	12.6	12.7	13.9	12.0
Over one and up to five years	19.9	20.3	22.0	22.3	19.9
Over five years	12.2	12.5	12.8	12.9	12.4
<b>Debt securities issued</b>	<b>8.3</b>	<b>8.0</b>	<b>8.8</b>	<b>7.8</b>	<b>4.0</b>
Short-term	19.4	22.2	30.4	26.6	12.2
Long-term, <i>of which:</i> <sup>1)</sup>	6.2	5.6	5.1	4.2	2.3
Fixed rate	3.9	3.3	4.3	2.8	2.9
Variable rate	19.6	19.1	10.9	12.3	2.3
<b>Quoted shares issued</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.2</b>	<b>0.3</b>
<b>Memo items</b> <sup>2)</sup>					
Total financing	5.1	5.1	4.9	4.4	-
Loans to non-financial corporations	10.4	11.4	11.4	11.0	-
Insurance technical reserves <sup>3)</sup>	3.7	3.0	2.4	2.1	-

Sources: ECB, Eurostat and ECB calculations.

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

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

2) Data are reported from quarterly European sector accounts. Total financing of non-financial corporations includes loans, debt securities issued, shares and other equity issued, insurance and technical reserves, other accounts payable and financial derivatives.

3) Includes pension fund reserves.



This net figure is usually referred to as the “financing gap”, and has increased in magnitude since mid-2004. In early 2008, the financing gap stood at 4.6% of the total value added for the non-financial sector. As can be seen in the chart, most of the internal and external funds were used to finance real investments, whereas financial investments made up a smaller part. Financial investments declined further in the first quarter of 2008, driven by a sharp drop in holdings of currency and deposits, and a negative contribution from investment in long-term debt securities and mutual fund shares, while investment in shares and other equity held up well, despite indications of a slowdown in merger and acquisition (M&A) activities.<sup>3</sup> Data on announced deals (which tend to be a reliable leading indicator) suggest that completed M&A activities will slow down further in the latter part of 2008.

For further evidence about euro area firms’ financial positions, based on a sample of individual company data at annual frequency, see the box entitled “Developments in listed non-financial corporations’ internal funds”.

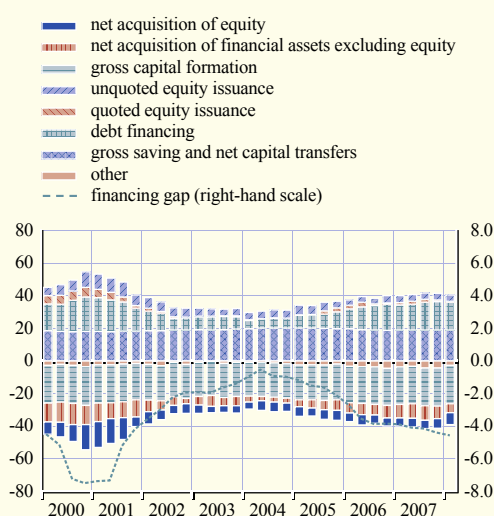
MFI loans continued to grow at a brisk pace in the second quarter of 2008. The annual growth rate for the second quarter as a whole was 13.7% (see Table 5). This was slightly lower, however, than the 14.9% recorded in the first quarter of 2008. The still robust growth rates suggest that the financial market turmoil that started one year ago has not had any significant impact on euro area firms’ demand for loans. The annual growth rate of lending to non-financial corporations decelerated further to 13.2% in July, from 13.6% in June. When looking at growth rates for shorter-term maturities, a more marked slowdown of the dynamics in loans to non-financial corporations can be observed in recent months. For example, the annualised three-month rate stood at 9.7% in July, down from a peak of 15.5% in January 2008.

Looking ahead, the strong credit growth is expected to slow down throughout the rest of the year. This is consistent with the lagged impact of higher interest rates, tighter financing conditions and weaker economic growth. The lower expected dynamics in M&A activities should put further downward pressure on firms’ need to borrow. Finally, it cannot be ruled out that part of the past resilience of bank lending has been related to firms’ drawing down of credit facilities that had been negotiated in more benign market conditions. To the extent that these facilities are renegotiated at less favourable terms, this may have a downward impact on credit growth going forward.

This picture is in line with the evidence contained in the recent bank lending survey. First, the results of the July 2008 bank lending survey for the euro area indicated a net tightening of credit standards on loans to enterprises. According to empirical evidence, the dynamics of loan growth

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

(four-quarter moving totals; percentages of gross value added)



Source: Euro area accounts.  
Notes: Debt includes loans, debt securities and pension fund reserves. “Other” includes financial derivatives, other accounts payable/receivable and adjustments. The financing gap is the net lending/net borrowing position which is broadly the difference between gross saving and gross capital formation.

3 See the box entitled “Recent developments in M&A activity by euro area non-financial corporations” in the August 2008 issue of the Monthly Bulletin.

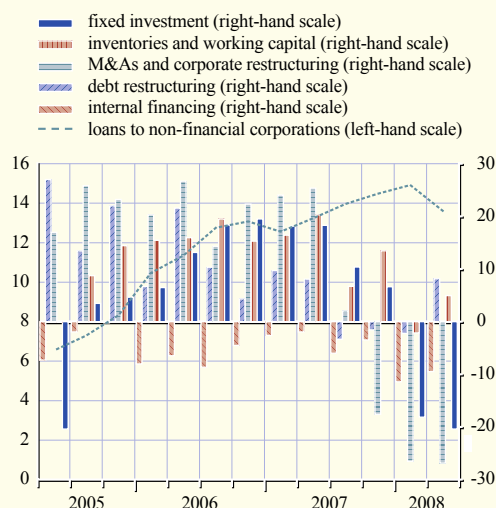
typically respond to a change in credit standards with a lag in the order of three to four quarters. Second, the bank lending survey also asks banks which factors contribute to non-financial firms' demand for loans. As seen in Chart 32, all factors (fixed investments, inventories and working capital, M&A purposes, debt restructuring and internal financing) contributed to lower demand for loans. The reduction of net demand for funds was particularly sharp for fixed investment, M&A activities and internal financing purposes.

Apart from MFIs, firms can also tap financial markets directly for funds. Recent data on the issuance of debt securities by non-financial corporations suggest a slowdown of market-based debt financing, with the annual growth rate declining to 4.0% in the second quarter of 2008, compared with 7.8% in the first quarter. The issuance activities have declined most markedly for firms with low credit standards.

The annual rate of growth of quoted equity issued by non-financial corporations declined to 0.3% in the second quarter of 2008, which was lower than the 1.2% observed for the first quarter. Deteriorating investors' confidence and the negative performance of stock markets weighed negatively on the issuance of quoted shares by non-financial corporations.

**Chart 32 Loan growth and factors contributing to non-financial corporations' demand for loans**

(annual percentage changes; net percentages)



Source: ECB.

Notes: The net percentages refer to the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decrease. See also the July 2008 bank lending survey.

## Box 7

### DEVELOPMENTS IN LISTED NON-FINANCIAL CORPORATIONS' INTERNAL FUNDS

Developments in listed euro area firms' earnings growth show a relatively robust picture. However, the analysis presented in previous issues of the Monthly Bulletin suggests that some moderate declines can be expected over the forthcoming quarters, as evidenced by recent negative revisions to corporate earnings expectations.<sup>1</sup> A generally less favourable global macroeconomic environment will probably weigh on firms' internal funding in the second half of 2008, although the recent drop in oil prices and the depreciation of the euro exchange rate is likely to support short-term profitability. This box looks at the signals stemming from developments in the cash flow of listed companies, which appears solid enough to withstand a situation of prolonged turbulence associated with higher costs of external finance.

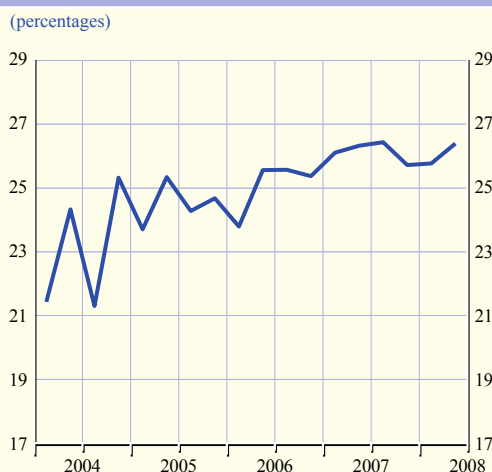
In an environment in which firms recorded relatively high levels of indebtedness (Chart A), a reduction in internal funds makes them more vulnerable to unexpected and adverse shocks. In

<sup>1</sup> See the box entitled "Recent developments in the earnings of euro area firms" in the June 2008 issue of the Monthly Bulletin.

this respect, cash flow statements included in annual reports provide useful information on the changes affecting cash accounts during an accounting period. Generally speaking, the cash flow can be regarded as an indicator of a company's financial health: more cash available for business operations means a greater cushion against unforeseen events. Conversely, it may indeed be the case that firms with robust income growth nevertheless have little cash at their disposal to meet their current obligations. This issue is very important in the current environment, as low cash availability on the part of euro area corporations may signal that they are particularly vulnerable to further shocks.

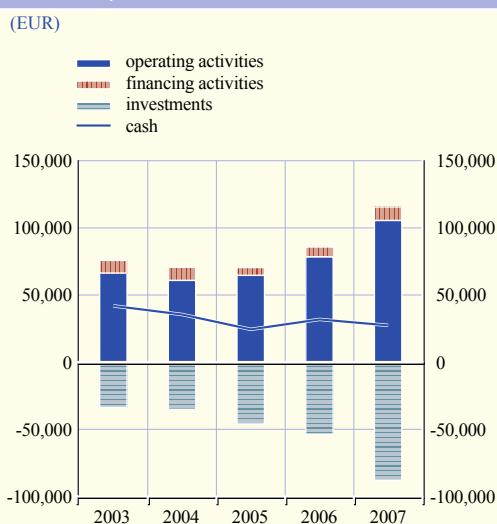
On the basis of annual data available for a balanced sample of listed companies, Chart B plots the overall cash flows for euro area non-financial corporations and also the decomposition into the categories "investment", "financing activities" and "operating activities".<sup>2</sup> Three notable features can be inferred from this chart. First, euro area firms' overall cash flows remained broadly unchanged in the period from 2003 to 2007. Second, both the inflow generated from core business operations and the outflow for investments have gradually increased in recent years, most strongly in 2007. However, the former has increased less than the latter, pointing to increased recourse to external sources of funding to finance increased investment in the recent period. Taking a smaller sample of firms – for which it is possible to decompose the investment payments into net investments in fixed and financial assets – it appears that financial investments have contributed significantly to the overall increase in investments in 2006 and 2007. This largely reflects the strong M&A activity that took place over that period. However, it should be

Chart A Debt to total assets of listed non-financial corporations in the euro area



Sources: Thomson's DataStream and ECB calculations.  
Note: Median values are used in the calculation of the ratio.

Chart B flows of cash (decomposed in investment, financing and operating activities)



Sources: Thomson Financial Datastream and ECB calculations.  
Note: The calculations are based on the non-financial firms included in Datastream's broad based index. Median values for each activities are used. The figures are based on between 700 to 900 observations.

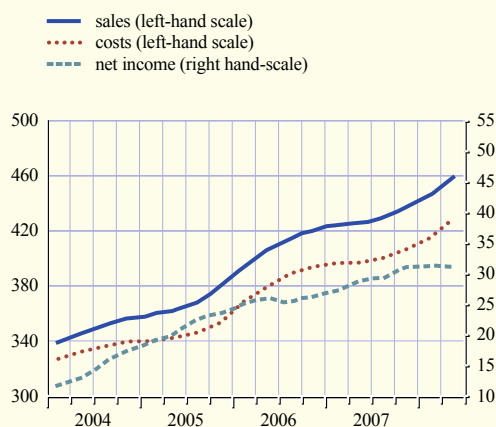
2 The bulk of cash flow from operating activities consists of cash received from customers, cash paid to suppliers and employees, and interest and taxes paid. Changes in equipment, assets or investments relate to cash from investing. Normally cash changes from investing are a "cash out" item, since cash is used to buy new equipment, buildings or short-term assets such as marketable securities. Changes in debt, loans or dividends are accounted for in cash from financing. Changes in cash from financing are "cash in" when capital is raised, and "cash out" when dividends are paid.

noted that more recent indications point to a moderation in M&A activity, and of financial investment in general, in 2008, which is likely to influence firms' overall outflows of cash in investments. Third, the turmoil that began in the summer months of 2007 seems to have had little impact on firms' net cash flow in 2007.

Looking at more recent data, Charts C shows the decomposition of earnings for a balanced sample of listed companies. It reveals that aggregated net income stabilised at high levels in the first quarter of 2008. This stabilisation was mainly attributable to higher costs relative to the increase in sales. Thus, no weakening of the balance sheet position of listed firms is likely to have occurred at the beginning of 2008.

**Chart C Sales, costs and net income for large listed non-financial firms in the euro area**

(four-quarter moving average, EUR billions)



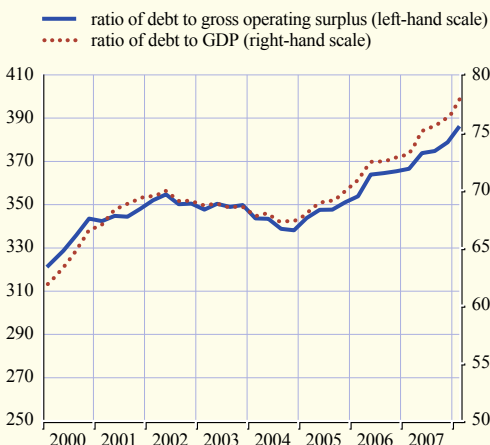
Sources: Thomson Financial Datastream and ECB calculations. Note: Data cover around 60% of the non-financial corporations included in the broad-based Dow Jones EURO STOXX index.

## FINANCIAL POSITION

The ongoing strong expansion of debt financing by non-financial corporations resulted in a further increase in companies' ratios of debt to GDP and debt to gross operating surplus in the first quarter of 2008 (see Chart 33). As a result of the combined effect of rising interest rates and debt levels, the interest burden of non-financial corporations edged further upwards in the second quarter of 2008 (see Chart 34). All in all, firms' balance sheets generally remain sound, although the recent turmoil,

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

(percentages)



Sources: ECB, Eurostat and ECB calculations. Notes: Debt is reported on the basis of the quarterly European sector accounts. It includes loans, debt securities issued and pension fund reserves.

**Chart 34 Net bank interest rate burden of non-financial corporations**

(basis points)



Source: ECB. Note: The net bank interest rate burden is defined as the difference between weighted average lending rates and the weighted average deposit rates for the non-financial corporate sector and is based on outstanding amounts.

together with downward revisions to the outlook for economic growth, the build-up of debt and the increasing interest burden have somewhat increased non-financial firms' vulnerability to future shocks.

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

*In the second quarter of 2008 the financing conditions facing households were characterised by a slight increase in bank lending rates on loans for house purchase and net tightening of credit standards for loans similar to that observed in the previous quarter. Household borrowing dynamics continued to slow in the second quarter of 2008, and earlier increases in household indebtedness seem to have dissipated. The slower growth of loans to households is in line with the trend observed since the first quarter of 2006, and there is no evidence of supply-side credit constraints associated with the financial market tensions.*

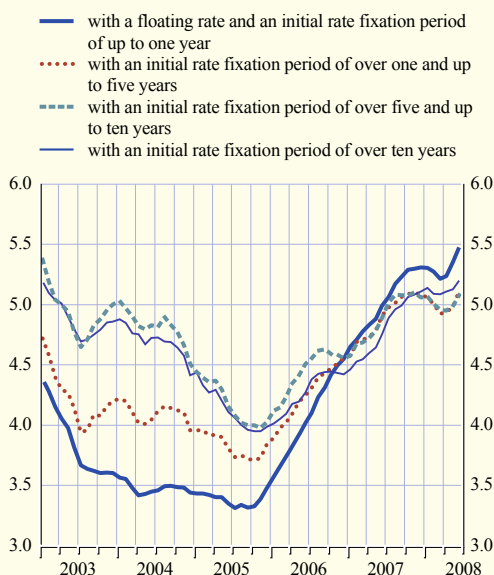
### FINANCING CONDITIONS

MFI interest rates on loans to households for house purchase increased somewhat in the second quarter of 2008 by comparison with the average for the first quarter (see Chart 35). This increase was broadly based across the maturity spectrum, with the only exception being average rates on loans with an initial rate fixation period of between five and ten years, which declined marginally compared with the previous quarter. The term structure of interest rates on loans for house purchase remained somewhat inverted, with an average spread of approximately 20 basis points between the rates on loans with short (i.e. up to one year) and long (i.e. over ten years) periods of initial rate fixation, slightly higher than the level observed in the previous quarter.

In the case of consumer credit, average MFI lending rates remained broadly unchanged in the second quarter of 2008 by comparison with the first quarter. This masks somewhat different developments across the maturity spectrum. Lending rates for consumer credit with an initial rate fixation period of up to one year increased, while those with an initial rate fixation period of between one and five years declined and those with an initial rate fixation period of over five years remained unchanged. As a result of these divergent developments, the term structure of lending rates for consumer credit has changed, with the highest rates now being recorded for the loans with the shortest initial rate fixation period.

**Chart 35 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.

The spreads between lending rates on consumer credit and loans for house purchase and relevant market benchmarks for comparable maturities (the 12-month money market rate and the ten-year government bond yield respectively) declined in the second quarter of 2008 by comparison with the first quarter. In the case of loans for house purchase, this reflects the fact that the increase in the benchmark rate was more pronounced than that in the lending rates. In the case of lending rates for consumer credit, the decrease observed in the spread resulted from the stabilisation of the lending rates combined with a marked increase in the benchmark market rate.

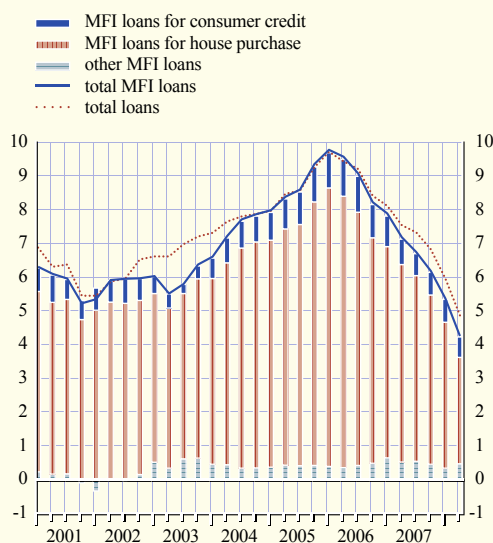
In the July 2008 bank lending survey, the net tightening reported by banks for credit standards applied in the approval of loans to households and consumer credit was broadly the same as in the April survey. The tightening in the second quarter seems to have been based somewhat more strongly on a widening of margins on average loans, but was again implemented also by means of non-price terms and conditions, such as tighter loan-to-value ratios. For both loans to households and consumer credit, a factor in the tightening of credit standards reported in the July survey was the deterioration in expectations regarding general economic activity. For loans for house purchase, this was reinforced by the worsening housing market prospects, while in the case of consumer credit it was reinforced by the deterioration in the creditworthiness of borrowers.

## FINANCIAL FLOWS

The annual growth rate of total loans granted to households declined to 6.0% in the first quarter of 2008 (the most recent quarter for which data from the euro area integrated accounts are available), down from 6.8% in the previous quarter. This growth rate remains higher than that

**Chart 36 Total loans granted to households**

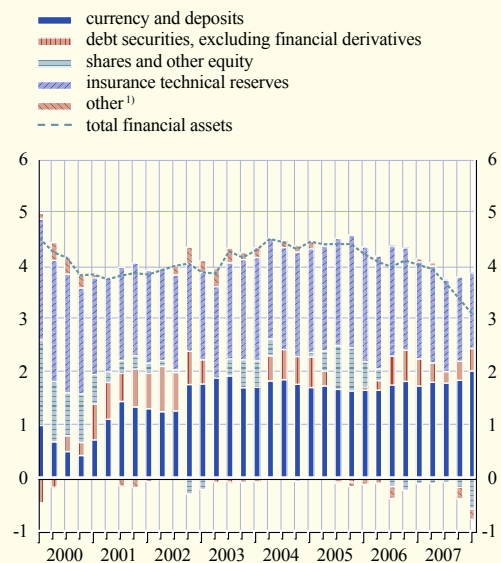
(annual percentage changes; contributions in percentage points; end of quarter)



Source: ECB.  
Notes: Total loans comprise loans to households from all institutional sectors, including the rest of the world. For the second quarter of 2008 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 37 Financial investment of households**

(annual percentage changes; contributions in percentage points)



Sources: ECB and Eurostat.  
1) Includes loans, other accounts receivable and financial derivatives.



of MFI loans to households, reflecting the stronger dynamics of non-MFI loans to households, the annual growth rate of which declined to 11.5% in the first quarter of 2008, down from 12.7% in the previous quarter. This higher rate partly reflects the effect of true-sale securitisation activities, where loans are derecognised and thereby removed from MFI balance sheets, subsequently being recorded as loans from OFIs. At the same time, the available data on MFI loans suggest that the downward trend in the annual growth rate of total loans to households continued in the second quarter of 2008 (see Chart 36).

The annual growth rate of MFI loans to households was 4.1% in July 2008, down from 5.0% and 5.9% in the second and first quarters of 2008 respectively. The decline seen in the growth rate of MFI loans to households over the past few months has remained in line with the downward trend observed since early 2006, largely reflecting the impact of higher interest rates, the ongoing moderation in housing market dynamics and the tightening of credit standards. There continues to be little evidence that the moderation in the growth of household borrowing reflects an additional downward impact resulting from quantity constraints as a consequence of the financial market tensions.

The moderating annual growth of MFI loans to households is attributable primarily to the declining growth rate of borrowing for house purchase (which stood at 4.3% in July 2008, down from 5.6% and 6.7% in the second and first quarters of 2008 respectively). This decline has recently been reinforced by the strong securitisation activities in June, which led to the large-scale derecognition of mortgage loans and thus their removal from MFI balance sheets. The annual growth rate of consumer credit was 4.4% in July 2008, slightly lower than the average rate of growth recorded in the first half of the year (which was around 5.3%).

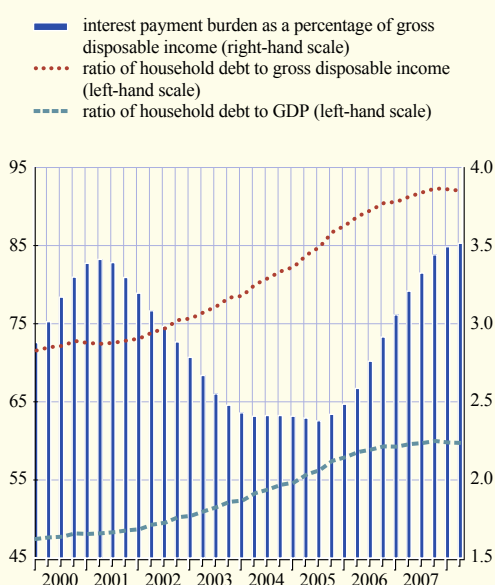
As regards the asset side of the euro area household sector's balance sheet, the annual growth rate of total financial investment declined further to stand at 3.1% in the first quarter of 2008, down from 3.4% in the previous quarter (see Chart 37). This decline was driven largely by more negative contributions from shares and other equity and from other financial assets, as well as by a reduction in the contribution of investment in insurance and pension products. This was partly offset by an increase in the contribution of investment in currency and deposits, an investment category which now accounts for two-thirds of the total growth of household financial investment.

#### FINANCIAL POSITION

Reflecting the slowdown in household borrowing, the earlier increases in household indebtedness seem to have dissipated. The debt-to-income ratio was around 92% in the

Chart 38 Household debt and interest payments

(percentages)



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

first quarter of 2008 and is estimated to have remained broadly unchanged in the second quarter (see Chart 38). This appears to be confirmed by developments in the debt-to-GDP ratio, which has stabilised at around 60% in recent quarters. The household interest payment burden was 3.5% of disposable income in the first quarter of 2008 and is estimated to have increased marginally further in the second quarter. The indebtedness level of the euro area household sector is still modest by international standards, in particular by comparison with the United States or the United Kingdom.

### 3 PRICES AND COSTS

Euro area HICP inflation was 4.0% in June and July 2008 and, according to Eurostat's flash estimate, 3.8% in August. This worrying level of inflation is largely the result of both the direct and indirect effects of past surges in energy and food prices at the global level. Moreover, wage growth has been picking up in recent quarters, at a time when labour productivity growth has decelerated, resulting in sharp increases in unit labour costs. Looking ahead, on the basis of current futures prices for commodities, the annual HICP inflation rate is likely to remain well above levels consistent with price stability for quite some time, moderating only gradually during the course of 2009. According to the latest ECB staff macroeconomic projections, average annual HICP inflation is projected to be between 3.4% and 3.6% in 2008 and between 2.3% and 2.9% in 2009. The higher inflation projections for 2008 and 2009 mainly reflect higher energy prices and, to a lesser extent, higher food and services prices than assumed previously. Risks to price stability at the policy-relevant medium-term horizon are on the upside. These risks include the possibility of renewed increases in commodity prices and of previous rises having further and stronger indirect effects on consumer prices. There is particularly a very strong concern that the emergence of broad-based second-round effects in price and wage-setting behaviour could add significantly to inflationary pressures. Moreover, the upside risks to price stability could be aggravated by unexpected rises in indirect taxes and administered prices.

#### 3.1 CONSUMER PRICES

According to Eurostat's flash estimate, euro area HICP inflation fell to 3.8% in August 2008 from 4.0% in July (see Table 6). Although official estimates of the breakdown of the HICP for August are not yet available, evidence from the composition of price changes at the country level suggests that the fall in HICP inflation can be mainly attributed to decreases in the energy and food components.

The detailed breakdown for July 2008 indicates that the increases in energy and food prices, which reached historical highs, contributed strongly to overall annual HICP inflation in that month, in keeping with the general pattern since the autumn of last year (see Chart 39).

The year-on-year increase in the energy component of the HICP rose to 17.1% in July 2008, which is the highest rate in its history (the series is available back to 1991). The increase was

Table 6 Price developments

(annual percentage changes, unless otherwise indicated)

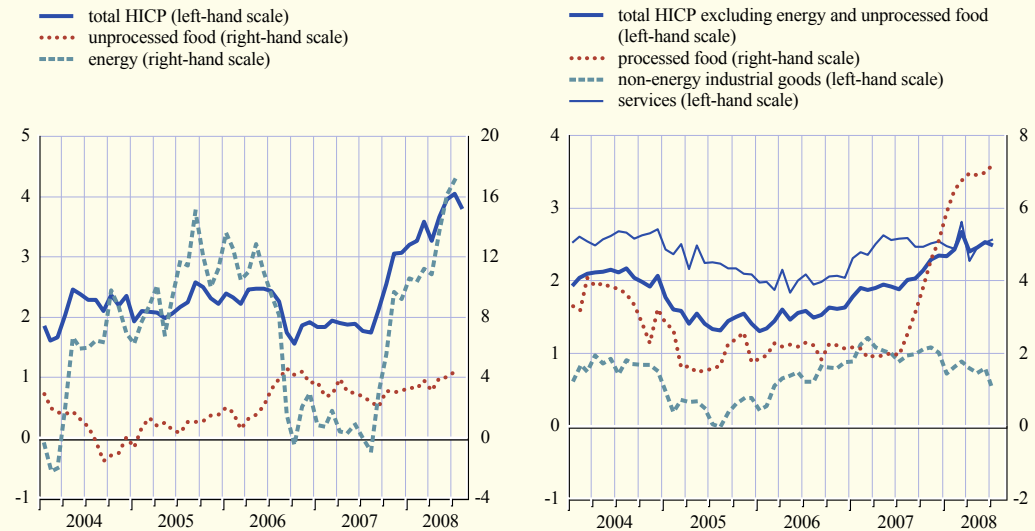
	2006	2007	2008 Mar.	2008 Apr.	2008 May	2008 June	2008 July	2008 Aug.
<b>HICP and its components</b>								
Overall index <sup>1)</sup>	2.2	2.1	3.6	3.3	3.7	4.0	4.0	3.8
Energy	7.7	2.6	11.2	10.8	13.7	16.1	17.1	-
Unprocessed food	2.8	3.0	3.8	3.1	3.9	4.0	4.4	-
Processed food	2.1	2.8	6.8	7.0	6.9	7.0	7.2	-
Non-energy industrial goods	0.6	1.0	0.9	0.8	0.7	0.8	0.5	-
Services	2.0	2.5	2.8	2.3	2.5	2.5	2.6	-
<b>Other price indicators</b>								
Industrial producer prices	5.1	2.8	5.8	6.2	7.1	8.0	9.0	-
Oil prices (EUR per barrel)	52.9	52.8	66.1	69.8	80.1	85.9	85.3	77.0
Non-energy commodity prices	24.8	9.2	10.3	5.8	6.0	9.6	9.8	10.5

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

1) HICP inflation in August 2008 refers to Eurostat's flash estimate.

**Chart 39 Breakdown of HICP inflation: main components**

(annual percentage changes; monthly data)



Source: Eurostat.

mainly on account of the rise in non-oil energy prices, such as prices for electricity and gas, which tend to follow oil price developments with a lag (see Box 8). The year-on-year increase in oil energy prices was broadly unchanged compared with the previous month.

**Box 8**

**NON-OIL ENERGY PRICE DEVELOPMENTS**

Energy prices account for approximately 10% of the overall euro area HICP. Non-oil energy (gas, electricity, solid fuels and heat energy) represents just under half of this, with oil energy (motor and heating fuel) accounting for slightly more – see table. Movements in crude and refined oil prices are generally passed through quickly and in full to consumer oil energy prices, with a lag of three to five weeks.<sup>1</sup> This box considers developments in consumer non-oil energy prices and their relationship with oil prices, with a particular focus on the two most important components, electricity and gas, representing 2.2% and 1.5% of the HICP respectively.

**Weight of energy and its sub-components in the euro area HICP**

(percentages)

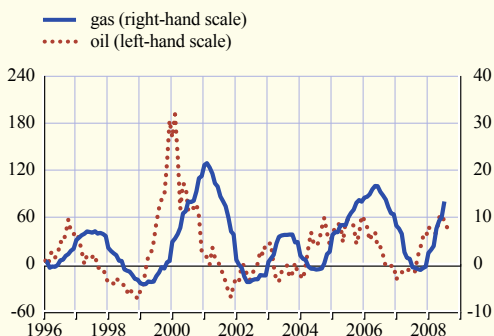
HICP energy	9.8
Oil energy	5.5
<i>Of which:</i>	
Motor fuel	4.6
Heating fuel	0.9
Non-oil energy	4.3
<i>Of which:</i>	
Electricity	2.2
Gas	1.5
Heat energy	0.5
Solid fuel	0.1

Sources: Eurostat and ECB calculations.

<sup>1</sup> For more details, see the box entitled “Recent developments in consumer oil energy prices” in the July 2008 issue of the Monthly Bulletin.

**Chart A Developments in oil prices (in euro terms) and euro area consumer gas prices**

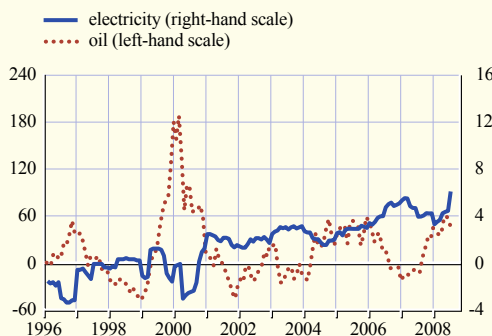
(annual percentage changes)



Sources: Bloomberg, Eurostat and ECB calculations.

**Chart B Developments in oil prices (in euro terms) and euro area consumer electricity prices**

(annual percentage changes)



Sources: Bloomberg, Eurostat and ECB calculations.

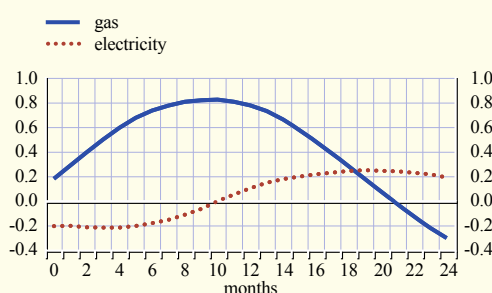
Charts A and B show the evolution of the year-on-year rates of change in consumer gas and electricity prices in the euro area alongside oil price developments. Regarding gas prices, there is a relatively clear relationship, albeit with some lag, with oil prices. In particular, following the three strong surges in oil prices in 1999-2000, 2004-2006 and 2007-2008, there were also noticeable increases in gas prices, with the peak in the year-on-year rate of change in gas prices occurring somewhat after the peak in the year-on-year rate of change in oil prices. This graphical impression is confirmed by Chart C, which shows the correlation of the year-on-year rates of change in consumer gas and electricity prices with the year-on-year rate of change in oil prices and its lags.

For consumer gas prices, the peak correlation, 0.8, occurs with a lag of around 7-12 months after oil price movements. This high correlation is due to the fact that international gas prices have tended to be strongly linked with oil prices, with long-term contracts often explicitly indexing gas prices to oil prices. Nonetheless, even without explicit indexing there are reasons for expecting some relationship between oil and gas prices. The main reason is that, for some purposes, such as electricity generation and heating, gas and oil are close substitutes. Looking ahead, however, it should be noted that changes in the technology and source composition of electricity generation (see below), the evolution of the liquefied natural gas market and other market factors may affect the correlation of oil and gas prices.

Regarding consumer electricity prices, there is a much less clear relationship with oil prices (the correlation coefficient is generally below 0.2 in absolute terms) than is visible for consumer gas prices. This may reflect, in part, the fact that electricity can be generated from a number of different sources, including nuclear power, oil, gas, solid fuel (hard coal, lignite and peat) and renewable sources such as wind, water and solar power. The mix of energy

**Chart C Correlation of consumer gas and electricity price changes with oil price changes and their lags**

(correlation of annual percentage changes)



Source: ECB calculations.

sources, which have different fixed and variable costs, varies both across countries and over time and can explain to some extent why electricity prices are dependent not only on trends in oil and gas prices. For example, France uses nuclear power more intensively than other EU countries; Germany uses relatively large proportions of solid fuels (hard coal and lignite); and Italy and Spain have, in recent years, increasingly used gas for electricity generation. Consumer electricity prices are thus determined by, among other things, the distribution of generation capacity by fuel type and its age profile, as well as overall spare generating capacity. However, as discussed below, market competition is also an important factor.

Looking ahead, and notwithstanding the decline in oil price levels since early July, there are still upward pressures on non-oil energy prices, in particular on gas prices. These pressures are due to the fact that (a) oil prices remain elevated (despite having returned to levels observed in early May 2008 they remain significantly above levels a year ago) and (b) gas prices tend to respond with a lag to oil price developments. Hence, consumer gas prices may not yet have fully reflected past increases in oil prices. High oil and gas prices are also likely to put upward pressure on electricity price developments.

The gas and electricity sectors not only share the common feature that oil is a close substitute and/or an important input; they are also both “network industries” and are sometimes considered to be natural monopolies.<sup>2</sup> However, careful regulation can contribute to ensuring sustainable competition in these sectors. Following up on a mandate given by the European Council in spring 2007, the European Commission in September 2007 adopted a third package of legislative proposals for the EU electricity and gas markets. This latest package was introduced as, despite earlier legislative packages designed to liberalise electricity and gas markets, a European Commission study completed in early 2007<sup>3</sup> identified ongoing shortcomings in the functioning of these markets with considerable differences between de jure and de facto levels of competition.<sup>4</sup> In an environment of high and volatile oil prices it is vital that efforts to bolster de facto competition in European gas and electricity markets are strengthened.

2 Network industries generally involve the supply of products or services to final customers via a network infrastructure. In some cases natural monopolies may be an essential element of network industries, although this may change over time as technology changes. Clear examples are changes in parts of the telecommunications and postal industries, which were once considered natural monopolies. The electricity industry chain involves a number of activities – generation, transmission, distribution and supply – not all of which (in particular generation) can be considered to be network activities.

3 In 2005 the European Commission launched an inquiry into competition in gas and electricity markets. The final report (“DG Competition report on energy sector inquiry”), published in January 2007, identified serious shortcomings in the electricity and gas markets: too much market concentration in most national markets; a lack of liquidity, preventing successful new entry; too little integration between Member States’ markets; an absence of transparently available market information; an inadequate level of unbundling of network and supply interests; customers being tied to suppliers through long-term downstream contracts; and balancing markets and small balancing zones which favoured incumbents.

4 A box in the December 2004 issue of the Monthly Bulletin considered the impact of previous regulatory reforms on competition and price developments in the euro area electricity and gas markets.

The annual rate of change in food prices – both processed and unprocessed – also increased in July 2008 from already elevated growth rates. The increase in the annual rate of change in processed food prices was the highest in its history (it is available back to 1991) and was mainly due to the rise in bread and cereals and oil and fats prices. The elevated outturn in these components of processed food is likely to have been influenced by the high global prices for commodities which figure prominently as inputs in the production of such goods. While past developments in food commodity prices suggest that significant supply chain pressures may remain, there has been a general decline in the seasonally adjusted monthly rate of change in processed food prices since its



peak in November 2007. The annual rate of change in unprocessed food prices rose in July to 4.4%, on account of a sharp increase in fruit prices as well as a further rise in meat prices (which represent around half of the component). Given higher animal feed prices, the latter development may signal continued pressure related to past developments in global food commodity markets.

Annual HICP inflation excluding food and energy, which corresponds to 70% of the HICP basket, fell by 0.1 percentage point to 1.7% in July 2008. The annual rate of change in the non-energy industrial goods component, standing in July at 0.5%, has been trending downwards so far in 2008, which is remarkable in an environment of significant upward pressures emanating from input costs. Offsetting developments in the components and sub-components of non-energy industrial goods are behind the developments at the aggregate level, with stability in the annual rate of change in semi-durable goods prices up to very recently (reflecting movements in textiles), a decline in durable goods prices on account of price falls in cars and electric and electronic appliances, and an increase in the annual rate of change in non-durable goods prices, which cannot be pinned down easily to any specific component. The most recent decline in the annual rate of change in non-energy industrial goods prices, from 0.8% in June to 0.5% in July, resulted from the contribution of a large drop in the textile sub-component. This development in textile prices appears to some extent to reflect stronger seasonal discounts compared with the previous year, and therefore may unwind in subsequent months.

Annual services price inflation, albeit recording a small increase in July compared with the previous month, continued to fluctuate around the elevated rate of 2.5% observed in the last few quarters, against a background of increasing pressures from input prices and labour costs. The increase in July largely resulted from developments in prices for recreation and personal services as well as for transport services. Developments in these two components may reflect cost pressures related to high global commodity prices. The annual growth rate of transport services prices reached its highest level in over a decade, possibly owing to upward cost pressures related to the high energy prices. The rise in recreation and personal services price inflation was linked to price increases in restaurants and cafés, possibly stemming from high global food prices. Thus, while these price rises seem to have been triggered by the sizeable shocks observed in input prices (i.e. the first-round effects stemming directly or indirectly from the higher costs of energy and food), there is still a risk that accelerating hourly labour costs, combined with poor productivity gains and insufficient competition in a number of markets, will further exacerbate the inflationary dynamics in services in the near future.

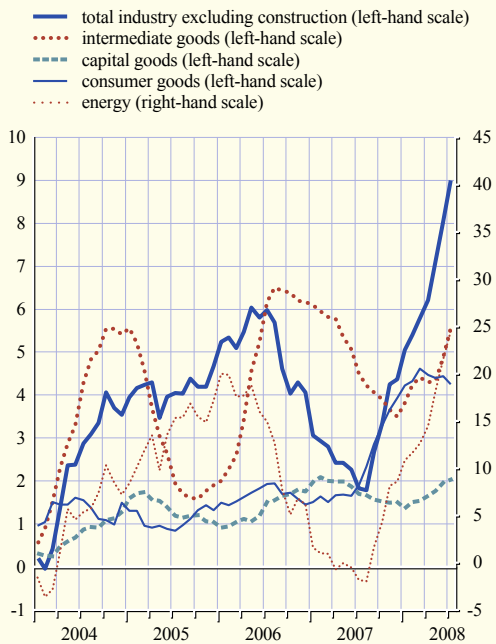
### 3.2 INDUSTRIAL PRODUCER PRICES

The annual rate of change in total industrial producer prices (excluding construction) increased from 8.0% in June 2008 to 9.0% in July, the highest rate recorded in over 25 years (see Chart 40). This rise was mainly driven by energy and intermediate goods prices.

Following strong oil price increases up to early July and rises in the prices of other energy products, the rate of change in energy prices rose further in July, reaching 24.5% on a year-on-year basis. This was the highest rate since the start of the series in 1986. Excluding energy (and construction), producer price inflation increased further in July to 4.3%, a level not seen since late 1995. The increase was driven by developments in intermediate goods prices, which jumped again to 5.6% year on year, from 4.9% in June. While the rise in industrial raw material prices has come to a halt recently, past increases above all in metal prices, together with the surge in oil prices, have

**Chart 40 Breakdown of industrial producer prices**

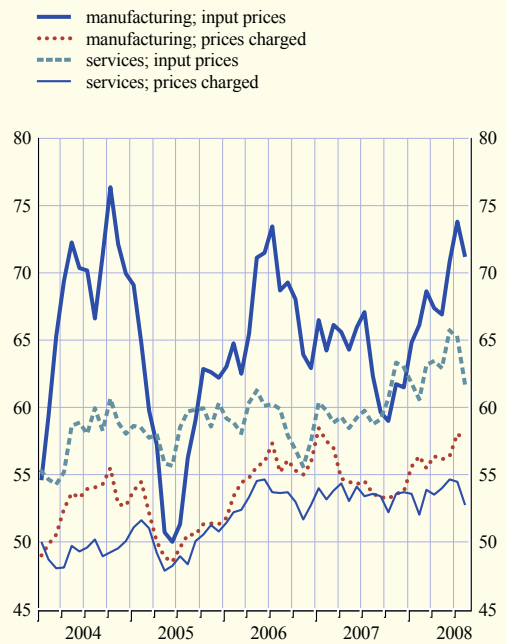
(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

**Chart 41 Producer input and output price surveys**

(diffusion indices; monthly data)



Source: Markit Economics.

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

put significant upward pressures on intermediate goods prices, which is also reflected in high month-on-month rates of increase in this component. This notwithstanding, the annual rate of change in capital goods prices was unchanged in July at 2.0%, which is, however, above its 2007 average.

Further down the production chain, the annual rate of change in producer prices for consumer goods decreased somewhat in July to the still elevated level of 4.3%. The decrease is due to the non-durable goods component, as durable goods inflation edged up. It reflects a further decline in annual food price inflation, which fell in July to 8.9% from a high of 10.1% in March. It is worth noting that month-on-month increases in food prices have returned to levels similar to those that preceded the food price shock of the second half of 2007. Excluding tobacco and food, the annual rate of change in the producer prices of consumer goods was stable at 1.4% in July, slightly above the 2007 average.

The latest data on firms' price-setting behaviour from the Purchasing Managers' Index (PMI) point to a recent easing in inflationary supply chain pressures in both the manufacturing and services sectors, albeit from high levels (see Chart 41). In the latest survey, in August 2008, a fall in input price growth for the manufacturing sector was assessed as reflecting some easing in the price of oil and other commodity prices. In the services sector, input price inflation was also reported as having decreased on account of lower energy costs. A decrease in the indices for prices charged in both sectors in August was attributed to slower growth in input costs along with a desire on the part of companies to maintain price competitiveness. Notwithstanding the recent decline in price pressures reported in this survey, all indicators remain at very high levels and well above their long-term averages.

Table 7 Labour cost indicators

(annual percentage changes, unless otherwise indicated)

	2006	2007	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2
Negotiated wages	2.3	2.2	2.3	2.2	2.1	2.9	2.8
Total hourly labour costs	2.5	2.6	2.7	2.6	2.9	3.3	.
Compensation per employee	2.2	2.4	2.2	2.2	2.8	2.9	.
<i>Memo items:</i>							
Labour productivity	1.2	0.8	0.9	0.7	0.3	0.5	.
Unit labour costs	1.0	1.5	1.3	1.5	2.4	2.4	.

Sources: Eurostat, national data and ECB calculations.

### 3.3 LABOUR COST INDICATORS

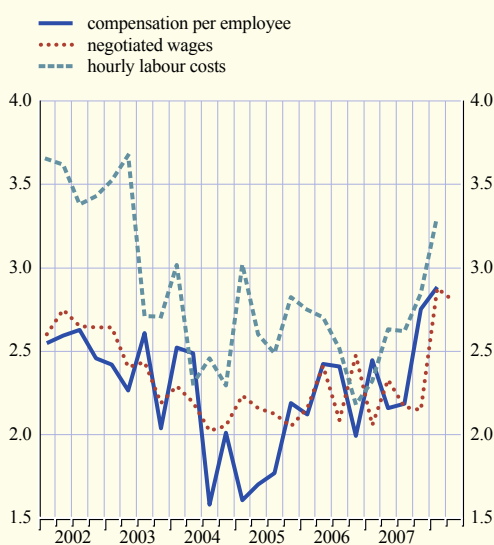
Available indicators suggest that labour cost growth continued at a fast pace throughout the first half of 2008, following the acceleration in the last quarter of 2007 (see Table 7).

The annual growth rates of negotiated wages, hourly labour costs and compensation per employee have all risen since the last quarter of 2007 (see Chart 42). In the second quarter of 2008, negotiated wages grew at an annual rate of 2.8%, which was broadly unchanged from the first quarter of the year. The annual rate of change in hourly labour costs exhibited a sizeable jump in the first quarter of 2008, largely on account of a rise in the annual growth rate of wage costs to 3.7%. Annual growth in compensation per employee increased to 2.9% in the first quarter of 2008, following a significant acceleration in the last quarter of 2007. The increase in the annual growth rates of both compensation per employee and hourly labour costs appears to have been broad-based across the industry, services and construction sectors (see Chart 43). Combined with a general weakening in productivity, the acceleration in wages pushed up the annual growth rate of unit labour costs to 2.4% in the first quarter of 2008, its highest rate in five years.

This rise in wage pressure can be attributed to several forces, including tighter labour markets and continued high capacity utilisation, as well as to existing nominal wage indexation schemes linking wages to past price developments. The acceleration in wages coincides with a general weakening in productivity growth, with the implication that wage costs feed directly into increased unit labour costs. The resulting strengthening of domestic inflationary pressures and its potential for unwelcome broadly based second-round effects (i.e. additional changes in prices as a consequence of the reaction of wages or profits to first-round effects) require careful monitoring. In particular, the risk of broader-based second-round effects remains

Chart 42 Selected labour cost indicators

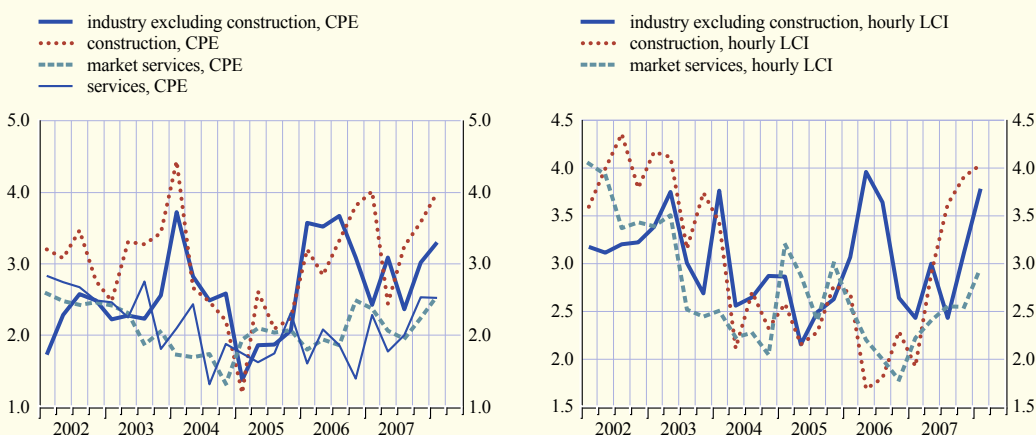
(annual percentage changes; quarterly data)



Sources: Eurostat, national data and ECB calculations.

**Chart 43 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".

particularly acute in the few euro area countries where some form of automatic price indexation of wages exists. Such schemes involve the risk of upward shocks in inflation leading to a wage-price spiral, which would be detrimental to employment and competitiveness in the countries concerned.

### 3.4 THE OUTLOOK FOR INFLATION

Direct and indirect effects of past sharp increases in energy and food prices at the global level pushed euro area HICP inflation in the summer of 2008 to considerably above the level consistent with price stability. Moreover, wage growth has been rising in recent quarters, at a time when labour productivity growth has decelerated, resulting in sharp increases in unit labour costs. Looking ahead, on the basis of current futures prices for commodities, the annual HICP inflation rate is likely to remain well above the level consistent with price stability for quite some time, moderating only gradually during the course of 2009. According to the latest ECB staff macroeconomic projections, average annual HICP inflation is projected to be between 3.4% and 3.6% in 2008 and between 2.3% and 2.9% in 2009, a revision of the previous projections that mainly reflects higher energy prices and, to a lesser extent, higher food and services prices than assumed previously. It should be noted that the projections are based on the assumption, among others, that oil and non-oil commodity prices, while remaining at elevated levels, will exhibit greater stability over the projection horizon than has been the case in recent months, in line with prevailing futures prices.

Risks to price stability at the policy-relevant medium-term horizon are on the upside. These risks include the possibility of renewed increases in commodity prices and of previous rises having further and stronger indirect effects on consumer prices. There is particularly a very strong concern that the emergence of broad-based second-round effects in price and wage-setting behaviour could add significantly to inflationary pressures. Moreover, the upside risks to price stability could be aggravated by unexpected rises in indirect taxes and administered prices.

## 4 OUTPUT, DEMAND AND THE LABOUR MARKET

*Following GDP quarterly growth of 0.7% in the first quarter of 2008, euro area real GDP contracted by 0.2% in the second quarter, as consumption declined and investment weakened. The euro area economy is currently experiencing an episode of weak activity characterised by high commodity prices weighing on consumer confidence and demand, as well as by dampened investment growth. Looking ahead, a gradual economic recovery is expected. The September 2008 ECB staff macroeconomic projections for the euro area forecast annual real GDP growth in a range between 1.1% and 1.7% in 2008 and between 0.6% and 1.8% in 2009. However, uncertainty surrounding this outlook is high and downside risks prevail.*

### 4.1 OUTPUT AND DEMAND DEVELOPMENTS

Economic activity in the euro area has slowed over the past twelve months following a period of robust economic growth. Activity in the euro area expanded at solid rates during 2006 and 2007, with real GDP growing by 3.0% and 2.6% respectively. During that period, strong global activity drove exports growth, investment was supported by favourable financing conditions and strong corporate earnings, and household spending benefited from developments in real disposable income as a result of a marked improvement in labour market conditions. Since then, the underlying pace of euro area economic expansion has moderated as a series of economic shocks have combined to slow growth. Rising commodity prices as well as the prolonged spell of financial turmoil have dampened global and euro area economic growth. Year-on-year growth in real GDP slowed to 1.4% in the second quarter of 2008 from the peak of 3.3% in the last quarter of 2006. Indicators for the most recent months suggest that economic activity is likely to remain subdued in the third quarter, as suggested by the low levels of business and consumer confidence in July and August.

#### REAL GDP AND DEMAND COMPONENTS

Eurostat's first estimate of euro area real GDP change in the second quarter of 2008 was, at a quarter-on-quarter growth rate of -0.2%, sharply down with respect to the growth momentum estimated at 0.7% for the first quarter. As mentioned in previous issues of the Monthly Bulletin, this slowdown partly represents a technical reaction to the unusually strong growth in the early months of the year, when notably the unusually mild winter in many parts of Europe boosted construction activity. However, other factors also played a role in the moderation of activity, including the impact from higher commodity prices and the global economic slowdown.

The decline in real GDP in the second quarter was driven by domestic demand (excluding inventories), which contributed -0.2% to overall economic growth. The contribution from changes in inventories was close to zero, while, with exports and imports both falling in the second quarter by 0.4%, the contribution of net trade was also flat (see Chart 44).

Much of the volatility in quarterly euro area domestic demand during the first half of the year was shaped by the profile of investment growth, which rose by 1.5% quarter on quarter in the first quarter of 2008 and subsequently fell by 1.2%. The remarkable dynamism of investment early in the year was fuelled by construction investment, which rose by an extraordinary 2.0% quarter on quarter. The atypical increase was assessed as being heavily affected by the mild weather conditions prevailing in some parts of Europe early in the year and this interpretation seems to be confirmed by the later weakening of construction production, which fell by 2.5% in the second quarter with respect to the previous one.

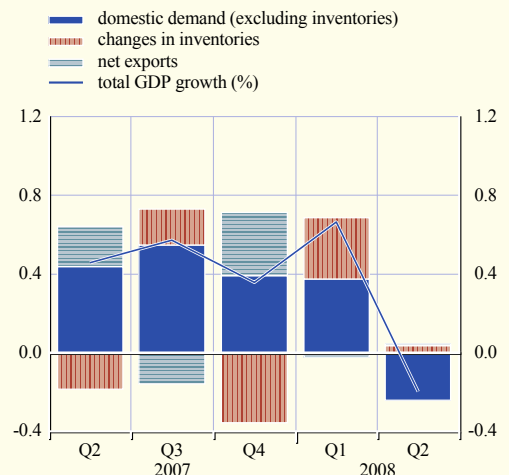
First quarter investment growth was also driven by the rise in non-construction investment, which increased by 0.9% quarter on quarter. Despite the strong first-quarter performance, several factors suggest that firms' investment is likely to moderate somewhat. First, as demand has slowed, the growth of corporate profitability has declined from the robust rates observed at the beginning of 2007. The euro area institutional sector accounts for the first quarter of 2008 revealed that year-on-year growth of non-financial corporations' gross operating surplus and gross entrepreneurial income slowed. Second, tighter financing conditions are likely to bear down on investment plans – although the cash flow positions of listed non-financial corporations remained reasonably solid during 2007 and net income stabilised at high levels in the first quarter of 2008 (see Box 7 in Section 2). Finally, capacity constraints appear to have waned over the past year. Capacity utilisation in the industrial sector in July was above its long-run average but some way below the peak twelve months ago. In addition, the Markit PMI survey indicates that backlogs of work and outstanding business in the manufacturing and services sectors have moderated. All in all, these factors suggest that, following the strong growth in the first quarter of the year, business investment growth is likely to weaken over the remainder of the year from its earlier strong pace of expansion.

Continuing a period of subdued household spending, private consumption declined by 0.2% quarter on quarter in the second quarter of 2008. Household spending has been dampened by muted real income growth, following the strong rise in commodity prices and falls in financial wealth. According to the euro area institutional sector accounts, in the first quarter of 2008 households' real disposable income rose by only 0.7% year on year – the lowest rate of growth since 2003, while household net financial worth declined sharply, driven by a decline in the value of share holdings.

Looking to the third quarter, initial indications suggest that the weakness in consumption may persist. The volume of euro area retail trade contracted by 0.4% in July, following a decline of 0.9% in June. Consumer confidence recovered slightly in August compared with July, despite a rise in pessimism about labour market prospects, but it remained at a low level (see Chart 45). In addition, the balance regarding consumers'

**Chart 44 Real GDP growth and contributions**

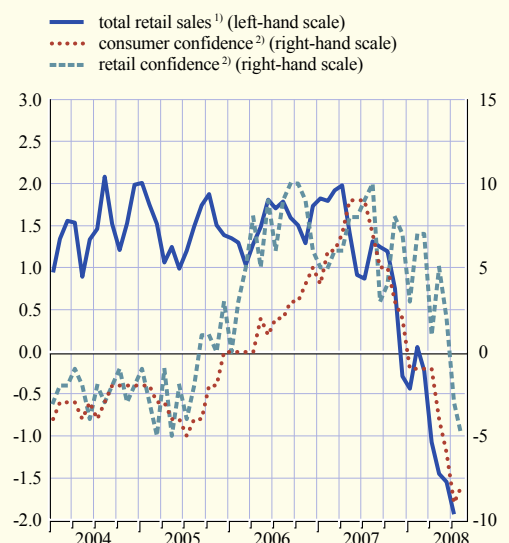
(quarter-on-quarter growth rate and quarterly percentage point contributions; seasonally adjusted)



Sources: Eurostat and ECB calculations.

**Chart 45 Retail sales and confidence in the retail trade and household sectors**

(monthly data)



Sources: European Commission Business and Consumer Surveys and Eurostat.  
 1) Annual percentage changes; three-month moving averages; working day-adjusted.  
 2) Percentage balances; seasonally and mean-adjusted.



intentions to make major purchases over the next 12 months fell to its lowest level since the survey began in 1985. This series is not part of the consumer confidence indicator but it has shown a strong correlation with year-on-year consumption growth in the past.

## SECTORAL OUTPUT

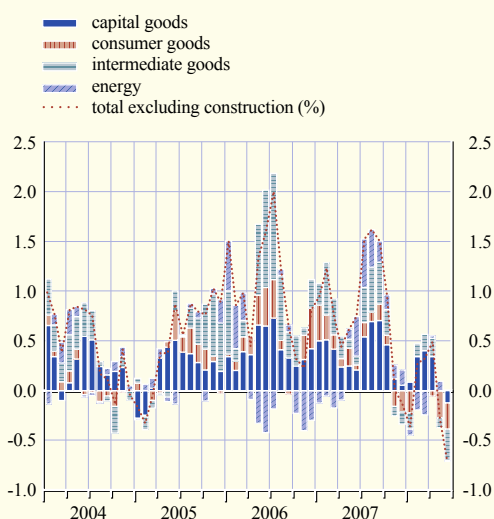
Euro area activity in the first quarter of 2008 recorded an increase in services and industry (excluding construction) sector quarter-on-quarter growth and an exceptionally strong rise in construction sector value added. In line with available indicators, the weaker pace of growth in the second quarter was led by activity in the industry and construction sectors, where value added fell sharply in both sectors (by 0.8% and 2.2% respectively). Services sector growth was more resilient, rising by 0.4%. The most recent information suggests that the weakness of the underlying growth pattern is persisting in the third quarter.

Industrial activity weakened substantially in the second quarter of 2008. Euro area industrial production (excluding construction) contracted slightly in June relative to May (see Chart 46), following a sharp decline in the previous month. Overall in the second quarter of the year, value added fell by 0.8%, following growth of 0.4% in the previous period. The quarterly decline represents the weakest outcome in five years. Looking to the third quarter, surveys for the manufacturing sector remained at low levels in August 2008, with the PMI indicator below the benchmark level indicating that activity fell compared with the previous month (see Chart 47).

As mentioned before, construction production followed a very unusual pattern in the first two quarters of 2008, with an increase of 2.5% in value added in the first quarter and a decline of

**Chart 46 Industrial production growth and contributions**

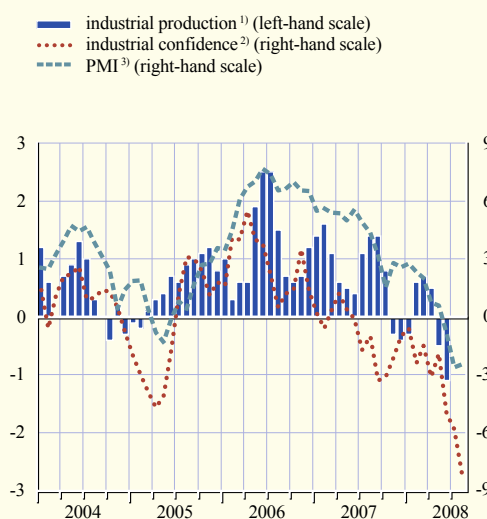
(growth rate and percentage point contributions; monthly data; seasonally adjusted)



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

**Chart 47 Industrial production, industrial confidence and the PMI**

(monthly data; seasonally adjusted)



Sources: Eurostat, European Commission Business and Consumer Surveys, Markit 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.



2.2% in the second. Looking beyond the quarterly volatility, however, it is clear that construction sector output has followed a downward trend since the second half of 2006, which was only temporarily halted in the first three months of 2008. That downward trend is confirmed by survey data, with confidence in the construction sector remaining subdued in August according to both the European Commission's indicator and Markit's PMI indicator.

The relative resilience of service sector value added in the second quarter of 2008 primarily reflected continued growth in the financial services and business activities sector and the other services sector. That contrasted with the picture in the trade, transport and communications sector, where output slowed sharply. Over a longer horizon, however, all services sectors have seen a decline in activity from the peak towards the end of 2006. Survey data up to August 2008 point to continued weak growth across services activities, with the PMI and European Commission's services confidence indicator both at low levels.

Overall, recent data for the industrial and services sectors suggest a continued subdued pace of economic activity in the third quarter of 2008.

## 4.2 LABOUR MARKET

The euro area labour market has seen a turnaround in recent months, following years of clear improvement. Although labour market conditions are still broadly favourable, with unemployment at a historically low rate, surveys of employment expectations have declined in recent months and point to a moderation in employment growth ahead.

### EMPLOYMENT

Employment rose substantially in the euro area in 2006 and 2007, spurred in part by the strong economic activity. Employment growth in 2008 has been more moderate: employment increased by 0.3% quarter on quarter in the first three months of 2008, the same rate estimated for the previous quarter but 0.2 percentage point below the rate one year before (see Table 8). Looking ahead, although no new euro area data on employment have been released, indicators of firms' employment intentions and available national data suggest a continuation of the trend towards more subdued employment growth in the coming months (see Chart 48). According to the August PMI survey, firms' employment

**Table 8 Employment growth**

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

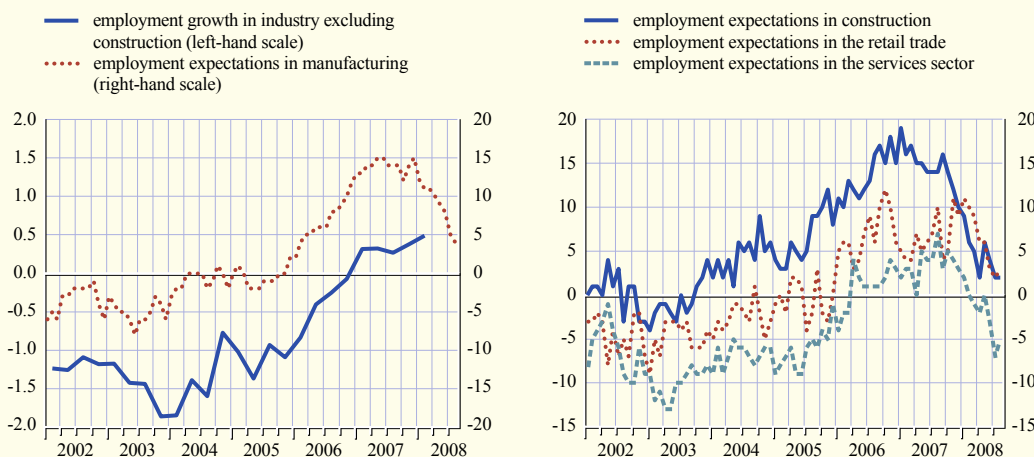
	Annual rates		Quarterly rates				
	2006	2007	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1
Whole economy	1.6	1.8	0.5	0.5	0.4	0.3	0.3
<i>of which:</i>							
Agriculture and fishing	-1.5	-1.1	0.8	-0.6	-1.1	-0.6	0.4
Industry	0.5	1.4	0.7	0.2	0.0	0.2	0.2
Excluding construction	-0.4	0.3	0.1	0.1	0.0	0.2	0.2
Construction	2.6	3.9	1.9	0.4	-0.1	0.3	-0.1
Services	2.2	2.1	0.5	0.7	0.7	0.4	0.4
Trade and transport	1.5	1.7	0.4	0.8	0.8	0.1	0.5
Finance and business	3.8	4.3	1.3	1.3	0.7	0.9	0.9
Public administration <sup>1)</sup>	2.0	1.3	0.1	0.3	0.5	0.4	-0.1

Sources: Eurostat and ECB calculations.

1) Also includes education, health and other services.

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.

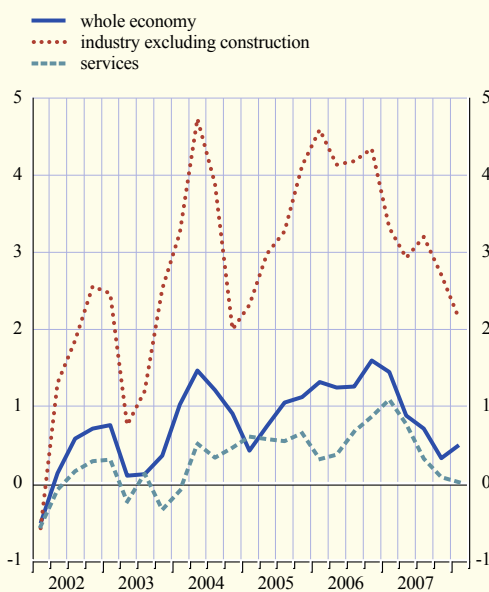
intentions fell for the second consecutive month in services and manufacturing. The picture in August from the European Commission's Business Survey was more mixed, with the indicators of employment expectations declining in the industrial sector but improving modestly in the construction and services sectors.

Although employment growth is an important indicator of labour market developments, in particular labour utilisation, it is also worth monitoring changes in total working hours, which reflects changes in headcount employment as well as the actual hours worked per person employed. In principle, these can behave differently over the economic cycle. Box 9 puts the latest developments in euro area total hours worked in a historical perspective.

Year-on-year labour productivity (per person employed) grew by 0.5% in the first quarter of 2008 (see Chart 49). The improvement compared with the previous quarter was mainly explained by the marked rise in productivity in the construction sector, where output was temporarily high. Looking at the broader trend, year-on-year growth in productivity has declined since the end of 2006. Data available from the PMI suggest that labour productivity has deteriorated further during the last few months.

Chart 49 Labour productivity

(annual percentage changes)



Sources: Eurostat and ECB calculations.

### DEVELOPMENTS IN TOTAL HOURS WORKED IN THE EURO AREA: A LONG-TERM PERSPECTIVE

In recent years, a number of structural reforms to labour market regulations have been introduced in euro area countries which have fundamentally affected the functioning of labour markets. Policy measures have varied across Member States, ranging from those aimed at easing the employment of additional and temporary workers to those aimed at increasing the flexibility of hours worked by full and part-time workers. Easing the employment of temporary workers provides a means of increasing the participation rate among certain segments of the labour market, in particular young women and older workers.<sup>1</sup> This box puts the latest developments observed in euro area total hours worked into a historical perspective, highlighting the extent to which labour market reforms have helped both to increase the flexibility of the euro area economy and to raise the level of potential output growth by directly affecting the level of labour utilisation.

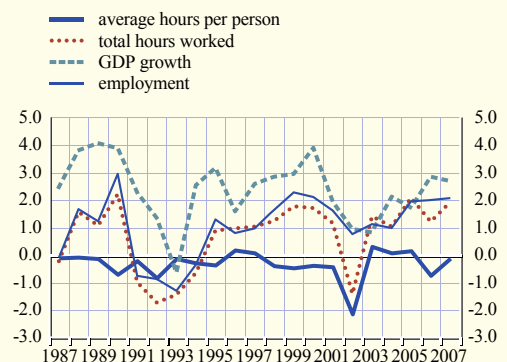
#### Developments in employment and average hours worked per person

When analysing long-term developments in the total number of hours worked it is useful to differentiate between changes in headcount employment and in actual hours worked per person employed, since, a priori, these two components might behave differently over the business cycle and over the long term. Chart A shows developments in total hours worked, employment and hours worked per person employed in the euro area over the period 1987-2007.<sup>2</sup>

The contribution to the growth in total hours from changes to average hours per worker was limited before the mid-1990s, when employment changes were the main driving force behind developments in total hours. During the second half of the 1990s, however, changes to average hours worked appear to have played a more important role, reflecting both the onset of legislative changes affecting working arrangements across many of the euro area Member States and a sharp rise in part-time employment growth. While the number of total hours increased strongly during the second half of the 1990s, it fell again sharply as the economy weakened in 2001-02. The main cause of this appears to have been a considerable decline in average hours worked, in part reflecting cyclical developments, but also likely reflecting the

Chart A Total hours worked, employment and hours worked per person employed

(annual percentage changes)



Sources: Eurostat and ECB calculations.

- 1 See, for example, V. Genre, R. Gomez-Salvador and A. Lamo (2005), "European women: Why do(n't) they work?", ECB Working Paper No 454, March; and also OECD (2006): Ageing and Employment Policies: Live Longer, Work Longer, OECD, Paris.
- 2 The Eurostat Labour Force Survey (LFS) combines, on a comparable basis, the results from the various national LFS enquiries. The figures reported here are taken from Eurostat's latest European LFS and relate to employed people aged 15-64. Euro area data for the period 1985-99 have been estimated using available data for euro area countries. Discrepancies in employment totals as a result of non-responses for full and part-time employment have been adjusted by allocating non-respondents to the full and part-time categories in proportion to known contemporaneous shares.

culmination of policies aimed at reducing the working week in several Member States (France, Belgium and the Netherlands). While positive rates of growth in average hours worked characterised the period 2003-05, rates have slowed again more recently.<sup>3</sup>

### Developments in full and part-time employment

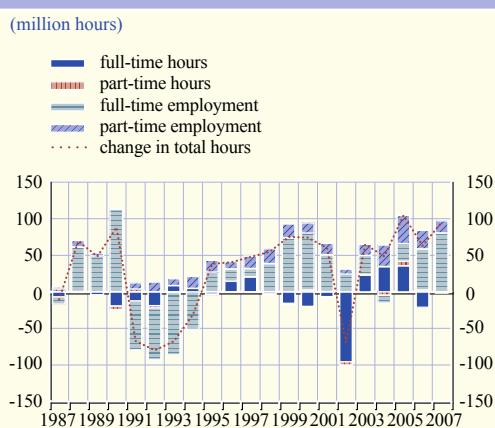
Changes in total hours worked can be further investigated by examining the contributions to changes in employment and average hours worked by those engaged in full and part-time employment. The year-on-year change in total hours worked can thus be decomposed into four separate components, reflecting changes in full and part-time employment and changes in average hours worked by full and part-time employees. Chart B shows the contribution to the overall change in total hours worked (the dashed line) by full and part-time workers (the bars). Each bar represents the contributions of the respective components for each year. The sum of the bars corresponds to the overall change in total hours worked.

There appears to be very little contribution to total hours from part-time employment growth prior to the mid-1990s. The importance of the contribution from part-time employment gradually increased from the second half of the 1990s, particularly during the early years of the decade beginning in 2000. The dynamism of job creation in the euro area since 2005 is also reflected in the strength of full-time employment growth.

### A comparison with developments in the United States

One of the main explanations for the gap in GDP per capita between the euro area and the United States is the notable disparity in hours worked between the two economies.<sup>4</sup> Over the past ten years, however, there has been a strong acceleration in the number of total hours worked in the euro area, which stands in contrast to developments in the United States, where a small deceleration has taken place. As the table shows, while total hours growth accelerated in the euro area between the two decades (from an average of 0.3% per year between 1987 and 1997, to 1.2% per year in the decade ending 2007), the growth of total hours worked slowed in the United States (from 1.3% to 0.9%, respectively). While much of the euro area acceleration can be explained by enhanced labour utilisation over this period, the main drivers of this to date can be clearly traced to improvements in participation and employment rates. Meanwhile, average hours worked per person continue to decline at a faster pace in the euro area than in the United States.

Chart B Contributions to change in total hours worked



Sources: Eurostat Labour Force Survey and ECB calculations.

<sup>3</sup> See also N. Leiner-Killinger, C. Madaschi and M. Ward-Warmedinger, "Trends and patterns in working time across euro area countries 1970-2004: causes and consequences", ECB Occasional Paper No 41, December 2005.

<sup>4</sup> It has been suggested that the causes for this disparity relate to differences in regulatory arrangements (including working time directives, personal income tax regimes, etc.), holiday and leave entitlements and personal preferences regarding leisure. See, for example, O. Blanchard (2004), "The economic future of Europe", *Journal of Economic Perspectives*, Vol. 18, No 4, pp. 3-26; or more recently Chapter 3 of OECD (2008), *Economic Policy Reforms: Going for Growth*.

## Population growth, labour utilisation and total hours worked

(average annual percentage changes)

	Working age population (a)	Participation rate (b)	Employment rate (c)	Hours worked per person (d)	Labour utilisation sum (b to d)	Total hours worked sum (a to d)
<b>euro area</b>						
1987-1997	0.4	0.2	-0.1	-0.3	-0.1	0.3
1998-2007	0.4	0.8	0.5	-0.4	0.8	1.2
<b>United States</b>						
1987-1997	1.0	0.2	0.1	-0.1	0.3	1.3
1998-2007	1.3	-0.3	0.0	-0.2	-0.4	0.9

Sources: Eurostat and ECB calculations.

### Concluding remarks

When analysing trends in working hours, it has to be kept in mind that these are partly shaped by institutional changes. Working hours in the euro area are low by international standards and as the euro area faces the prospect of an ageing population, one of the key challenges will be to increase labour utilisation so as to maintain growth potential. While increases in euro area employment and participation rates have helped to offset some of the outstanding differential with the United States in the growth of total hours worked, average hours worked continue to decline at a faster pace in the euro area than in the United States. On a positive note, however, increases in employment, particularly in the growth of part-time jobs, and the higher variation of working hours of part-time workers can be seen as indications of a more flexible labour market in the euro area. This higher flexibility, in turn, enhances the adjustment capacity of the euro area to shocks.

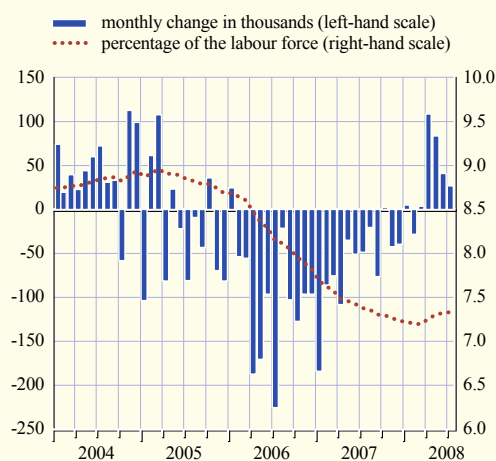
### UNEMPLOYMENT

At the start of 2008, the unemployment rate, having consistently declined in previous years, increased slightly, rising from 7.2% in the first quarter of 2008 to 7.3% in the second quarter. The euro area unemployment rate was unchanged at 7.3% in July 2008 compared with June (see Chart 50). However, the number of unemployed increased for the fifth consecutive month in July, rising by 25,000.

Despite the slight increase in the unemployment rate between the first and second quarters of 2008, unemployment in the euro area is low by historical standards, with the proportion of unemployed at levels not seen since the 1980s. In common with the general improvement in labour market conditions over the past few years, young workers, i.e. those aged between 15 and 24, have also benefited. Nevertheless, youth unemployment remains high relative to other age groups in most euro area countries. Aside from the obvious social implications, this is likely to be one factor restricting euro area potential growth.

Chart 50 Unemployment

(monthly data; seasonally adjusted)



Source: Eurostat.

Box 10 describes labour market developments concerning young workers over recent years and discusses possible policies that may bring about further improvements in the engagement of young people in the labour market.

Box 10

**YOUTH UNEMPLOYMENT IN THE EURO AREA**

In most euro area Member States, youth unemployment, despite having declined considerably over the last decade, still stands at a high level compared with unemployment for other age groups. This box describes the trends in youth unemployment in the euro area over the last two decades and looks at the factors determining these trends.

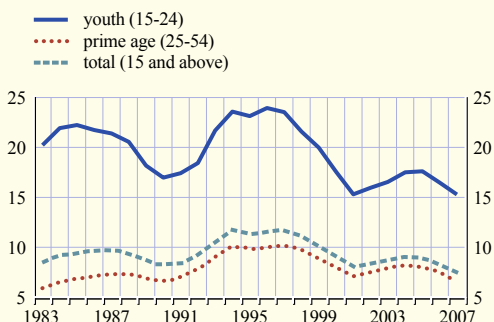
**Despite an overall improvement, youth unemployment remains high**

There have been several structural improvements in euro area labour markets over the last decade, which have been of benefit to young workers in particular. Following a peak in the mid-1990s, youth unemployment has since declined substantially, falling below the level reached in the 1980s. At the same time, the labour market position of young workers aged 15 to 24, compared with those aged 25 to 54, has improved over the last two decades (see Chart A).

Nevertheless, despite these overall improvements at the euro area level, developments remain disappointing in several respects. First, in 2007 youth unemployment in the euro area remained more than double the unemployment rate among prime age workers aged 25 to 54, i.e. 15.3% compared with 6.6%. Second, even young people in the labour force are significantly affected by long-term unemployment. In 2007, for the euro area as a whole, despite a substantial decline over the last decade, roughly a quarter of those unemployed between the ages of 15 and 24 had been unemployed for more than a year. Third, the probability of a young person with a low level of education becoming unemployed remains very high, at 18.9%; furthermore the unemployment rate of these young people has declined substantially less than for highly educated young people over the last two decades. Fourth, despite the decline in youth unemployment for the euro area as a whole, youth unemployment actually increased in five euro

**Chart A Euro area unemployment according to age group**

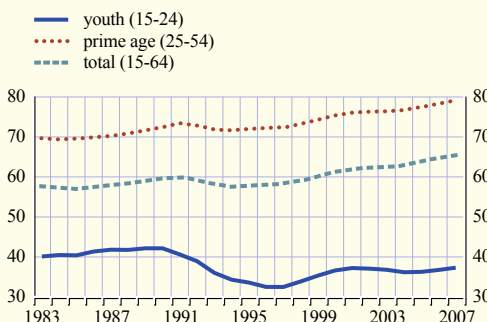
(unemployed as a percentage of the labour force)



Sources: Eurostat (EU LFS) and ECB calculations.

**Chart B Euro area employment according to age group**

(employed as a percentage of the population)



Sources: Eurostat (EU LFS) and ECB calculations.

## Youth and prime age unemployment in euro area countries, 1983-2007

	Youth unemployment (15-24)		Prime age unemployment (25-54)	
	Level (%) 2007	Change (p.p.) from 1983 to 2007	Level (%) 2007	Change (p.p.) from 1983 to 2007
Belgium	19.2	-4.7	6.8	-2.7
Germany	12.1	3.7	7.8	3.4
Ireland	8.9	-12.5	4.0	-9.4
Greece	22.0	-1.0	7.6	1.5
Spain	18.2	-22.3	6.9	-5.5
France	20.6	0.8	7.5	2.0
Italy	18.5	-10.4	5.0	0.7
Luxembourg	14.9	9.0	3.4	1.4
Netherlands	6.1	-15.0	2.5	-7.3
Austria	8.0	3.8	4.2	1.3
Portugal	15.3	-0.3	7.8	3.1
Slovenia	7.9	n.a.	4.4	n.a.
Finland	21.6	3.4	5.3	0.4
Euro area	15.3	-4.9	6.6	0.6

Sources: Eurostat (EU LFS) and ECB calculations.

Notes: The data are second quarter data, except for France and Austria, for which they are first quarter data. Youth unemployment in Spain include the group 16-24 years old.

area countries, namely Germany, France, Luxembourg, Austria and Finland, between 1983 and 2007 (see the table).

The decline in the euro area youth unemployment rate over the last two decades has been accompanied by an overall decline in the employment rate of young people (see Chart B). Although the number of young people in employment has increased since the mid-1990s, there has not been a return to the levels seen in the 1980s.<sup>1</sup> This indicates that more young people are either in education or have given up looking for a job completely and have dropped out of the labour market. In fact, the inactivity rate of young people, i.e. the share of young people who are neither unemployed nor employed, increased by 6.2 percentage points between 1983 and 2007, to 56%.

### Several factors have contributed to the decline in youth unemployment

Determinants of youth unemployment include changes in the economic environment, demographic changes, labour market institutions and policies and the education system.<sup>2</sup> Cross-country studies indicate that there is a positive relationship between the share of young people in the total population and the youth unemployment rate, i.e. with an ageing population, the decline in the share of young people means that there is a lower risk of them being unemployed. The youth unemployment rate is also correlated with the economic environment. Furthermore, education appears to have become more often an alternative to unemployment in several euro area countries. With regard to labour market institutions, there seems to be a detrimental impact of high minimum wages and employment protection legislation on young peoples' labour market performance. Additionally, the increase in the number of young people with a vocational training qualification and, to a lesser extent, high scores in the OECD PISA study<sup>3</sup>, are associated with

1 Young people in the euro area are employed predominantly in the services sector. At the same time, there are more young people than prime age workers engaged in part-time and temporary work; a difference that has increased over the last two decades. In 2007, roughly 26% of young employed people worked part time, while half of all young employees (49.9%) worked on a temporary contract.

2 See, for example, D. B. Blanchflower and R. B. Freeman (2000), "Youth employment and joblessness in advanced countries", University of Chicago Press, Chicago.

3 See, for example, OECD (2007), "Education at a glance", Paris.



lower youth unemployment rates.<sup>4</sup> However, these findings are not, obviously, able to capture the full complexity of the relationship between educational systems and labour market outcomes.

### **Comprehensive policies are needed to further reduce youth unemployment**

Economic policies should aim to improve the employability of young people to further reduce the excessively high levels of youth unemployment. This implies that further adjustments need to be made to labour market institutions, as employment protection legislation, insufficiently flexible working time arrangements and institutions imposing wage rigidities such as minimum wages, may constitute a barrier to young peoples' employment opportunities. Generally, a high level of educational achievement plays a major role in supporting youth employment, particularly in the light of the increasing importance of technological advances and the rising demand for high-skilled labour. Governments can make a positive contribution to the smooth transition of young people from education to the labour market by providing a well-functioning educational system, on the one hand, and creating a business environment which allows for sufficient returns to investment in education, on the other. This supports the incentives for engaging in skill formation, preventing young people from simply dropping out of the market, and therefore should tend to reduce the risk of social exclusion.

4 For more details, see N. Leiner-Killinger and R. Gomez Salvador, "An analysis of youth unemployment in the euro area", ECB Occasional Paper No 89, June 2008.

## **4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY**

The euro area economy is currently experiencing an episode of weak economic activity, characterised by high commodity prices weighing on consumer confidence and demand as well as dampened investment growth. However, the estimated decline of real GDP in the second quarter of 2008 (-0.2%) partly represents a technical reaction to the strong growth seen in the first quarter (0.7%), when notably the mild weather conditions in some parts of Europe boosted construction activity. This volatility of the quarterly rates thus exaggerates to some extent the weakening in GDP growth.

Looking ahead, the current episode is expected to be followed by a gradual recovery. In particular, if persistent, the fall in oil prices from their peak in July will help strengthen real disposable income, with the level of employment remaining high and the unemployment rate low by historical standards. Moreover, growth in the world economy is expected to remain relatively resilient, benefiting mainly from sustained growth in emerging economies. This should support external demand for euro area goods and services and, therefore, investment. This outlook is also reflected in the September 2008 ECB staff macroeconomic projections, which point to an average annual real GDP growth in a range between 1.1% and 1.7% in 2008 and between 0.6% and 1.8% in 2009. In comparison with the June 2008 Eurosystem staff macroeconomic projections, the ranges have been shifted downwards (see Box 11).

The uncertainty surrounding this outlook for economic growth remains high and, generally, downside risks prevail. Risks stem particularly from renewed increases in energy and food prices, which could dampen consumption and investment. Moreover, downside risks continue to relate to the potential for the financial market tensions to affect the real economy more adversely than currently foreseen. The possibility of disorderly developments owing to global imbalances also implies downside risks to the outlook for economic activity, as do concerns about the rising protectionist pressures.

## ECB STAFF MACROECONOMIC PROJECTIONS FOR THE EURO AREA

On the basis of the information available up to 22 August 2008, ECB staff have prepared projections for macroeconomic developments in the euro area.<sup>1</sup> Average annual real GDP growth is projected to be between 1.1% and 1.7% in 2008, and between 0.6% and 1.8% in 2009. The average rate of increase in the overall HICP is projected to be between 3.4% and 3.6% in 2008, and between 2.3% and 2.9% in 2009.

### Technical assumptions about interest rates, exchange rates, commodity prices and fiscal policies

The technical assumptions about interest rates and both oil and non-energy commodity prices are based on market futures, with a cut-off date of 14 August 2008.<sup>2</sup> The assumption about short-term interest rates is of a purely technical nature. These rates are measured by the three-month EURIBOR, market expectations being derived from futures rates.<sup>3</sup> The methodology implies an overall average level of short-term interest rates at 4.8% for 2008 and 4.5% for 2009. The market expectations for euro area ten-year nominal government bond yields imply an average level of 4.5% in 2008 and 4.6% in 2009. The baseline projection also includes the assumption that, over the projection horizon, bank lending rate spreads will remain large, reflecting the ongoing 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, oil prices per barrel are assumed to average USD 115.1 in 2008 and USD 120.8 in 2009. International food prices in US dollars are assumed to increase by 42.8% in 2008 and 6.9% in 2009. The prices of other commodities (non-energy and non-food) are assumed to increase by 10.6% in 2008 and -1.8% 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 1.53 in 2008 and 1.52 in 2009, and an effective exchange rate of the euro that is, on average, 6.1% higher in 2008 than the average for 2007 and 0.2% lower in 2009 than the average for 2008.

Fiscal policy assumptions are based on national budget plans in the individual euro area countries, as available on 21 August 2008. They include all policy measures that have already been approved by parliament or that have been specified in detail and are very likely to pass the legislative process.

1 The ECB staff macroeconomic projections complement the Eurosystem staff macroeconomic projections that are produced jointly by experts from the ECB and the euro area NCBS on a biannual basis. The techniques used are consistent with those of the Eurosystem staff projections as described in "A guide to Eurosystem staff macroeconomic projection exercises", ECB, June 2001. To reflect the uncertainty surrounding the projections, ranges are used to present the results for each variable. Starting with the current projection exercise, the ranges for each variable and each horizon correspond to a model-based 75% probability interval. This new technique is presented in the ECB website publication entitled "New procedure for constructing ECB/Eurosystem projection ranges".

2 Oil and food price assumptions are based on futures prices up to end-2009. For other commodities, prices are assumed to follow futures until mid-2009 and thereafter to develop in line with global economic activity.

3 Starting with the current projection exercise, market expectations are now based on EURIBOR futures rates. The previous method, based on implied forward rates, had deviated increasingly from EURIBOR futures at short horizons since the beginning of the financial turmoil in August 2007 and was therefore seen to have become less representative of market expectations for the future path of three-month EURIBOR rates. Differences between the previous method and the new one are documented in the methodological note in the box entitled "ECB staff macroeconomic projections for the euro area" in the March 2007 issue of the Monthly Bulletin.

### Assumptions with regard to the international environment

Following a relatively resilient first half of the year, growth in global economic activity is projected to weaken in the second half of 2008. This largely reflects the lagged impact of high commodity prices and the expected weak growth momentum in the United States, together with the associated spillovers to other economies, particularly advanced economies. In contrast, it is projected that growth in emerging markets remains supported by strong domestic demand. From early 2009, both global economic growth and euro area foreign demand are projected to recover gradually. Overall, after reaching 5.1% in 2007, average annual growth in world real GDP outside the euro area is projected to slow to 4.1% in 2008 and to 3.7% in 2009. Growth in the euro area's export markets is projected to slow to 5.2% in 2008, from 6.4% in 2007, before recovering to 5.7% in 2009.

### Real GDP growth projections

Against the background of weakening foreign activity, a strong euro exchange rate and continued high commodity prices, euro area annual real GDP growth is expected to decline in 2008 after two years of growth above potential. Having stood at 2.6% in 2007, growth in average annual real GDP is projected to be between 1.1% and 1.7% in 2008, and between 0.6% and 1.8% in 2009. The dampened GDP growth expected over the projection horizon reflects weaker export growth and subdued domestic demand. Stagnant employment, higher commodity prices and adverse effects from equity and house prices are projected to weigh on private consumption. Higher financing costs, a squeeze on profit margins, weak demand and the housing market situation in some countries are expected to substantially dampen investment growth. In the course of 2009, the projected pick-up in GDP growth is supported by the assumed lower rise in commodity prices, along with an improved external environment.

### Price and cost projections

Year-on-year HICP inflation increased further in the first half of 2008, reaching 4.0% in July 2008. On the basis of the latest Eurostat flash estimate, it moderated to 3.8% in August. Looking forward, HICP inflation is expected to decelerate slowly, with the average rate of increase in the overall HICP projected to be between 3.4% and 3.6% in 2008. Based on the corresponding futures, the assumed prices of oil and non-oil commodities and their

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

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

	2007	2008	2009
HICP	2.1	3.4-3.6	2.3-2.9
Real GDP	2.6	1.1-1.7	0.6-1.8
Private consumption	1.6	0.5-0.9	0.6-1.6
Government consumption	2.3	1.5-1.9	1.3-1.9
Gross fixed capital formation	4.4	0.9-2.3	-0.7-2.1
Exports (goods and services)	6.1	2.9-4.5	2.4-4.6
Imports (goods and services)	5.4	2.4-3.8	2.0-5.0

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) Slovakia is included as part of the euro area in the projection ranges for 2009. The average annual percentage changes for 2009 are based on a euro area composition that includes Slovakia already in 2008.

pass-through to consumer prices are expected to exert less pressure over time on overall inflation. As regards domestic price pressures, the projections are based on the expectation that wage growth, which has increased significantly since mid-2007, will increase further in the course of the year, reflecting higher collective wage agreements already reached in both the private and public sectors. This, combined with an additional impact of the cyclical downswing in labour productivity, largely contributes to an increase in unit labour cost growth in 2008. These unit labour cost pressures are, however, projected to be broadly offset in 2008 by movements in profit margins, in line with the weaker economic outlook. In 2009, HICP inflation is expected to be between 2.3% and 2.9%. Underlying this projection is the expectation that unit labour cost growth will fall as wage growth moderates slightly in 2009, reacting with a lag to the weakening in activity, while productivity recovers with the cycle.

#### Comparison with the June 2008 projections

Compared with the Eurosystem staff macroeconomic projections published in the June 2008 issue of the Monthly Bulletin, the ranges projected for real GDP growth in 2008 and 2009 have been adjusted downwards on the back of the latest information, reflecting weaker short-term economic prospects, especially affecting domestic demand.

The ranges projected for the annual rate of increase in the overall HICP in 2008 and 2009 are now in the upper part of the previous ranges, mostly reflecting higher energy and, to a lesser extent, food and services prices than envisaged in the June 2008 projections.

**Table B Comparison with the June 2008 projections**

(average annual percentage changes)

	2007	2008	2009
Real GDP – June 2008	2.7	1.5-2.1	1.0-2.0
Real GDP – September 2008	2.6	1.1-1.7	0.6-1.8
HICP – June 2008	2.1	3.2-3.6	1.8-3.0
HICP – September 2008	2.1	3.4-3.6	2.3-2.9

## 5 FISCAL DEVELOPMENTS

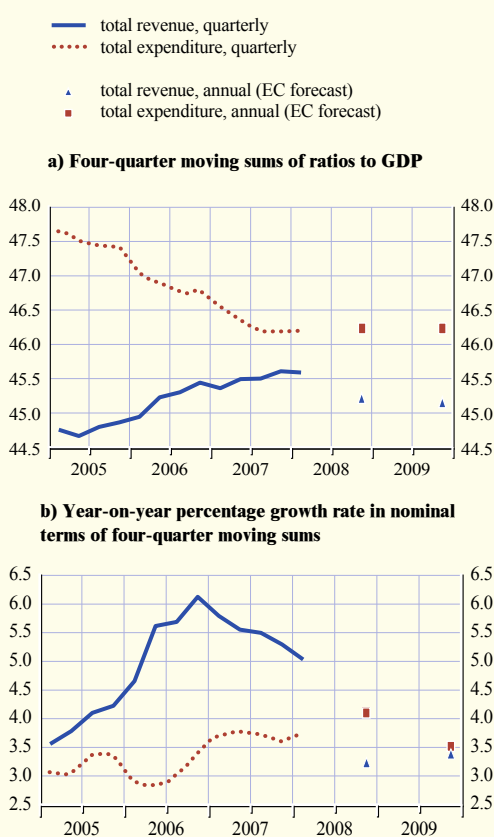
The fiscal outlook for the euro area signals a deterioration in the general government budget balance. This is mostly driven by a fall in government revenues, reflecting on the one hand discretionary tax cuts and on the other hand a less favourable macroeconomic environment. Governments of euro area countries that have not yet reached their medium-term budgetary objective (MTO) should make sure that the draft budget laws for 2009 include the necessary corrective measures to ensure progress towards fiscal consolidation, preferably on the expenditure side. Countries that have achieved their MTO should maintain sound structural positions. In this regard, lessons from the past indicate that expenditure slippages have often led euro area countries to miss their announced budgetary targets. Efforts should therefore be based on credible and well-specified medium-term strategies and a tighter control of expenditure.

### FISCAL DEVELOPMENTS AND OUTLOOK FOR 2008

The latest quarterly government finance statistics, available up to the first quarter of 2008, tend to confirm the renewed increase in the euro area general government deficit this year – as expected in spring 2008 by the European Commission and other international institutions – after four years of decline. Euro area data show that the strong growth in government revenues observed in previous years in the context of a generally favourable macroeconomic environment has steadily moderated since the first quarter of 2007. It is projected to decelerate further this year. By contrast, government expenditure has so far grown at a more moderate pace than revenue, but is foreseen to be more dynamic in the period ahead (see Chart 51). The budgetary outlook is expected to be mainly driven by the deteriorating macroeconomic environment, but also by discretionary cuts in taxes and social contributions.

The fiscal stance for the euro area, in terms of the change in the cyclically adjusted primary budget balance, is foreseen to be expansionary in 2008. The government debt ratio for the euro area is set to continue on its downward path, in spite of a decrease in primary surpluses. Overall, the recent improvement in public finances, which led to the abrogation of all remaining excessive deficit procedures for the euro area countries, now appears to have come to an end and is likely to reverse in 2008.

Chart 51 Euro area quarterly government finance statistics and projections



Sources: ECB calculations based on Eurostat and national data, European Commission economic forecast 2008.  
Note: The charts show the evolution of total revenue and total expenditure in terms of four-quarter moving sums for the period from Q1 2005 to Q1 2008, plus the annual projections for 2008 and 2009 from the European Commission economic forecast spring 2008.

## CURRENT BUDGETARY DEVELOPMENTS AND PLANS FOR 2009 AND BEYOND

Against this background, several euro area countries may experience difficulties reaching the budgetary targets that they set in their stability programme updates of late 2007 and early 2008, even though in some cases the targets were not ambitious in the first place. Some countries have announced revisions to their budgetary targets for 2008 that reflect changes in the macroeconomic environment. The worsened economic outlook also influences budgetary plans for next year and beyond. Most countries are currently preparing their draft budgets for 2009 as well as updating their medium-term plans. As the information on budgetary plans is not yet complete, however, an assessment of the outlook for public finances in the euro area can only be tentative at this stage. The following review of budgetary developments and plans is restricted to the largest euro area countries and those countries with major changes in their budgetary outlook.

In Germany, the Ministry of Finance published in July the draft federal budget as well as benchmark figures for the mid-term fiscal plan. According to these updated projections, which take account of more moderate economic growth, federal spending in the period 2009-2011 is expected to be somewhat higher than estimated in last year's fiscal plan, mainly due to expenditure increases in the areas of climate protection and traffic infrastructure. The government, however, expects additional expenditures to be partly offset by higher receipts, e.g. from the sale of carbon dioxide emission certificates and the planned increase in tolls for heavy goods vehicles. The target of achieving a balanced federal government budget by 2011 has been reconfirmed. Projections for the general government budget balance in 2008 have been revised upwards from a deficit of 0.5% of GDP to a position close to balance. The general government budget is expected to move to balance in 2009 and to improve further from 2010 onwards, in line with the targets envisaged in the December 2007 stability programme update.

In France, the government adopted in July a series of measures affecting goods markets, taxation and labour laws, aimed at modernising the economy and increasing the number of working hours. While the government estimates that these measures will increase potential GDP growth and reduce inflation, their budgetary impact is currently unclear. Further changes to the tax system, social contributions and social benefits may be envisaged in the draft budget law to be presented in late September 2008, although the details and timing are still largely uncertain. Due to the negative real GDP growth recorded in the second quarter of 2008 and broader concerns about the 2008 budgetary outlook, the government is again revising upwards its target of a general government deficit of 2.5% of GDP in 2008 and a further reduction to 2.0% in 2009. Earlier this year, these targets were already revised upwards, from respectively 2.3% of GDP for 2008 and 1.7% for 2009 in the stability programme update of end-2007. France's medium-term objective of a balanced budget would not be achieved until 2012.

In Italy, the parliament approved in August a three-year fiscal package comprising deficit-decreasing measures on both the revenue and the expenditure side, amounting to around 2% of GDP cumulatively over the period 2009-11. In 2009, the measures will mainly consist of increases in corporate taxes on oil companies, insurance companies and banks. Cuts in expenditure are mostly scheduled for 2010-11 and should be achieved by restraining central government as well as health and local government expenditure. In particular, the wage bill in the public sector will be held in check by further tightening the limits on replacements for departing staff and capping appropriations for the renewal of labour contracts. In addition, cuts in public investment amounting to around 1 percentage point of GDP have been phased in over the three years. Although the government has revised down its real GDP forecasts for 2008 from 1.5% in the stability programme to 0.5%, it expects the fiscal package to put the general government deficit on a declining path and is aiming for a deficit of 2.5% of GDP for 2008 and a further reduction to 2.0% of GDP in 2009,



1.0% of GDP in 2010 and 0.1% of GDP in 2011. These targets are somewhat less ambitious than those envisaged in the latest stability programme for 2008 (2.2% of GDP) and 2009 (1.5% of GDP), while the objective of a balanced structural budget by 2011 has been confirmed.

In Spain, the sizeable general government budget surplus achieved in 2007 (2.2% of GDP) is likely to turn into a deficit in 2008 given the recent drastic downward revision of projected economic activity presented by the government in July (projected real GDP growth has been revised down to 1.6% from 3.3% in the end-2007 update of the stability programme), although the target of a general government surplus of 1.2% of GDP has not yet been officially revised. The worsening of the fiscal outlook is mainly linked to the weakening of the economy, but also to the discretionary fiscal stimulus package approved by the government in April. These measures, together with the delayed effects of the reform of personal and corporate income taxes approved in 2007, would mean an estimated loss of revenue of more than 1% of GDP in 2008 and a further loss in 2009. In addition, a considerable degree of uncertainty surrounds the transitory nature of a substantial part of the strong government revenue growth witnessed in recent years (linked to the real estate boom). The government intends to implement a number of additional fiscal policy measures in 2008-09, the impact of which is difficult to ascertain at the current juncture.

In Ireland, the government has reported that tax revenues in 2008 are currently much lower than expected because of the significant slowdown in economic activity fostered by a much weaker housing market. As a result of the sharp fall in tax receipts together with increasing spending pressures, mainly due to higher unemployment, the Irish government in July envisaged a deficit of 2.75% of GDP for 2008, compared with a 0.9% deficit stated in its stability programme of December 2007. Although corrective measures have been announced and additional measures are being considered, there is still a serious risk that Ireland may breach the 3% of GDP reference value.

#### **NEED TO TIGHTEN CONTROL OVER EXPENDITURE DEVELOPMENTS**

The latest information based on quarterly government finance statistics and the recent budgetary developments observed in several euro area countries indicate that the growth in government revenues is falling rapidly, reflecting an unwinding of the revenue windfalls of the previous two years. This is particularly noticeable in Spain and Ireland, where government revenues have decelerated more strongly than expected, giving rise to substantial revisions to the budgetary plans. The factors underlying the end of the revenue windfalls are mainly related to the weakening macroeconomic environment and the end of the real estate boom in some countries.

It is unfortunate that some countries have used part of the earlier revenue windfalls to finance increased expenditure or tax cuts, rather than to speed up the pace of deficit and debt reduction in order to accelerate adjustment towards their MTO. This has reduced their budgetary room for manoeuvre this year and beyond.

In response to the cyclical downturn, the countries that have achieved their MTO can let automatic stabilisers operate freely and fully while maintaining sound structural positions. The more euro area countries are in such a position, the more scope there will be for the automatic stabilisers at the aggregate euro area level to operate freely, thereby attenuating cyclical economic fluctuations.

As regards the countries that still fall short of their MTO, the foreseeable deterioration in public finances calls for greater progress to be made towards fiscal consolidation. At the current juncture, in the absence of corrective measures, the relatively large general government deficits expected



in several euro area countries do not provide sufficient safety margins in 2008 and in the years thereafter. Some countries even risk exceeding the 3% of GDP reference value laid down in the Stability and Growth Pact. This prospect led the European Commission to issue on 28 May 2008 a recommendation providing policy advice on France's economic and budgetary policy.

It is essential to adhere to the expenditure-reducing plans that several countries have announced in their stability programmes. Experience shows that actual budgetary outcomes tend to deviate from the plans presented in stability programmes, and detailed analysis by the European Commission indicates that this is mostly due to expenditure overruns.<sup>1</sup> Persistently higher than targeted expenditure growth has been a widespread feature across euro area countries.

In the light of this analysis, all euro area countries are well-advised to tighten the control of expenditure developments. Expenditure restraint is more likely to be effective if it is backed up by credible, well-designed expenditure rules defined over the medium term. Strong domestic budgetary institutions that promote compliance with European commitments are also key to avoiding repeated expenditure slippages and to ensuring fiscal discipline. More generally, improvements in the quality of public spending, and particularly in the efficiency of public administrations and the provision of public services, should produce favourable macroeconomic and budgetary effects.

<sup>1</sup> See European Commission, "Public finances in EMU – 2008", Box I.3.1, pp. 40-41.

## 6 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

### 6.1 EXCHANGE RATES

After appreciating in early 2008, the euro broadly stabilised and, from early August, depreciated quite sharply. On 3 September 2008 the euro stood, in effective terms, 4.5% higher than its 2007 average.

#### EFFECTIVE EXCHANGE RATE OF THE EURO

Developments in the euro exchange rate since early 2008 have largely reflected changes in market expectations relating to the relative resilience of the main economic areas to the ongoing global slowdown. A positive market assessment of the euro area's relative economic prospects appeared to prevail in March and much of April, with the euro reaching a historical peak on 23 April 2008. The single currency then fluctuated without a clear trend for a few months around levels moderately lower than the peak. In August, it depreciated in effective terms, largely reflecting a sharp depreciation against the US dollar following a reassessment of the economic situation in the United States relative to the other main economic areas. On 3 September 2008 the nominal effective exchange rate of the euro – as measured against the currencies of 22 of the euro area's important trading partners – was 2.1% below its level at the end of May and 4.5% higher than its 2007 average (see Chart 52).

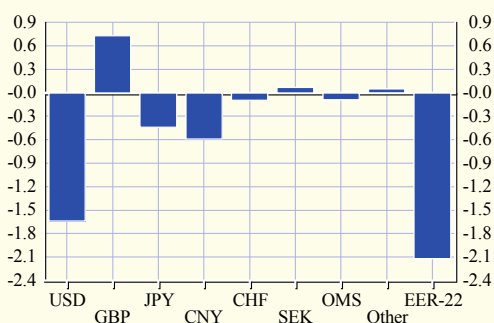
Chart 52 Euro effective exchange rate and its decomposition<sup>1)</sup>

(daily data)



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

From 30 May 2008 to 3 September 2008  
(in percentage points)



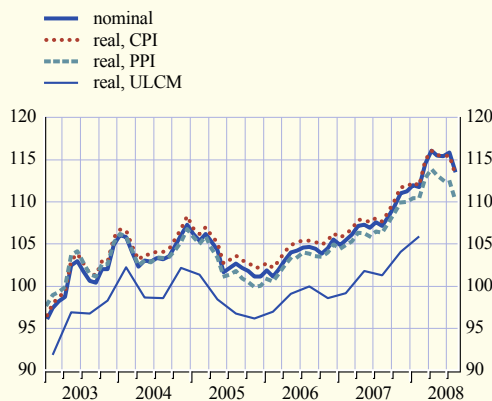
Source: ECB.

1) An upward movement of the index represents an appreciation of the euro against the currencies of the most important trading partners of the euro area and all non-euro area EU Member States.

2) Contributions to EER-22 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-22 index. Changes are calculated using the corresponding overall trade weights in the EER-22 index.

Chart 53 Euro nominal and real effective exchange rates<sup>1)</sup>

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



Source: ECB.

1) An upward movement of the EER-22 indices represents an appreciation of the euro. The latest observations for monthly data are for August 2008. In the case of the ULCM-based real EER-22, the latest observation is for the first quarter of 2008 and is partly based on estimates.

The depreciation of the euro in effective terms has been rather broad based over the past three months, with the euro exchange rate declining against the currencies of most trading partners. Notable exceptions were the Swedish krona, against which the euro appreciated by 1.5%, the pound sterling (3.5%), the Korean won (4%) and the Australian dollar (7.0%). With regard to indicators of the international price and cost competitiveness of the euro area, in August 2008 the real effective exchange rate of the euro was on average around 4% higher than its average 2007 level, based on developments in consumer and producer prices (see Chart 53).

### US DOLLAR/EURO

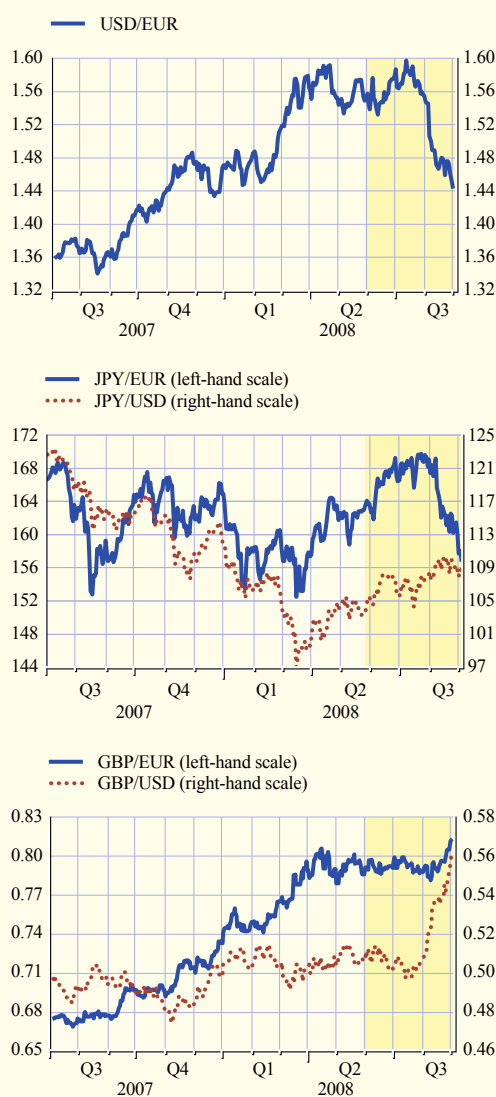
After broadly stabilising between the end of November 2007 and early February 2008, the euro appreciated at a rather fast pace. This primarily reflected market expectations of widening interest rate differentials associated with signs that the euro area economy was relatively more resilient to the global slowdown. The single currency reached successive historical peaks against the US dollar on 23 April 2008 and on 15 July, at USD 1.599. In early August, however, the euro weakened rather sharply against the US dollar, mainly in relation to shifting perceptions about relative economic prospects in the United States and in the euro area. On 3 September 2008 the euro traded at USD 1.44, i.e. 6.9% below its level at the end of May and 5.4% stronger than its 2007 average (see Chart 54).

### JAPANESE YEN/EURO

The euro has fluctuated rather widely against the Japanese yen since early 2008, moving in a range of JPY 152 to JPY 169. The euro depreciated rapidly in January and broadly stabilised thereafter. In late March, however, the euro started on an appreciation trend which lasted until early August. Subsequently, the reassessment of the relative prospects for growth across the various economic areas appears to have also affected the Japanese yen-euro exchange rate, leading to a depreciation of the euro. The volatility of the JPY/EUR exchange rate seems to have reflected not only changing market perceptions of relative economic prospects, but also market expectations relating to asset price volatility. The latter have a bearing on the expected profitability of carry trades, i.e. trades that consist of borrowing in a low-yielding currency (such as the yen) and investing in a high-yielding currency. The volatility in the JPY/EUR currency pair

Chart 54 Patterns in exchange rates

(daily data)



Source: ECB.  
Note: The shaded area refers to the period from 30 May 2008 to 3 September 2008.

has exhibited unusually wide swings since the summer of 2007, peaking in March 2008 and then subsiding during the summer to its average level since 1999. In general, a decrease in the expected volatility of the Japanese yen exchange rate increases its attractiveness as a funding currency, tending to put downward pressure on the Japanese currency and vice versa. Over the past three months the euro has depreciated vis-à-vis the Japanese yen to stand on 3 September 2008 at JPY 156.75, i.e. 4.3% lower than its level at the end of May and 2.8% below its 2007 average (see Chart 54).

### EU MEMBER STATES' CURRENCIES

In the first eight months of 2008, most currencies participating in ERM II remained stable against the euro and continued to trade at, or close to, their respective central rates (see Chart 55). The exception was the Slovak koruna, against which the euro depreciated until the end of May 2008, when the central rate of the Slovak koruna within ERM II was revalued by 17.6472% with effect from 29 May. On 3 September 2008 the Slovak currency traded at SKK 30.29, i.e. 0.5% stronger than its new central rate, which was determined by the EU Council on 8 July 2008.

Among the other ERM II currencies (Danish krone, Estonian kroon, Lithuanian litas and Latvian lats), only the Latvian lats exhibited some fluctuation. Although the Latvian lats has remained on the stronger side of the fluctuation band, it has moved progressively closer to the central rate. On 3 September 2008 the Latvian lats traded very close to its ERM II central rate.

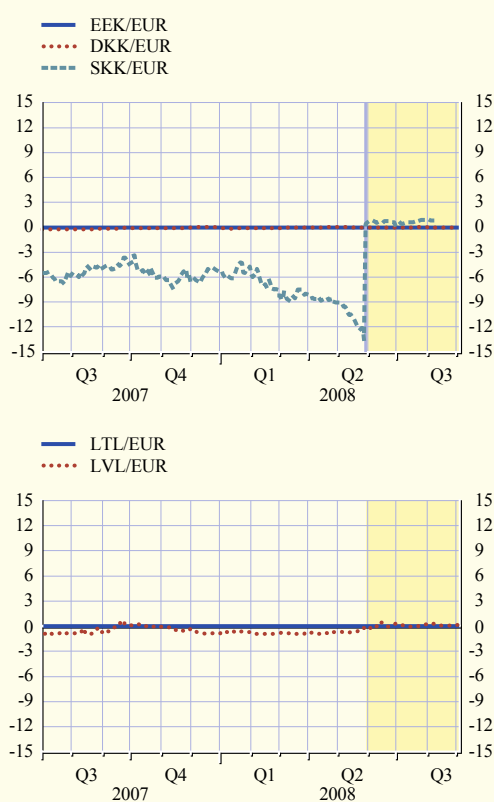
With regard to the currencies of other EU Member States not participating in ERM II, the euro appreciated against the pound sterling between February and April 2008, possibly reflecting market concerns about the outlook for the UK economy and the exposure of the British financial system to the global financial turbulence. After broadly stabilising, in late August the euro resumed its appreciation against the pound sterling, reflecting declining market confidence in the strength of the UK economy. The euro also appreciated by 1.5% against the Swedish krona between the end of May and 3 September. By contrast, the euro depreciated by 2.3%, 1.2%, 1.0% against the Romanian leu, the Czech koruna and the Hungarian forint respectively.

### OTHER CURRENCIES

The euro depreciated vis-à-vis the Swiss franc in the first three months of 2008, regained some of its losses in April and May, and stabilised thereafter. On 3 September 2008 the euro traded

Chart 55 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 29 May 2008, when the central rate of the Slovak koruna was revalued from 35.4424 to 30.1260 SKK/EUR.

at CHF 1.61, 1.4% weaker than at the end of May. The developments in the euro vis-à-vis the Swiss franc have been reportedly related to its positioning in and out of carry trades, as, like the Japanese yen, the Swiss franc has played the role of funding currency in this type of financial operation.

Between the end of May and 3 September 2008, the euro appreciated by 1.3% against the Norwegian krone. The single currency weakened vis-à-vis the currencies of its main Asian trading partners, with the exception of the Korean won, against which it appreciated by 4%. The euro has depreciated by 8.2% against the Chinese yuan and by 1.9% against the Singapore dollar since the end of May.

## 6.2 BALANCE OF PAYMENTS

The 12-month cumulated current account to June 2008 recorded a deficit of €19.6 billion (0.2% of GDP), compared with a surplus of €19.0 billion a year earlier. This largely reflected an increase in the deficit in current transfers and a decrease in the surplus in goods. In the financial account, combined direct and portfolio investment registered cumulative net outflows of €54.3 billion in the 12-month period to June 2008, compared with net inflows of €200.4 billion a year earlier. This shift resulted largely from lower net purchases of euro area securities by non-resident investors.

### TRADE AND THE CURRENT ACCOUNT

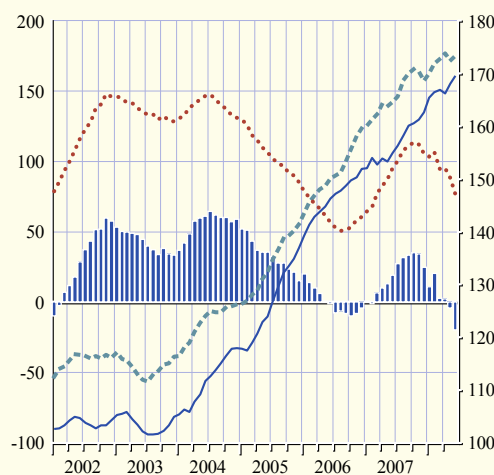
For the second month in a row, the 12-month cumulated current account recorded a deficit, reaching €19.6 billion (working day and seasonally adjusted data) in June 2008, which corresponded to 0.2% of GDP and compared with a surplus of €19.0 billion a year earlier. This shift was largely accounted for by a widening deficit in current transfers, a contraction in the surplus in goods and a shift from surplus to deficit in the income balance, which were only marginally offset by an increase in the surplus in services (see Chart 56).

Having almost doubled in size since the beginning of 2003, the 12-month cumulated deficit in current transfers (€94.8 billion) resulted mainly from deficits vis-à-vis the EU institutions and non-G10 countries outside the European Union and was, to a large extent, driven by outflows of foreign aid and workers' remittances. The decline in the goods surplus (by €23.7 billion in the 12-month period to June 2008 compared with the same period a year earlier) was a more recent phenomenon, which mainly resulted from a combination of weakening exports and robust growth in imports. In the second quarter of 2008, against the backdrop of weakening foreign demand, growth in the value of goods exports moderated to 1.1%, from 3.1% in the first quarter

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

(EUR billions; monthly data; seasonally adjusted)

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



Source: ECB.

Table 9 Main items of the euro area balance of payments

(seasonally adjusted, unless otherwise indicated)

	2008		Three-month moving average figures ending				12-month cumulated figures ending	
	May	June	2007 Sep.	2007 Dec.	2008 Mar.	2008 June	2007 June	2008 June
<i>EUR billions</i>								
<b>Current account</b>	-5.5	-8.2	3.3	-1.4	-4.3	-4.1	19.0	-19.6
Goods balance	-2.2	-2.0	5.2	2.0	0.7	1.0	50.5	26.8
Exports	130.7	131.3	128.1	127.2	131.1	132.6	1,457.3	1,556.8
Imports	132.9	133.3	122.9	125.1	130.4	131.6	1,406.7	1,530.0
Services balance	3.2	1.5	4.7	4.0	5.2	2.8	44.5	49.8
Exports	40.7	40.1	41.9	41.5	41.7	40.8	462.5	497.4
Imports	37.5	38.6	37.2	37.5	36.5	38.0	418.0	447.7
Income balance	-0.7	-1.2	0.8	0.8	-0.7	-1.3	4.1	-1.4
Current transfers balance	-5.8	-6.5	-7.4	-8.3	-9.4	-6.5	-80.0	-94.8
<b>Financial account <sup>1)</sup></b>	45.3	15.7	32.5	-26.8	6.4	26.4	83.6	115.4
Combined net direct and portfolio investment	13.5	32.2	8.1	-22.2	-10.5	6.5	200.6	-54.3
Net direct investment	-8.8	-22.0	-13.6	-1.4	-34.9	-17.7	-171.6	-203.2
Net portfolio investment	22.2	54.2	21.7	-20.8	24.5	24.2	372.2	148.9
Equities	6.6	6.7	8.6	-16.1	30.9	-3.1	237.6	61.1
Debt instruments	15.7	47.5	13.1	-4.7	-6.5	27.3	134.6	87.8
Bonds and notes	37.2	19.6	2.6	7.6	13.6	19.5	182.7	130.2
Money market instruments	-21.5	27.9	10.5	-12.3	-20.1	7.8	-48.1	-42.4
<i>Percentage changes over previous period</i>								
<b>Goods and services</b>								
Exports	-3.2	-0.0	3.3	-0.8	2.4	0.3	10.9	7.0
Imports	2.4	0.9	3.4	1.6	2.6	1.6	8.9	8.4
<b>Goods</b>								
Exports	-3.7	0.4	3.1	-0.7	3.1	1.1	11.7	6.8
Imports	3.3	0.3	4.0	1.8	4.2	0.9	9.0	8.8
<b>Services</b>								
Exports	-1.6	-1.5	3.8	-0.9	0.4	-2.2	8.2	7.5
Imports	-0.6	2.9	1.3	1.0	-2.8	4.0	8.8	7.1

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.

(see Table 9). Meanwhile, higher oil and non-oil commodity prices appeared to account for the strong growth in the value of imports.

The slowdown in the expansion of goods exports is mostly explained by developments in global demand. In particular, following a temporary rebound in the first quarter of 2008, euro area exports towards the United States and other OECD countries weakened noticeably in the second quarter as demand from these countries lost momentum. At the same time, although growth in exports towards China, OPEC countries and those EU Member States that have joined the EU since 2004 slowed somewhat, it remained fairly robust.

The sharp rises in the prices of both oil and non-oil commodities – driven by tight supply and strong demand fundamentals – have continued to be the main factor behind the growth in the value of imports in the second quarter of 2008. These price developments are reflected in the breakdown of trade in goods by volumes and prices, available up to May 2008, which signalled a steady increase in import prices since April 2007, while import volumes declined somewhat.

Meanwhile, euro area export prices rose only moderately in the second quarter, as cost increases were partly absorbed by producers.

Turning to other items of the current account, services exports declined by 2.2% in the second quarter of 2008, while imports increased by 4.0%. However, in 12-month cumulated terms, the surplus in services increased somewhat, reaching €49.8 billion, up from €44.5 billion a year earlier. Finally, mainly on account of higher income payments to non-euro area residents, the income balance deteriorated by €5.5 billion in 12-month cumulated terms, (from a surplus of €4.1 billion in the 12-month period to June 2007 to a deficit of €1.4 billion in the 12 months to June 2008).

### FINANCIAL ACCOUNT

In the 12-month period to June 2008, euro area combined direct and portfolio investment recorded net outflows of €54.3 billion, compared with net inflows of €200.6 billion a year earlier. Portfolio investment was the key driver of this shift in the financial account, with net inflows contracting by €223.3 billion in the same period, reflecting the impact of the prolonged period of uncertainty in financial markets. Slightly higher net outflows in direct investment over the same period (which increased by €31.6 billion) contributed to these developments (see Chart 57).

The most recent data on the financial account of the euro area balance of payments indicate a return to net capital inflows. Mostly driven by developments in direct investment, euro area combined direct and portfolio investment recorded average monthly net inflows of €6.5 billion in the second quarter of 2008, compared with net outflows of €10.5 billion in the previous quarter (see Table 9).

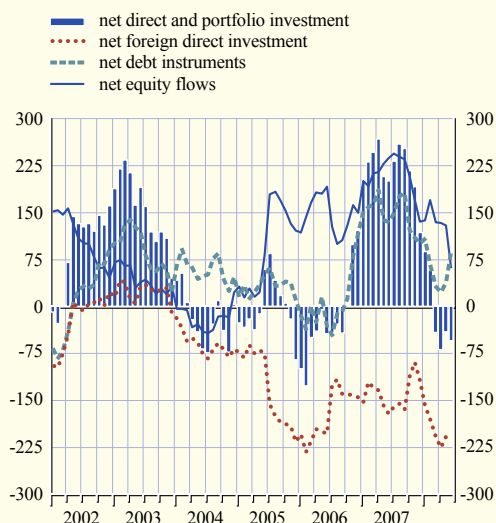
Compared with the first quarter of 2008, net outflows in direct investment almost halved in the second quarter, reaching €17.7 billion. The reduction in investment by foreign residents in the

euro area – which was concentrated in the month of April and mainly consisted of a reduction in equity capital and inter-company loans – coincided with a continued contraction of euro area investment abroad. The decline in direct investment activity is consistent with the weakening global economic outlook. A reduction in euro area mergers and acquisitions activity and a deteriorating outlook for multinational enterprises based in the euro area, as evidenced by the marked decline in stock market valuations over recent months, seem to have contributed to the contraction in euro area direct investment abroad.

Conversely, in the second quarter of 2008, portfolio investment remained broadly unchanged from its level in the previous quarter, with net inflows of €24.2 billion. However, the aggregate figures for cross-border portfolio investment flows were largely the result of offsetting developments in equities and debt instruments.

**Chart 57 Euro area combined direct and portfolio investment**

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



Source: ECB.



With regard to equity investment, net outflows of €3.1 billion were recorded in the second quarter of 2008, which were considerably lower than in the previous quarter, when net inflows of equity securities amounted to €30.9 billion. Mirroring developments in direct investment, euro area assets and liabilities in equities also decreased substantially, possibly owing to the general increase in the need for liquidity and a climate of heightened global risk aversion. Foreign investment in euro area equities contracted, but nonetheless remained positive, as implied by the favourable, but shrinking equity return differentials between the euro area and the United States. Meanwhile, the repatriation of funds by euro area residents, which started at the beginning of 2008, may be coming to a halt. However, given the high volatility of the financial data, it is too early to make a definite assessment.

With regard to debt instruments, in the second quarter of 2008, in accordance with increasing differentials on international bond returns, the euro area recorded net inflows of €19.5 billion in bonds and notes, which was €6 billion higher than in the previous quarter. This resulted from an increase in foreign investment in the euro area, which was only partly offset by an increase in investment by euro area residents in foreign bonds and notes. Finally, net inflows of €7.8 billion were recorded for euro area money market instruments, compared with outflows of €20.1 billion in the first quarter of 2008. These could mostly be attributed to a contraction of investment in foreign instruments by euro area residents.



# EURO AREA STATISTICS





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<sup>1</sup> 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 2008 TO INCLUDE CYPRUS AND MALTA

Unless otherwise indicated, all data series covering observations for 2008 relate to the Euro 15 (the euro area including Cyprus and Malta) 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, 2007 and 2008, calculated from a base in 2000, 2006 and 2007, use a series which takes into account the impact of the entry of Greece, Slovenia and Cyprus and Malta, respectively, into the euro area. Historical data referring to the euro area before the entry of Cyprus and Malta 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 spot rate (% per annum, end-of- period) <sup>3)</sup>
	1	2	3	4	5	6	7	8
2006	8.6	8.7	8.4	-	10.9	15.2	3.08	3.91
2007	6.4	9.9	11.1	-	10.8	18.6	4.28	4.38
2007 Q3	6.5	10.3	11.5	-	11.0	19.9	4.49	4.38
Q4	5.9	10.7	12.0	-	11.1	19.5	4.72	4.38
2008 Q1	3.8	10.3	11.2	-	11.1	20.3	4.48	4.13
Q2	2.2	10.0	10.0	-	10.5	17.5	4.86	4.73
2008 Mar.	2.8	9.7	9.9	10.5	10.9	17.1	4.60	4.13
Apr.	2.4	10.3	10.3	10.1	10.7	18.3	4.78	4.32
May	2.3	10.1	10.0	10.0	10.5	17.4	4.86	4.52
June	1.4	9.4	9.5	9.6	9.9	16.7	4.94	4.73
July	0.5	9.3	9.3	.	9.4	.	4.96	4.53
Aug.	.	.	.	.	.	.	4.97	4.34

### 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
2006	2.2	5.1	2.5	2.8	4.0	83.2	1.6	8.3
2007	2.1	2.8	2.6	2.6	3.4	84.2	1.8	7.4
2007 Q4	2.9	4.0	2.9	2.1	2.9	84.0	1.8	7.3
2008 Q1	3.4	5.4	3.3	2.1	2.5	83.9	1.6	7.2
Q2	3.6	7.1	.	1.4	0.9	83.4	.	7.3
2008 Mar.	3.6	5.8	-	-	1.4	-	-	7.2
Apr.	3.3	6.2	-	-	4.0	83.8	-	7.3
May	3.7	7.1	-	-	-0.5	-	-	7.3
June	4.0	8.0	-	-	-0.8	-	-	7.3
July	4.0	9.0	-	-	.	82.9	-	7.3
Aug.	3.8	.	-	-	.	-	-	.

### 3. Balance of payments, reserve assets and exchange rates

(EUR billions, unless otherwise indicated)

	Balance of payments (net transactions)				Reserve assets (end-of-period positions)	Effective exchange rate of the euro; EER-22 <sup>4)</sup> (index, 1999 Q1 = 100)		USD/EUR exchange rate
	Current and capital accounts	Goods	Direct investment	Portfolio investment		Nominal	Real (CPI)	
2006	7.9	19.2	-144.7	266.3	325.8	103.6	104.6	1.2556
2007	40.5	55.6	-117.3	235.7	347.4	107.7	108.3	1.3705
2007 Q3	15.2	17.1	-40.9	65.1	340.5	107.6	108.2	1.3738
Q4	16.7	9.7	-4.3	-62.3	347.4	110.5	111.2	1.4486
2008 Q1	-9.6	-2.9	-104.8	73.4	356.3	112.7	113.1	1.4976
Q2	-25.9	2.9	-53.2	72.7	353.9	115.7	115.7	1.5622
2008 Mar.	-3.8	1.4	-30.5	5.7	356.3	114.6	115.0	1.5527
Apr.	-6.8	4.2	-22.4	-3.7	348.7	116.0	116.1	1.5751
May	-17.8	-3.3	-8.8	22.2	349.2	115.5	115.5	1.5557
June	-1.2	1.9	-22.0	54.2	353.9	115.4	115.4	1.5553
July	.	.	.	.	355.6	115.8	115.5	1.5770
Aug.	.	.	.	.	.	113.5	113.2	1.4975

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) Based on AAA-rated euro area central government bond yield curves. For further information, see table 4.7.
- 4) For the definition of the trading partner groups and other information, please refer to the General notes.





# MONETARY POLICY STATISTICS

## 1.1 Consolidated financial statement of the Eurosystem (EUR millions)

### 1. Assets

	2008 8 August	2008 15 August	2008 22 August	2008 29 August
<b>Gold and gold receivables</b>	208,328	208,304	208,282	208,251
<b>Claims on non-euro area residents in foreign currency</b>	136,991	136,611	135,998	135,372
<b>Claims on euro area residents in foreign currency</b>	54,641	59,133	58,425	55,143
<b>Claims on non-euro area residents in euro</b>	17,014	16,288	15,807	15,417
<b>Lending to euro area credit institutions in euro</b>	460,023	476,088	451,016	467,044
Main refinancing operations	160,000	176,002	151,000	167,001
Longer-term refinancing operations	300,021	300,007	300,012	300,000
Fine-tuning reverse operations	0	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	0	75	0	39
Credits related to margin calls	2	4	4	4
<b>Other claims on euro area credit institutions in euro</b>	35,884	36,926	37,259	38,180
<b>Securities of euro area residents in euro</b>	110,585	110,011	109,788	111,091
<b>General government debt in euro</b>	37,456	37,456	37,457	37,457
<b>Other assets</b>	380,717	379,390	380,925	381,184
<b>Total assets</b>	<b>1,441,639</b>	<b>1,460,207</b>	<b>1,434,957</b>	<b>1,449,139</b>

### 2. Liabilities

	2008 8 August	2008 15 August	2008 22 August	2008 29 August
<b>Banknotes in circulation</b>	690,348	690,190	683,725	683,529
<b>Liabilities to euro area credit institutions in euro</b>	211,131	232,856	214,351	204,298
Current accounts (covering the minimum reserve system)	211,037	232,812	214,258	204,060
Deposit facility	88	41	90	232
Fixed-term deposits	0	0	0	0
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	6	3	3	6
<b>Other liabilities to euro area credit institutions in euro</b>	190	148	127	152
<b>Debt certificates issued</b>	0	0	0	0
<b>Liabilities to other euro area residents in euro</b>	63,463	57,541	58,389	85,026
<b>Liabilities to non-euro area residents in euro</b>	78,153	81,711	81,421	80,059
<b>Liabilities to euro area residents in foreign currency</b>	1,355	1,166	1,329	884
<b>Liabilities to non-euro area residents in foreign currency</b>	19,464	19,448	18,283	17,339
<b>Counterpart of special drawing rights allocated by the IMF</b>	5,120	5,120	5,120	5,120
<b>Other liabilities</b>	148,380	147,990	148,175	148,693
<b>Revaluation accounts</b>	152,364	152,364	152,364	152,364
<b>Capital and reserves</b>	71,671	71,673	71,673	71,675
<b>Total liabilities</b>	<b>1,441,639</b>	<b>1,460,207</b>	<b>1,434,957</b>	<b>1,449,139</b>

Source: ECB.

## 1.2 Key ECB interest rates

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

With effect from <sup>1)</sup>	Deposit facility		Main refinancing operations			Marginal lending facility	
			Fixed rate tenders	Variable rate tenders			
	Level	Change	Fixed rate	Minimum bid rate	Change	Level	Change
			Level	Level			
1	2	3	4	5	6	7	
1999 1 Jan.	2.00	-	3.00	-	-	4.50	-
4 <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
2008 9 July	3.25	0.25	-	4.25	0.25	5.25	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							
2008 7 May	229,288	304	150,000	4.00	4.26	4.29	7
14	208,523	287	191,500	4.00	4.18	4.26	7
21	203,091	326	176,500	4.00	4.15	4.22	7
28	224,080	330	170,000	4.00	4.19	4.23	7
4 June	210,100	336	153,000	4.00	4.17	4.22	7
11	202,780	343	191,000	4.00	4.03	4.18	7
18	224,290	425	188,000	4.00	4.03	4.13	7
25	243,286	439	208,000	4.00	4.07	4.25	7
2 July	254,664	433	154,500	4.00	4.10	4.15	7
9	263,642	400	175,000	4.25	4.32	4.37	7
16	265,931	440	155,000	4.25	4.34	4.36	7
23	268,193	461	175,500	4.25	4.35	4.38	7
30	247,409	430	166,000	4.25	4.38	4.42	7
6 Aug.	241,886	424	160,000	4.25	4.38	4.41	7
13	233,394	430	176,000	4.25	4.37	4.40	7
20	228,735	454	151,000	4.25	4.38	4.40	7
27	226,453	424	167,000	4.25	4.39	4.42	7
3 Sep.	226,254	411	160,000	4.25	4.39	4.41	7
Longer-term refinancing operations							
2008 28 Feb.	109,612	165	50,000	-	4.16	4.23	91
13 Mar.	132,591	139	60,000	-	4.25	4.40	91
27	131,334	190	50,000	-	4.44	4.53	91
3 Apr.	103,109	177	25,000	-	4.55	4.61	189
2 May	101,175	177	50,000	-	4.67	4.75	90
22	86,628	138	50,000	-	4.50	4.68	84
29	97,744	171	50,000	-	4.51	4.62	91
12 June	99,781	128	50,000	-	4.60	4.72	91
26	89,836	174	50,000	-	4.50	4.67	91
10 July	74,579	141	25,000	-	4.93	5.03	182
31	107,684	189	50,000	-	4.70	4.76	91
14 Aug.	78,920	124	50,000	-	4.61	4.74	91
28	77,216	191	50,000	-	4.60	4.74	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	
2007 21 Dec.	Collection of fixed-term deposits	141,565	55	141,565	4.00	-	-	-	6
27	Collection of fixed-term deposits	145,640	49	145,640	4.00	-	-	-	1
28	Collection of fixed-term deposits	160,450	52	150,000	4.00	-	-	-	3
2008 2 Jan.	Collection of fixed-term deposits	168,640	54	168,640	4.00	-	-	-	1
3	Collection of fixed-term deposits	212,620	69	200,000	4.00	-	-	-	1
15	Collection of fixed-term deposits	45,712	28	20,000	4.00	-	-	-	1
12 Feb.	Collection of fixed-term deposits	29,155	22	16,000	4.00	-	-	-	1
11 Mar.	Reverse transaction	45,085	32	9,000	-	4.00	4.13	4.14	1
20	Reverse transaction	65,810	44	15,000	-	4.00	4.13	4.20	5
31	Reverse transaction	30,720	25	15,000	-	4.00	4.06	4.13	1
15 Apr.	Collection of fixed-term deposits	14,880	7	14,880	4.00	-	-	-	1
13 May	Collection of fixed-term deposits	32,465	29	23,500	4.00	-	-	-	1
10 June	Collection of fixed-term deposits	18,505	15	14,000	4.00	-	-	-	1
8 July	Collection of fixed-term deposits	14,585	12	14,585	4.00	-	-	-	1
12 Aug.	Collection of fixed-term deposits	22,630	10	21,000	4.25	-	-	-	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
2006	15,648.3	8,411.7	601.9	1,968.4	1,180.3	3,486.1
2007	17,394.7	9,438.8	815.0	2,143.1	1,364.0	3,633.9
2008 Q1	17,703.3	9,551.7	840.2	2,126.0	1,558.4	3,627.1
2008 Apr.	17,956.0	9,762.0	856.2	2,135.6	1,562.3	3,640.0
May	18,092.7	9,817.8	910.6	2,156.1	1,548.9	3,659.3
June	17,971.8	9,775.4	916.3	2,172.4	1,439.4	3,668.1

## 2. Reserve maintenance

Maintenance period ending on:	Required reserves	Credit institutions' current accounts	Excess reserves	Deficiencies	Interest rate on minimum reserves
	1	2	3	4	5
2006	172.5	173.2	0.7	0.0	3.30
2007	195.9	196.8	1.0	0.0	4.17
2008 15 Jan. <sup>3)</sup>	199.8	200.9	1.1	0.0	4.20
12 Feb.	201.6	202.4	0.8	0.0	4.17
11 Mar.	204.6	205.3	0.7	0.0	4.10
15 Apr.	206.9	207.5	0.6	0.0	4.19
13 May	207.8	208.6	0.8	0.0	4.24
10 June	207.3	208.1	0.8	0.0	4.17
8 July	211.9	212.7	0.8	0.0	4.06
12 Aug.	214.1	214.8	0.7	0.0	4.35
9 Sep.	213.3	.	.	.	4.35

## 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	
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	327.5	173.0	278.6	0.3	0.0	0.4	2.2	644.6	61.9	-126.6	196.8	841.9
2008 15 Jan.	343.8	255.7	268.8	0.3	0.0	1.1	68.4	668.2	46.4	-116.4	200.9	870.2
12 Feb.	353.6	173.8	268.5	0.2	0.0	0.4	0.6	651.7	51.7	-110.7	202.4	854.5
11 Mar.	343.3	181.3	268.5	0.1	0.3	0.3	0.0	653.2	59.7	-125.0	205.3	858.7
15 Apr.	349.4	181.5	278.6	0.1	2.6	0.6	0.4	662.1	66.4	-124.8	207.5	870.3
13 May	364.5	174.4	295.0	0.1	0.0	0.3	0.8	667.6	68.8	-112.2	208.6	876.6
10 June	375.0	172.8	287.9	0.3	0.0	0.2	0.5	671.4	67.3	-111.5	208.1	879.7
8 July	376.4	185.4	275.4	0.1	0.0	0.4	0.5	677.2	64.9	-118.3	212.7	890.3
12 Aug.	374.5	166.3	299.3	0.1	0.0	0.3	0.6	686.1	61.3	-123.0	214.8	901.2

Source: ECB.

- End of period.
- Starting from 1 January 2008, includes monetary policy operations in the form of collection of fixed-term deposits which were conducted by the Central Bank of Malta and the Central Bank of Cyprus before 1 January 2008 and were still outstanding after this date.
- Owing to the adoption of the euro by Cyprus and Malta on 1 January 2008, the reserve requirement is an average - weighted by the number of calendar days - of the reserve requirements for the then 13 countries of the euro area for the period 12-31 December 2007 and the reserve requirements for the 15 countries now in the euro area for the period 1-15 January 2008.



## 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
<b>Eurosystem</b>														
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	2,046.1	1,031.7	17.8	0.6	1,013.3	268.6	225.1	1.9	41.6	-	17.4	373.7	15.2	339.6
2008 Q1	2,017.8	965.9	19.4	0.7	945.9	278.5	235.9	2.3	40.3	-	16.2	383.3	15.2	358.6
2008 Apr.	2,012.4	951.4	18.8	0.7	931.9	278.9	235.1	2.5	41.3	-	16.6	375.3	16.0	374.3
May	2,009.4	934.9	18.8	0.7	915.4	280.0	236.3	2.4	41.3	-	16.5	376.6	16.0	385.4
June	2,098.6	1,010.6	18.5	0.7	991.5	277.5	234.7	2.4	40.4	-	15.7	381.5	15.9	397.3
July <sup>(p)</sup>	2,098.8	1,004.4	18.4	0.7	985.4	277.1	234.9	2.5	39.8	-	15.4	385.6	16.1	400.1
<b>MFIs excluding the Eurosystem</b>														
2006	25,950.2	14,904.3	810.5	9,160.3	4,933.5	3,555.4	1,276.5	645.9	1,632.9	83.5	1,171.4	4,329.0	172.6	1,733.9
2007	29,446.8	16,904.9	956.1	10,159.8	5,789.0	3,880.9	1,194.1	949.8	1,737.0	93.5	1,296.6	4,872.5	206.0	2,192.4
2008 Q1	30,229.4	17,251.6	958.0	10,456.3	5,837.3	4,035.2	1,215.7	1,004.0	1,815.4	100.5	1,312.8	4,973.8	198.4	2,357.2
2008 Apr.	30,533.3	17,439.2	971.0	10,533.1	5,935.2	4,095.7	1,224.2	1,031.6	1,839.9	99.8	1,372.4	5,075.5	199.1	2,251.5
May	30,897.6	17,618.7	963.3	10,598.0	6,057.4	4,172.5	1,227.4	1,056.0	1,889.1	98.7	1,384.2	5,060.0	199.7	2,363.7
June	30,731.9	17,626.8	975.7	10,659.0	5,992.1	4,181.5	1,217.4	1,075.2	1,888.9	98.3	1,308.3	4,894.0	201.4	2,421.6
July <sup>(p)</sup>	30,771.9	17,692.0	972.6	10,722.9	5,996.5	4,258.0	1,220.9	1,100.8	1,936.3	97.6	1,329.0	4,928.3	201.6	2,265.4

#### 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
<b>Eurosystem</b>											
2006	1,558.2	647.0	431.6	33.7	15.9	382.0	-	0.1	208.6	35.3	235.6
2007	2,046.1	697.0	714.7	23.9	19.1	671.8	-	0.1	238.0	66.0	330.3
2008 Q1	2,017.8	681.9	703.2	60.4	20.8	622.0	-	0.1	246.5	70.3	315.9
2008 Apr.	2,012.4	690.5	682.9	66.9	23.1	592.9	-	0.1	237.9	81.4	319.7
May	2,009.4	692.8	656.3	44.4	25.0	586.9	-	0.1	239.1	95.6	325.5
June	2,098.6	699.7	733.2	55.2	24.6	653.3	-	0.1	240.7	98.7	326.2
July <sup>(p)</sup>	2,098.8	707.8	720.9	61.3	17.5	642.1	-	0.1	242.5	102.1	325.5
<b>MFIs excluding the Eurosystem</b>											
2006	25,950.2	-	13,257.2	124.2	7,890.6	5,242.4	698.3	4,247.6	1,449.7	3,991.1	2,306.2
2007	29,446.8	-	15,082.4	127.1	8,865.9	6,089.4	754.1	4,645.2	1,678.9	4,533.2	2,753.0
2008 Q1	30,229.4	-	15,299.2	139.6	9,010.7	6,148.8	843.0	4,683.6	1,713.7	4,763.7	2,926.3
2008 Apr.	30,533.3	-	15,479.2	130.8	9,100.4	6,248.0	852.1	4,711.9	1,721.5	4,929.4	2,839.1
May	30,897.6	-	15,653.5	129.7	9,171.8	6,352.1	854.8	4,792.9	1,727.8	4,967.8	2,900.6
June	30,731.9	-	15,650.9	155.9	9,212.1	6,283.0	831.7	4,806.0	1,727.1	4,790.3	2,925.9
July <sup>(p)</sup>	30,771.9	-	15,667.0	119.6	9,242.2	6,305.2	840.7	4,852.9	1,748.5	4,829.4	2,833.3

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											
2006	19,723.7	9,991.1	830.2	9,161.0	2,112.4	1,464.0	648.4	811.2	4,680.4	187.3	1,941.4
2007	22,330.6	11,134.3	973.9	10,160.4	2,371.0	1,419.2	951.8	884.7	5,246.2	221.1	2,473.5
2008 Q1	23,000.8	11,434.3	977.4	10,457.0	2,457.9	1,451.7	1,006.3	871.2	5,357.1	213.6	2,666.9
2008 Apr.	23,185.5	11,523.5	989.8	10,533.7	2,493.4	1,459.3	1,034.1	926.2	5,450.8	215.1	2,576.7
May	23,375.6	11,580.7	982.1	10,598.6	2,522.0	1,463.6	1,058.4	918.7	5,436.6	215.7	2,702.0
June	23,308.5	11,653.9	994.2	10,659.7	2,529.8	1,452.1	1,077.7	861.0	5,275.4	217.3	2,771.3
July <sup>(p)</sup>	23,300.3	11,714.6	991.0	10,723.6	2,559.1	1,455.8	1,103.3	879.0	5,313.9	217.7	2,616.5
Transactions											
2006	1,997.5	877.3	-14.4	891.6	10.7	-96.8	107.5	97.7	801.9	6.4	203.5
2007	2,592.9	1,016.7	-9.7	1,026.4	229.5	-46.8	276.3	59.8	792.1	-0.5	495.4
2008 Q1	765.5	264.1	0.7	263.5	80.1	24.0	56.1	-7.8	261.3	-8.7	176.5
Q2	345.4	231.4	16.7	214.6	88.7	14.0	74.7	-3.4	-72.4	3.6	97.6
2008 Apr.	179.6	93.1	12.2	80.9	39.6	11.3	28.3	53.9	82.9	1.5	-91.4
May	188.4	59.2	-7.7	66.9	32.5	8.6	23.9	-6.8	-20.7	0.6	123.6
June	-22.7	79.0	12.2	66.9	16.5	-6.0	22.5	-50.5	-134.6	1.6	65.4
July <sup>(p)</sup>	-17.7	63.3	-3.2	66.5	25.7	0.7	25.1	19.8	28.9	0.4	-155.9

**2. Liabilities**

	Total	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Money market fund shares/ units <sup>2)</sup>	Debt securities issued <sup>3)</sup>	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities
Outstanding amounts										
2006	19,723.7	592.2	158.0	7,906.5	614.6	2,587.8	1,280.8	4,026.5	2,541.8	15.6
2007	22,330.6	638.5	151.0	8,885.0	660.4	2,866.8	1,487.6	4,599.2	3,083.3	-41.2
2008 Q1	23,000.8	632.9	200.0	9,031.5	742.2	2,828.0	1,502.5	4,834.0	3,242.1	-12.3
2008 Apr.	23,185.5	641.3	197.7	9,123.5	752.0	2,830.9	1,496.6	5,010.7	3,158.8	-26.2
May	23,375.6	645.7	174.1	9,196.8	755.8	2,862.6	1,484.9	5,063.5	3,226.2	-33.9
June	23,308.5	652.1	211.1	9,236.6	733.1	2,876.8	1,504.8	4,889.0	3,252.1	-47.2
July <sup>(p)</sup>	23,300.3	658.7	180.9	9,259.7	742.7	2,876.9	1,525.6	4,931.5	3,158.9	-34.5
Transactions										
2006	1,997.5	59.4	-15.2	683.7	27.6	285.5	57.4	601.6	252.2	45.3
2007	2,592.9	45.8	-13.3	835.1	54.5	270.2	162.3	778.8	467.6	-8.1
2008 Q1	765.5	-6.7	46.6	116.8	53.3	-12.2	23.8	344.6	137.8	61.5
Q2	345.4	19.2	10.8	203.8	-8.7	53.3	22.3	56.0	18.6	-29.9
2008 Apr.	179.6	8.5	-2.3	88.7	10.4	1.7	6.1	155.9	-73.7	-15.8
May	188.4	4.4	-24.0	71.3	3.9	31.1	-7.6	49.4	65.9	-5.9
June	-22.7	6.4	37.1	43.8	-23.1	20.5	23.8	-149.4	26.4	-8.2
July <sup>(p)</sup>	-17.7	6.6	-30.2	17.7	8.2	0.2	21.1	34.9	-89.8	13.5

Source: ECB.

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

## 2.3 Monetary statistics <sup>1)</sup>

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

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

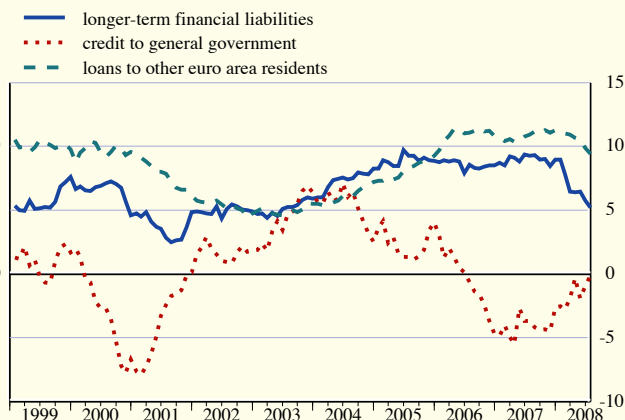
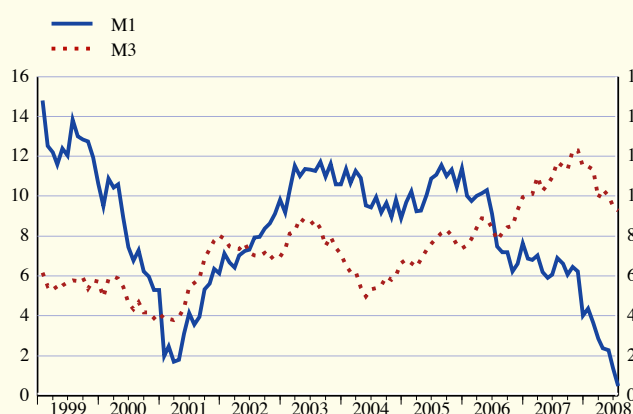
	M1		M2	M3-M2	M3	M3 3-month moving average (centred)	Longer-term financial liabilities	Credit to general government	Credit to other euro area residents		Net external assets <sup>3)</sup>
	1	2	3	4	5	6	7	8	Loans		11
									9	10	
<b>Outstanding amounts</b>											
2006	3,686.1	2,953.0	6,639.1	1,101.5	7,740.6	-	5,434.1	2,321.3	10,644.4	9,171.5	634.3
2007	3,835.4	3,504.0	7,339.4	1,310.2	8,649.6	-	5,977.8	2,417.2	12,027.6	10,176.4	626.7
2008 Q1	3,853.1	3,666.1	7,519.2	1,337.7	8,856.9	-	5,972.2	2,420.6	12,335.9	10,460.4	541.1
2008 Apr.	3,839.1	3,767.9	7,607.0	1,335.7	8,942.8	-	6,002.6	2,434.6	12,424.5	10,524.0	473.2
May	3,856.2	3,793.1	7,649.3	1,345.9	8,995.2	-	6,011.4	2,434.6	12,521.0	10,596.6	412.7
June	3,837.5	3,828.7	7,666.2	1,356.8	9,023.0	-	6,024.2	2,430.3	12,558.6	10,630.6	377.8
July <sup>(p)</sup>	3,826.6	3,915.4	7,742.0	1,359.6	9,101.5	-	6,046.6	2,440.3	12,672.9	10,689.2	368.0
<b>Transactions</b>											
2006	261.2	309.8	571.0	130.9	701.9	-	427.7	-114.7	1,105.8	898.6	200.6
2007	147.4	523.4	670.8	219.9	890.7	-	488.7	-60.1	1,369.5	1,031.7	12.7
2008 Q1	12.1	137.1	149.2	0.5	149.8	-	28.2	-7.9	282.5	251.0	-45.0
Q2	-16.8	164.0	147.2	21.7	168.8	-	72.8	22.9	244.6	182.0	-155.0
2008 Apr.	-14.7	101.0	86.3	-1.4	84.9	-	39.4	17.4	92.1	67.7	-57.9
May	15.4	25.0	40.4	9.4	49.9	-	13.0	4.3	98.7	74.6	-63.8
June	-17.6	38.0	20.4	13.6	34.0	-	20.3	1.2	53.7	39.7	-33.4
July <sup>(p)</sup>	-12.6	83.5	70.8	2.7	73.5	-	21.2	7.1	118.2	61.3	-11.7
<b>Growth rates</b>											
2006 Dec.	7.6	11.7	9.4	13.3	9.9	9.8	8.5	-4.7	11.6	10.8	200.6
2007 Dec.	4.0	17.7	10.1	20.0	11.5	11.8	8.9	-2.6	12.8	11.2	12.7
2008 Mar.	2.8	18.1	9.7	11.0	9.9	10.5	6.4	-1.9	12.3	10.9	-157.8
2008 Apr.	2.4	19.8	10.3	10.5	10.3	10.1	6.4	-0.3	12.1	10.7	-186.2
May	2.3	19.4	10.1	9.8	10.0	10.0	6.4	-1.9	12.0	10.5	-245.0
June	1.4	19.0	9.4	9.8	9.5	9.6	5.7	-0.9	11.2	9.9	-288.1
July <sup>(p)</sup>	0.5	19.6	9.3	9.2	9.3	.	5.2	-0.1	11.1	9.4	-303.7

### 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>

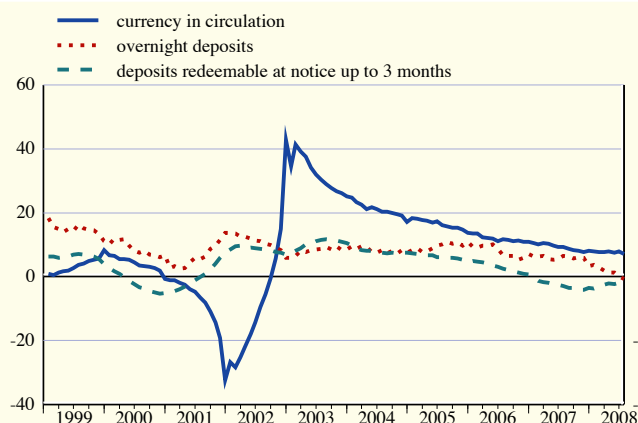
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

### 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											
2006	578.4	3,107.7	1,401.0	1,552.0	266.1	636.9	198.5	2,399.6	102.2	1,655.0	1,277.3
2007	625.8	3,209.6	1,968.7	1,535.3	307.4	686.6	316.2	2,561.0	119.6	1,813.5	1,483.7
2008 Q1	638.0	3,215.0	2,124.6	1,541.5	308.7	746.6	282.4	2,545.9	119.4	1,813.7	1,493.1
2008 Apr.	644.8	3,194.4	2,224.8	1,543.1	323.7	743.8	268.2	2,562.8	118.7	1,817.9	1,503.1
May	643.7	3,212.5	2,256.5	1,536.6	316.8	739.5	289.6	2,566.7	117.6	1,829.7	1,497.4
June	649.7	3,187.8	2,292.0	1,536.7	340.6	728.1	288.1	2,572.3	116.9	1,832.7	1,502.1
July <sup>(p)</sup>	649.6	3,177.0	2,384.5	1,530.8	346.3	727.0	286.3	2,577.7	116.4	1,833.8	1,518.7
Transactions											
2006	57.3	203.9	300.5	9.3	30.9	30.0	70.0	217.2	15.4	138.1	57.0
2007	46.9	100.4	579.4	-55.9	43.3	58.6	118.0	152.3	9.9	164.5	162.0
2008 Q1	11.2	1.0	136.4	0.7	1.3	31.2	-31.9	9.7	-1.5	1.8	18.2
Q2	11.7	-28.5	168.8	-4.8	31.9	-18.1	7.9	28.6	-2.5	17.6	29.0
2008 Apr.	6.8	-21.4	99.5	1.5	15.0	-2.2	-14.1	15.7	-0.7	2.5	22.0
May	-1.0	16.5	31.5	-6.5	-6.9	-4.2	20.5	4.1	-1.2	11.6	-1.6
June	6.0	-23.5	37.8	0.1	23.8	-11.7	1.5	8.9	-0.7	3.5	8.6
July <sup>(p)</sup>	-0.1	-12.6	89.9	-6.4	5.7	-2.6	-0.4	4.2	-0.5	0.7	16.9
Growth rates											
2006 Dec.	11.0	7.0	27.2	0.6	13.2	4.9	54.4	9.9	17.8	9.1	4.7
2007 Dec.	8.1	3.2	41.3	-3.6	16.3	9.2	59.4	6.3	9.6	9.9	12.4
2008 Mar.	7.7	1.9	39.2	-2.5	11.4	8.1	18.0	3.9	3.5	7.1	10.6
2008 Apr.	8.0	1.3	41.6	-2.2	17.8	6.8	11.8	3.8	1.9	6.5	11.5
May	7.5	1.3	40.5	-2.4	17.1	4.8	14.9	3.3	0.5	6.2	13.0
June	8.0	0.1	38.7	-2.0	18.4	2.0	21.6	2.8	-0.8	5.5	12.1
July <sup>(p)</sup>	7.1	-0.8	39.1	-2.1	17.2	1.0	22.9	2.5	-2.2	4.6	11.5

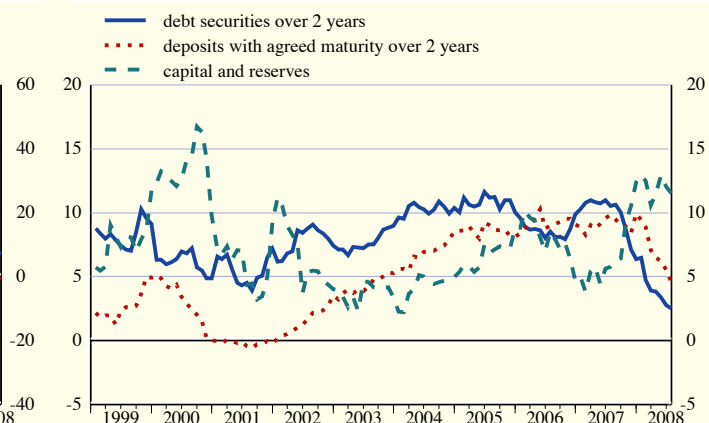
### C3 Components of monetary aggregates <sup>1)</sup>

(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>

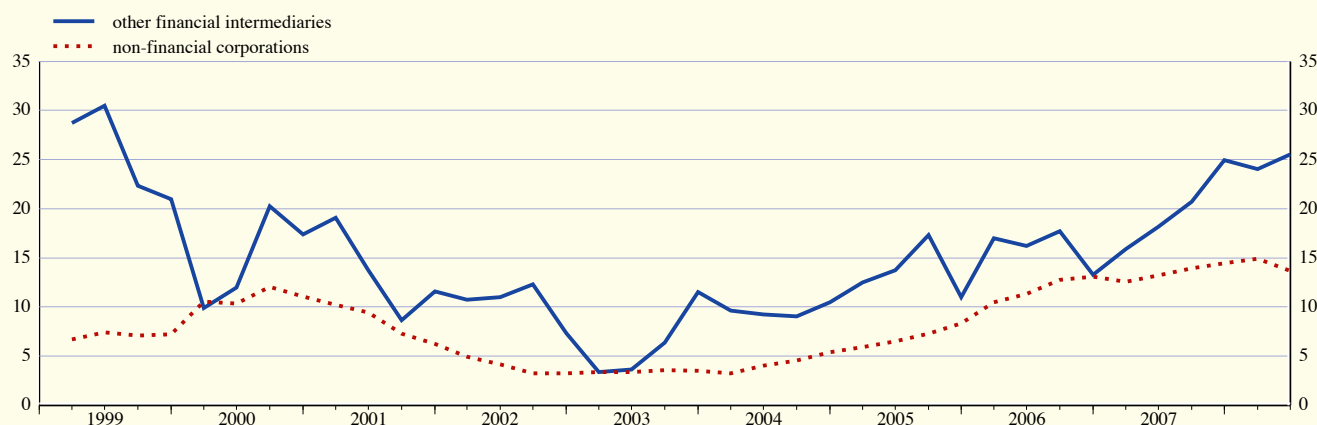
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 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
<b>Outstanding amounts</b>								
2006	82.8	55.2	696.0	420.6	3,844.5	1,137.9	707.1	1,999.5
2007	96.4	70.6	866.6	526.3	4,388.7	1,276.5	858.9	2,253.3
2008 Q1	104.2	79.0	943.7	596.8	4,545.8	1,327.1	898.3	2,320.4
2008 Apr.	102.3	76.4	967.3	618.2	4,590.8	1,337.8	904.2	2,348.8
May	105.8	80.2	987.6	632.7	4,618.6	1,338.3	910.9	2,369.5
June	103.5	79.3	995.8	623.7	4,670.1	1,365.3	925.5	2,379.3
July <sup>(p)</sup>	101.4	78.0	995.6	608.2	4,719.2	1,380.9	935.4	2,403.0
<b>Transactions</b>								
2006	18.1	13.9	81.9	57.7	446.2	100.5	123.1	222.6
2007	14.1	15.8	175.4	113.5	556.3	144.9	155.7	255.7
2008 Q1	7.9	8.6	79.5	71.6	137.3	48.2	36.2	52.9
Q2	-0.6	0.3	51.0	25.5	132.3	40.9	30.9	60.5
2008 Apr.	-1.9	-2.7	21.2	19.2	49.4	12.4	8.5	28.6
May	3.4	3.8	20.1	14.4	28.6	0.8	7.0	20.9
June	-2.2	-0.9	9.7	-8.1	54.2	27.8	15.4	11.1
July <sup>(p)</sup>	-2.2	-1.3	-1.8	-16.1	52.2	15.9	10.5	25.8
<b>Growth rates</b>								
2006 Dec.	28.0	33.3	13.3	15.6	13.1	9.7	20.8	12.4
2007 Dec.	16.9	28.5	25.0	27.0	14.5	12.7	22.0	12.8
2008 Mar.	6.3	10.8	24.0	24.4	14.9	13.9	22.3	12.9
2008 Apr.	-2.7	-3.4	23.1	24.5	14.9	13.1	21.8	13.4
May	-2.5	-2.2	26.6	30.0	14.2	12.5	19.9	13.1
June	-5.9	-4.6	25.5	25.6	13.6	12.0	19.9	12.3
July <sup>(p)</sup>	-8.7	-7.4	23.6	21.4	13.2	11.5	19.0	12.0

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

(annual growth rates)



Source: ECB.

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

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

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

4) This category includes investment funds.

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

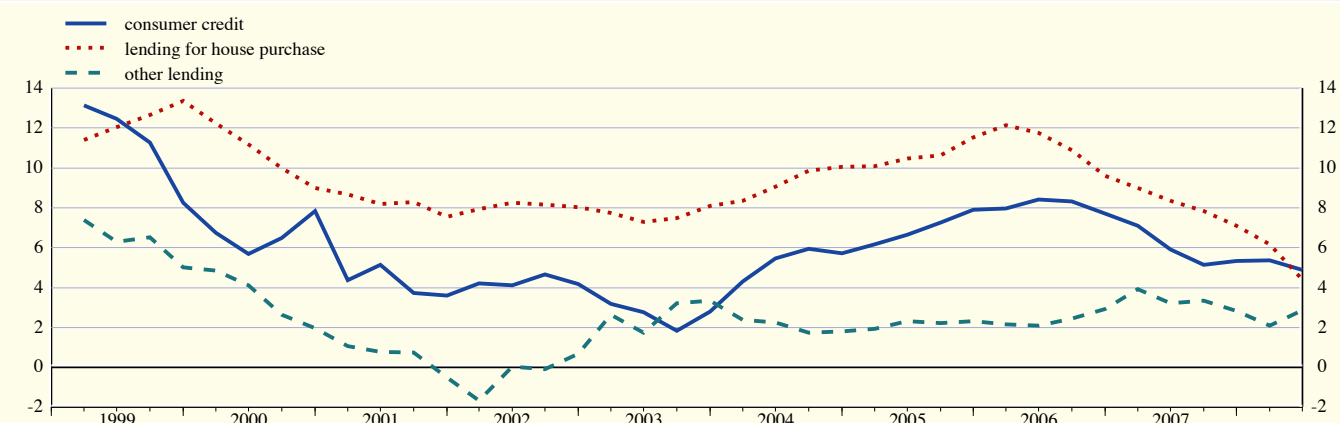
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

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

	Total	Consumer credit				Lending for house purchase				Other lending			
		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Outstanding amounts</b>													
2006	4,537.0	586.5	135.3	202.7	248.5	3,212.1	15.6	72.1	3,124.5	738.4	146.2	101.5	490.7
2007	4,808.1	617.9	137.6	203.7	276.6	3,436.9	15.9	73.8	3,347.2	753.4	147.5	104.0	501.8
2008 Q1	4,862.7	623.9	136.5	203.0	284.4	3,478.0	16.1	73.3	3,388.7	760.7	147.0	105.3	508.5
2008 Apr.	4,872.6	627.9	136.1	204.6	287.2	3,486.3	16.1	73.1	3,397.1	758.4	145.6	102.6	510.3
May	4,886.0	628.5	136.3	204.0	288.2	3,498.8	15.8	73.1	3,409.9	758.6	144.3	102.1	512.2
June	4,889.5	635.4	139.3	205.4	290.7	3,484.8	16.0	73.4	3,395.4	769.3	152.9	102.5	513.9
July <sup>(p)</sup>	4,906.7	636.3	138.8	204.7	292.8	3,504.3	16.0	73.5	3,414.8	766.1	147.1	102.3	516.7
<b>Transactions</b>													
2006	345.3	42.6	8.2	4.8	29.5	281.8	1.5	4.6	275.8	20.9	1.4	3.8	15.7
2007	280.6	31.3	3.6	1.1	26.7	228.5	0.9	2.3	225.3	20.8	1.7	4.4	14.7
2008 Q1	38.7	2.3	-1.7	-1.9	5.9	33.1	0.0	-0.7	33.7	3.3	-1.4	0.6	4.0
Q2	31.9	11.6	2.9	2.7	6.0	8.7	-0.1	0.2	8.6	11.7	6.3	-1.8	7.1
2008 Apr.	12.1	4.3	-0.3	1.7	3.0	8.9	0.0	-0.2	9.1	-1.1	-1.3	-2.1	2.3
May	14.7	0.4	0.3	-0.6	0.7	13.1	-0.2	0.0	13.3	1.1	-1.2	-0.2	2.5
June	5.1	6.8	3.0	1.5	2.4	-13.4	0.2	0.3	-13.9	11.7	8.8	0.6	2.3
July <sup>(p)</sup>	18.3	1.3	-0.5	-0.5	2.2	19.9	0.0	0.1	19.8	-2.9	-5.7	-0.2	3.0
<b>Growth rates</b>													
2006 Dec.	8.2	7.7	6.5	2.4	13.2	9.6	9.7	6.8	9.7	2.9	1.0	3.9	3.3
2007 Dec.	6.2	5.3	2.7	0.5	10.7	7.1	6.1	3.2	7.2	2.8	1.2	4.4	3.0
2008 Mar.	5.4	5.4	3.9	-0.1	10.4	6.2	2.5	2.0	6.3	2.1	-0.2	4.3	2.3
2008 Apr.	5.2	5.4	2.6	0.8	10.3	6.0	4.9	1.7	6.1	2.1	-0.2	1.9	2.8
May	4.9	5.0	2.9	-0.1	10.1	5.6	2.3	1.4	5.7	2.0	-0.4	1.3	2.9
June	4.2	4.9	3.7	0.0	9.3	4.4	0.1	1.2	4.5	2.9	2.1	0.8	3.5
July <sup>(p)</sup>	4.1	4.4	2.4	-0.4	9.1	4.3	1.1	0.8	4.4	2.7	0.8	0.0	3.8

### 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>

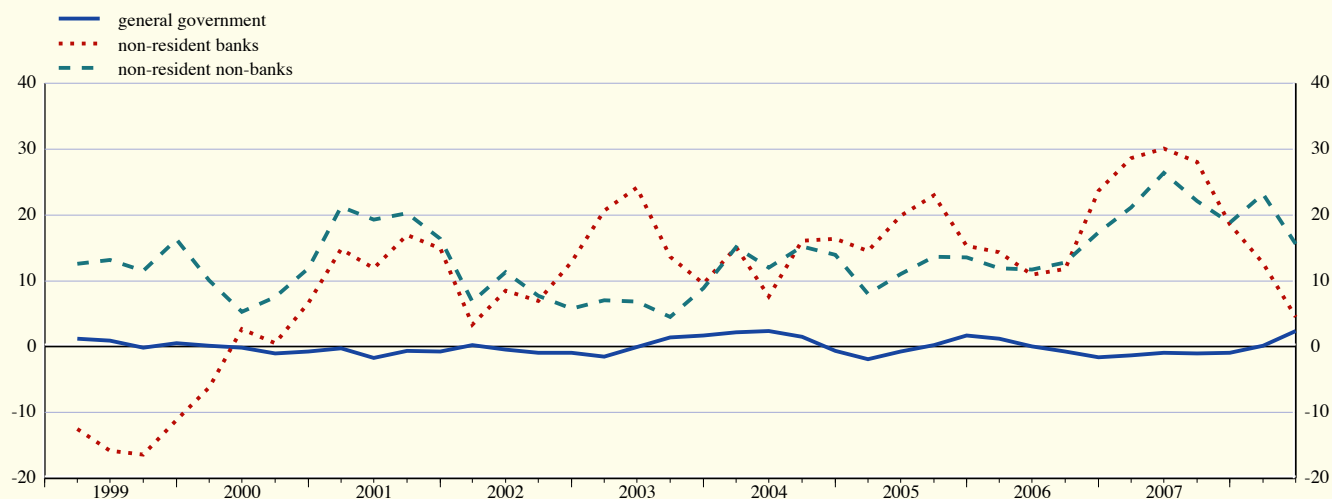
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 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 Q3	794.0	92.7	213.9	446.0	41.4	3,302.8	2,354.1	948.7	61.3	887.4
Q4	956.1	213.4	217.6	495.7	29.4	3,295.2	2,337.8	957.4	59.8	897.5
2008 Q1	958.0	210.6	212.8	497.3	37.2	3,413.5	2,394.8	1,018.7	61.6	957.1
Q2 <sup>(p)</sup>	975.7	218.9	215.2	501.9	39.7	3,310.3	2,296.8	1,013.5	60.3	953.2
Transactions										
2006	-13.4	-17.6	-14.3	21.9	-3.4	532.5	402.9	129.5	-0.1	129.6
2007	-7.7	-4.5	-13.0	6.2	3.5	542.0	382.0	160.1	0.3	159.8
2007 Q3	-4.2	-2.8	-5.0	-0.2	3.8	77.5	57.5	20.0	1.2	18.7
Q4	8.0	7.1	3.8	9.2	-12.0	56.8	23.2	33.7	-0.1	33.8
2008 Q1	0.7	-3.3	-4.8	1.0	7.8	215.4	121.6	93.6	3.0	90.6
Q2 <sup>(p)</sup>	17.7	8.2	2.1	4.8	2.5	-100.3	-96.6	-3.6	-1.3	-2.3
Growth rates										
2005 Dec.	1.7	-4.3	-3.2	5.4	22.9	14.8	15.3	13.6	2.0	14.9
2006 Dec.	-1.6	-14.0	-5.8	5.1	-11.6	21.8	23.7	17.4	-0.1	19.1
2007 Sep.	-1.0	-7.8	-6.3	1.9	16.0	26.3	28.0	22.1	-2.0	24.2
Dec.	-1.0	-4.3	-5.6	1.4	13.7	18.7	18.6	18.8	0.5	20.3
2008 Mar.	0.1	0.9	-5.1	1.6	19.5	15.6	12.7	23.2	10.2	24.1
June <sup>(p)</sup>	2.4	6.8	-1.8	3.2	5.6	7.7	4.5	15.7	4.7	16.4

### 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>**

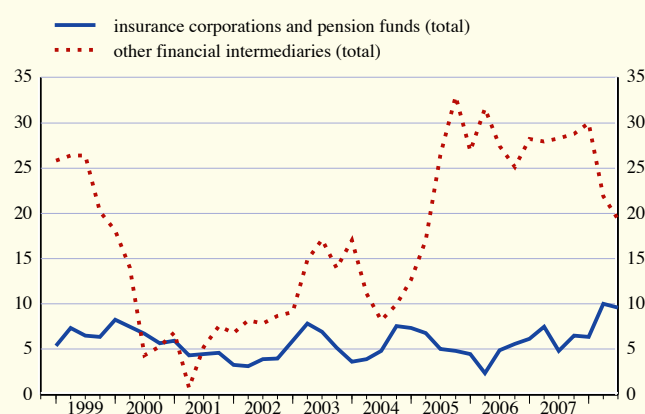
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

**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	
Outstanding amounts														
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	687.8	71.1	68.9	525.1	0.8	1.1	20.9	1,472.7	312.3	348.0	652.8	12.2	0.3	147.1
2008 Q1	723.3	81.8	83.9	532.6	1.6	1.6	21.9	1,526.2	333.2	361.1	648.8	13.2	0.2	169.6
2008 Apr.	722.4	74.9	87.7	534.2	1.4	1.6	22.6	1,560.4	312.4	395.6	656.3	14.1	0.2	181.8
May	718.7	69.6	88.8	535.6	1.3	1.6	21.7	1,580.1	321.4	391.2	672.0	12.7	0.2	182.6
June	717.4	73.6	83.6	537.5	1.4	1.6	19.8	1,595.3	331.0	386.5	682.4	12.0	0.2	183.2
July <sup>4)</sup>	716.6	69.7	85.9	538.1	1.3	1.6	20.1	1,608.1	304.0	429.4	681.9	14.1	0.2	178.6
Transactions														
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	41.4	0.8	11.7	33.4	-0.2	-0.3	-4.1	341.1	32.7	98.9	183.7	1.7	0.1	24.1
2008 Q1	33.2	10.5	13.9	7.4	0.2	0.2	1.0	59.9	23.0	14.6	-0.7	1.0	-0.1	22.1
Q2	-5.8	-8.2	-0.2	4.9	-0.2	0.0	-2.1	66.1	-4.0	25.2	32.5	-1.2	0.0	13.6
2008 Apr.	-1.0	-6.9	3.8	1.6	-0.2	0.0	0.7	31.8	-21.1	34.1	5.8	0.8	0.0	12.2
May	-3.7	-5.3	1.1	1.5	-0.1	0.0	-0.9	17.5	7.1	-4.4	15.5	-1.4	0.0	0.8
June	-1.1	4.0	-5.1	1.9	0.1	0.0	-1.9	16.8	10.1	-4.5	11.2	-0.6	0.0	0.7
July <sup>4)</sup>	-0.9	-3.9	2.3	0.6	-0.1	0.0	0.3	10.8	-27.7	42.0	-0.9	2.1	0.0	-4.7
Growth rates														
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 Dec.	6.4	1.1	20.5	6.8	-22.5	-	-16.3	30.0	11.5	39.5	39.1	16.0	-	19.0
2008 Mar.	10.0	12.6	41.8	6.6	-17.7	-	-4.3	21.9	6.3	36.5	26.5	17.6	-	13.4
2008 Apr.	8.7	6.6	37.5	6.3	-20.6	-	-7.3	22.9	2.6	44.4	23.9	24.2	-	20.8
May	9.3	6.5	45.5	6.0	-17.9	-	-5.3	21.9	2.6	44.0	22.2	11.5	-	21.5
June	9.6	13.4	42.2	5.7	-10.2	-	3.4	19.4	4.0	35.4	19.7	5.6	-	20.8
July <sup>4)</sup>	7.1	-4.0	38.2	5.4	-20.6	-	-3.2	18.1	-5.0	48.6	15.9	5.8	-	18.5

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

(annual growth rates)

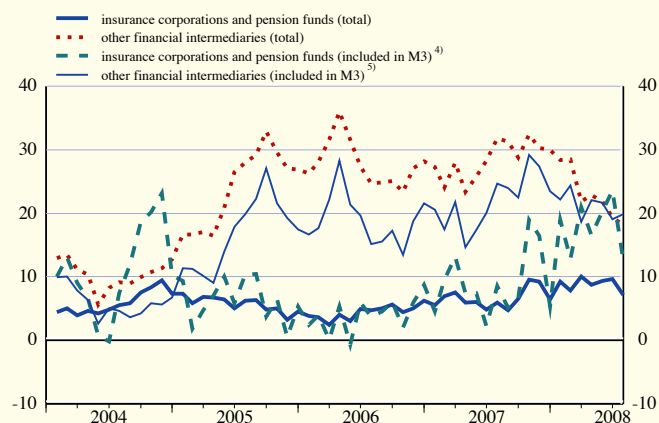


Source: ECB.

- 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.

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

(annual growth rates)



## 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

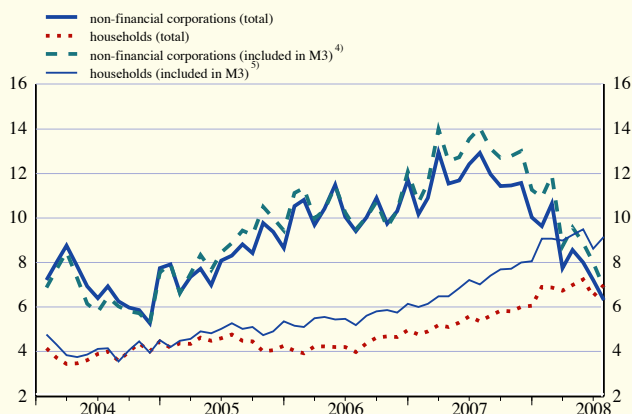
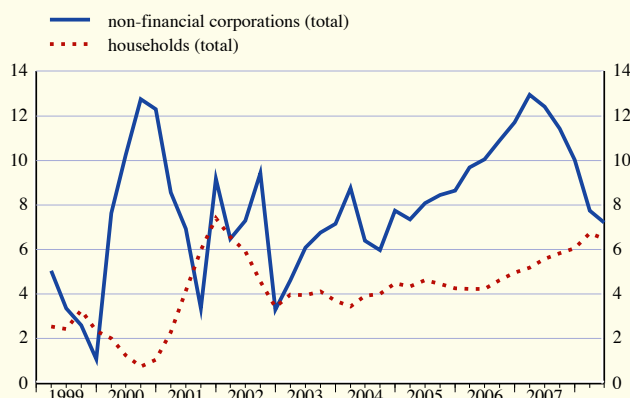
	Non-financial corporations							Households <sup>3)</sup>						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
Outstanding amounts														
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	1,470.6	882.1	474.6	59.6	29.2	1.4	23.7	4,989.0	1,777.7	994.5	561.1	1,457.6	111.1	87.1
2008 Q1	1,448.4	847.0	488.4	59.8	28.9	1.5	22.9	5,076.5	1,757.2	1,100.4	548.4	1,465.9	109.1	95.6
2008 Apr.	1,458.7	837.9	510.2	60.4	27.8	1.4	21.0	5,119.4	1,771.5	1,133.9	543.9	1,464.9	107.8	97.5
May	1,477.1	853.3	512.5	61.2	27.5	1.4	21.3	5,148.2	1,777.9	1,159.3	539.8	1,463.0	106.4	101.8
June	1,481.7	866.0	502.3	61.7	27.3	1.4	22.9	5,162.8	1,783.7	1,179.5	534.9	1,460.4	105.7	98.6
July <sup>4)</sup>	1,472.5	844.9	512.8	63.8	26.3	1.4	23.3	5,189.9	1,769.8	1,225.0	532.5	1,450.4	105.2	107.0
Transactions														
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	134.5	31.8	123.3	-8.0	-11.0	-0.7	-1.1	280.9	21.7	321.9	-45.4	-45.6	11.2	17.1
2008 Q1	-27.5	-35.5	10.6	0.1	-1.9	-0.1	-0.8	59.2	-26.5	89.2	-14.2	5.1	-2.9	8.5
Q2	34.0	19.4	14.6	1.6	-1.5	-0.1	0.1	87.0	26.4	79.9	-13.4	-5.5	-3.3	3.0
2008 Apr.	9.9	-9.2	21.5	0.6	-1.0	-0.1	-1.9	42.6	13.9	33.5	-4.5	-1.0	-1.3	1.9
May	18.3	15.4	2.2	0.8	-0.3	0.0	0.3	28.7	6.4	25.4	-4.1	-1.8	-1.4	4.2
June	5.8	13.2	-9.1	0.2	-0.2	0.0	1.7	15.6	6.0	21.0	-4.8	-2.6	-0.6	-3.2
July <sup>4)</sup>	-12.3	-22.2	9.0	2.0	-1.5	0.0	0.4	27.0	-14.0	45.5	-2.5	-10.0	-0.5	8.5
Growth rates														
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 Dec.	10.0	3.7	34.8	-11.7	-26.9	-31.6	-4.3	6.1	1.2	47.8	-7.5	-3.5	11.2	24.4
2008 Mar.	7.7	2.0	29.3	-10.8	-29.0	-1.3	-15.3	6.7	1.4	45.5	-7.6	-2.1	2.7	25.2
2008 Apr.	8.6	0.6	34.7	-9.9	-28.5	-5.9	-14.2	7.0	1.1	45.9	-7.4	-1.8	1.2	28.4
May	8.0	1.3	30.9	-8.4	-29.2	-6.9	-21.0	7.2	1.3	45.7	-7.1	-1.7	0.1	29.3
June	7.2	0.8	28.5	-7.6	-26.5	-7.2	-13.0	6.5	-0.4	44.8	-7.3	-1.6	-1.1	26.8
July <sup>4)</sup>	6.3	0.6	23.4	-4.1	-27.9	-16.6	-8.7	7.0	-0.2	44.8	-7.0	-1.5	-2.2	29.7

### 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>**

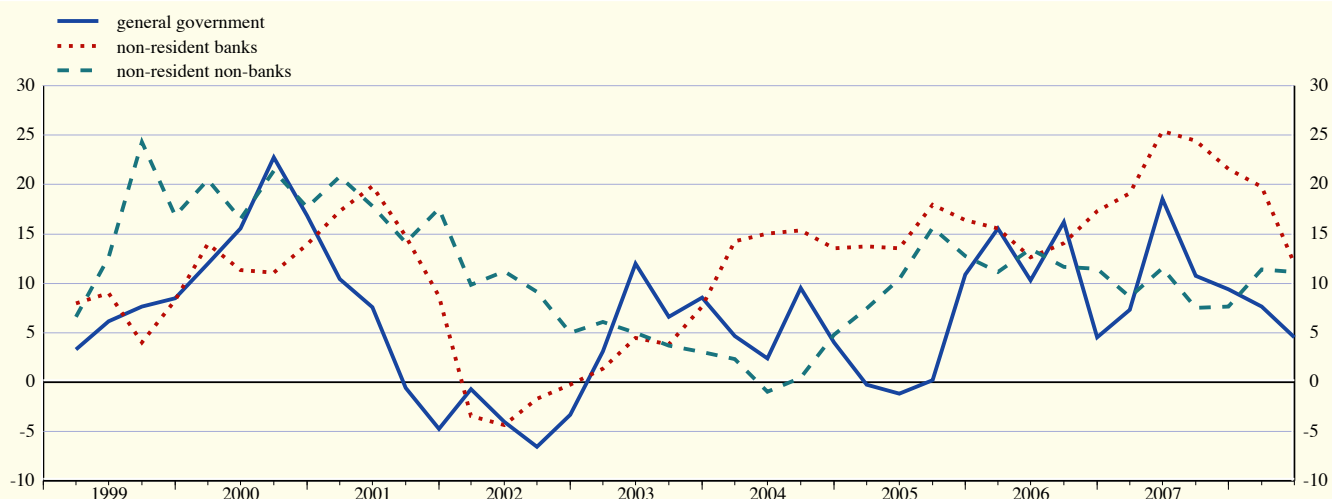
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

**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	90.8	68.6	3,429.0	2,557.1	871.9	128.6	743.3
2007 Q3	373.5	144.3	60.0	97.2	72.0	3,877.0	2,963.4	913.6	145.9	767.7
Q4	372.9	127.1	59.0	106.8	80.1	3,856.2	2,962.9	893.3	143.4	749.9
2008 Q1	375.9	139.6	49.6	107.6	79.1	4,039.8	3,100.1	939.7	131.1	808.6
Q2 <sup>(p)</sup>	410.7	155.9	56.5	112.4	85.9	4,019.8	3,038.6	981.2	132.0	849.2
Transactions										
2006	14.2	-24.5	7.0	7.8	23.9	476.6	385.8	90.8	6.6	84.2
2007	30.9	-3.1	13.6	8.9	11.5	614.6	548.3	66.3	20.2	46.1
2007 Q3	-7.3	-26.1	16.1	2.0	0.6	130.2	120.7	9.4	10.8	-1.4
Q4	-12.0	-21.9	-1.0	2.8	8.1	50.2	54.3	-4.1	-0.5	-3.5
2008 Q1	2.8	12.4	-9.3	0.6	-1.0	279.1	227.2	51.9	-8.4	60.4
Q2 <sup>(p)</sup>	34.8	16.0	6.8	4.8	7.1	-17.7	-59.5	41.8	0.9	40.9
Growth rates										
2005 Dec.	10.9	8.1	25.4	16.6	0.6	15.4	16.4	12.7	16.8	12.0
2006 Dec.	4.5	-16.5	18.4	9.6	53.5	15.8	17.3	11.5	5.3	12.6
2007 Sep.	10.7	-3.5	44.0	13.3	19.4	20.0	24.5	7.5	13.2	6.5
Dec.	9.4	-2.3	29.9	9.8	16.7	18.0	21.6	7.6	15.8	6.2
2008 Mar.	7.7	-3.7	18.1	13.3	16.5	17.8	19.8	11.4	5.5	12.5
June <sup>(p)</sup>	4.5	-12.2	29.0	10.5	20.8	11.8	12.0	11.1	1.8	12.8

**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.



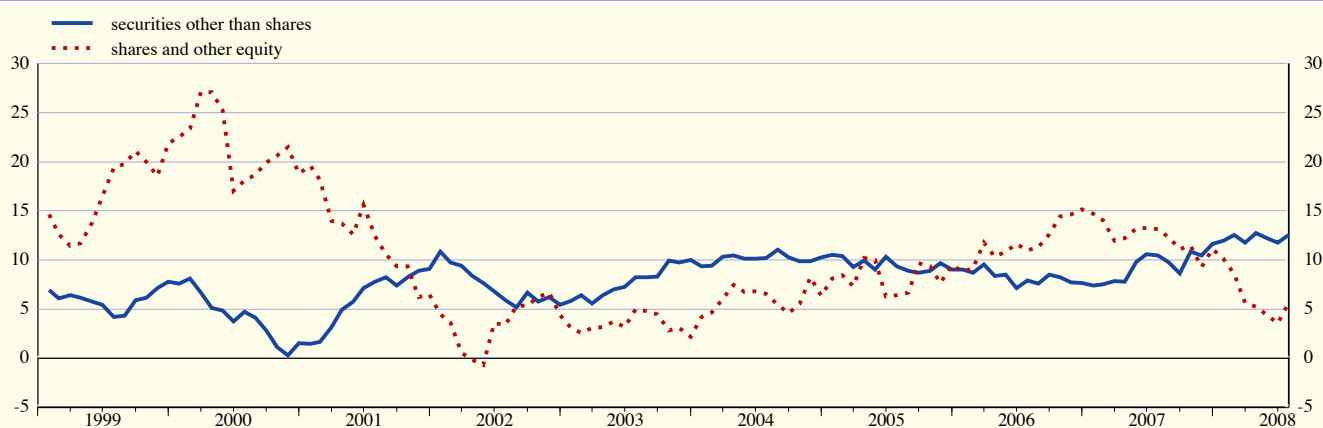
## 2.6 MFI holdings of securities, breakdown <sup>1), 2)</sup>

(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
<b>Outstanding amounts</b>												
2006	4,664.3	1,560.6	72.3	1,260.4	16.2	615.8	30.1	1,108.9	1,465.9	373.0	798.5	294.4
2007	5,113.7	1,652.9	84.0	1,177.5	16.6	916.5	33.4	1,232.8	1,639.9	424.8	871.8	343.3
2008 Q1	5,300.0	1,728.0	87.5	1,200.4	15.4	958.2	45.8	1,264.8	1,606.4	453.2	859.6	293.6
2008 Apr.	5,382.3	1,748.0	91.9	1,208.1	16.0	982.6	49.0	1,286.6	1,670.7	458.3	914.1	298.3
May	5,477.8	1,790.0	99.1	1,212.7	14.7	1,006.9	49.1	1,305.3	1,682.9	477.5	906.7	298.7
June	5,471.4	1,790.5	98.4	1,202.1	15.3	1,027.2	48.0	1,289.8	1,600.1	458.4	849.9	291.8
July <sup>(p)</sup>	5,562.8	1,833.2	103.1	1,205.8	15.1	1,052.3	48.5	1,304.8	1,620.0	460.9	868.1	291.0
<b>Transactions</b>												
2006	337.4	122.8	10.6	-122.7	0.5	100.6	6.5	219.0	193.3	58.6	96.2	38.5
2007	541.2	136.6	18.2	-86.7	1.5	267.3	9.5	194.7	163.5	51.8	59.7	52.0
2008 Q1	214.6	58.8	5.5	19.4	-0.6	41.0	14.8	75.8	-17.6	25.7	-8.0	-35.2
Q2	190.7	64.0	11.3	10.7	0.1	71.7	2.8	30.1	7.1	13.8	-3.4	-3.3
2008 Apr.	80.1	19.5	3.8	10.5	0.6	24.9	3.2	17.5	62.8	6.0	53.8	3.0
May	97.3	42.3	7.1	7.3	-1.3	23.9	0.0	17.9	14.1	21.0	-6.7	-0.2
June	13.3	2.2	0.4	-7.2	0.8	22.9	-0.4	-5.4	-69.7	-13.1	-50.5	-6.1
July <sup>(p)</sup>	85.9	43.1	4.2	2.2	-0.3	24.7	0.4	11.7	22.6	3.4	19.8	-0.6
<b>Growth rates</b>												
2006 Dec.	7.7	8.5	16.5	-8.9	3.0	19.3	25.7	24.2	15.2	18.6	13.6	15.2
2007 Dec.	11.7	8.8	25.6	-6.9	10.5	42.9	33.4	17.7	11.1	13.9	7.5	17.7
2008 Mar.	11.8	8.7	24.7	-5.5	12.2	40.7	52.7	16.3	5.6	15.0	4.3	-2.9
2008 Apr.	12.8	9.0	28.5	-2.8	16.2	40.0	59.4	16.1	5.2	13.8	4.0	-2.9
May	12.2	10.6	36.8	-4.8	4.3	38.6	59.6	14.0	4.4	12.7	4.2	-6.3
June	11.8	10.9	36.4	-4.7	11.0	35.7	61.3	12.4	3.6	17.0	2.6	-10.2
July <sup>(p)</sup>	12.6	12.7	26.1	-2.7	10.0	36.2	53.2	11.1	5.6	18.3	6.1	-10.8

## 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
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	-4.2	-1.2	-1.4	-1.6	-2.7	-0.2	-0.2	-2.3	-6.9	-0.8	-2.3	-3.7
2008 Q1	-1.1	-0.4	-0.3	-0.4	-1.2	0.0	-0.1	-1.2	-1.3	-0.4	-0.2	-0.8
2008 Q2	-0.9	-0.2	-0.4	-0.4	-0.4	0.0	0.0	-0.4	-2.0	-0.2	-0.9	-0.8
2008 Apr.	-0.3	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.9	-0.1	-0.6	-0.3
2008 May	-0.3	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.5	0.0	-0.3	-0.2
2008 June	-0.3	0.0	-0.1	-0.1	-0.3	0.0	0.0	-0.3	-0.6	-0.1	-0.1	-0.4
2008 July <sup>(p)</sup>	-0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	-0.2

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

	Non-financial corporations				Non-euro area residents		
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year
	1	2	3	4	5	6	7
2006	-13.2	-3.5	-4.6	-5.1	-0.8	-0.1	-0.7
2007	-12.5	-2.1	-5.4	-4.9	-5.2	-3.4	-1.8
2008 Q1	-3.0	-1.2	-0.8	-1.0	-2.4	-1.8	-0.6
2008 Q2	-5.4	-0.9	-3.4	-1.1	0.0	-0.1	0.0
2008 Apr.	-3.3	-0.5	-2.7	-0.2	0.0	0.0	0.1
2008 May	-0.8	-0.2	-0.4	-0.3	-0.1	-0.1	0.0
2008 June	-1.3	-0.3	-0.4	-0.6	0.0	0.0	0.0
2008 July <sup>(p)</sup>	-0.5	-0.2	-0.2	-0.2	-0.5	-0.4	-0.1

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

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
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	-11.8	-2.7	0.0	0.6	-0.2	-2.5	-0.5	-6.5	13.6	3.2	9.6	0.8
2008 Q1	-22.1	-4.7	-0.2	0.4	-0.2	-4.8	-0.6	-11.9	-22.3	-1.3	-13.1	-7.9
2008 Q2	-18.3	-1.4	-0.1	-8.7	-0.1	-2.5	-0.5	-5.0	-8.0	-2.9	-6.6	1.5
2008 Apr.	-4.7	0.9	0.0	-2.6	0.0	-0.4	-0.4	-2.0	2.5	0.4	0.4	1.7
2008 May	-3.5	-0.2	0.0	-2.8	0.0	0.4	0.0	-0.8	-1.9	-1.7	-0.7	0.6
2008 June	-10.1	-2.1	-0.1	-3.3	0.0	-2.4	-0.1	-2.2	-8.7	-1.6	-6.3	-0.8
2008 July <sup>(p)</sup>	1.1	-0.1	0.1	1.5	0.0	0.4	0.0	-0.8	-2.1	-0.3	-1.6	-0.2

Source: ECB.

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

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

3) Including non-profit institutions serving households.

## 2.8 Currency breakdown of selected MFI balance sheet items <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 Q3	5,700.7	91.2	8.8	5.3	0.4	1.3	1.0	8,554.3	96.1	3.9	2.4	0.3	0.1	0.6
Q4	6,089.4	92.1	7.9	4.8	0.4	1.1	1.0	8,993.0	96.4	3.6	2.2	0.4	0.1	0.5
2008 Q1	6,148.8	91.8	8.2	4.7	0.5	1.3	1.0	9,150.3	96.4	3.6	2.1	0.4	0.1	0.6
Q2 <sup>(p)</sup>	6,283.0	91.6	8.4	5.0	0.4	1.3	1.0	9,368.0	96.4	3.6	2.1	0.5	0.1	0.5
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 Q3	2,963.4	46.2	53.8	33.6	2.6	2.3	11.9	913.6	49.5	50.5	33.8	1.1	1.9	9.6
Q4	2,962.9	46.8	53.2	33.7	2.9	2.5	11.0	893.3	50.3	49.7	32.8	1.6	1.6	10.0
2008 Q1	3,100.1	48.0	52.0	33.1	2.9	2.7	10.3	939.7	52.7	47.3	31.8	1.5	1.5	8.8
Q2 <sup>(p)</sup>	3,038.6	46.6	53.4	33.7	3.1	2.7	10.6	981.2	51.4	48.6	32.2	1.2	1.8	9.3

### 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 Q3	4,862.4	80.8	19.2	9.7	1.7	1.8	3.6
Q4	4,948.0	81.4	18.6	9.3	1.7	1.9	3.4
2008 Q1	4,993.3	82.1	17.9	8.8	1.8	1.9	3.2
Q2 <sup>(p)</sup>	5,144.7	82.0	18.0	8.9	1.7	1.8	3.4

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	USD	JPY	CHF			GBP	Total	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	4,933.5	-	-	-	-	-	9,970.8	96.4	3.6	1.6	0.2	1.1	0.5	
2007 Q3	5,433.3	-	-	-	-	-	10,742.0	96.1	3.9	1.9	0.2	1.0	0.5	
Q4	5,789.0	-	-	-	-	-	11,115.9	96.2	3.8	1.8	0.2	0.9	0.6	
2008 Q1	5,837.3	-	-	-	-	-	11,414.3	96.1	3.9	1.8	0.2	1.0	0.5	
Q2 <sup>(p)</sup>	5,992.1	-	-	-	-	-	11,634.8	96.0	4.0	1.9	0.2	1.0	0.6	
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 Q3	2,354.1	48.8	51.2	28.3	2.1	2.5	948.7	39.2	60.8	43.3	1.1	3.9	8.2	
Q4	2,337.8	48.0	52.0	28.9	2.3	2.4	957.4	40.9	59.1	41.3	1.2	3.7	8.2	
2008 Q1	2,394.8	48.2	51.8	28.1	2.9	2.8	1,018.7	43.0	57.0	39.3	1.3	4.2	7.5	
Q2 <sup>(p)</sup>	2,296.8	46.3	53.7	28.9	2.7	3.0	1,013.5	43.2	56.8	38.6	1.2	3.9	8.4	

**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	USD	JPY	CHF			GBP	Total	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	1,632.9	95.6	4.4	2.3	0.2	0.3	1,922.5	97.6	2.4	1.3	0.3	0.1	0.7	
2007 Q3	1,727.6	95.2	4.8	2.4	0.3	0.2	2,020.7	97.5	2.5	1.4	0.3	0.1	0.7	
Q4	1,737.0	95.2	4.8	2.4	0.3	0.3	2,144.0	97.7	2.3	1.4	0.2	0.1	0.5	
2008 Q1	1,815.4	95.2	4.8	2.5	0.3	0.3	2,219.7	97.2	2.8	1.9	0.3	0.1	0.4	
Q2 <sup>(p)</sup>	1,888.9	94.8	5.2	2.6	0.3	0.3	2,292.6	97.2	2.8	1.9	0.3	0.1	0.4	
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	514.5	52.2	47.8	28.8	0.7	0.4	594.4	38.9	61.1	36.5	4.9	0.8	14.2	
2007 Q3	573.8	53.9	46.1	26.7	0.7	0.4	650.7	35.3	64.7	38.9	4.1	0.7	14.5	
Q4	580.5	53.8	46.2	27.4	0.7	0.4	652.3	35.8	64.2	39.4	4.5	0.8	12.6	
2008 Q1	635.8	50.8	49.2	30.3	0.8	0.5	629.0	38.1	61.9	36.8	5.8	0.8	11.4	
Q2 <sup>(p)</sup>	659.8	50.2	49.8	30.7	0.7	0.5	630.0	38.4	61.6	36.9	5.9	0.9	10.5	

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 Q4	5,552.3	320.9	2,005.6	170.7	1,834.9	2,024.9	670.9	185.8	344.3
2007 Q1	5,714.1	332.6	2,031.4	181.0	1,850.4	2,071.8	719.1	186.6	372.7
Q2	5,989.4	346.5	2,043.5	192.9	1,850.7	2,219.0	784.4	179.7	416.4
Q3	5,892.8	358.3	2,015.0	187.0	1,828.0	2,168.5	773.6	180.6	396.6
Q4	5,781.3	353.4	1,993.4	184.1	1,809.3	2,077.4	784.0	189.1	384.0
2008 Q1 <sup>(a)</sup>	5,150.8	367.0	1,855.5	164.5	1,690.9	1,664.1	716.2	197.1	350.8

### 2. Liabilities

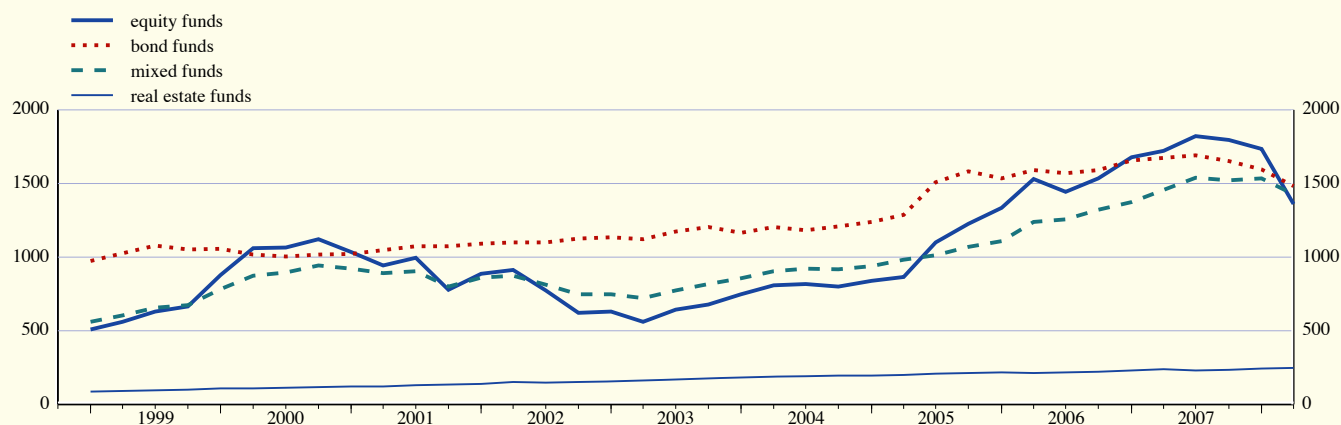
	Total 1	Deposits and loans taken 2	Investment fund shares 3	Other liabilities 4
2006 Q4	5,552.3	76.6	5,218.7	257.1
2007 Q1	5,714.1	80.9	5,350.8	282.5
Q2	5,989.4	84.3	5,587.7	317.4
Q3	5,892.8	78.5	5,496.8	317.5
Q4	5,781.3	76.8	5,411.5	293.0
2008 Q1 <sup>(a)</sup>	5,150.8	76.2	4,835.6	238.9

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

	Total 1	Funds by investment policy				Funds by type of investor		
		Equity funds 2	Bond funds 3	Mixed funds 4	Real estate funds 5	Other funds 6	General public funds 7	Special investors' funds 8
2006 Q4	5,552.3	1,681.6	1,656.3	1,376.5	231.8	606.2	4,252.7	1,299.6
2007 Q1	5,714.1	1,724.1	1,674.1	1,459.8	238.5	617.7	4,373.2	1,341.0
Q2	5,989.4	1,825.7	1,692.2	1,539.7	230.8	701.0	4,577.1	1,412.4
Q3	5,892.8	1,797.1	1,654.6	1,523.2	236.1	681.7	4,468.3	1,424.5
Q4	5,781.3	1,735.5	1,596.8	1,535.4	244.2	669.4	4,344.6	1,436.7
2008 Q1 <sup>(a)</sup>	5,150.8	1,361.3	1,483.5	1,427.7	249.6	628.7	3,779.1	1,371.6

### CI4 Total assets of investment funds

(EUR billions)



Source: ECB.

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

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

(EUR billions; outstanding amounts at end of period)

## 1. Funds by investment policy

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
Equity funds									
2006 Q4	1,681.6	56.2	66.0	22.7	43.3	1,429.9	74.5	-	54.9
2007 Q1	1,724.1	59.4	65.8	25.7	40.0	1,461.7	78.6	-	58.6
Q2	1,825.7	61.1	67.9	27.4	40.5	1,546.6	84.2	-	65.9
Q3	1,797.1	72.0	68.7	26.7	41.9	1,505.5	82.4	-	68.5
Q4	1,735.5	58.1	71.8	26.5	45.2	1,464.2	79.5	-	61.9
2008 Q1 <sup>(p)</sup>	1,361.3	51.0	63.0	21.3	41.7	1,129.9	65.7	-	51.6
Bond funds									
2006 Q4	1,656.3	108.3	1,342.9	91.1	1,251.8	45.4	49.8	-	109.9
2007 Q1	1,674.1	112.3	1,355.7	95.1	1,260.6	44.5	52.5	-	109.0
Q2	1,692.2	114.9	1,345.5	99.5	1,246.0	62.8	55.8	-	113.2
Q3	1,654.6	109.9	1,318.4	97.0	1,221.5	62.6	53.3	-	110.4
Q4	1,596.8	116.1	1,273.1	92.7	1,180.4	58.0	49.8	-	99.8
2008 Q1 <sup>(p)</sup>	1,483.5	124.8	1,167.8	80.2	1,087.6	56.8	45.4	-	88.6
Mixed funds									
2006 Q4	1,376.5	71.0	519.8	43.5	476.3	364.3	292.9	0.4	128.2
2007 Q1	1,459.8	73.8	530.9	45.5	485.4	380.9	322.3	0.3	151.5
Q2	1,539.7	84.0	529.5	50.2	479.3	399.0	346.5	0.9	179.8
Q3	1,523.2	86.2	522.6	46.3	476.3	405.4	345.1	0.5	163.3
Q4	1,535.4	89.7	547.0	47.3	499.7	393.1	343.6	0.7	161.4
2008 Q1 <sup>(p)</sup>	1,427.7	97.8	527.8	46.5	481.3	338.8	313.9	1.2	148.1
Real estate funds									
2006 Q4	231.8	17.6	6.1	1.7	4.4	4.3	7.0	184.9	11.9
2007 Q1	238.5	18.9	6.7	1.9	4.8	4.6	9.6	186.1	12.6
Q2	230.8	18.8	6.6	1.9	4.7	4.3	10.0	178.1	12.9
Q3	236.1	20.7	6.4	1.6	4.8	3.9	13.1	179.2	12.8
Q4	244.2	19.7	6.0	1.5	4.5	3.4	12.5	187.9	14.7
2008 Q1 <sup>(p)</sup>	249.6	19.9	5.3	1.1	4.2	3.1	11.3	195.4	14.6

## 2. Funds by type of investor

	Total 1	Deposits 2	Holdings of securities other than shares 3	Holdings of shares/ other equity 4	Holdings of investment fund shares 5	Fixed assets 6	Other assets 7
2006 Q4	4,252.7	265.6	1,402.2	1,653.0	498.4	153.1	280.6
2007 Q1	4,373.2	274.4	1,420.5	1,696.3	529.1	153.3	299.5
Q2	4,577.1	281.1	1,431.2	1,819.5	576.6	145.0	323.7
Q3	4,468.3	287.9	1,375.7	1,791.2	564.1	142.9	306.4
Q4	4,344.6	279.9	1,336.9	1,717.4	569.6	149.1	291.8
2008 Q1 <sup>(p)</sup>	3,779.1	279.1	1,218.4	1,360.8	513.6	154.1	253.2
Special investors' funds							
2006 Q4	1,299.6	55.3	603.4	371.9	172.6	32.7	63.7
2007 Q1	1,341.0	58.2	610.9	375.5	189.9	33.3	73.2
Q2	1,412.4	65.4	612.4	399.5	207.8	34.7	92.7
Q3	1,424.5	70.4	639.3	377.3	209.5	37.7	90.2
Q4	1,436.7	73.4	656.6	360.0	214.5	40.0	92.2
2008 Q1 <sup>(p)</sup>	1,371.6	87.9	637.1	303.3	202.6	43.0	97.6

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
<b>2008 Q1</b>						
<b>External account</b>						
Exports of goods and services						500.7
<i>Trade balance</i> <sup>1)</sup>						-4.4
<b>Generation of income account</b>						
Gross value added (basic prices)						
Taxes less subsidies on products						
Gross domestic product (market prices)						
Compensation of employees	1,038.7	105.0	659.7	55.0	219.0	
Other taxes less subsidies on production	23.4	3.2	12.9	3.7	3.6	
Consumption of fixed capital	328.1	89.9	184.3	11.1	42.8	
<i>Net operating surplus and mixed income</i> <sup>1)</sup>	604.7	297.4	281.4	27.1	-1.2	
<b>Allocation of primary income account</b>						
Net operating surplus and mixed income						4.5
Compensation of employees						
Taxes less subsidies on production						
Property income	800.5	52.8	280.4	401.4	65.9	144.1
Interest	514.2	50.7	86.0	311.7	65.8	85.7
Other property income	286.2	2.1	194.4	89.6	0.1	58.3
<i>Net national income</i> <sup>1)</sup>	1,914.9	1,547.7	107.3	41.2	218.6	
<b>Secondary distribution of income account</b>						
Net national income						
Current taxes on income, wealth, etc.	235.9	200.8	26.8	8.1	0.3	1.3
Social contributions	393.7	393.7				0.7
Social benefits other than social transfers in kind	395.6	1.4	16.0	26.5	351.7	0.7
Other current transfers	192.9	70.1	25.6	47.0	50.2	9.7
Net non-life insurance premiums	44.8	32.6	10.5	1.0	0.7	1.4
Non-life insurance claims	45.0			45.0		0.7
Other	103.0	37.4	15.0	1.1	49.5	7.6
<i>Net disposable income</i> <sup>1)</sup>	1,884.1	1,364.7	69.0	44.8	405.6	
<b>Use of income account</b>						
Net disposable income						
Final consumption expenditure	1,718.8	1,282.5			436.4	
Individual consumption expenditure	1,549.2	1,282.5			266.7	
Collective consumption expenditure	169.6				169.6	
Adjustment for the change in net equity of households in pension fund reserves	14.7	0.0	1.9	12.8	0.0	0.1
<i>Net saving/current external account</i> <sup>1)</sup>	165.3	97.0	67.1	31.9	-30.7	22.9
<b>Capital account</b>						
Net saving / current external account						
Gross capital formation	516.3	162.4	296.4	12.0	45.5	
Gross fixed capital formation	483.0	160.0	265.9	12.0	45.0	
Changes in inventories and acquisitions less disposals of valuables	33.3	2.4	30.4	0.0	0.4	
Consumption of fixed capital						
Acquisitions less disposals of non-produced non-financial assets	0.0	-0.5	0.5	0.1	-0.1	0.0
Capital transfers	35.4	7.4	1.6	1.3	25.2	9.1
Capital taxes	5.5	5.3	0.2	0.0		0.0
Other capital transfers	29.9	2.1	1.3	1.3	25.2	9.1
<i>Net lending (+)/net borrowing (-) (from capital account)</i> <sup>1)</sup>	-16.7	33.1	-31.0	30.5	-49.3	16.7
Statistical discrepancy	0.0	8.3	-8.3	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
2008 Q1						
<b>External account</b>						
Imports of goods and services						496.3
<i>Trade balance</i>						
<b>Generation of income account</b>						
Gross value added (basic prices)	1,995.0	495.6	1,138.3	96.9	264.2	
Taxes less subsidies on products	244.5					
Gross domestic product (market prices) <sup>2)</sup>	2,239.5					
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	604.7	297.4	281.4	27.1	-1.2	
Compensation of employees	1,041.2	1,041.2				2.1
Taxes less subsidies on production	267.2				267.2	0.7
Property income	802.2	261.9	106.4	415.5	18.5	142.4
Interest	499.0	78.2	46.7	367.1	7.1	100.9
Other property income	303.2	183.7	59.6	48.4	11.4	41.4
<i>Net national income</i>						
<b>Secondary distribution of income account</b>						
Net national income	1,914.9	1,547.7	107.3	41.2	218.6	
Current taxes on income, wealth, etc.	236.7				236.7	0.5
Social contributions	393.3	1.0	18.0	39.1	335.1	1.1
Social benefits other than social transfers in kind	393.2	393.2				3.2
Other current transfers	164.2	88.8	12.0	46.1	17.4	38.4
Net non-life insurance premiums	45.0			45.0		1.2
Non-life insurance claims	44.2	35.1	8.2	0.7	0.3	1.5
Other	74.9	53.7	3.8	0.4	17.1	35.7
<i>Net disposable income</i>						
<b>Use of income account</b>						
Net disposable income	1,884.1	1,364.7	69.0	44.8	405.6	
Final consumption expenditure						
Individual consumption expenditure						
Collective consumption expenditure						
Adjustment for the change in net equity of households in pension fund reserves	14.8	14.8				0.0
<i>Net saving/current external account</i>						
<b>Capital account</b>						
Net saving / current external account	165.3	97.0	67.1	31.9	-30.7	22.9
Gross capital formation						
Gross fixed capital formation						
Changes in inventories and acquisitions less disposals of valuables						
Consumption of fixed capital	328.1	89.9	184.3	11.1	42.8	
Acquisitions less disposals of non-produced non-financial assets						
Capital transfers	41.5	15.5	16.1	0.9	9.1	2.9
Capital taxes	5.5				5.5	0.0
Other capital transfers	36.0	15.5	16.1	0.9	3.6	2.9
<i>Net lending (+)/net borrowing (-) (from capital account)</i>						
Statistical discrepancy						

Sources: ECB and Eurostat.

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

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

(EUR billions)

Assets	Euro area	Households	Non-financial corporations	MFIs	Other financial inter- mediaries	Insurance corporations and pension funds	General govern- ment	Rest of the world
2008 Q1								
<b>Opening balance sheet, financial assets</b>								
Total financial assets		17,664.5	14,877.4	22,398.3	10,217.1	6,229.4	2,911.7	15,161.4
Monetary gold and special drawing rights (SDRs)				205.6				
Currency and deposits		5,695.7	1,767.4	2,478.4	1,533.3	799.4	534.2	4,008.9
Short-term debt securities		48.9	130.7	117.8	297.4	260.7	40.2	771.1
Long-term debt securities		1,300.7	211.9	3,671.0	1,919.4	1,960.6	225.7	2,458.4
Loans		40.3	2,113.1	12,173.6	1,490.0	337.8	379.4	1,677.8
<i>of which long-term</i>		23.9	1,201.2	9,239.0	1,166.0	295.0	329.5	.
Shares and other equity		5,064.4	7,774.3	1,897.5	4,779.0	2,397.2	1,175.3	5,429.8
Quoted shares		1,137.1	1,939.6	725.1	2,509.0	846.2	441.7	.
Unquoted shares and other equity		2,320.2	5,474.7	909.5	1,562.4	467.3	585.0	.
Mutual fund shares		1,607.0	360.0	262.8	707.6	1,083.6	148.6	.
Insurance technical reserves		5,212.4	134.2	2.0	0.0	148.0	3.3	230.9
Other accounts receivable and financial derivatives		302.2	2,745.7	1,852.5	198.0	325.7	553.6	584.6
<i>Net financial worth</i>								
<b>Financial account, transactions in financial assets</b>								
Total transactions in financial assets		114.8	144.6	759.1	-10.0	107.6	15.1	489.3
Monetary gold and special drawing rights (SDRs)				-0.9				0.9
Currency and deposits		53.5	-29.3	119.7	74.8	29.0	31.3	286.3
Short-term debt securities		12.5	23.8	12.3	52.4	4.4	-11.9	6.4
Long-term debt securities		32.1	-34.3	157.1	-100.3	25.6	-4.1	67.8
Loans		-0.3	18.2	354.4	24.3	24.6	-13.1	33.9
<i>of which long-term</i>		-0.4	18.3	159.7	14.9	2.3	-0.3	.
Shares and other equity		-61.9	127.5	-22.9	-69.5	23.1	6.9	81.2
Quoted shares		-22.8	51.2	-16.8	-76.5	8.3	-0.1	.
Unquoted shares and other equity		-4.3	74.5	7.0	13.7	2.9	0.1	.
Mutual fund shares		-34.8	1.9	-13.0	-6.8	11.9	6.9	.
Insurance technical reserves		57.2	3.0	0.0	0.0	-1.4	0.0	5.7
Other accounts receivable and financial derivatives		21.8	35.6	139.5	8.3	2.3	6.0	7.2
<i>Changes in net financial worth due to transactions</i>								
<b>Other changes account, financial assets</b>								
Total other changes in financial assets		-551.1	-712.3	-399.7	-494.8	-143.8	-98.6	-615.3
Monetary gold and special drawing rights (SDRs)				8.0				
Currency and deposits		1.6	-2.2	-89.7	-23.4	1.4	-5.2	-116.3
Short-term debt securities		-3.6	-12.0	0.3	-8.9	3.1	0.0	-12.4
Long-term debt securities		-1.4	24.8	-67.3	-20.2	3.6	1.2	-16.8
Loans		0.6	-4.1	-73.0	19.9	-5.1	0.2	-9.3
<i>of which long-term</i>		0.4	-1.6	-43.6	22.3	0.9	0.1	.
Shares and other equity		-506.4	-737.0	-74.3	-455.2	-147.7	-89.1	-431.1
Quoted shares		-191.7	-224.1	-71.4	-323.1	-75.6	-81.0	.
Unquoted shares and other equity		-228.9	-498.2	1.4	-77.2	-30.4	2.8	.
Mutual fund shares		-85.8	-14.8	-4.4	-54.9	-41.8	-10.8	.
Insurance technical reserves		-44.8	0.0	0.0	0.0	-0.1	0.0	0.3
Other accounts receivable and financial derivatives		3.0	18.2	-103.7	-7.1	1.1	-5.7	-29.9
<i>Other changes in net financial worth</i>								
<b>Closing balance sheet, financial assets</b>								
Total financial assets		17,228.2	14,309.7	22,757.7	9,712.3	6,193.2	2,828.3	15,034.5
Monetary gold and special drawing rights (SDRs)				212.8				
Currency and deposits		5,750.8	1,735.9	2,508.4	1,584.7	829.8	560.4	4,178.9
Short-term debt securities		57.8	142.5	130.3	340.9	268.1	28.2	765.1
Long-term debt securities		1,331.4	202.4	3,760.8	1,799.0	1,989.8	222.9	2,509.4
Loans		40.5	2,127.3	12,454.9	1,534.3	357.3	366.5	1,702.4
<i>of which long-term</i>		23.9	1,217.9	9,355.1	1,203.2	298.2	329.3	.
Shares and other equity		4,496.0	7,164.8	1,800.2	4,254.3	2,272.5	1,093.1	5,079.9
Quoted shares		922.6	1,766.7	636.9	2,109.5	779.0	360.6	.
Unquoted shares and other equity		2,087.0	5,051.0	918.0	1,498.9	439.9	587.9	.
Mutual fund shares		1,486.5	347.1	245.4	645.9	1,053.7	144.7	.
Insurance technical reserves		5,224.8	137.2	2.0	0.0	146.5	3.3	236.9
Other accounts receivable and financial derivatives		326.9	2,799.5	1,888.3	199.1	329.2	553.8	561.9
<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	MFI's	Other financial intermediaries	Insurance corporations and pension funds	General government	Rest of the world
<b>2008 Q1</b>								
<b>Opening balance sheet, liabilities</b>								
Total liabilities		5,919.1	24,006.2	22,379.7	10,119.9	6,431.2	6,798.0	13,600.0
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			24.9	13,780.5	88.7	4.5	253.0	2,665.6
Short-term debt securities			277.4	448.9	87.4	0.6	611.3	241.1
Long-term debt securities			451.8	2,729.3	1,624.2	26.8	4,344.7	2,571.1
Loans		5,345.7	7,175.1		1,570.2	166.1	1,180.3	2,774.6
<i>of which long-term</i>		5,028.5	4,930.2		782.9	65.8	1,039.9	.
Shares and other equity			13,261.9	3,141.4	6,564.7	666.4	3.6	4,879.4
Quoted shares			4,972.8	1,009.5	263.6	277.3	0.0	.
Unquoted shares and other equity			8,289.1	1,097.1	975.9	388.4	3.6	.
Mutual fund shares				1,034.9	5,325.2			.
Insurance technical reserves		33.1	334.8	53.7	0.6	5,308.2	0.5	
Other accounts payable and financial derivatives		540.3	2,480.3	2,226.0	184.1	258.6	404.5	468.3
<i>Net financial worth<sup>1)</sup></i>	-1,355.8	11,745.4	-9,128.8	18.6	97.1	-201.9	-3,886.3	
<b>Financial account, transactions in liabilities</b>								
Total transactions in liabilities		73.5	183.8	735.6	-4.9	95.5	64.4	472.7
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	443.9	1.9	-0.1	-15.3	134.9
Short-term debt securities			12.3	-19.5	-1.7	0.0	47.5	61.5
Long-term debt securities			-0.2	28.8	34.8	-0.1	47.3	33.4
Loans		38.8	136.0		73.7	12.6	5.9	175.0
<i>of which long-term</i>		41.4	87.3		14.6	0.2	-17.1	.
Shares and other equity			41.3	96.8	-99.5	3.3	0.0	42.4
Quoted shares			-1.8	6.6	-1.3	0.1	0.0	.
Unquoted shares and other equity			43.2	-2.8	-9.2	3.2	0.0	.
Mutual fund shares				93.0	-89.0			.
Insurance technical reserves		0.0	2.1	0.5	0.0	61.9	0.0	
Other accounts payable and financial derivatives		34.7	-7.7	185.2	-14.1	18.0	-21.0	25.6
<i>Changes in net financial worth due to transactions<sup>1)</sup></i>	-16.7	41.4	-39.3	23.5	-5.1	12.1	-49.3	16.7
<b>Other changes account, liabilities</b>								
Total other changes in liabilities		8.1	-1,332.5	-525.3	-513.5	-102.9	32.5	-590.0
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.1	-175.2	-3.5	0.0	0.0	-55.0
Short-term debt securities			-0.6	-18.6	10.1	0.0	-0.5	-24.0
Long-term debt securities			-1.2	-31.2	-15.8	-0.8	50.8	-77.9
Loans		0.6	15.7		-22.3	0.0	0.0	-64.8
<i>of which long-term</i>		1.7	19.5		-14.7	0.3	0.0	.
Shares and other equity			-1,363.4	-208.4	-477.6	-58.4	-0.6	-332.5
Quoted shares			-772.7	-159.2	-33.6	-33.2	0.0	.
Unquoted shares and other equity			-590.7	-77.9	-21.2	-25.2	-0.6	.
Mutual fund shares				28.7	-422.8			.
Insurance technical reserves		0.0	0.6	0.4	0.0	-45.6	0.0	
Other accounts payable and financial derivatives		7.4	16.3	-92.4	-4.4	1.9	-17.2	-35.8
<i>Other changes in net financial worth<sup>1)</sup></i>	33.4	-559.1	620.3	125.6	18.7	-40.9	-131.1	-25.4
<b>Closing balance sheet, liabilities</b>								
Total liabilities		6,000.6	22,857.5	22,590.0	9,601.6	6,423.9	6,894.9	13,482.7
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			25.0	14,049.2	87.1	4.4	237.7	2,745.5
Short-term debt securities			289.1	410.7	95.9	0.6	658.2	278.5
Long-term debt securities			450.4	2,727.0	1,643.2	25.9	4,442.8	2,526.6
Loans		5,385.1	7,326.7		1,621.6	178.7	1,186.3	2,884.8
<i>of which long-term</i>		5,071.5	5,037.0		782.7	66.3	1,022.9	.
Shares and other equity			11,939.9	3,029.8	5,987.6	611.3	3.0	4,589.3
Quoted shares			4,198.3	856.9	228.6	244.2	0.0	.
Unquoted shares and other equity			7,741.5	1,016.3	945.6	366.4	3.0	.
Mutual fund shares				1,156.6	4,813.4			.
Insurance technical reserves		33.1	337.4	54.6	0.6	5,324.5	0.5	
Other accounts payable and financial derivatives		582.4	2,489.0	2,318.8	165.5	278.5	366.4	458.0
<i>Net financial worth<sup>1)</sup></i>	-1,339.1	11,227.6	-8,547.9	167.7	110.7	-230.6	-4,066.6	

Source: ECB.

### 3.2 Euro area non-financial accounts

(EUR billions; four-quarter cumulated flows)

Uses	2004	2005	2006	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2	2006 Q4- 2007 Q3	2007 Q1- 2007 Q4	2007 Q2- 2008 Q1
<b>Generation of income account</b>								
Gross value added (basic prices)								
Taxes less subsidies on products								
Gross domestic product (market prices)								
Compensation of employees	3,779.8	3,889.7	4,046.4	4,089.8	4,132.2	4,172.5	4,222.4	4,267.7
Other taxes less subsidies on production	121.4	129.5	128.8	131.2	133.4	134.1	135.5	135.2
Consumption of fixed capital	1,121.3	1,174.4	1,228.2	1,242.0	1,255.4	1,268.3	1,281.9	1,294.1
<i>Net operating surplus and mixed income</i> <sup>1)</sup>	1,996.7	2,068.8	2,172.1	2,207.1	2,243.1	2,284.5	2,311.2	2,332.1
<b>Allocation of primary income account</b>								
Net operating surplus and mixed income								
Compensation of employees								
Taxes less subsidies on production								
Property income	2,343.5	2,565.1	2,958.2	3,058.1	3,186.4	3,274.8	3,364.5	3,432.6
Interest	1,246.1	1,336.9	1,618.5	1,699.7	1,781.6	1,857.9	1,937.7	1,999.1
Other property income	1,097.4	1,228.1	1,339.7	1,358.4	1,404.9	1,416.9	1,426.8	1,433.5
<i>Net national income</i> <sup>1)</sup>	6,693.0	6,939.9	7,269.4	7,364.4	7,451.9	7,545.2	7,634.4	7,702.1
<b>Secondary distribution of income account</b>								
Net national income								
Current taxes on income, wealth, etc.	883.7	933.5	1,024.5	1,037.7	1,060.2	1,084.9	1,108.3	1,122.2
Social contributions	1,429.6	1,472.1	1,536.6	1,549.5	1,563.2	1,575.2	1,590.8	1,606.9
Social benefits other than social transfers in kind	1,455.9	1,499.3	1,548.4	1,556.6	1,565.4	1,575.3	1,591.4	1,602.7
Other current transfers	685.2	707.7	714.1	718.8	725.6	729.2	737.0	744.8
Net non-life insurance premiums	175.8	175.8	175.5	176.7	178.1	178.8	179.8	180.0
Non-life insurance claims	176.4	176.9	175.6	177.1	178.4	178.9	179.7	179.8
Other	333.0	355.0	363.0	365.0	369.1	371.5	377.5	385.0
<i>Net disposable income</i> <sup>1)</sup>	6,614.8	6,851.5	7,177.8	7,273.4	7,361.9	7,455.0	7,542.6	7,605.1
<b>Use of income account</b>								
Net disposable income								
Final consumption expenditure	6,091.0	6,329.2	6,588.9	6,645.6	6,700.6	6,759.8	6,825.9	6,893.2
Individual consumption expenditure	5,440.7	5,661.1	5,906.1	5,957.3	6,008.1	6,061.1	6,120.6	6,181.9
Collective consumption expenditure	650.3	668.2	682.8	688.3	692.5	698.7	705.3	711.3
Adjustment for the change in net equity of households in pension funds reserves	57.3	60.1	62.1	62.1	60.2	60.5	60.9	61.9
<i>Net saving</i> <sup>1)</sup>	524.0	522.5	589.3	628.2	661.6	695.5	717.0	712.1
<b>Capital account</b>								
Net saving								
Gross capital formation	1,611.4	1,707.9	1,849.7	1,891.9	1,923.1	1,952.9	1,986.0	2,006.8
Gross fixed capital formation	1,602.1	1,696.5	1,826.2	1,871.2	1,904.5	1,932.8	1,960.7	1,978.8
Changes in inventories and acquisitions less disposals of valuables	9.3	11.4	23.4	20.6	18.6	20.0	25.3	28.0
Consumption of fixed capital								
Acquisitions less disposals of non-produced non-financial assets	-1.2	-0.1	0.5	0.1	0.0	-0.2	-0.3	-0.2
Capital transfers	172.9	180.6	174.3	173.2	170.7	169.6	160.3	159.6
Capital taxes	29.9	24.4	22.3	22.9	23.4	24.1	24.0	23.7
Other capital transfers	143.0	156.2	152.0	150.2	147.3	145.5	136.3	136.0
<i>Net lending (+)/net borrowing (-) (from capital account)</i> <sup>1)</sup>	51.8	2.8	-17.4	-3.8	11.2	27.6	29.9	17.0

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	2004	2005	2006	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2	2006 Q4- 2007 Q3	2007 Q1- 2007 Q4	2007 Q2- 2008 Q1
<b>Generation of income account</b>								
Gross value added (basic prices)	7,019.3	7,262.4	7,575.5	7,670.1	7,764.2	7,859.3	7,951.0	8,029.2
Taxes less subsidies on products	799.8	842.5	910.1	926.4	937.0	947.1	953.7	955.9
Gross domestic product (market prices) <sup>2)</sup>	7,819.1	8,104.9	8,485.6	8,596.5	8,701.2	8,806.4	8,904.7	8,985.1
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	1,996.7	2,068.8	2,172.1	2,207.1	2,243.1	2,284.5	2,311.2	2,332.1
Compensation of employees	3,786.8	3,895.3	4,052.4	4,095.8	4,138.3	4,178.6	4,228.7	4,274.4
Taxes less subsidies on production	934.9	983.7	1,050.2	1,067.2	1,079.9	1,090.0	1,098.0	1,098.9
Property income	2,318.0	2,557.2	2,952.9	3,052.4	3,176.9	3,266.9	3,361.0	3,429.4
Interest	1,215.0	1,309.4	1,587.3	1,667.5	1,751.3	1,825.6	1,903.2	1,957.9
Other property income	1,102.9	1,247.8	1,365.6	1,384.9	1,425.6	1,441.3	1,457.9	1,471.5
<i>Net national income</i>								
<b>Secondary distribution of income account</b>								
Net national income	6,693.0	6,939.9	7,269.4	7,364.4	7,451.9	7,545.2	7,634.4	7,702.1
Current taxes on income, wealth, etc.	886.8	937.1	1,029.2	1,042.8	1,067.0	1,092.3	1,115.6	1,129.2
Social contributions	1,428.8	1,471.5	1,536.0	1,549.0	1,562.5	1,574.5	1,590.2	1,606.1
Social benefits other than social transfers in kind	1,448.4	1,491.7	1,540.5	1,548.4	1,557.0	1,566.6	1,582.7	1,593.7
Other current transfers	612.4	623.9	626.4	631.5	637.9	641.2	647.2	650.7
Net non-life insurance premiums	176.4	176.9	175.6	177.1	178.4	178.9	179.7	179.8
Non-life insurance claims	173.6	174.5	173.0	174.3	175.9	176.6	177.5	177.6
Other	262.3	272.5	277.7	280.1	283.6	285.7	290.1	293.3
<i>Net disposable income</i>								
<b>Use of income account</b>								
Net disposable income	6,614.8	6,851.5	7,177.8	7,273.4	7,361.9	7,455.0	7,542.6	7,605.1
Final consumption expenditure								
Individual consumption expenditure								
Collective consumption expenditure								
Adjustment for the change in net equity of households in pension funds reserves	57.5	60.4	62.4	62.4	60.5	60.7	61.2	62.1
<i>Net saving</i>								
<b>Capital account</b>								
Net saving	524.0	522.5	589.3	628.2	661.6	695.5	717.0	712.1
Gross capital formation								
Gross fixed capital formation								
Changes in inventories and acquisitions less disposals of valuables								
Consumption of fixed capital	1,121.3	1,174.4	1,228.2	1,242.0	1,255.4	1,268.3	1,281.9	1,294.1
Acquisitions less disposals of non-produced non-financial assets								
Capital transfers	189.5	194.3	189.6	191.0	187.9	185.9	177.1	176.9
Capital taxes	29.9	24.4	22.3	22.9	23.4	24.1	24.0	23.7
Other capital transfers	159.6	169.9	167.3	168.1	164.5	161.9	153.1	153.3
<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)

	2004	2005	2006	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2	2006 Q4- 2007 Q3	2007 Q1- 2007 Q4	2007 Q2- 2008 Q1
<b>Income, saving and changes in net worth</b>								
Compensation of employees (+)	3,786.8	3,895.3	4,052.4	4,095.8	4,138.3	4,178.6	4,228.7	4,274.4
Gross operating surplus and mixed income (+)	1,285.1	1,334.4	1,408.7	1,431.2	1,454.6	1,477.1	1,494.6	1,513.8
Interest receivable (+)	230.7	228.3	263.7	272.8	281.3	289.9	300.2	307.5
Interest payable (-)	125.3	129.8	162.3	172.1	182.4	190.6	199.2	204.0
Other property income receivable (+)	651.5	697.9	740.5	745.8	758.3	761.6	766.4	767.2
Other property income payable (-)	9.2	9.5	9.7	9.7	9.8	9.7	9.8	9.7
Current taxes on income and wealth (-)	706.5	739.2	791.8	800.1	813.9	830.7	850.4	863.1
Net social contributions (-)	1,425.9	1,468.1	1,532.5	1,545.3	1,559.0	1,570.9	1,586.6	1,602.6
Net social benefits (+)	1,443.5	1,486.5	1,535.0	1,542.9	1,551.4	1,560.9	1,577.0	1,588.1
Net current transfers receivable (+)	65.1	67.6	65.3	67.3	67.9	68.2	69.3	69.2
<b>= Gross disposable income</b>	5,195.7	5,363.3	5,569.2	5,628.6	5,686.8	5,734.4	5,790.1	5,840.7
Final consumption expenditure (-)	4,496.8	4,670.2	4,864.9	4,904.7	4,946.7	4,989.1	5,036.4	5,089.2
Changes in net worth in pension funds (+)	57.1	60.0	62.0	62.0	60.3	60.6	61.2	62.2
<b>= Gross saving</b>	756.0	753.1	766.3	785.9	800.4	805.9	814.9	813.8
Consumption of fixed capital (-)	304.1	319.5	336.5	340.6	344.5	347.5	350.6	353.9
Net capital transfers receivable (+)	18.5	24.4	26.2	25.4	22.7	19.9	14.3	12.7
Other changes in net worth <sup>1)</sup> (+)	301.6	542.9	508.7	420.1	643.6	259.2	-38.2	-776.6
<b>= Changes in net worth <sup>1)</sup></b>	771.9	1,000.9	964.7	890.8	1,122.2	737.4	440.4	-304.1
<b>Investment, financing and changes in net worth</b>								
Net acquisition of non-financial assets (+)	525.7	559.3	614.6	630.5	641.5	648.1	652.7	654.4
Consumption of fixed capital (-)	304.1	319.5	336.5	340.6	344.5	347.5	350.6	353.9
Main items of financial investment (+)								
Short-term assets	214.8	207.4	306.3	347.8	379.8	394.5	420.3	447.0
Currency and deposits	213.0	247.9	283.8	293.2	316.9	328.3	348.0	381.9
Money market fund shares	-6.4	-20.2	0.7	25.7	44.7	44.4	43.5	41.3
Debt securities <sup>2)</sup>	8.2	-20.3	21.8	28.9	18.2	21.9	28.8	23.7
Long-term assets	343.6	432.8	328.7	281.8	237.8	194.5	178.8	107.9
Deposits	29.8	-8.4	5.1	-10.9	-22.7	-31.5	-34.6	-31.6
Debt securities	64.0	7.8	71.6	54.9	41.9	14.2	32.7	49.9
Shares and other equity	-2.6	139.4	-39.0	-44.3	-63.2	-59.1	-75.0	-143.6
Quoted, unquoted shares and other equity	-10.5	67.3	-8.8	16.8	9.3	22.3	9.4	-26.9
Mutual fund shares	7.9	72.2	-30.2	-61.1	-72.5	-81.4	-84.4	-116.7
Life insurance and pension fund reserves	252.5	294.0	291.0	282.1	281.8	270.8	255.8	233.2
Main items of financing (-)								
Loans	309.1	393.1	391.2	384.8	366.0	361.9	343.8	303.8
of which from euro area MFIs	280.8	372.8	348.3	340.1	317.4	303.2	283.1	249.7
Other changes in financial assets (+)								
Shares and other equity	255.9	478.0	475.2	383.2	599.7	232.9	-56.9	-723.9
Life insurance and pension fund reserves	49.2	102.9	56.8	39.2	65.9	32.1	14.8	-32.4
Remaining net flows (+)	-4.2	-66.9	-89.3	-66.3	-92.0	-55.3	-74.9	-99.5
<b>= Changes in net worth <sup>1)</sup></b>	771.9	1,000.9	964.7	890.8	1,122.2	737.4	440.4	-304.1
<b>Financial balance sheet</b>								
Financial assets (+)								
Short-term assets	4,275.6	4,493.6	4,754.1	4,831.2	4,970.9	5,017.6	5,206.7	5,363.6
Currency and deposits	3,926.0	4,176.7	4,456.5	4,497.3	4,613.3	4,653.9	4,844.7	4,935.1
Money market fund shares	313.9	300.5	261.7	281.0	305.0	304.3	303.7	359.3
Debt securities <sup>2)</sup>	35.6	16.4	35.8	52.9	52.6	59.4	58.2	69.1
Long-term assets	9,775.0	10,800.9	11,690.6	11,903.1	12,016.4	11,842.3	11,771.6	11,148.2
Deposits	865.9	910.7	918.4	893.1	882.9	880.3	851.0	815.7
Debt securities	1,251.0	1,224.4	1,283.0	1,293.8	1,258.9	1,263.3	1,291.3	1,320.0
Shares and other equity	3,804.6	4,415.3	4,891.0	5,041.1	5,110.4	4,886.8	4,760.7	4,136.7
Quoted, unquoted shares and other equity	2,644.4	3,105.4	3,520.7	3,673.7	3,733.5	3,547.9	3,457.3	3,009.6
Mutual fund shares	1,160.3	1,309.9	1,370.3	1,367.4	1,377.0	1,338.9	1,303.3	1,127.1
Life insurance and pension fund reserves	3,853.5	4,250.4	4,598.1	4,675.0	4,764.2	4,811.9	4,868.7	4,875.8
Remaining net assets (+)	249.1	187.0	142.0	153.1	158.1	155.8	112.8	100.9
Liabilities (-)								
Loans	4,245.8	4,651.9	5,037.4	5,100.4	5,190.8	5,265.5	5,345.7	5,385.1
of which from euro area MFIs	3,812.5	4,210.4	4,559.5	4,629.0	4,708.9	4,769.8	4,827.8	4,861.6
<b>= Net financial wealth</b>	10,053.9	10,829.6	11,549.3	11,787.0	11,954.6	11,750.2	11,745.4	11,227.6

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) Securities issued by MFIs with a maturity of less than two years and by other sectors with a maturity of less than one year.

## 3.4 Non-financial corporations

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

	2004	2005	2006	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2	2006 Q4- 2007 Q3	2007 Q1- 2007 Q4	2007 Q2- 2008 Q1
<b>Income and saving</b>								
Gross value added (basic prices) (+)	3,996.0	4,136.2	4,318.5	4,377.4	4,436.7	4,494.3	4,546.8	4,589.4
Compensation of employees (-)	2,386.2	2,456.3	2,558.6	2,587.0	2,617.9	2,646.2	2,678.6	2,710.1
Other taxes less subsidies on production (-)	64.5	72.4	74.8	77.3	79.5	80.4	80.7	80.8
<b>= Gross operating surplus (+)</b>	<b>1,545.3</b>	<b>1,607.6</b>	<b>1,685.1</b>	<b>1,713.0</b>	<b>1,739.3</b>	<b>1,767.7</b>	<b>1,787.5</b>	<b>1,798.4</b>
Consumption of fixed capital (-)	632.3	661.9	689.6	697.1	704.4	712.0	720.1	727.3
<b>= Net operating surplus (+)</b>	<b>913.0</b>	<b>945.7</b>	<b>995.5</b>	<b>1,015.9</b>	<b>1,034.9</b>	<b>1,055.7</b>	<b>1,067.4</b>	<b>1,071.1</b>
Property income receivable (+)	363.8	430.4	482.4	491.3	513.3	522.4	534.6	546.5
Interest receivable	122.7	134.2	158.4	164.4	170.7	176.2	181.2	185.1
Other property income receivable	241.1	296.2	324.0	326.9	342.6	346.2	353.4	361.4
Interest and rents payable (-)	227.6	235.4	281.1	295.5	309.3	320.7	333.0	342.2
<b>= Net entrepreneurial income (+)</b>	<b>1,049.2</b>	<b>1,140.7</b>	<b>1,196.8</b>	<b>1,211.7</b>	<b>1,238.9</b>	<b>1,257.4</b>	<b>1,269.0</b>	<b>1,275.5</b>
Distributed income (-)	753.2	843.5	913.8	918.4	938.8	943.4	945.2	952.6
Taxes on income and wealth payable (-)	136.1	148.8	183.5	187.4	194.1	201.5	205.3	206.3
Social contributions receivable (+)	73.6	72.6	77.3	77.0	73.8	72.1	71.3	70.5
Social benefits payable (-)	60.5	60.5	62.7	63.0	62.9	63.2	63.3	63.6
Other net transfers (-)	63.3	63.9	63.3	63.1	60.9	59.5	60.1	59.8
<b>= Net saving</b>	<b>109.7</b>	<b>96.6</b>	<b>50.8</b>	<b>56.8</b>	<b>55.9</b>	<b>61.9</b>	<b>66.4</b>	<b>63.7</b>
<b>Investment, financing and saving</b>								
Net acquisition of non-financial assets (+)	215.9	246.6	290.6	304.4	315.3	326.6	344.1	352.2
Gross fixed capital formation (+)	842.8	896.9	959.7	984.7	1,005.5	1,023.3	1,043.0	1,054.3
Consumption of fixed capital (-)	632.3	661.9	689.6	697.1	704.4	712.0	720.1	727.3
Net acquisition of other non-financial assets (+)	5.3	11.6	20.6	16.7	14.2	15.3	21.2	25.2
Main items of financial investment (+)								
Short-term assets	103.1	127.1	153.8	186.1	202.9	176.4	174.3	161.6
Currency and deposits	88.9	112.9	144.5	163.1	163.4	157.6	148.3	116.2
Money market fund shares	16.5	8.6	3.7	19.7	23.5	-9.2	-18.8	-10.8
Debt securities <sup>1)</sup>	-2.3	5.6	5.6	3.4	16.0	28.0	44.9	56.1
Long-term assets	210.6	382.9	383.1	388.7	417.8	450.0	442.5	424.0
Deposits	3.1	35.5	23.2	28.0	38.8	24.0	21.2	-5.7
Debt securities	-52.9	-32.1	-22.1	-29.2	-44.0	-46.1	-70.7	-85.7
Shares and other equity	179.7	239.0	201.5	195.1	210.4	242.7	290.0	347.3
Other, mainly intercompany loans	80.6	140.6	180.5	194.8	212.5	229.4	202.2	168.0
Remaining net assets (+)	75.7	89.4	207.3	176.2	162.8	207.6	205.2	185.4
Main items of financing (-)								
Debt	230.2	422.6	688.7	677.0	709.9	764.1	792.0	787.6
<i>of which loans from euro area MFIs</i>	172.4	278.0	449.8	444.8	484.2	522.4	559.5	591.3
<i>of which debt securities</i>	7.1	11.5	39.2	38.7	54.1	37.9	48.4	51.6
Shares and other equity	201.4	266.7	225.5	248.1	257.3	258.3	235.3	197.4
Quoted shares	11.7	100.6	39.6	58.9	77.0	82.7	45.0	23.7
Unquoted shares and other equity	189.7	166.1	185.9	189.2	180.3	175.6	190.3	173.7
Net capital transfers receivable (-)	64.1	60.1	69.9	73.4	73.4	74.0	73.3	75.4
<b>= Net saving</b>	<b>109.7</b>	<b>96.6</b>	<b>50.8</b>	<b>56.8</b>	<b>55.9</b>	<b>61.9</b>	<b>66.4</b>	<b>63.7</b>
<b>Financial balance sheet</b>								
Financial assets								
Short-term assets	1,376.1	1,508.2	1,651.1	1,689.5	1,741.6	1,756.8	1,823.8	1,839.5
Currency and deposits	1,102.6	1,220.7	1,356.8	1,364.7	1,405.0	1,429.0	1,499.7	1,478.9
Money market fund shares	163.7	176.3	185.9	204.2	205.2	185.8	162.3	183.7
Debt securities <sup>1)</sup>	109.8	111.3	108.4	120.7	131.4	142.0	161.8	177.0
Long-term assets	7,219.6	8,214.4	9,430.4	9,791.3	10,165.3	10,087.0	10,173.7	9,533.4
Deposits	141.0	191.1	216.5	268.1	277.5	268.2	267.7	257.0
Debt securities	330.7	282.9	260.2	237.6	228.4	197.1	180.9	168.0
Shares and other equity	5,209.7	6,061.2	7,078.4	7,325.4	7,641.7	7,557.5	7,612.0	6,981.2
Other, mainly intercompany loans	1,538.1	1,679.1	1,875.3	1,960.1	2,017.6	2,064.2	2,113.1	2,127.3
Remaining net assets	209.7	256.6	353.4	423.0	405.3	413.7	424.5	472.7
Liabilities								
Debt	6,340.0	6,809.0	7,472.3	7,634.4	7,890.6	8,047.1	8,239.0	8,403.7
<i>of which loans from euro area MFIs</i>	3,160.8	3,433.0	3,872.5	3,971.7	4,122.6	4,247.9	4,407.7	4,545.8
<i>of which debt securities</i>	650.5	669.3	690.2	695.8	731.9	719.5	729.2	739.5
Shares and other equity	9,249.0	10,586.4	12,273.8	12,728.8	13,359.1	13,191.7	13,261.9	11,939.9
Quoted shares	2,988.6	3,682.9	4,454.4	4,689.0	5,065.4	4,982.9	4,972.8	4,198.3
Unquoted shares and other equity	6,260.4	6,903.5	7,819.4	8,039.8	8,293.8	8,208.8	8,289.1	7,741.5

Sources: ECB and Eurostat.

1) Securities issued by MFIs with a maturity of less than two years and by other sectors with a maturity of less than one year.



### 3.5 Insurance corporations and pension funds

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

	2004	2005	2006	2006 Q2- 2007 Q1	2006 Q3- 2007 Q2	2006 Q4- 2007 Q3	2007 Q1- 2007 Q4	2007 Q2- 2008 Q1
<b>Financial account, financial transactions</b>								
<b>Main items of financial investment (+)</b>								
Short-term assets	39.8	26.1	51.5	69.8	56.6	49.6	41.8	61.4
Currency and deposits	13.2	7.2	12.4	18.0	2.4	8.9	7.8	32.5
Money market fund shares	2.7	0.4	3.7	7.1	3.6	0.3	0.0	9.8
Debt securities <sup>1)</sup>	23.8	18.5	35.4	44.7	50.6	40.4	34.1	19.1
Long-term assets	220.6	285.5	321.4	289.0	282.8	264.1	240.5	231.0
Deposits	37.5	17.4	66.0	71.7	68.5	67.1	53.5	30.9
Debt securities	131.6	131.0	121.4	141.4	154.8	156.8	137.4	113.1
Loans	6.3	-2.5	-1.0	-18.1	-16.6	-22.5	-16.9	17.5
Quoted shares	12.8	32.2	22.0	15.7	7.0	5.7	6.7	16.8
Unquoted shares and other equity	2.0	21.2	29.0	18.3	18.3	21.6	20.9	30.5
Mutual fund shares	30.5	86.2	83.9	60.0	50.7	35.2	38.8	22.3
Remaining net assets (+)	9.0	15.1	21.4	28.2	27.5	33.1	1.2	-29.1
<b>Main items of financing (-)</b>								
Debt securities	-1.7	-0.4	5.2	5.0	3.9	3.3	1.4	1.2
Loans	4.7	19.2	31.1	18.0	23.3	20.7	8.0	12.6
Shares and other equity	13.6	9.4	8.1	10.8	12.4	10.5	11.7	11.5
Insurance technical reserves	262.6	336.5	337.6	334.8	338.6	323.7	302.6	273.2
Net equity of households in life insurance and pension fund reserves	231.0	293.6	288.2	279.8	282.9	277.6	266.1	243.7
Prepayments of insurance premiums and reserves for outstanding claims	31.6	42.9	49.4	55.0	55.7	46.1	36.5	29.4
<b>= Changes in net financial worth due to transactions</b>	-9.8	-38.0	12.3	18.3	-11.3	-11.4	-40.3	-35.3
<b>Other changes account</b>								
<b>Other changes in financial assets (+)</b>								
Shares and other equity	110.0	179.7	164.4	119.1	238.0	129.6	14.0	-166.2
Other net assets	141.8	72.0	-40.0	-50.3	-71.0	-107.9	-51.7	-15.8
<b>Other changes in liabilities (-)</b>								
Shares and other equity	21.2	122.0	45.9	32.9	96.7	14.8	-22.5	-93.0
Insurance technical reserves	84.3	135.7	57.4	44.2	71.6	35.6	27.5	-24.5
Net equity of households in life insurance and pension fund reserves	64.4	144.1	58.2	42.8	69.3	35.1	13.4	-36.8
Prepayments of insurance premiums and reserves for outstanding claims	19.9	-8.4	-0.8	1.4	2.2	0.5	14.1	12.3
<b>= Other changes in net financial worth</b>	146.3	-6.1	21.1	-8.3	-1.3	-28.6	-42.7	-64.6
<b>Financial balance sheet</b>								
<b>Financial assets (+)</b>								
Short-term assets	401.8	432.6	485.1	508.5	514.6	519.1	523.0	569.1
Currency and deposits	133.6	142.7	154.6	155.9	144.4	154.0	163.2	190.9
Money market fund shares	72.2	74.3	80.4	82.8	84.3	81.0	78.2	87.2
Debt securities <sup>1)</sup>	195.9	215.6	250.1	269.9	285.9	284.1	281.6	291.0
Long-term assets	4,106.9	4,604.8	5,030.2	5,115.3	5,211.9	5,236.3	5,232.7	5,148.4
Deposits	499.6	520.3	586.8	612.1	626.4	638.4	636.2	639.0
Debt securities	1,622.0	1,778.7	1,846.3	1,881.6	1,889.4	1,929.5	1,939.7	1,966.9
Loans	363.6	366.5	360.8	344.9	346.6	342.9	337.8	357.3
Quoted shares	595.4	727.8	831.3	850.5	877.0	864.2	846.2	779.0
Unquoted shares and other equity	334.9	375.9	443.3	443.7	461.8	454.3	467.3	439.9
Mutual fund shares	691.4	835.7	961.8	982.4	1,010.9	1,007.0	1,005.4	966.5
Remaining net assets (+)	128.2	170.7	208.6	208.4	206.0	204.1	210.6	192.8
<b>Liabilities (-)</b>								
Debt securities	22.3	21.3	26.7	27.3	26.6	26.4	27.4	26.5
Loans	120.2	132.9	160.7	167.0	177.8	183.3	166.1	178.7
Shares and other equity	491.7	623.1	677.2	692.9	720.1	685.9	666.4	611.3
Insurance technical reserves	4,110.9	4,583.1	4,978.1	5,075.9	5,175.5	5,234.4	5,308.2	5,324.5
Net equity of households in life insurance and pension fund reserves	3,478.5	3,916.1	4,262.5	4,342.0	4,434.0	4,487.3	4,542.0	4,548.9
Prepayments of insurance premiums and reserves for outstanding claims	632.5	667.0	715.7	733.8	741.5	747.1	766.2	775.6
<b>= Net financial wealth</b>	-108.2	-152.3	-118.9	-130.8	-167.5	-170.6	-201.9	-230.6

Source: ECB.

1) Securities issued by MFIs with a maturity of less than two years and by other sectors with a maturity of less than one year.

## FINANCIAL MARKETS

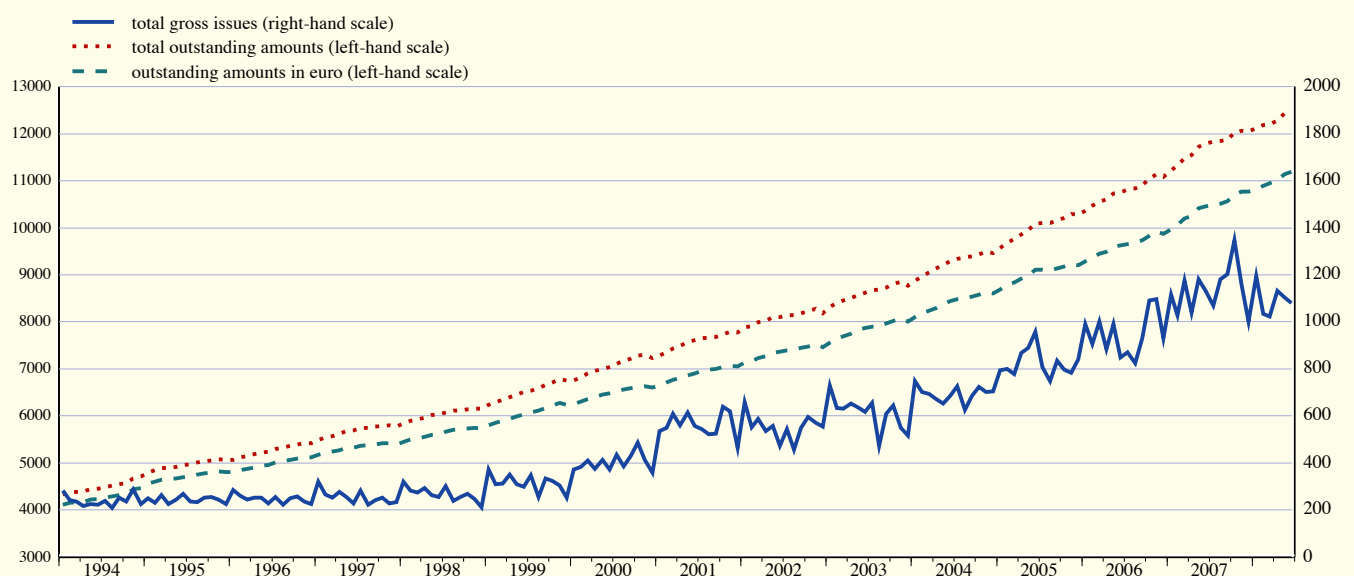
### 4.1 Securities, other than shares, by original maturity, residency of the issuer and currency

(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>	
1	2	3	4	5	6	7	8	9	10	Net issues 11	6-month growth rates 12	
<b>Total</b>												
2007 June	12,536.2	1,222.2	131.3	10,460.6	1,071.4	46.4	11,786.0	1,131.1	60.3	9.2	59.3	9.8
July	12,538.7	1,076.6	1.4	10,488.1	1,004.7	26.6	11,828.2	1,068.7	44.4	9.1	64.9	9.5
Aug.	12,566.7	1,184.1	28.2	10,514.0	1,131.9	26.1	11,848.8	1,181.8	26.1	9.1	76.6	9.0
Sep.	12,657.0	1,243.6	88.6	10,569.3	1,154.0	53.6	11,876.1	1,201.8	43.9	9.0	64.1	8.0
Oct.	12,766.9	1,350.4	108.7	10,700.1	1,278.9	129.8	12,022.8	1,348.0	147.3	9.1	115.4	9.0
Nov.	12,856.2	1,176.4	87.4	10,771.6	1,108.1	69.6	12,068.0	1,160.3	64.4	8.6	52.4	7.6
Dec.	12,881.9	1,039.6	28.7	10,768.4	958.1	-0.2	12,048.9	1,001.1	-17.6	9.0	97.9	8.2
2008 Jan.	12,916.0	1,199.6	38.0	10,823.1	1,130.0	58.8	12,117.3	1,195.5	68.2	8.5	27.8	7.5
Feb.	12,998.4	1,024.7	82.6	10,895.6	966.2	72.7	12,178.2	1,034.1	75.8	8.0	45.1	6.9
Mar.	13,104.2	1,070.6	105.7	10,942.7	966.4	46.9	12,195.4	1,021.6	44.5	7.0	20.0	6.1
Apr.	13,155.1	1,158.9	51.1	11,008.9	1,067.2	66.4	12,274.4	1,132.0	78.3	7.1	59.2	5.1
May	13,329.0	1,120.3	173.9	11,143.5	1,030.5	134.5	12,432.4	1,104.2	149.2	6.7	93.5	5.8
June	13,438.6	1,122.7	107.9	11,191.7	1,007.4	46.6	12,476.5	1,080.2	52.4	6.6	60.1	5.1
<b>Long-term</b>												
2007 June	11,370.4	261.1	99.8	9,473.5	193.2	65.1	10,614.7	219.9	78.6	8.9	52.1	8.8
July	11,395.4	199.0	24.6	9,483.4	162.9	9.6	10,636.6	188.9	23.7	8.8	47.0	8.3
Aug.	11,389.4	103.2	-6.6	9,476.4	87.3	-7.6	10,634.7	104.5	-2.7	8.5	48.8	7.5
Sep.	11,412.4	157.5	21.7	9,491.5	132.2	13.8	10,623.1	146.6	12.6	7.9	20.8	6.1
Oct.	11,489.7	236.9	78.4	9,555.8	200.7	65.6	10,685.8	225.1	72.6	7.7	69.9	6.6
Nov.	11,570.7	175.4	79.4	9,616.5	141.8	59.0	10,728.4	156.7	55.9	7.1	38.7	5.4
Dec.	11,627.1	197.9	57.1	9,664.1	164.0	48.2	10,763.0	175.2	36.9	7.3	72.8	5.7
2008 Jan.	11,626.4	194.4	2.6	9,657.3	166.1	-3.5	10,760.2	189.7	1.6	6.7	16.0	5.1
Feb.	11,673.5	181.7	47.0	9,706.5	162.4	49.2	10,802.5	186.5	51.3	6.1	28.9	4.7
Mar.	11,709.1	178.6	35.8	9,731.9	144.0	25.5	10,800.7	158.9	22.1	5.3	12.5	4.5
Apr.	11,796.3	258.1	87.4	9,795.4	206.9	63.7	10,874.1	224.6	68.9	5.5	64.6	4.4
May	11,945.4	286.0	149.3	9,904.9	230.3	109.6	10,991.4	251.8	116.3	5.1	62.7	4.9
June	12,035.3	254.8	90.1	9,967.7	201.4	63.1	11,052.9	224.3	70.3	5.0	43.5	4.3

### C15 Total outstanding amounts and gross issues of securities, other than shares, issued by euro area residents

(EUR billions)



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

- 1) Total euro-denominated securities, other than shares, issued by euro area residents and non-euro area residents.
- 2) For the calculation of the growth rates, see the Technical notes. The 6-month growth rates have been annualised.

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

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

### 1. Outstanding amounts and gross issues

	Outstanding amounts						Gross issues					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
<b>Total</b>												
2006	11,088	4,573	1,166	625	4,419	304	11,365	8,396	429	1,114	1,342	85
2007	12,049	5,054	1,475	674	4,531	315	13,630	10,088	552	1,457	1,453	79
2007 Q3	11,876	4,960	1,345	664	4,597	310	3,452	2,604	91	393	346	18
Q4	12,049	5,054	1,475	674	4,531	315	3,509	2,663	196	328	302	21
2008 Q1	12,195	5,095	1,493	678	4,616	313	3,251	2,358	72	316	478	27
Q2	12,476	5,231	1,571	692	4,666	316	3,316	2,354	124	357	459	21
2008 Mar.	12,195	5,095	1,493	678	4,616	313	1,022	727	31	107	149	7
Apr.	12,274	5,126	1,519	681	4,636	313	1,132	782	43	121	181	6
May	12,432	5,227	1,544	695	4,650	316	1,104	800	39	120	135	9
June	12,476	5,231	1,571	692	4,666	316	1,080	772	42	117	143	6
<b>Short-term</b>												
2006	1,014	575	16	89	330	4	9,196	7,392	63	1,023	688	31
2007	1,286	787	19	117	357	6	11,349	9,052	65	1,361	832	38
2007 Q3	1,253	715	10	112	410	6	3,012	2,406	11	377	207	11
Q4	1,286	787	19	117	357	6	2,953	2,427	22	302	192	9
2008 Q1	1,395	817	32	128	411	6	2,716	2,100	22	305	278	12
Q2	1,424	835	33	129	418	8	2,616	1,997	11	326	268	13
2008 Mar.	1,395	817	32	128	411	6	863	659	3	103	95	3
Apr.	1,400	817	32	128	417	7	907	680	3	113	107	4
May	1,441	856	32	130	414	8	852	667	3	103	74	6
June	1,424	835	33	129	418	8	856	651	4	110	88	4
<b>Long-term<sup>1)</sup></b>												
2006	10,074	3,998	1,150	536	4,089	301	2,169	1,004	366	91	654	54
2007	10,763	4,267	1,456	558	4,174	309	2,281	1,036	486	96	621	42
2007 Q3	10,623	4,245	1,334	552	4,188	304	440	199	79	16	138	8
Q4	10,763	4,267	1,456	558	4,174	309	557	236	174	26	110	11
2008 Q1	10,801	4,278	1,462	550	4,205	306	535	258	50	11	200	16
Q2	11,053	4,396	1,538	563	4,247	308	701	357	114	32	191	8
2008 Mar.	10,801	4,278	1,462	550	4,205	306	159	69	28	4	54	4
Apr.	10,874	4,309	1,488	553	4,219	306	225	102	39	8	74	2
May	10,991	4,370	1,512	564	4,236	308	252	134	36	17	62	4
June	11,053	4,396	1,538	563	4,247	308	224	121	38	7	55	2
<b>Of which long-term fixed rate</b>												
2006	7,058	2,136	545	410	3,731	237	1,294	475	144	57	578	39
2007	7,323	2,274	589	422	3,788	250	1,285	532	117	61	540	36
2007 Q3	7,314	2,254	591	416	3,806	246	263	100	25	8	123	7
Q4	7,323	2,274	589	422	3,788	250	278	128	23	19	99	8
2008 Q1	7,301	2,271	583	413	3,789	246	330	130	13	8	168	10
Q2	7,461	2,353	598	427	3,836	248	428	195	30	28	168	6
2008 Mar.	7,301	2,271	583	413	3,789	246	87	30	6	3	44	3
Apr.	7,345	2,290	588	416	3,805	245	143	58	10	7	67	1
May	7,418	2,321	591	427	3,832	247	143	63	8	15	54	3
June	7,461	2,353	598	427	3,836	248	142	75	12	6	48	2
<b>Of which long-term variable rate</b>												
2006	2,595	1,512	595	113	312	64	720	408	217	31	49	15
2007	2,984	1,615	848	124	338	58	823	373	360	33	51	6
2007 Q3	2,855	1,610	727	125	336	57	139	72	52	7	8	1
Q4	2,984	1,615	848	124	338	58	241	75	148	7	8	3
2008 Q1	3,027	1,627	857	126	357	60	158	96	33	3	20	5
Q2	3,135	1,674	916	126	359	60	236	138	79	3	13	2
2008 Mar.	3,027	1,627	857	126	357	60	58	29	21	1	7	1
Apr.	3,056	1,642	878	126	350	60	70	37	28	1	3	1
May	3,109	1,671	897	127	355	60	95	62	26	1	5	1
June	3,135	1,674	916	126	359	60	70	39	25	2	5	0

Source: ECB.

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

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

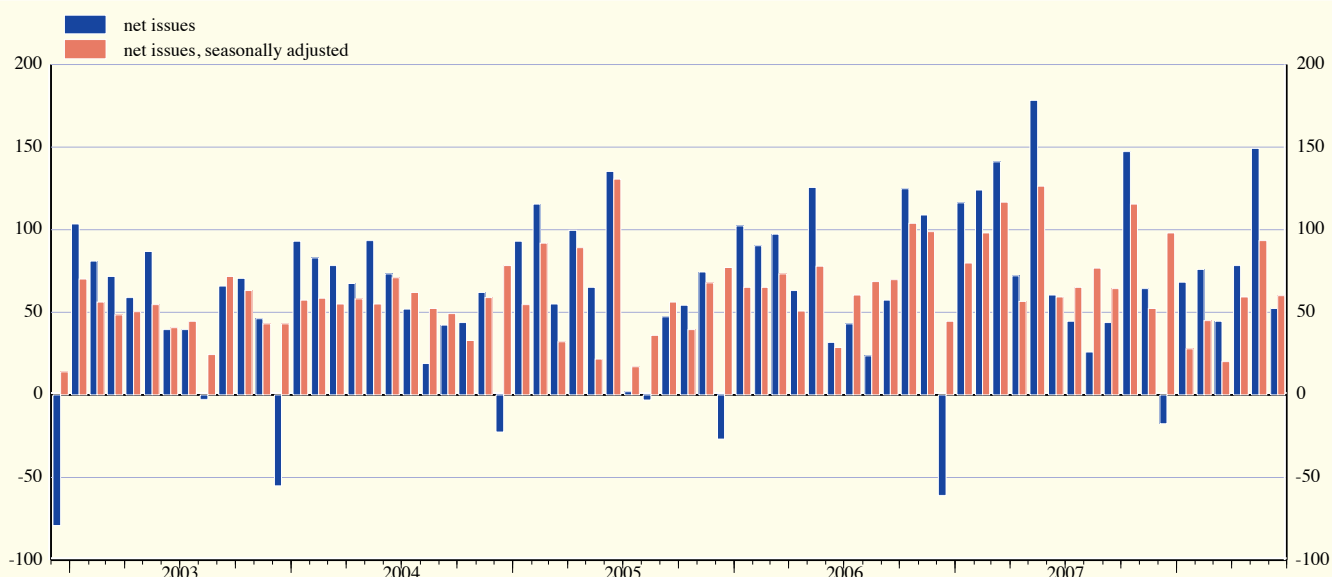
(EUR billions unless otherwise indicated; transactions during the period; nominal values)

### 2. Net issues

	Non-seasonally adjusted						Seasonally adjusted					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			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	807.1	422.3	243.2	29.4	90.0	22.3	807.0	426.0	238.7	29.5	90.6	22.2
2007	1,000.6	484.9	329.7	54.7	120.4	10.9	1,008.0	491.6	324.0	56.9	124.6	11.0
2007 Q3	114.4	95.2	36.1	-7.7	-11.5	2.2	205.7	119.2	67.0	1.4	12.4	5.7
Q4	194.1	95.7	143.9	12.7	-63.0	4.9	265.7	127.5	95.5	18.7	21.4	2.6
2008 Q1	188.4	69.0	25.0	7.5	88.9	-1.9	92.9	11.4	53.4	4.3	26.2	-2.3
Q2	279.8	134.7	78.1	14.4	49.4	3.2	212.8	140.4	66.1	1.8	2.0	2.5
2008 Mar.	44.5	6.0	14.6	-3.5	28.0	-0.6	20.0	-3.2	18.1	-3.6	8.8	-0.1
Apr.	78.3	32.3	25.0	2.4	18.9	-0.4	59.2	18.3	27.2	-1.5	15.1	0.0
May	149.2	92.8	24.4	13.8	14.3	3.8	93.5	76.8	19.7	6.0	-12.8	3.8
June	52.4	9.5	28.7	-1.8	16.2	-0.2	60.1	45.2	19.2	-2.7	-0.3	-1.3
	Long-term											
2006	755.9	347.4	236.9	27.0	121.4	23.2	754.5	349.3	232.6	26.8	122.7	23.1
2007	739.3	285.4	326.5	27.4	92.0	8.0	735.0	287.1	320.9	27.3	91.8	7.8
2007 Q3	33.6	14.1	37.7	-4.4	-14.2	0.4	116.6	35.0	68.2	0.0	9.8	3.7
Q4	165.5	28.6	135.0	8.0	-11.0	4.9	181.3	52.8	87.3	6.6	32.2	2.3
2008 Q1	75.0	34.4	12.4	-4.1	34.2	-2.0	57.4	7.1	40.5	3.3	8.7	-2.3
Q2	255.4	121.2	76.8	13.3	42.1	1.9	170.7	102.1	65.0	2.7	-0.6	1.5
2008 Mar.	22.1	4.1	14.2	-4.8	8.5	0.1	12.5	-5.2	17.5	-3.1	3.2	0.1
Apr.	68.9	28.6	25.1	2.8	13.0	-0.7	64.6	23.9	27.9	2.4	10.4	0.0
May	116.3	61.1	24.0	11.3	17.4	2.4	62.7	42.9	18.5	6.2	-7.6	2.6
June	70.3	31.5	27.6	-0.8	11.8	0.2	43.5	35.3	18.6	-5.9	-3.4	-1.1

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

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



Source: ECB.

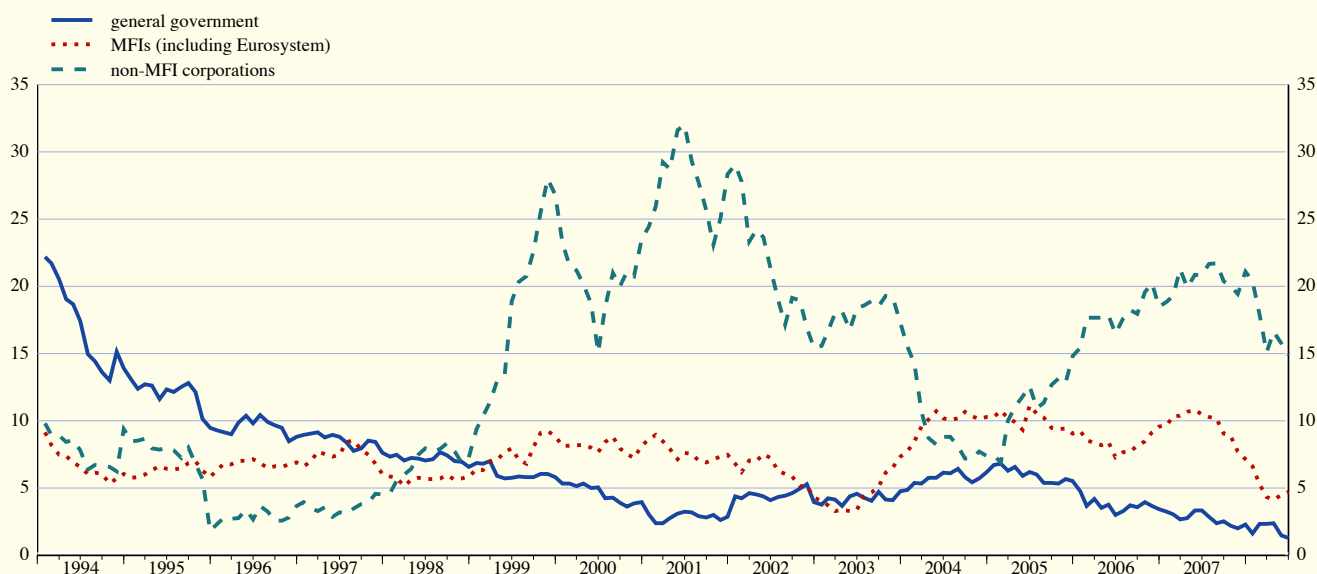
### 4.3 Growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup>

(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											
2007 June	9.2	10.8	27.9	8.2	3.8	3.2	9.8	10.9	30.2	12.0	4.1	1.7
July	9.1	10.8	28.4	10.0	3.3	2.5	9.5	10.0	30.0	15.4	3.6	1.3
Aug.	9.1	11.0	28.5	9.5	3.1	2.5	9.0	9.7	26.4	11.5	3.8	3.1
Sep.	9.0	10.9	27.0	8.0	3.2	4.2	8.0	9.7	18.6	8.5	3.5	3.2
Oct.	9.1	11.0	26.8	8.8	3.0	5.4	9.0	10.4	25.9	8.9	3.4	4.5
Nov.	8.6	10.4	25.6	8.9	2.7	4.2	7.6	9.3	22.8	9.0	1.6	5.2
Dec.	9.0	10.6	28.4	8.8	2.7	3.6	8.2	10.4	26.6	6.1	1.5	5.5
2008 Jan.	8.5	10.0	27.0	10.6	2.2	3.1	7.5	9.8	24.1	6.2	0.9	4.8
Feb.	8.0	8.7	24.4	9.9	2.9	2.8	6.9	7.5	22.3	8.2	2.1	2.4
Mar.	7.0	7.7	20.9	7.8	2.8	1.7	6.1	5.7	23.1	7.0	2.1	0.2
Apr.	7.1	7.2	23.1	6.6	2.9	1.1	5.1	4.1	20.3	4.1	2.4	-2.3
May	6.7	7.8	21.7	6.5	1.6	2.9	5.8	6.3	20.4	4.0	1.6	0.7
June	6.6	8.1	21.8	4.0	1.4	2.8	5.1	6.1	17.2	1.8	1.2	0.1
	Long-term											
2007 June	8.9	10.5	28.5	6.2	3.3	3.4	8.8	10.1	31.4	7.9	2.4	1.2
July	8.8	10.3	29.1	7.0	2.9	2.7	8.3	9.1	31.3	7.6	2.1	1.2
Aug.	8.5	10.1	29.3	6.6	2.4	2.7	7.5	7.6	27.5	6.8	2.3	2.9
Sep.	7.9	9.0	27.8	5.6	2.4	3.5	6.1	5.8	19.6	4.8	2.9	1.7
Oct.	7.7	8.8	27.0	5.5	2.0	4.6	6.6	5.6	25.6	4.7	2.7	2.8
Nov.	7.1	7.7	25.8	6.0	1.9	3.1	5.4	4.6	22.0	5.7	1.4	3.2
Dec.	7.3	7.1	28.5	5.1	2.3	2.7	5.7	4.2	25.7	2.4	2.0	4.0
2008 Jan.	6.7	6.6	27.1	5.8	1.6	2.2	5.1	4.1	23.1	4.1	1.0	3.1
Feb.	6.1	5.3	23.3	5.7	2.3	1.9	4.7	2.9	19.3	4.6	2.3	0.9
Mar.	5.3	4.3	19.8	4.2	2.4	0.9	4.5	2.8	19.9	3.6	2.0	0.0
Apr.	5.5	4.1	22.0	4.3	2.5	0.4	4.4	2.7	18.5	3.8	2.3	-2.0
May	5.1	4.5	20.3	5.1	1.4	1.8	4.9	4.3	18.4	4.5	1.4	0.4
June	5.0	4.7	20.3	2.3	1.2	1.7	4.3	5.2	15.4	2.2	0.4	-0.5

### 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.

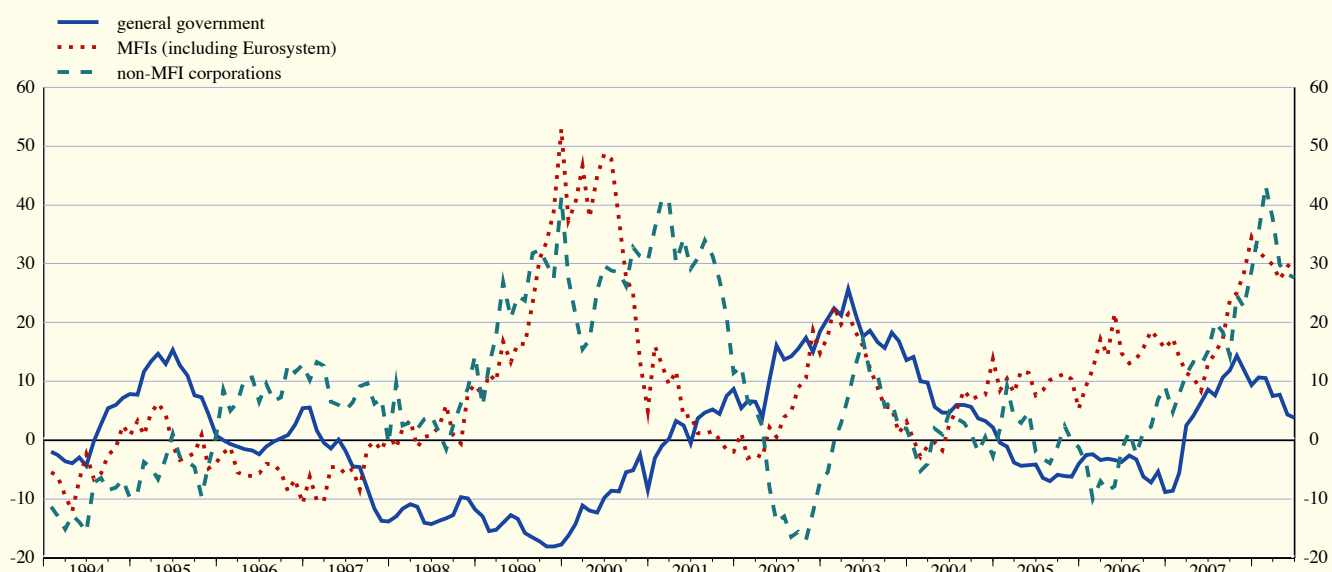
### 4.3 Growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup> (cont'd)

(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												
2006	4.5	4.7	14.0	0.4	3.2	13.5	16.1	11.9	40.1	25.7	5.0	4.3
2007	5.1	7.1	17.4	3.5	2.4	6.6	15.7	11.1	37.8	18.5	3.8	-1.7
2007 Q3	5.3	8.0	17.1	4.3	2.3	4.9	16.2	11.1	39.8	19.8	4.4	-4.7
Q4	4.5	6.7	13.1	4.4	1.8	6.3	15.1	9.0	39.3	14.5	4.8	-6.5
2008 Q1	3.3	5.3	8.4	4.2	1.3	3.3	14.3	6.0	38.7	12.5	11.4	-3.2
Q2	2.6	4.2	5.0	3.8	1.3	1.3	12.1	4.9	33.1	8.2	7.6	0.2
2008 Jan.	3.3	6.0	10.1	4.5	0.7	3.9	15.4	6.7	41.9	13.2	11.6	-4.5
Feb.	3.1	4.8	6.7	4.4	1.5	2.4	13.8	5.3	37.4	12.9	12.2	-0.1
Mar.	2.5	3.5	5.6	2.8	1.5	1.4	12.2	4.8	30.9	12.3	12.3	-1.1
Apr.	2.6	3.7	5.0	3.6	1.7	0.8	12.4	4.6	35.9	9.4	7.2	-1.2
May	2.6	4.6	4.3	5.1	1.0	1.7	12.2	5.4	32.5	8.1	6.9	1.8
June	2.7	5.1	5.7	2.9	0.9	1.7	11.2	4.9	31.1	2.3	5.4	1.4
In euro												
2006	3.8	3.1	11.5	-0.4	3.2	13.7	14.9	10.1	36.6	28.0	5.2	3.5
2007	4.5	6.4	14.1	1.9	2.7	6.7	15.0	10.2	35.5	18.3	3.9	-2.4
2007 Q3	4.6	7.1	14.0	2.9	2.5	5.1	15.7	10.3	38.0	18.9	4.5	-5.6
Q4	4.0	6.2	10.9	3.0	2.1	6.6	14.9	8.7	37.9	13.3	4.9	-7.1
2008 Q1	2.9	4.9	7.1	2.9	1.5	3.5	14.9	5.8	39.1	11.7	11.7	-4.0
Q2	2.4	3.9	4.3	2.0	1.5	1.4	13.3	5.6	34.4	7.9	8.0	-1.2
2008 Jan.	2.9	5.4	8.7	3.3	0.9	4.2	15.9	6.6	42.0	12.3	11.9	-4.8
Feb.	2.8	4.5	5.8	3.2	1.7	2.5	14.5	5.2	38.1	12.0	12.5	-1.3
Mar.	2.3	3.1	4.5	1.0	1.7	1.4	12.8	4.4	32.0	11.8	12.9	-2.7
Apr.	2.4	3.4	4.0	1.8	1.9	0.8	13.5	4.9	37.6	8.8	7.6	-2.6
May	2.3	4.3	3.8	3.5	1.1	1.7	13.6	6.4	33.8	7.8	7.3	0.5
June	2.5	4.9	6.0	0.6	1.1	1.8	12.7	6.2	32.1	2.7	5.8	0.1

### 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)

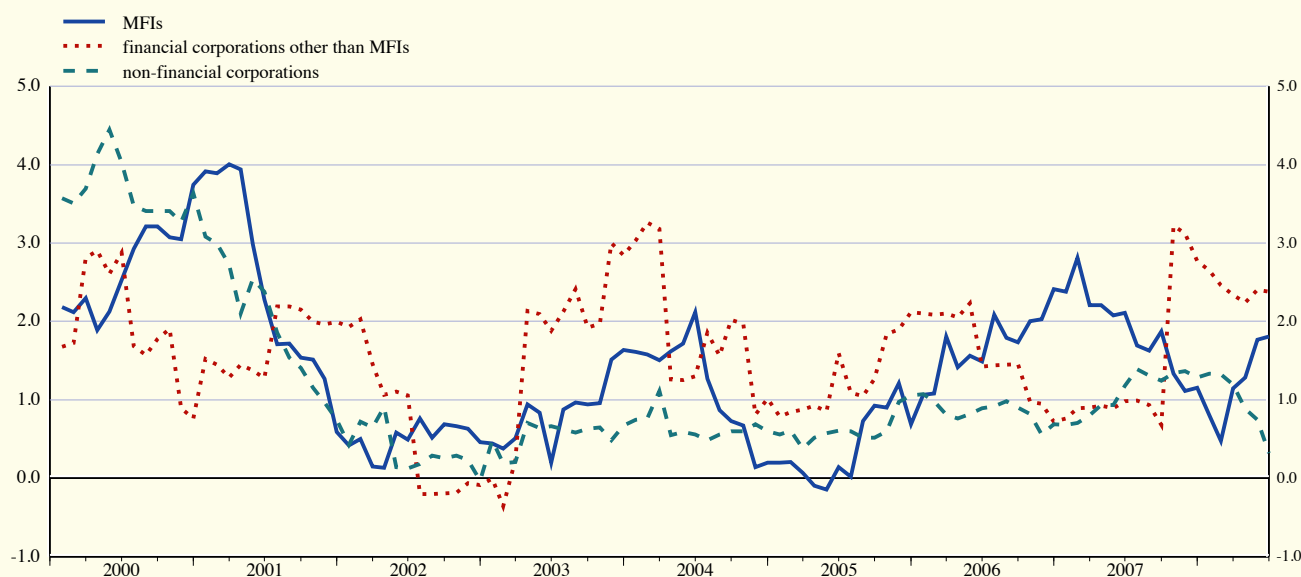
##### 1. Outstanding amounts and annual growth rates

(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
2006 June	5,408.2	103.2	1.0	909.8	1.5	539.7	1.4	3,958.7	0.9
July	5,405.1	103.3	1.2	923.0	2.1	553.7	1.4	3,928.3	0.9
Aug.	5,586.9	103.3	1.2	963.8	1.8	604.6	1.4	4,018.5	1.0
Sep.	5,728.5	103.4	1.1	991.8	1.7	616.7	1.5	4,120.0	0.9
Oct.	5,917.6	103.5	1.0	1,022.4	2.0	623.8	1.0	4,271.4	0.8
Nov.	5,972.2	103.5	0.9	1,031.8	2.0	613.6	0.9	4,326.8	0.6
Dec.	6,190.9	103.8	1.0	1,063.9	2.4	633.2	0.7	4,493.7	0.7
2007 Jan.	6,369.9	103.8	1.0	1,123.5	2.4	646.2	0.8	4,600.2	0.7
Feb.	6,283.9	103.9	1.1	1,092.8	2.8	637.8	0.9	4,553.3	0.7
Mar.	6,510.1	104.0	1.1	1,111.4	2.2	649.3	0.9	4,749.4	0.8
Apr.	6,760.5	104.2	1.2	1,168.6	2.2	675.5	0.9	4,916.3	0.9
May	7,040.4	104.2	1.1	1,174.5	2.1	688.8	0.9	5,177.0	0.9
June	6,961.9	104.5	1.3	1,128.6	2.1	677.1	1.0	5,156.1	1.2
July	6,731.4	104.8	1.4	1,099.8	1.7	608.8	1.0	5,022.7	1.4
Aug.	6,618.1	104.7	1.3	1,060.2	1.6	583.8	0.9	4,974.1	1.3
Sep.	6,682.2	104.7	1.3	1,048.8	1.9	597.2	0.7	5,036.1	1.2
Oct.	6,936.7	105.0	1.5	1,072.8	1.3	629.2	3.2	5,234.7	1.3
Nov.	6,622.4	105.1	1.5	1,032.7	1.1	579.2	3.1	5,010.5	1.4
Dec.	6,578.8	105.2	1.4	1,017.2	1.2	579.0	2.8	4,982.7	1.3
2008 Jan.	5,756.8	105.3	1.4	887.9	0.8	497.3	2.6	4,371.5	1.3
Feb.	5,811.0	105.3	1.3	858.2	0.5	492.4	2.5	4,460.5	1.3
Mar.	5,557.5	105.3	1.3	858.5	1.1	501.3	2.3	4,197.7	1.2
Apr.	5,738.4	105.3	1.1	835.2	1.3	519.4	2.2	4,383.7	0.9
May	5,712.3	105.3	1.0	768.9	1.8	497.1	2.4	4,446.3	0.7
June	5,069.3	105.3	0.7	663.2	1.8	435.5	2.4	3,970.6	0.3

##### 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>

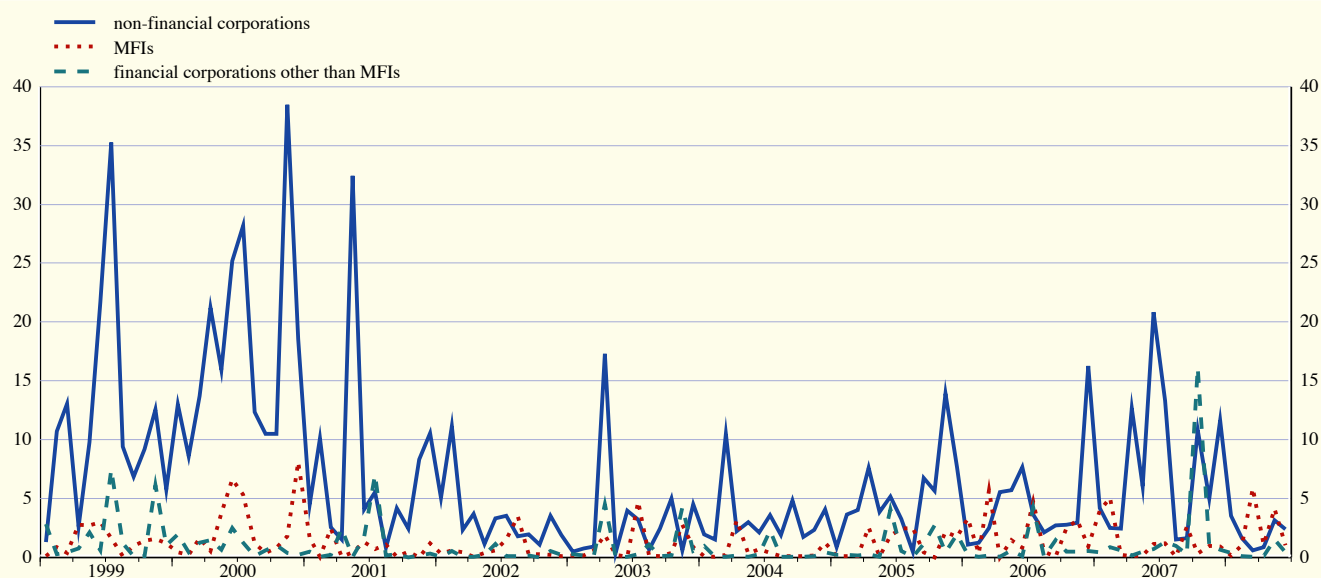
(EUR billions; market values)

### 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
2006 June	8.5	2.7	5.8	0.8	0.3	0.5	0.1	0.1	0.0	7.7	2.4	5.3
July	12.6	6.6	6.0	4.7	0.0	4.7	4.2	3.5	0.7	3.6	3.1	0.6
Aug.	2.6	1.8	0.8	0.5	0.0	0.5	0.0	0.1	-0.1	2.1	1.6	0.5
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.	5.7	1.2	4.5	2.5	0.0	2.5	0.5	0.0	0.5	2.7	1.2	1.5
Nov.	6.5	2.0	4.5	3.1	0.0	3.1	0.5	0.2	0.3	2.9	1.8	1.1
Dec.	17.7	5.1	12.6	0.9	0.3	0.6	0.5	0.0	0.5	16.3	4.7	11.6
2007 Jan.	8.5	3.9	4.6	4.0	0.1	3.8	0.4	0.0	0.4	4.1	3.8	0.3
Feb.	8.4	2.0	6.3	5.0	0.0	5.0	0.9	0.0	0.9	2.5	2.0	0.5
Mar.	3.2	1.7	1.5	0.2	0.0	0.2	0.6	0.4	0.2	2.4	1.4	1.0
Apr.	12.9	0.4	12.5	0.1	0.3	-0.2	0.2	0.0	0.1	12.7	0.2	12.5
May	6.6	1.9	4.7	0.1	0.0	0.1	0.5	0.0	0.5	6.0	1.9	4.2
June	22.6	1.6	21.0	1.1	0.0	1.1	0.7	0.0	0.7	20.8	1.6	19.3
July	15.8	1.8	13.9	1.2	0.0	1.2	1.3	0.3	1.0	13.3	1.5	11.8
Aug.	2.5	6.6	-4.2	0.0	0.1	-0.1	1.0	1.4	-0.5	1.5	5.1	-3.6
Sep.	4.5	2.5	2.0	2.6	0.0	2.6	0.3	0.3	-0.1	1.6	2.1	-0.5
Oct.	27.2	8.0	19.1	0.3	3.2	-2.9	16.1	0.5	15.5	10.8	4.3	6.5
Nov.	7.0	3.3	3.6	0.9	0.0	0.9	1.0	1.3	-0.3	5.0	2.0	3.0
Dec.	13.2	4.6	8.6	0.9	0.0	0.9	0.7	2.2	-1.5	11.6	2.5	9.2
2008 Jan.	4.0	1.4	2.7	0.1	0.0	0.1	0.4	0.7	-0.3	3.5	0.7	2.8
Feb.	2.7	1.9	0.9	1.0	0.0	1.0	0.1	0.3	-0.2	1.6	1.6	0.1
Mar.	6.5	5.8	0.6	5.9	0.0	5.9	0.0	0.5	-0.4	0.6	5.4	-4.8
Apr.	2.1	3.0	-0.9	1.1	0.0	1.1	0.1	0.5	-0.3	0.9	2.5	-1.7
May	8.7	5.9	2.8	4.1	0.1	4.1	1.5	0.3	1.2	3.1	5.6	-2.5
June	3.8	4.8	-1.0	1.0	0.0	1.0	0.4	0.1	0.3	2.4	4.7	-2.3

#### 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
2007 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.	1.16	4.07	3.98	2.92	2.58	3.50	1.91	4.14	4.34	4.41	3.97
Oct.	1.17	4.11	4.16	3.31	2.53	3.57	1.97	4.07	4.37	4.63	3.93
Nov.	1.18	4.08	4.22	3.20	2.54	3.64	2.01	4.10	4.41	4.04	3.98
Dec.	1.18	4.28	4.14	3.18	2.57	3.68	1.95	4.26	4.40	4.03	3.95
2008 Jan.	1.20	4.19	4.32	3.43	2.57	3.75	2.01	4.13	4.38	4.68	3.95
Feb.	1.21	4.10	4.18	3.22	2.65	3.77	2.01	4.07	4.18	4.36	3.93
Mar.	1.22	4.14	3.97	3.08	2.69	3.78	2.03	4.20	4.23	4.07	3.96
Apr.	1.22	4.28	4.16	3.14	2.72	3.81	2.05	4.27	4.56	4.62	4.00
May	1.23	4.32	4.27	3.19	2.73	3.84	2.07	4.26	4.68	4.40	4.03
June	1.24	4.43	4.61	3.27	2.74	3.88	2.06	4.28	4.72	4.02	4.11

### 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
2007 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.	10.53	8.48	6.83	8.39	8.54	5.23	5.04	5.09	5.02	5.31	5.46	5.87	5.51
Oct.	10.64	8.10	6.88	8.40	8.38	5.29	5.07	5.08	5.11	5.38	5.63	6.05	5.59
Nov.	10.50	8.38	6.90	8.36	8.47	5.28	5.03	5.10	5.11	5.38	5.60	5.95	5.49
Dec.	10.46	8.05	6.93	8.17	8.26	5.32	5.03	5.07	5.18	5.40	5.67	5.83	5.43
2008 Jan.	10.46	8.11	7.00	8.47	8.48	5.32	5.02	5.07	5.14	5.37	5.59	5.93	5.49
Feb.	10.45	8.54	7.24	8.44	8.70	5.26	4.97	5.02	5.11	5.35	5.55	5.87	5.55
Mar.	10.52	8.41	7.05	8.42	8.55	5.20	4.89	4.96	5.11	5.28	5.65	5.79	5.46
Apr.	10.53	8.32	7.02	8.46	8.55	5.23	4.91	4.95	5.12	5.29	5.83	5.80	5.45
May	10.57	8.69	7.01	8.44	8.63	5.34	4.96	4.98	5.13	5.36	5.99	5.87	5.59
June	10.63	8.61	6.91	8.43	8.60	5.47	5.09	5.07	5.20	5.52	6.02	6.11	5.64

### 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	3	4	5	6
2007 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	5.90	5.23	5.20	5.60	5.41
Oct.	6.53	5.96	6.00	5.26	5.11	5.19	5.31
Nov.	6.50	5.96	5.90	5.29	5.08	5.28	5.36
Dec.	6.62	6.08	5.96	5.30	5.35	5.62	5.48
2008 Jan.	6.62	5.93	5.92	5.27	5.12	5.35	5.23
Feb.	6.56	5.84	5.86	5.24	5.04	5.43	5.14
Mar.	6.56	5.91	5.77	5.23	5.19	5.44	5.34
Apr.	6.54	6.03	5.77	5.20	5.30	5.42	5.39
May	6.57	6.10	5.93	5.25	5.27	5.70	5.38
June	6.68	6.16	6.07	5.40	5.35	5.66	5.48

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 (cont'd)

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

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

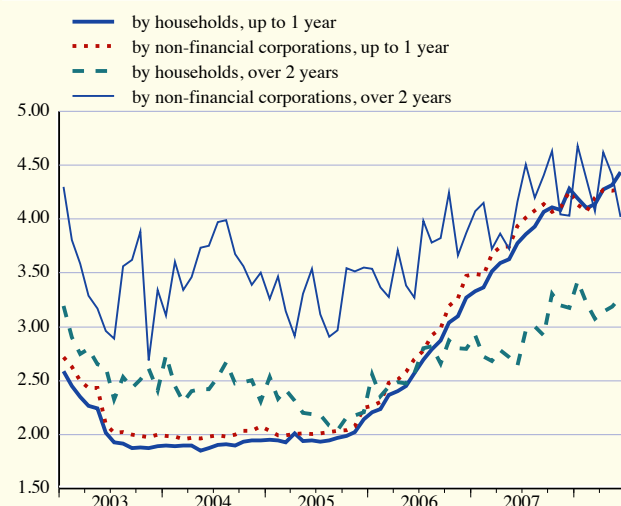
	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight <sup>1)</sup>	With agreed maturity		Redeemable at notice <sup>1)2)</sup>		Overnight <sup>1)</sup>	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9
2007 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.	1.16	3.68	3.06	2.58	3.50	1.91	4.13	4.09	3.93
Oct.	1.17	3.79	3.04	2.53	3.57	1.97	4.18	4.11	3.93
Nov.	1.18	3.85	3.06	2.54	3.64	2.01	4.21	4.18	3.97
Dec.	1.18	3.95	3.03	2.57	3.68	1.95	4.33	4.17	4.01
2008 Jan.	1.20	3.98	3.06	2.57	3.75	2.01	4.27	4.21	4.01
Feb.	1.21	3.99	3.11	2.65	3.77	2.01	4.23	4.24	3.97
Mar.	1.22	4.01	3.07	2.69	3.78	2.03	4.29	4.24	3.96
Apr.	1.22	4.07	3.07	2.72	3.81	2.05	4.37	4.29	3.91
May	1.23	4.13	3.06	2.73	3.84	2.07	4.43	4.26	4.04
June	1.24	4.20	3.08	2.74	3.88	2.06	4.49	4.32	4.12

#### 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
2007 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.	5.44	4.64	4.94	8.99	7.00	6.13	5.91	5.35	5.14
Oct.	5.49	4.68	4.98	9.02	7.10	6.16	5.96	5.44	5.22
Nov.	5.48	4.72	4.99	8.86	7.12	6.21	5.96	5.49	5.22
Dec.	5.54	4.75	5.00	8.97	7.13	6.22	6.08	5.57	5.28
2008 Jan.	5.62	4.75	5.01	8.99	7.15	6.24	6.06	5.55	5.27
Feb.	5.60	4.82	5.03	9.05	7.21	6.26	5.99	5.52	5.30
Mar.	5.61	4.80	5.02	9.06	7.19	6.25	5.99	5.51	5.27
Apr.	5.59	4.85	5.03	9.07	7.22	6.28	6.04	5.54	5.29
May	5.62	4.85	5.05	9.08	7.22	6.27	6.09	5.59	5.32
June	5.66	4.90	5.08	9.09	7.24	6.33	6.19	5.69	5.39

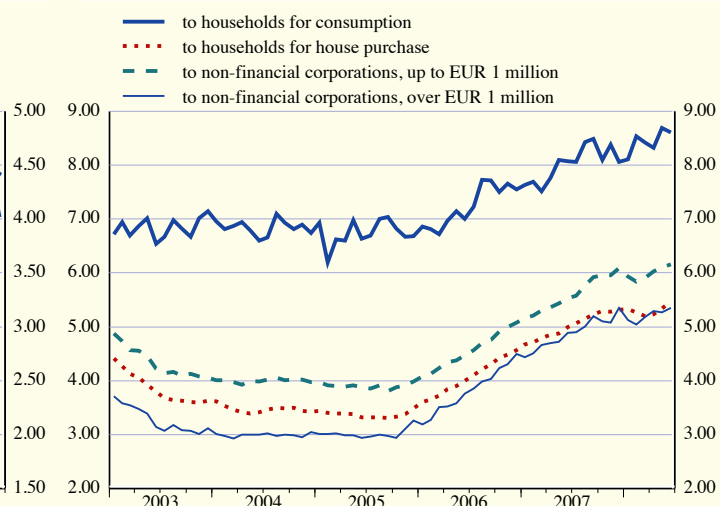
#### C21 New deposits with agreed maturity

(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.

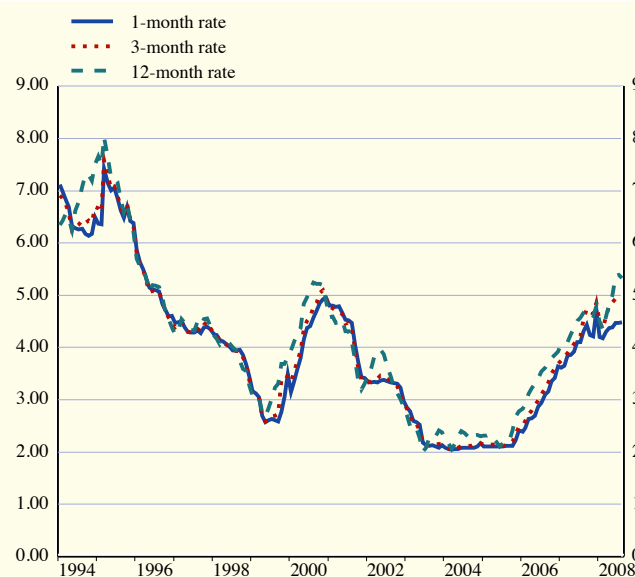
## 4.6 Money market interest rates

(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
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
2007	3.87	4.08	4.28	4.35	4.45	5.30	0.79
2007 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
Q4	3.95	4.37	4.72	4.70	4.68	5.02	0.96
2008 Q1	4.05	4.23	4.48	4.48	4.48	3.26	0.92
Q2	4.00	4.41	4.86	4.93	5.05	2.75	0.92
2007 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
Dec.	3.88	4.71	4.85	4.82	4.79	4.97	0.99
2008 Jan.	4.02	4.20	4.48	4.50	4.50	3.92	0.89
Feb.	4.03	4.18	4.36	4.36	4.35	3.09	0.90
Mar.	4.09	4.30	4.60	4.59	4.59	2.78	0.97
Apr.	3.99	4.37	4.78	4.80	4.82	2.79	0.92
May	4.01	4.39	4.86	4.90	4.99	2.69	0.92
June	4.01	4.47	4.94	5.09	5.36	2.77	0.92
July	4.19	4.47	4.96	5.15	5.39	2.79	0.92
Aug.	4.30	4.49	4.97	5.16	5.32	2.81	0.89

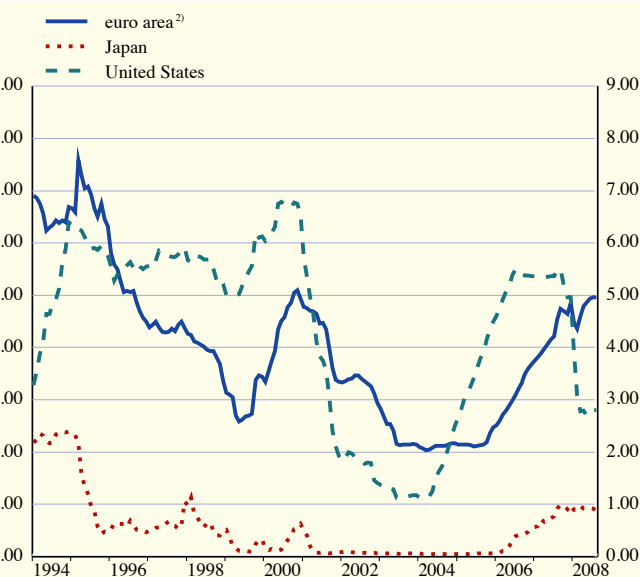
### C23 Euro area money market rates <sup>2)</sup>

(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.

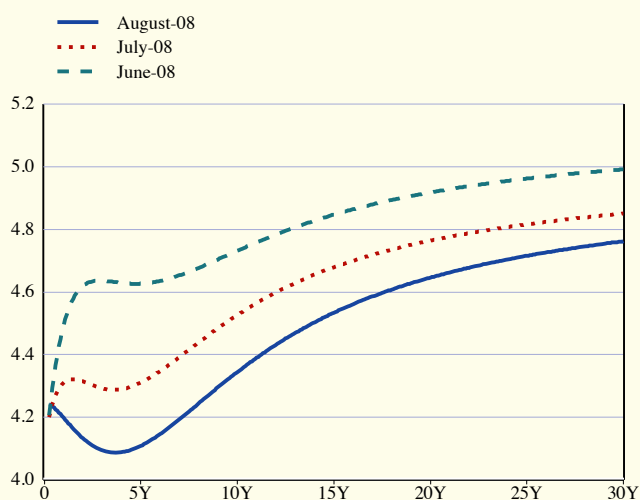
### 4.7 Euro area yield curves <sup>1)</sup>

(AAA-rated euro area central government bonds; end-of-period; rates in percentages per annum; spreads in percentage points)

	Spot rates								Instantaneous forward rates			
	3 months	1 year	2 years	5 years	7 years	10 years	10 years - 3 months (spread)	10 years - 2 years (spread)	1 year	2 years	5 years	10 years
	1	2	3	4	5	6	7	8	9	10	11	12
2006 Dec.	3.44	3.76	3.82	3.83	3.86	3.91	0.47	0.09	3.92	3.85	3.88	4.08
2007 Jan.	3.54	3.84	3.92	3.96	4.00	4.06	0.53	0.15	4.01	3.97	4.05	4.25
Feb.	3.63	3.79	3.80	3.81	3.85	3.92	0.29	0.12	3.85	3.77	3.90	4.13
Mar.	3.70	3.92	3.95	3.93	3.96	4.02	0.33	0.08	4.03	3.93	3.97	4.25
Apr.	3.81	4.01	4.06	4.06	4.08	4.13	0.32	0.07	4.14	4.08	4.08	4.33
May	3.86	4.21	4.31	4.32	4.33	4.37	0.51	0.06	4.44	4.37	4.33	4.51
June	3.90	4.26	4.38	4.43	4.46	4.51	0.61	0.13	4.51	4.48	4.49	4.68
July	3.98	4.23	4.28	4.28	4.30	4.36	0.38	0.08	4.36	4.28	4.32	4.53
Aug.	3.86	3.98	4.03	4.12	4.20	4.32	0.47	0.29	4.07	4.09	4.32	4.67
Sep.	3.80	3.96	4.03	4.15	4.25	4.38	0.57	0.35	4.08	4.13	4.39	4.75
Oct.	3.87	4.01	4.06	4.10	4.17	4.29	0.42	0.23	4.11	4.08	4.25	4.63
Nov.	3.86	3.84	3.82	3.91	4.03	4.21	0.35	0.39	3.81	3.80	4.19	4.76
Dec.	3.85	4.00	4.01	4.11	4.23	4.38	0.52	0.36	4.06	4.02	4.40	4.78
2008 Jan.	3.81	3.55	3.42	3.59	3.79	4.05	0.24	0.62	3.32	3.34	4.08	4.80
Feb.	3.83	3.42	3.20	3.43	3.72	4.06	0.23	0.86	3.04	3.03	4.16	4.99
Mar.	3.87	3.70	3.60	3.70	3.87	4.13	0.26	0.54	3.53	3.49	4.10	4.91
Apr.	3.90	3.89	3.86	3.95	4.10	4.32	0.42	0.46	3.86	3.81	4.29	4.95
May	3.88	4.20	4.28	4.27	4.35	4.52	0.64	0.24	4.41	4.29	4.40	5.03
June	4.21	4.49	4.62	4.63	4.65	4.73	0.52	0.11	4.73	4.72	4.64	5.00
July	4.20	4.31	4.31	4.31	4.39	4.53	0.33	0.21	4.36	4.27	4.46	4.93
Aug.	4.24	4.20	4.13	4.11	4.19	4.34	0.10	0.21	4.13	4.02	4.26	4.82

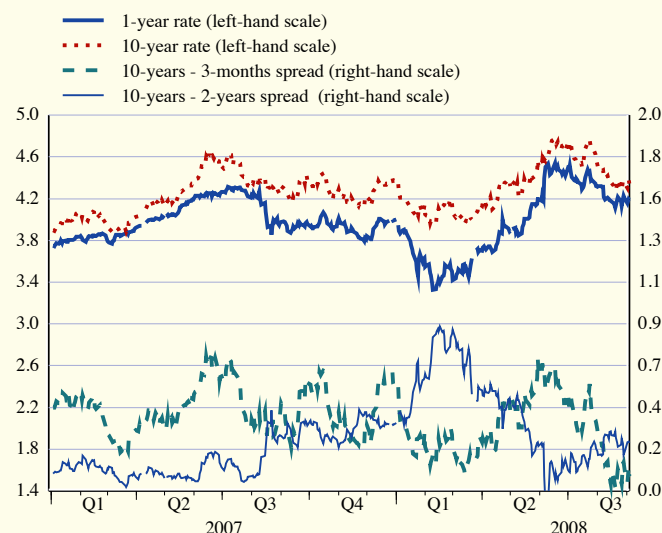
### C25 Euro area spot yield curves

(percentages per annum; end-of-period)



### C26 Euro area spot rates and spreads

(daily data; rates in percentages per annum; spreads in percentage points)



Source: ECB, underlying data provided by EuroMTS, ratings provided by Fitch Ratings.

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

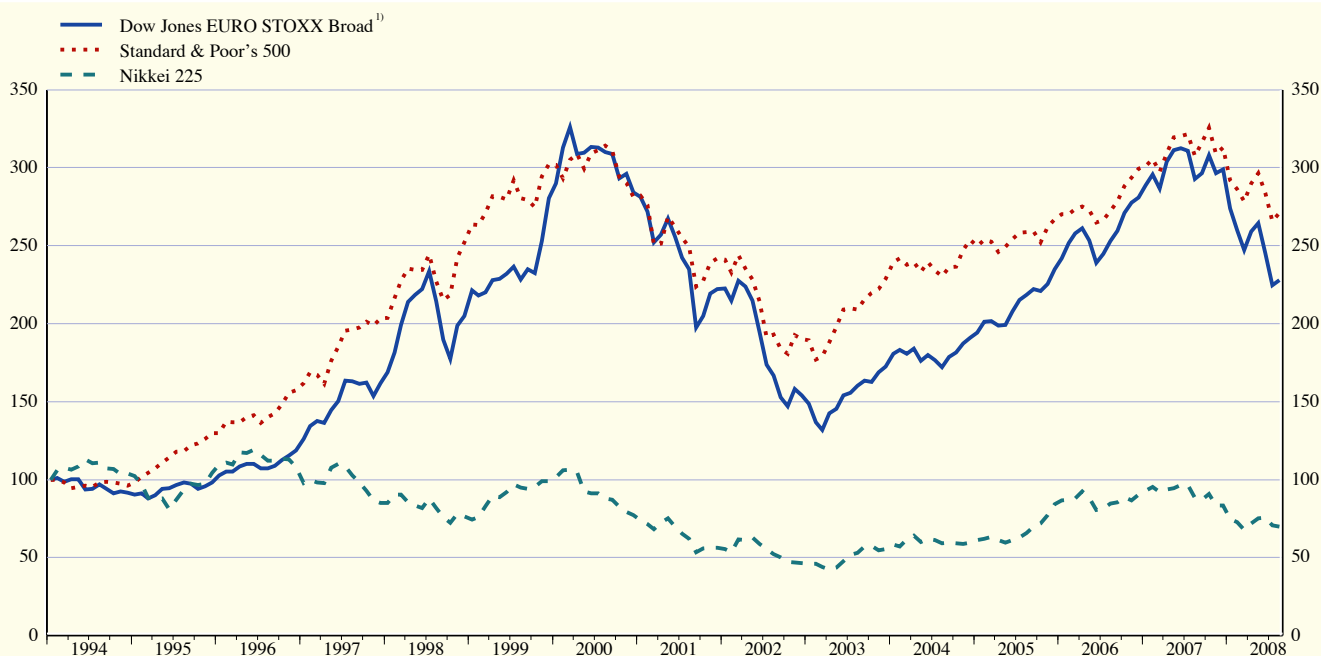
## 4.8 Stock market indices

(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	
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
2007	416.4	4,315.8	543.8	235.4	366.5	449.6	408.3	488.4	383.4	561.4	492.7	519.2	1,476.5	16,984.4
2007 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
Q4	417.8	4,377.9	567.3	228.3	383.8	455.7	381.2	484.1	406.3	620.0	544.8	509.2	1,494.6	16,002.5
2008 Q1	361.8	3,809.4	520.9	194.0	327.1	412.0	318.1	413.3	339.2	573.3	490.1	454.4	1,351.7	13,372.7
Q2	355.9	3,705.6	576.2	185.0	317.8	442.8	313.7	408.2	306.5	557.1	437.7	427.1	1,371.7	13,818.3
2007 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.	411.4	4,314.9	549.1	225.3	380.2	450.3	369.1	477.1	400.8	624.1	555.0	501.9	1,461.3	15,514.0
Dec.	414.5	4,386.0	564.0	224.1	375.8	452.5	374.0	481.8	397.8	634.9	552.6	518.6	1,480.0	15,520.1
2008 Jan.	380.2	4,042.1	529.7	202.3	338.7	431.4	339.7	426.3	351.2	602.9	528.4	492.9	1,380.3	13,953.4
Feb.	360.6	3,776.6	520.7	194.0	323.8	407.6	311.9	417.7	356.2	573.9	493.2	452.6	1,354.6	13,522.6
Mar.	342.9	3,587.3	511.4	184.7	317.6	395.2	300.8	394.7	308.9	540.2	444.9	414.1	1,317.5	12,586.6
Apr.	359.6	3,768.1	553.9	189.3	324.6	423.2	326.5	406.2	312.8	550.2	449.3	429.6	1,370.5	13,382.1
May	367.1	3,812.8	588.9	189.2	328.2	462.5	325.8	424.3	313.2	567.2	447.5	436.3	1,402.0	14,000.2
June	340.2	3,527.8	586.2	176.1	299.6	442.6	287.6	393.5	292.8	553.8	415.3	414.7	1,341.3	14,084.6
July	311.9	3,298.7	529.0	158.2	272.7	401.5	260.0	348.6	281.7	513.7	412.7	418.1	1,257.6	13,153.0
Aug.	316.1	3,346.0	513.7	167.1	287.0	388.1	266.0	356.6	304.4	504.4	411.2	403.0	1,281.5	12,989.4

### 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	82.6	59.1	40.9	100.0	11.9	7.6	29.8	9.8	40.9	87.8	12.2	
	1	2	3	4	5	6	7	8	9	10	11	12	13	
2004	97.9	2.1	2.1	1.8	2.6	-	-	-	-	-	-	1.9	3.6	
2005	100.0	2.2	1.5	2.1	2.3	-	-	-	-	-	-	2.1	2.5	
2006	102.2	2.2	1.5	2.3	2.0	-	-	-	-	-	-	2.1	2.6	
2007	104.4	2.1	2.0	1.9	2.5	-	-	-	-	-	-	2.2	2.0	
2007 Q2	104.4	1.9	1.9	1.5	2.6	0.8	0.5	0.8	0.2	3.3	0.7	1.9	2.1	
Q3	104.4	1.9	2.0	1.5	2.5	0.5	1.1	0.9	0.2	0.7	0.5	1.9	1.7	
Q4	105.7	2.9	2.3	3.2	2.5	1.0	2.6	1.2	0.3	2.9	0.6	3.1	1.8	
2008 Q1	106.4	3.4	2.5	3.9	2.6	1.0	2.0	0.5	0.2	3.4	0.7	3.5	2.2	
Q2	108.1	3.6	2.5	4.5	2.4	1.1	1.1	1.1	0.2	6.0	0.6	3.8	2.4	
2008 Mar.	107.2	3.6	2.7	4.1	2.8	0.5	0.3	0.7	0.1	2.3	0.4	3.7	2.4	
Apr.	107.6	3.3	2.4	4.0	2.3	0.1	0.4	0.2	0.0	1.0	-0.1	3.4	2.3	
May	108.2	3.7	2.5	4.5	2.5	0.6	0.2	0.6	0.0	3.6	0.3	3.8	2.4	
June	108.6	4.0	2.5	5.0	2.5	0.5	0.3	0.4	0.1	2.6	0.2	4.2	2.5	
July	108.5	4.0	2.5	5.1	2.6	0.3	0.3	0.7	-0.2	1.3	0.2	4.3	2.8	
Aug. <sup>4)</sup>	.	3.8	.	.	.	.	.	.	.	.	.	.	.	

	Goods						Services					
	Food (incl. alcoholic beverages and tobacco)			Industrial goods			Housing	Transport	Communication	Recreation and personal	Miscellaneous	
	Total	Processed food	Unprocessed food	Total	Non-energy industrial goods	Energy						
% of total <sup>3)</sup>	19.5	11.9	7.6	39.6	29.8	9.8	10.1	6.0	6.1	3.3	14.7	6.8
	14	15	16	17	18	19	20	21	22	23	24	25
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
2007	2.8	2.8	3.0	1.4	1.0	2.6	2.7	2.0	2.6	-1.9	2.9	3.2
2007 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
Q4	3.9	4.5	3.1	2.8	1.0	8.1	2.7	2.0	2.6	-2.1	3.0	3.2
2008 Q1	5.2	6.4	3.5	3.2	0.8	10.7	2.5	1.9	3.1	-2.5	3.2	3.2
Q2	5.7	6.9	3.7	3.9	0.8	13.6	2.3	1.9	3.6	-1.8	3.0	2.2
2008 Feb.	5.2	6.5	3.3	3.1	0.8	10.4	2.5	1.9	3.0	-3.1	3.1	3.2
Mar.	5.6	6.8	3.8	3.4	0.9	11.2	2.5	1.9	3.3	-1.5	3.7	3.1
Apr.	5.4	7.0	3.1	3.2	0.8	10.8	2.4	1.8	3.2	-1.6	2.7	2.1
May	5.8	6.9	3.9	3.9	0.7	13.7	2.3	1.9	3.8	-1.7	3.1	2.2
June	5.8	7.0	4.0	4.5	0.8	16.1	2.3	1.9	4.0	-1.9	3.2	2.2
July	6.1	7.2	4.4	4.6	0.5	17.1	2.3	1.9	4.1	-2.2	3.4	2.2

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 2008.

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)	Industry excluding construction and energy													Energy	Total	Total excluding energy
		Total	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		
2004	105.8	2.3	2.6	2.0	3.5	0.7	1.3	0.7	1.4	4.0	4.1	7.5	18.4	10.8	30.5		
2005	110.1	4.1	3.2	1.9	2.9	1.4	1.1	1.3	1.1	13.6	2.8	7.7	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	13.3	4.2	6.5	19.7	24.8	52.9		
2007	119.1	2.8	3.1	3.2	4.8	1.8	2.3	1.9	2.4	1.7	4.0	4.5	3.9	9.2	52.8		
2007 Q2	118.5	2.4	2.6	3.2	5.4	2.0	1.7	1.8	1.7	-0.4	4.5	5.0 <sup>6)</sup>	-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	-0.7	3.6	-	2.0	6.7	54.2		
Q4	121.2	4.0	4.5	3.2	3.7	1.5	3.6	1.9	3.9	7.0	3.4	4.0 <sup>6)</sup>	23.5	1.6	61.0		
2008 Q1	123.6	5.4	5.4	3.6	4.2	1.5	4.4	2.3	4.8	11.7	3.1	-	36.5	11.9	64.2		
Q2	127.0	7.1	6.3	3.9	4.5	1.8	4.4	2.3	4.8	18.1	-	-	44.0	7.1	78.5		
2008 Mar.	124.5	5.8	5.7	3.8	4.4	1.5	4.6	2.5	5.0	12.6	-	-	34.8	10.3	66.1		
Apr.	125.5	6.2	5.5	3.7	4.3	1.7	4.5	2.4	4.9	14.4	-	-	32.7	5.8	69.8		
May	127.1	7.1	6.4	3.8	4.3	1.8	4.4	2.3	4.8	18.2	-	-	47.7	6.0	80.1		
June	128.3	8.0	6.9	4.0	4.9	2.0	4.4	2.3	4.8	21.5	-	-	51.2	9.6	85.9		
July	129.8	9.0	7.2	4.3	5.6	2.0	4.3	2.4	4.6	24.5	-	-	46.8	9.8	85.3		
Aug.	-	-	-	-	-	-	-	-	-	-	-	-	40.5	10.5	77.0		

### 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
2004	113.6	2.5	2.3	3.2	2.9	2.7	2.3	2.1
2005	116.7	2.7	2.8	2.7	2.6	2.4	2.9	2.1
2006	119.6	2.5	2.7	2.2	3.3	2.1	2.1	2.3
2007	122.8	2.6	2.8	2.1	2.8	3.1	2.5	2.2
2007 Q2	122.3	2.7	2.8	2.3	3.1	2.9	2.4	2.3
Q3	123.2	2.6	2.8	2.3	2.4	3.6	2.6	2.2
Q4	124.2	2.9	3.2	2.0	3.1	3.9	2.6	2.1
2008 Q1	125.1	3.3	3.7	2.3	3.7	4.0	3.0	2.9
Q2	-	-	-	-	-	-	-	2.8

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					Public administration, education, health and other services
			Agriculture, hunting, forestry and fishing	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	
	1	2	3	4	5	6	7	8
Unit labour costs <sup>1)</sup>								
2004	107.6	0.8	-12.2	-1.2	3.2	0.1	2.3	2.1
2005	108.7	1.1	8.4	-1.0	3.0	0.7	1.9	2.0
2006	109.8	1.0	2.3	-0.6	2.8	0.2	2.3	2.3
2007	111.5	1.5	0.6	-0.3	3.9	1.0	2.8	1.8
2007 Q1	110.6	1.0	0.0	-0.9	2.3	0.0	2.4	2.1
Q2	111.3	1.3	0.9	0.2	4.1	0.4	3.0	0.9
Q3	111.4	1.5	0.9	-0.8	4.9	1.5	2.6	1.8
Q4	112.5	2.4	0.8	0.3	4.4	2.2	3.6	2.5
2008 Q1	113.3	2.4	1.3	1.1	1.8	2.0	4.2	2.4
Compensation per employee								
2004	110.0	2.1	1.2	2.9	2.9	1.5	1.7	2.4
2005	112.0	1.8	1.8	1.8	2.0	1.7	2.3	1.8
2006	114.5	2.2	2.7	3.4	3.4	1.6	2.2	1.6
2007	117.3	2.4	3.2	2.8	3.3	1.9	1.9	2.4
2007 Q1	116.3	2.4	3.0	2.4	4.0	2.1	2.1	2.5
Q2	117.0	2.2	3.7	3.1	2.4	1.9	1.7	1.7
Q3	117.3	2.2	3.1	2.4	3.2	2.0	1.6	2.2
Q4	118.5	2.8	2.9	3.0	3.6	1.8	2.4	3.1
2008 Q1	119.7	2.9	3.6	3.3	4.0	2.0	2.9	2.7
Labour productivity <sup>2)</sup>								
2004	102.3	1.4	15.4	4.1	-0.3	1.4	-0.6	0.2
2005	103.0	0.7	-6.1	2.8	-1.0	1.0	0.4	-0.2
2006	104.3	1.2	0.4	4.0	0.6	1.4	-0.1	-0.7
2007	105.2	0.8	2.5	3.0	-0.6	0.9	-0.9	0.6
2007 Q1	105.2	1.4	3.0	3.3	1.7	2.1	-0.3	0.3
Q2	105.1	0.9	2.8	2.9	-1.6	1.5	-1.3	0.8
Q3	105.3	0.7	2.1	3.2	-1.6	0.5	-1.0	0.4
Q4	105.3	0.3	2.1	2.7	-0.8	-0.3	-1.1	0.6
2008 Q1	105.7	0.5	2.3	2.1	2.2	0.1	-1.2	0.3

**5. Gross domestic product deflators**

	Total (s.a. index 2000 = 100)	Total	Domestic demand			Exports <sup>3)</sup>	Imports <sup>3)</sup>	
			Total	Private consumption	Government consumption			Gross fixed capital formation
	1	2	3	4	5	6	7	8
2004	109.4	1.9	2.1	2.0	2.0	2.5	1.0	1.5
2005	111.6	2.0	2.3	2.1	2.4	2.6	2.4	3.4
2006	113.7	1.9	2.3	2.2	2.0	2.8	2.7	3.9
2007	116.2	2.2	2.2	2.1	1.6	2.7	1.4	1.2
2007 Q2	116.0	2.2	1.9	1.9	0.9	2.9	1.6	0.7
Q3	116.6	2.3	2.2	2.0	1.5	2.5	1.2	1.0
Q4	117.0	2.3	2.8	2.8	2.3	2.6	1.4	2.7
2008 Q1	117.8	2.2	2.8	3.1	1.8	2.3	2.2	3.8
Q2	118.7	2.3	2.9	3.3	1.4	2.3	2.9	4.3

Sources: ECB calculations based on Eurostat data.

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

## 5.2 Output and demand

### 1. GDP and expenditure components

	GDP								
	Total	Domestic demand					External balance <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>									
2004	7,806.4	7,655.3	4,470.9	1,594.8	1,580.7	8.9	151.1	2,861.7	2,710.6
2005	8,103.5	7,986.4	4,644.8	1,657.8	1,675.6	8.2	117.0	3,082.0	2,965.0
2006	8,503.0	8,404.1	4,840.7	1,723.8	1,824.4	15.2	98.9	3,422.5	3,323.7
2007	8,923.5	8,791.2	5,021.9	1,792.4	1,954.0	22.9	132.3	3,682.4	3,550.1
2007 Q2	2,220.6	2,183.7	1,249.0	445.6	484.3	4.8	36.8	913.4	876.6
Q3	2,244.0	2,212.4	1,262.8	449.9	490.5	9.3	31.6	932.3	900.8
Q4	2,261.1	2,230.8	1,276.6	454.2	498.7	1.3	30.3	939.4	909.1
2008 Q1	2,291.7	2,264.2	1,286.7	456.8	509.7	11.0	27.5	965.8	938.3
Q2	2,304.3	2,276.2	1,295.7	459.1	507.0	14.4	28.1	973.7	945.6
<i>percentage of GDP</i>									
2007	100.0	98.5	56.3	20.1	21.9	0.3	1.5	-	-
<i>Chain-linked volumes (prices of the previous year, seasonally adjusted<sup>3)</sup>)</i>									
<i>quarter-on-quarter percentage changes</i>									
2007 Q2	0.5	0.3	0.7	0.2	0.1	-	-	1.3	0.8
Q3	0.6	0.7	0.4	0.5	0.9	-	-	1.8	2.2
Q4	0.4	0.0	0.2	0.3	1.1	-	-	0.4	-0.4
2008 Q1	0.7	0.7	0.0	0.3	1.5	-	-	1.8	1.9
Q2	-0.2	-0.2	-0.2	0.5	-1.2	-	-	-0.4	-0.4
<i>annual percentage changes</i>									
2004	2.1	2.0	1.6	1.6	2.3	-	-	7.3	7.1
2005	1.7	1.9	1.7	1.6	3.2	-	-	4.9	5.6
2006	2.8	2.7	1.9	1.9	5.6	-	-	8.0	7.8
2007	2.6	2.4	1.6	2.4	4.3	-	-	6.1	5.5
2007 Q2	2.6	2.3	1.8	2.4	3.5	-	-	6.1	5.4
Q3	2.6	2.2	1.8	2.5	3.7	-	-	7.3	6.5
Q4	2.1	2.1	1.2	2.1	3.2	-	-	4.1	4.0
2008 Q1	2.1	1.7	1.2	1.3	3.7	-	-	5.4	4.7
Q2	1.4	1.3	0.4	1.7	2.4	-	-	3.6	3.4
<i>contributions to quarter-on-quarter percentage changes of GDP in percentage points</i>									
2007 Q2	0.5	0.3	0.4	0.0	0.0	-0.2	0.2	-	-
Q3	0.6	0.7	0.2	0.1	0.2	0.2	-0.2	-	-
Q4	0.4	0.0	0.1	0.1	0.2	-0.4	0.3	-	-
2008 Q1	0.7	0.7	0.0	0.1	0.3	0.3	0.0	-	-
Q2	-0.2	-0.2	-0.1	0.1	-0.3	0.0	0.0	-	-
<i>contributions to annual percentage changes of GDP in percentage points</i>									
2004	2.1	1.9	0.9	0.3	0.5	0.2	0.2	-	-
2005	1.7	1.8	1.0	0.3	0.6	-0.1	-0.1	-	-
2006	2.8	2.7	1.1	0.4	1.2	0.0	0.2	-	-
2007	2.6	2.4	0.9	0.5	0.9	0.1	0.3	-	-
2007 Q2	2.6	2.2	1.0	0.5	0.8	0.0	0.3	-	-
Q3	2.6	2.2	1.0	0.5	0.8	-0.1	0.4	-	-
Q4	2.1	2.0	0.7	0.4	0.7	0.2	0.1	-	-
2008 Q1	2.1	1.7	0.7	0.3	0.8	0.0	0.3	-	-
Q2	1.4	1.3	0.2	0.3	0.5	0.2	0.1	-	-

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>								
2004	7,008.7	153.6	1,437.7	413.1	1,488.4	1,912.8	1,603.1	797.7
2005	7,262.6	141.5	1,478.4	439.1	1,528.1	2,010.1	1,665.4	840.8
2006	7,594.0	139.3	1,548.3	477.1	1,585.6	2,123.0	1,720.6	909.0
2007	7,966.6	150.2	1,625.5	516.9	1,652.7	2,234.3	1,787.0	956.9
2007 Q2	1,982.0	36.9	404.7	128.1	411.8	555.5	445.0	238.6
Q3	2,004.3	38.2	409.7	129.6	416.3	562.3	448.2	239.7
Q4	2,023.1	38.8	411.8	132.4	418.3	568.2	453.6	238.0
2008 Q1	2,049.6	39.8	418.5	136.6	423.2	575.6	455.8	242.1
Q2	2,065.7	40.3	418.0	135.4	424.2	583.4	464.4	238.6
<i>percentage of value added</i>								
2007	100.0	1.9	20.4	6.5	20.7	28.0	22.4	-
<i>Chain-linked volumes (prices of the previous year, seasonally adjusted<sup>1)</sup>)</i>								
<i>quarter-on-quarter percentage changes</i>								
2007 Q2	0.6	-0.8	0.8	-0.7	1.0	0.8	0.5	-1.0
Q3	0.6	-1.1	0.9	-0.1	0.5	0.7	0.4	0.7
Q4	0.5	1.0	0.5	1.0	0.2	0.6	0.4	-0.5
2008 Q1	0.6	1.2	0.4	2.5	0.7	0.5	0.2	1.3
Q2	-0.1	-0.1	-0.8	-2.2	-0.4	0.7	0.6	-1.4
<i>annual percentage changes</i>								
2004	2.3	12.1	2.7	1.0	2.6	1.7	1.5	1.0
2005	1.7	-6.9	1.7	1.5	1.7	2.8	1.3	1.7
2006	2.8	-1.1	3.6	3.2	2.9	3.6	1.2	3.1
2007	2.8	1.4	3.4	3.3	2.7	3.3	1.8	1.2
2007 Q2	2.8	1.2	3.3	2.8	2.9	3.2	1.9	0.9
Q3	2.7	0.8	3.5	2.1	2.7	3.2	1.8	1.8
Q4	2.4	0.6	3.1	1.6	1.8	3.1	1.9	-0.3
2008 Q1	2.3	0.3	2.6	2.7	2.4	2.6	1.4	0.5
Q2	1.6	1.0	1.0	1.2	1.0	2.5	1.5	0.1
<i>contributions to quarter-on-quarter percentage changes of value added in percentage points</i>								
2007 Q2	0.6	0.0	0.2	0.0	0.2	0.2	0.1	-
Q3	0.6	0.0	0.2	0.0	0.1	0.2	0.1	-
Q4	0.5	0.0	0.1	0.1	0.0	0.2	0.1	-
2008 Q1	0.6	0.0	0.1	0.2	0.1	0.1	0.0	-
Q2	-0.1	0.0	-0.2	-0.1	-0.1	0.2	0.1	-
<i>contributions to annual percentage changes of value added in percentage points</i>								
2004	2.3	0.3	0.6	0.1	0.6	0.5	0.4	-
2005	1.7	-0.2	0.3	0.1	0.4	0.8	0.3	-
2006	2.8	0.0	0.7	0.2	0.6	1.0	0.3	-
2007	2.8	0.0	0.7	0.2	0.6	0.9	0.4	-
2007 Q2	2.8	0.0	0.7	0.2	0.6	0.9	0.4	-
Q3	2.7	0.0	0.7	0.1	0.6	0.9	0.4	-
Q4	2.4	0.0	0.6	0.1	0.4	0.9	0.4	-
2008 Q1	2.3	0.0	0.5	0.2	0.5	0.7	0.3	-
Q2	1.6	0.0	0.2	0.1	0.2	0.7	0.3	-

Sources: Eurostat and ECB calculations.

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

## 5.2 Output and demand

(annual percentage changes, unless otherwise indicated)

### 3. Industrial production

	Total		Industry excluding construction									Construction
	Total (s.a. index 2000 = 100)	Total	Industry excluding construction and energy							Energy		
			Manu- facturing	Total	Intermediate goods	Capital goods	Consumer goods					
							Total	Durable	Non-durable			
% of total <sup>1)</sup>	100.0	82.8	82.8	74.8	73.7	29.9	22.2	21.6	3.6	18.0	9.0	17.2
	1	2	3	4	5	6	7	8	9	10	11	12
2005	1.4	104.0	1.4	1.5	1.2	0.9	3.0	0.5	-0.7	0.7	1.4	0.7
2006	4.0	108.2	4.0	4.4	4.4	4.9	5.9	2.5	4.4	2.2	0.8	3.9
2007	3.4	111.8	3.4	4.0	3.7	3.8	5.9	2.3	1.2	2.5	-0.5	3.2
2007 Q3	3.7	112.9	3.9	4.2	4.0	3.5	6.6	3.0	2.1	3.2	1.1	1.7
Q4	2.5	112.7	2.9	2.6	2.0	1.8	5.2	0.7	-2.7	1.2	5.5	-0.4
2008 Q1	2.4	113.1	2.5	1.9	1.8	1.5	5.2	0.3	-1.9	0.7	4.4	1.4
Q2	0.4	112.3	0.9	1.0	0.6	0.1	3.7	-1.5	-3.4	-1.1	1.5	-2.3
2008 Jan.	3.3	113.2	3.3	3.3	3.1	2.2	6.8	1.6	-0.5	2.0	2.9	3.2
Feb.	3.3	113.4	3.1	2.9	3.4	1.9	6.5	0.9	-1.1	1.2	4.4	4.4
Mar.	0.9	112.7	1.4	-0.2	-0.8	0.6	2.9	-1.4	-3.8	-1.0	6.1	-2.4
Apr.	3.0	113.8	4.0	4.4	4.3	2.6	7.5	0.7	1.1	0.6	6.3	-2.3
May	-0.6	111.7	-0.5	-0.5	-1.1	-0.7	2.6	-3.5	-5.3	-3.2	-1.0	-1.6
June	-1.2	111.4	-0.8	-0.8	-1.2	-1.4	1.2	-1.5	-5.7	-0.8	-0.8	-3.2
<i>month-on-month percentage changes (s.a.)</i>												
2008 Jan.	0.9	-	0.6	1.0	1.2	0.7	2.2	0.7	1.7	0.6	-4.4	2.3
Feb.	0.4	-	0.2	0.0	0.3	0.2	0.5	-0.4	-0.1	-0.4	1.6	0.9
Mar.	-1.1	-	-0.6	-0.7	-1.8	-0.6	-1.8	-0.8	-1.9	-0.6	2.9	-2.7
Apr.	0.6	-	0.9	0.4	2.0	0.3	2.1	0.5	1.9	0.2	-1.1	-0.8
May	-1.6	-	-1.9	-1.4	-2.4	-1.5	-2.0	-1.7	-3.3	-1.4	-2.5	0.1
June	-0.4	-	-0.2	-0.2	-0.2	-0.4	-0.5	0.6	-0.4	0.8	0.9	-1.0

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

	Industrial new orders		Industrial turnover		Retail sales							New passenger car registrations	
	Manufacturing <sup>2)</sup> (current prices)		Manufacturing (current prices)		Current prices	Constant prices						Total (s.a., thousands) <sup>3)</sup>	Total
	Total (s.a. index 2000 = 100)	Total	Total (s.a. index 2000 = 100)	Total	Total	Total (s.a. index 2000 = 100)	Total	Food, beverages, tobacco	Non-food				
									Textiles, clothing, footwear	Household equipment			
% of total <sup>1)</sup>	100.0	100.0	100.0	100.0	100.0	100.0	43.7	56.3	10.6	14.8	12	13	
	1	2	3	4	5	6	7	8	9	10	11	12	13
2005	109.1	3.9	110.8	3.6	2.3	106.8	1.4	0.8	1.8	2.5	1.4	939	0.9
2006	119.3	9.3	118.9	7.3	2.9	108.5	1.6	0.3	2.5	2.7	4.4	968	3.0
2007	128.8	8.3	126.1	6.3	2.4	109.6	0.9	-0.3	1.8	3.3	2.1	964	-0.5
2007 Q3	129.1	6.4	127.5	6.3	2.6	110.2	1.3	-0.8	2.8	5.6	2.6	963	2.1
Q4	131.2	8.2	127.0	5.2	2.1	109.1	-0.3	-0.8	0.2	0.3	-1.2	976	0.3
2008 Q1	130.8	3.9	131.3	4.5	3.1	108.9	-0.2	-1.5	0.6	0.1	-1.4	947	-0.6
Q2	128.7	-0.2	132.2	6.2	1.9	107.9	-1.5	-2.4	-1.0	-2.3	-2.3	910	-5.0
2008 Feb.	131.4	9.5	131.8	10.3	4.8	109.2	1.7	0.5	2.4	4.8	0.0	975	5.7
Mar.	129.0	-3.8	130.0	-3.1	0.9	108.0	-2.9	-3.3	-2.8	-6.8	-4.2	916	-4.7
Apr.	133.7	12.7	132.8	14.5	1.1	107.8	-1.7	-2.1	-1.1	-8.7	-1.3	942	2.2
May	126.4	-4.4	131.3	1.1	3.8	108.5	0.3	-0.8	0.8	5.4	-0.8	897	-9.9
June	126.1	-7.5	132.4	3.7	0.8	107.5	-3.2	-4.2	-2.5	-2.9	-4.7	891	-6.5
July	.	.	.	.	0.9	107.1	-2.8	-3.4	-2.2	.	.	.	.
<i>month-on-month percentage changes (s.a.)</i>													
2008 Feb.	-	-0.4	-	-0.2	0.0	-	-0.2	0.1	-0.5	1.5	-0.2	-	2.7
Mar.	-	-1.9	-	-1.4	-0.9	-	-1.1	-0.5	-1.5	-6.4	-2.2	-	-6.0
Apr.	-	3.6	-	2.2	0.4	-	-0.1	-0.4	0.1	-0.6	0.9	-	2.8
May	-	-5.4	-	-1.2	0.8	-	0.6	0.0	1.0	6.1	0.2	-	-4.8
June	-	-0.3	-	0.9	-0.6	-	-0.9	-0.7	-0.9	-2.6	-1.7	-	-0.7
July	-	.	-	.	0.0	-	-0.4	-0.9	-0.1	.	.	-	.

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

1) In 2000.

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

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

## 5.2 Output and demand

(percentage balances,<sup>1)</sup> unless otherwise indicated; seasonally adjusted)

## 5. Business and Consumer Surveys

	Economic sentiment indicator <sup>2)</sup> (long-term average = 100)	Manufacturing industry					Consumer confidence indicator				
		Industrial confidence indicator				Capacity utilisation <sup>3)</sup> (percentages)	Total <sup>4)</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>4)</sup>	Order books	Stocks of finished products	Production expectations						
	1	2	3	4	5	6	7	8	9	10	11
2004	98.7	-5	-15	8	10	81.4	-14	-4	-14	30	-9
2005	97.4	-7	-17	11	6	81.2	-14	-4	-15	28	-9
2006	106.3	2	0	6	13	83.2	-9	-3	-9	15	-9
2007	108.4	4	5	5	13	84.2	-5	-2	-4	5	-8
2007 Q2	111.0	6	8	4	15	84.3	-3	-1	0	2	-7
Q3	108.7	4	5	6	13	84.0	-4	-2	-3	3	-7
Q4	104.3	2	1	7	11	84.0	-8	-4	-10	7	-10
2008 Q1	100.5	0	-1	7	10	83.9	-12	-7	-17	11	-12
Q2	96.5	-3	-6	9	7	83.4	-15	-10	-22	13	-14
2008 Mar.	99.6	0	-1	7	8	-	-12	-7	-17	11	-13
Apr.	97.1	-2	-5	9	8	83.8	-12	-8	-19	11	-12
May	97.6	-2	-5	8	7	-	-15	-10	-21	13	-15
June	94.8	-5	-9	10	5	-	-17	-12	-25	14	-16
July	89.5	-8	-13	11	1	82.9	-20	-13	-30	20	-16
Aug.	88.8	-10	-14	12	-4	-	-19	-12	-28	23	-14
	Construction confidence indicator			Retail trade confidence indicator				Services confidence indicator			
	Total <sup>4)</sup>	Order books	Employment expectations	Total <sup>4)</sup>	Present business situation	Volume of stocks	Expected business situation	Total <sup>4)</sup>	Business climate	Demand in recent months	Demand in the months ahead
	12	13	14	15	16	17	18	19	20	21	22
2004	-12	-19	-4	-8	-12	14	2	11	6	8	18
2005	-7	-11	-2	-7	-12	13	4	11	5	10	18
2006	1	-4	5	1	3	14	13	18	13	18	24
2007	-1	-8	7	1	4	15	12	19	16	19	23
2007 Q2	0	-6	6	2	4	13	14	22	19	22	25
Q3	0	-8	7	1	7	14	11	20	16	20	24
Q4	-3	-11	4	0	4	16	13	15	11	14	20
2008 Q1	-7	-14	-1	-1	2	16	12	10	4	12	15
Q2	-11	-17	-4	-3	-1	16	7	8	3	9	13
2008 Mar.	-9	-15	-3	1	5	15	11	9	2	11	13
Apr.	-12	-18	-6	-5	-4	18	6	7	1	7	12
May	-9	-16	-2	-1	3	14	8	8	4	9	13
June	-11	-19	-4	-4	-3	17	7	9	4	10	14
July	-14	-23	-6	-9	-10	17	1	1	-8	4	7
Aug.	-13	-20	-6	-11	-9	20	-5	3	-3	3	9

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 2007.
- 3) 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.
- 4) 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	85.0	15.0	4.0	17.1	7.7	25.4	15.8	30.0
	1	2	3	4	5	6	7	8	9	10
2004	138.375	0.7	0.7	0.9	-2.8	-1.4	1.3	1.2	2.4	1.3
2005	139.691	1.0	1.1	0.4	-0.8	-1.1	2.6	0.8	2.4	1.5
2006	141.917	1.6	1.7	0.8	-1.5	-0.4	2.6	1.5	3.8	2.0
2007	144.459	1.8	2.0	0.7	-1.1	0.3	3.9	1.7	4.3	1.3
2007 Q1	143.484	1.8	2.0	0.5	-0.1	0.3	4.9	1.1	4.1	1.4
Q2	144.232	1.7	1.9	0.6	-1.4	0.4	4.6	1.4	4.6	1.0
Q3	144.832	1.9	2.0	1.3	-1.3	0.2	3.6	2.2	4.2	1.4
Q4	145.288	1.8	2.0	0.5	-1.6	0.3	2.4	2.3	4.2	1.3
2008 Q1	145.729	1.6	1.8	0.7	-1.8	0.5	0.6	2.3	3.8	1.1
	<i>quarter-on-quarter percentage changes (s.a.)</i>									
2007 Q1	0.775	0.5	0.6	0.4	0.8	0.1	1.9	0.4	1.3	0.1
Q2	0.748	0.5	0.5	0.5	-0.6	0.1	0.4	0.8	1.3	0.3
Q3	0.601	0.4	0.5	0.1	-1.1	0.0	-0.1	0.8	0.7	0.5
Q4	0.456	0.3	0.5	-0.6	-0.6	0.2	0.3	0.1	0.9	0.4
2008 Q1	0.442	0.3	0.3	0.6	0.4	0.2	-0.1	0.5	0.9	-0.1

### 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		78.1		21.9		49.7		50.3	
	1	2	3	4	5	6	7	8	9	10
2004	13.100	8.8	10.159	7.7	2.941	17.1	6.557	7.9	6.543	10.0
2005	13.286	8.8	10.341	7.8	2.945	17.2	6.697	8.0	6.589	9.9
2006	12.514	8.3	9.774	7.3	2.740	16.2	6.215	7.4	6.299	9.3
2007	11.372	7.4	8.894	6.5	2.478	14.8	5.592	6.6	5.780	8.4
2007 Q2	11.406	7.5	8.932	6.6	2.474	14.8	5.583	6.6	5.823	8.5
Q3	11.273	7.3	8.825	6.5	2.448	14.6	5.561	6.6	5.712	8.3
Q4	11.176	7.3	8.719	6.4	2.457	14.6	5.517	6.5	5.659	8.2
2008 Q1	11.123	7.2	8.687	6.3	2.436	14.5	5.503	6.5	5.620	8.1
Q2	11.293	7.3	8.804	6.4	2.489	14.8	5.661	6.6	5.632	8.1
2008 Feb.	11.112	7.2	8.679	6.3	2.433	14.5	5.495	6.5	5.617	8.1
Mar.	11.116	7.2	8.678	6.3	2.438	14.5	5.515	6.5	5.601	8.1
Apr.	11.224	7.3	8.752	6.3	2.473	14.7	5.596	6.6	5.629	8.1
May	11.308	7.3	8.810	6.4	2.497	14.8	5.671	6.6	5.636	8.1
June	11.348	7.3	8.850	6.4	2.498	14.9	5.717	6.7	5.631	8.1
July	11.375	7.3	8.894	6.4	2.481	14.7	5.756	6.7	5.619	8.1

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

	Current revenue											Capital revenue		Memo: fiscal burden <sup>2)</sup>
	Total	Direct taxes					Indirect taxes	Social contributions			Sales	Capital taxes		
		Households	Corporations	Received by EU institutions	Employers	Employees								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1999	47.0	46.7	12.5	9.3	2.9	14.1	0.6	16.1	8.3	4.9	2.3	0.3	0.3	43.0
2000	46.5	46.2	12.7	9.4	3.0	13.9	0.6	15.8	8.2	4.8	2.2	0.3	0.3	42.6
2001	45.7	45.5	12.3	9.2	2.7	13.5	0.5	15.6	8.1	4.7	2.2	0.2	0.3	41.7
2002	45.2	44.8	11.8	9.1	2.5	13.5	0.4	15.6	8.2	4.6	2.1	0.3	0.3	41.2
2003	45.0	44.4	11.4	8.8	2.3	13.5	0.4	15.7	8.2	4.6	2.1	0.6	0.5	41.1
2004	44.6	44.1	11.3	8.5	2.5	13.5	0.3	15.6	8.1	4.5	2.1	0.5	0.4	40.8
2005	44.9	44.4	11.6	8.6	2.6	13.7	0.3	15.4	8.1	4.5	2.2	0.5	0.3	41.0
2006	45.5	45.2	12.1	8.8	3.0	13.9	0.3	15.4	8.1	4.5	2.1	0.3	0.3	41.6
2007	45.6	45.4	12.5	9.0	3.2	13.9	0.3	15.2	8.0	4.4	2.1	0.3	0.3	41.9

### 2. Euro area – expenditure

	Current expenditure									Capital expenditure			Memo: primary expenditure <sup>3)</sup>	
	Total	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social payments		Subsidies	Paid by EU institutions	Investment	Capital transfers	Paid by EU institutions		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
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	44.3
2000	46.5	43.8	10.4	4.8	3.9	24.7	21.7	2.0	0.5	2.8	2.5	1.3	0.0	42.6
2001	47.6	43.7	10.3	4.8	3.8	24.8	21.7	1.9	0.5	3.9	2.5	1.4	0.0	43.8
2002	47.7	43.9	10.4	4.9	3.5	25.1	22.2	1.9	0.5	3.8	2.4	1.4	0.0	44.2
2003	48.1	44.2	10.5	4.9	3.3	25.4	22.6	1.9	0.5	3.9	2.5	1.4	0.1	44.8
2004	47.5	43.6	10.4	5.0	3.1	25.1	22.4	1.8	0.5	3.9	2.5	1.4	0.0	44.4
2005	47.4	43.5	10.4	5.1	3.0	25.1	22.3	1.7	0.5	3.9	2.5	1.4	0.0	44.4
2006	46.8	43.0	10.2	5.0	2.9	24.9	22.1	1.7	0.5	3.9	2.5	1.4	0.0	43.9
2007	46.2	42.5	10.1	5.0	3.0	24.5	21.7	1.6	0.4	3.8	2.5	1.3	0.0	43.3

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

	Deficit (-)/surplus (+)					Primary deficit (-)/surplus (+)	Government consumption <sup>4)</sup>							
	Total	Central gov.	State gov.	Local gov.	Social security funds		Total	Compensation of employees	Intermediate consumption	Transfers in kind via market producers	Consumption of fixed capital	Sales (minus)	Collective consumption	Individual consumption
1999	-1.4	-1.7	-0.1	0.1	0.4	2.7	19.9	10.6	4.8	4.9	1.8	2.3	8.3	11.6
2000	0.0	-0.4	-0.1	0.1	0.5	3.9	19.7	10.4	4.8	4.9	1.8	2.2	8.2	11.6
2001	-1.8	-1.7	-0.4	-0.1	0.3	2.0	19.8	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	20.2	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	1.8	2.1	8.3	12.2
2004	-2.9	-2.5	-0.4	-0.3	0.2	0.2	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	-1.3	-1.4	-0.1	-0.2	0.4	1.6	20.3	10.2	5.0	5.2	1.9	2.1	8.0	12.3
2007	-0.6	-1.1	0.0	0.0	0.5	2.4	20.1	10.1	5.0	5.2	1.9	2.1	7.9	12.2

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

	BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	FI
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004	0.0	-3.8	1.4	-7.4	-0.3	-3.6	-3.5	-4.1	-1.2	-4.6	-1.7	-3.7	-3.4	-2.3	2.4
2005	-2.3	-3.4	1.6	-5.1	1.0	-2.9	-4.2	-2.4	-0.1	-3.0	-0.3	-1.5	-6.1	-1.5	2.9
2006	0.3	-1.6	3.0	-2.6	1.8	-2.4	-3.4	-1.2	1.3	-2.5	0.5	-1.5	-3.9	-1.2	4.1
2007	-0.2	0.0	0.3	-2.8	2.2	-2.7	-1.9	3.3	2.9	-1.8	0.4	-0.5	-2.6	-0.1	5.3

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

1) The data refer to the Euro 15. Revenue, expenditure and deficit/surplus are based on the ESA 95. 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	
1998	72.8	2.8	15.2	5.3	49.6	52.5	26.5	14.5	11.5	20.4
1999	72.0	2.9	14.4	4.3	50.5	48.8	25.3	13.8	9.7	23.2
2000	69.3	2.7	13.1	3.7	49.7	44.2	22.0	12.4	9.8	25.1
2001	68.2	2.8	12.4	4.0	49.0	42.0	20.6	11.1	10.4	26.2
2002	68.0	2.7	11.8	4.5	49.0	40.2	19.3	10.7	10.1	27.9
2003	69.2	2.1	12.4	5.0	49.7	39.4	19.5	11.2	8.7	29.7
2004	69.6	2.2	11.9	5.0	50.5	37.6	18.4	10.8	8.3	32.0
2005	70.2	2.4	11.8	4.7	51.3	35.5	17.2	11.1	7.2	34.7
2006	68.5	2.5	11.4	4.1	50.5	33.8	17.5	9.4	6.9	34.6
2007	66.3	2.2	10.8	4.3	49.1	32.3	17.0	8.5	6.9	34.0

### 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
1998	72.8	61.2	6.1	5.2	0.4	8.2	64.6	7.8	15.5	26.4	30.9	71.0	1.8
1999	72.0	60.5	6.0	5.1	0.4	7.3	64.7	6.8	13.6	27.9	30.6	69.9	2.1
2000	69.3	58.1	5.9	4.9	0.4	6.5	62.7	6.1	13.4	27.8	28.0	67.3	1.9
2001	68.2	57.0	6.1	4.7	0.4	7.0	61.2	5.2	13.7	26.5	28.0	66.5	1.7
2002	68.0	56.6	6.3	4.7	0.4	7.6	60.4	5.1	15.3	25.0	27.7	66.6	1.5
2003	69.2	57.0	6.5	5.1	0.6	7.8	61.4	5.0	14.8	25.8	28.6	68.0	1.1
2004	69.6	57.4	6.6	5.1	0.4	7.8	61.7	4.7	14.7	26.2	28.7	68.5	1.1
2005	70.2	57.7	6.7	5.3	0.5	7.9	62.3	4.6	14.9	25.7	29.6	68.9	1.2
2006	68.5	56.0	6.5	5.4	0.5	7.5	61.0	4.5	14.4	24.5	29.6	67.5	1.0
2007	66.3	54.2	6.3	5.3	0.5	7.5	58.9	4.2	14.2	23.4	28.8	65.5	0.8

### 3. Euro area countries

	BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	FI
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004	94.2	65.6	29.5	98.6	46.2	64.9	103.8	70.2	6.3	72.6	52.4	63.8	58.3	27.6	44.1
2005	92.1	67.8	27.4	98.0	43.0	66.4	105.8	69.1	6.1	70.4	52.3	63.5	63.6	27.5	41.3
2006	88.2	67.6	25.1	95.3	39.7	63.6	106.5	64.8	6.6	64.2	47.9	61.8	64.7	27.2	39.2
2007	84.9	65.0	25.4	94.5	36.2	64.2	104.0	59.8	6.8	62.6	45.4	59.1	63.6	24.1	35.4

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

- 1) The data refer to the Euro 15. 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			Other creditors <sup>7)</sup>
		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	
	1	2	3	4	5	6	7	8	9	10	11	12	13
1999	2.0	1.6	0.4	0.0	-0.1	0.2	-0.2	-0.9	2.8	-1.6	-0.2	-0.2	3.6
2000	1.0	1.1	0.0	-0.1	0.0	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	0.7	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	0.0	0.0	0.0	0.3	0.3	-0.1	2.6	-0.8	-0.6	0.7	3.9
2006	1.5	1.4	0.1	0.0	0.0	0.2	0.1	-0.4	1.5	0.0	1.1	-1.2	1.5
2007	1.1	1.1	0.0	0.0	0.0	-0.1	-0.1	0.4	0.9	0.1	0.3	-0.5	1.0

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

	Change in debt	Deficit (-) / surplus (+) <sup>8)</sup>	Deficit-debt adjustment <sup>9)</sup>											Other <sup>10)</sup>
			Total	Transactions in main financial assets held by general government							Valuation effects	Exchange rate effects	Other changes in volume	
				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
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	-0.1	0.1
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	-0.1
2003	3.1	-3.1	0.0	0.1	0.1	0.0	0.0	0.1	-0.2	0.1	-0.2	-0.1	0.0	0.1
2004	3.1	-2.9	0.2	0.3	0.2	0.0	0.1	0.0	-0.5	0.2	-0.1	-0.1	0.0	0.0
2005	3.1	-2.6	0.5	0.7	0.4	0.1	0.1	0.1	-0.3	0.2	0.0	0.0	0.0	-0.2
2006	1.5	-1.3	0.1	0.4	0.4	-0.1	0.3	-0.1	-0.3	0.1	0.1	0.0	0.0	-0.3
2007	1.1	-0.6	0.5	0.5	0.2	0.0	0.2	0.1	-0.3	0.2	0.0	0.0	0.0	0.0

Source: ECB.

- The data refer to the Euro 15 and are partially estimated. Annual change in gross nominal consolidated debt is expressed as a percentage of GDP, i.e.  $[\text{debt}(t) - \text{debt}(t-1)] \div \text{GDP}(t)$ .
- The borrowing requirement is by definition equal to transactions in debt.
- 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).
- Includes, in particular, the impact of the reclassification of units and certain types of debt assumption.
- 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.
- Holder's resident in the country whose government has issued the debt.
- Includes residents of euro area countries other than the country whose government has issued the debt.
- Including proceeds from sales of UMTS licences.
- The difference between the annual change in gross nominal consolidated debt and the deficit as a percentage of GDP.
- Mainly composed of transactions in other assets and liabilities (trade credits, other receivables/payables and financial derivatives).
- 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	
2002 Q1	41.8	41.4	10.1	12.7	15.4	1.7	0.7	0.4	0.2	38.4
Q2	45.5	45.0	12.4	12.7	15.4	1.9	1.7	0.5	0.3	40.9
Q3	43.5	43.0	11.2	12.8	15.4	1.9	0.7	0.4	0.3	39.7
Q4	49.0	48.4	13.4	14.0	16.2	2.9	0.9	0.6	0.3	44.0
2003 Q1	41.9	41.4	9.8	12.8	15.5	1.7	0.7	0.5	0.2	38.3
Q2	46.0	44.6	12.0	12.9	15.7	2.0	1.4	1.5	1.2	41.7
Q3	42.6	42.2	10.8	12.5	15.5	1.9	0.6	0.5	0.2	39.1
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	9.6	12.8	15.3	1.7	0.6	0.4	0.3	38.0
Q2	45.0	44.2	12.1	13.0	15.3	2.0	1.0	0.8	0.6	41.0
Q3	42.7	42.2	10.6	12.7	15.4	1.9	0.6	0.5	0.3	39.0
Q4	49.1	48.1	12.9	14.3	16.2	2.9	0.7	1.0	0.4	43.8
2005 Q1	42.0	41.5	9.9	13.0	15.3	1.7	0.6	0.5	0.3	38.4
Q2	44.6	44.0	11.8	13.2	15.1	2.0	1.1	0.6	0.3	40.4
Q3	43.3	42.6	11.0	12.9	15.2	1.9	0.7	0.7	0.3	39.5
Q4	49.2	48.4	13.4	14.3	16.1	2.9	0.8	0.8	0.3	44.1
2006 Q1	42.5	42.0	10.2	13.3	15.1	1.7	0.8	0.5	0.3	39.0
Q2	45.8	45.3	12.5	13.6	15.2	2.0	1.3	0.4	0.3	41.5
Q3	43.7	43.2	11.5	12.9	15.2	1.9	0.7	0.5	0.3	40.0
Q4	49.6	48.9	14.1	14.3	15.9	2.9	0.8	0.6	0.3	44.6
2007 Q1	42.3	41.9	10.3	13.5	14.8	1.7	0.8	0.4	0.3	38.9
Q2	46.3	45.8	13.0	13.6	15.1	2.0	1.4	0.4	0.3	41.9
Q3	43.8	43.3	12.1	12.8	15.0	1.9	0.7	0.4	0.3	40.2
Q4	49.8	49.2	14.5	14.2	15.9	2.9	0.9	0.6	0.3	44.9
2008 Q1	42.3	41.9	10.6	13.1	14.9	1.7	0.8	0.4	0.2	38.8

### 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		
2002 Q1	46.1	42.7	10.2	4.4	3.7	24.4	21.1	1.4	3.4	2.0	1.5	-4.3	-0.7
Q2	46.4	43.0	10.3	4.8	3.5	24.3	21.1	1.3	3.4	2.3	1.1	-0.9	2.6
Q3	46.9	43.2	10.1	4.7	3.5	24.9	21.4	1.4	3.7	2.5	1.2	-3.4	0.1
Q4	50.8	46.3	11.1	5.6	3.3	26.4	22.7	1.6	4.4	2.8	1.6	-1.8	1.5
2003 Q1	46.8	43.3	10.3	4.6	3.5	25.0	21.4	1.3	3.5	1.9	1.6	-4.9	-1.4
Q2	47.1	43.6	10.4	4.8	3.4	25.1	21.7	1.3	3.5	2.3	1.2	-1.1	2.3
Q3	47.1	43.4	10.3	4.8	3.3	25.1	21.6	1.3	3.7	2.5	1.2	-4.5	-1.2
Q4	51.1	46.3	11.0	5.6	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	3.1	25.0	21.4	1.2	3.4	1.9	1.5	-5.0	-1.9
Q2	46.6	43.2	10.4	4.8	3.3	24.8	21.4	1.3	3.3	2.3	1.0	-1.6	1.7
Q3	46.1	42.7	10.0	4.7	3.1	24.9	21.5	1.3	3.4	2.4	1.0	-3.4	-0.3
Q4	50.9	45.7	11.0	5.7	2.9	26.1	22.6	1.4	5.2	3.1	2.1	-1.8	1.1
2005 Q1	46.9	43.1	10.2	4.7	3.1	25.2	21.4	1.2	3.7	1.9	1.8	-4.9	-1.8
Q2	46.2	42.8	10.2	4.9	3.2	24.5	21.3	1.1	3.4	2.3	1.1	-1.5	1.6
Q3	45.8	42.4	9.9	4.8	2.9	24.7	21.3	1.2	3.4	2.5	1.0	-2.5	0.4
Q4	50.6	45.8	11.1	5.8	2.8	26.1	22.6	1.4	4.8	3.1	1.6	-1.4	1.3
2006 Q1	45.4	42.2	10.0	4.5	2.9	24.7	21.2	1.2	3.1	1.9	1.2	-2.9	0.0
Q2	45.6	42.3	10.3	4.8	3.1	24.2	21.2	1.1	3.2	2.3	0.9	0.2	3.3
Q3	45.4	42.0	9.9	4.7	2.9	24.5	21.1	1.2	3.5	2.5	1.0	-1.8	1.1
Q4	50.5	45.2	10.7	5.8	2.7	25.9	22.3	1.3	5.4	3.2	2.2	-1.0	1.7
2007 Q1	44.5	41.3	9.8	4.5	3.0	24.0	20.6	1.1	3.1	2.0	1.2	-2.2	0.8
Q2	44.8	41.7	10.0	4.8	3.2	23.7	20.7	1.1	3.2	2.3	0.8	1.5	4.6
Q3	44.8	41.4	9.7	4.7	3.0	24.0	20.8	1.2	3.4	2.5	0.9	-1.0	2.0
Q4	50.5	45.2	10.7	5.8	2.8	25.9	22.2	1.4	5.3	3.3	1.9	-0.7	2.1
2008 Q1	44.5	41.4	9.8	4.6	2.9	24.1	20.5	1.2	3.1	2.0	1.1	-2.2	0.7

Source: ECB calculations based on Eurostat and national data.

1) The data refer to the Euro 15. 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 <sup>1)</sup>

(as a percentage of GDP)

### 1. Euro area – Maastricht debt by financial instrument <sup>2)</sup>

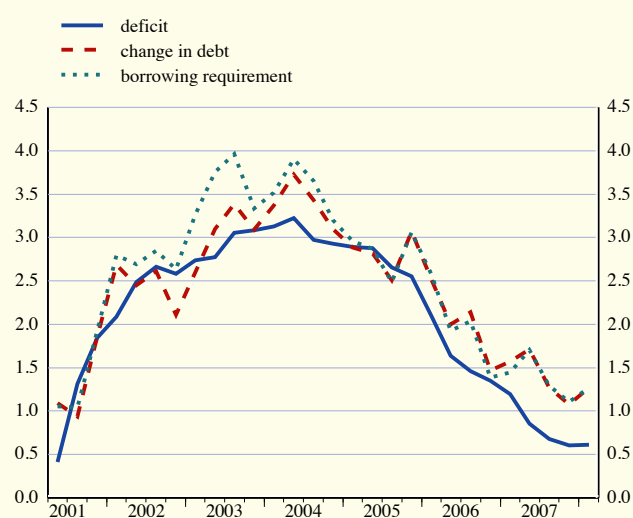
	Total 1	Financial instruments			
		Currency and deposits 2	Loans 3	Short-term securities 4	Long-term securities 5
2005 Q2	71.5	2.3	11.7	5.2	52.3
Q3	71.0	2.4	11.8	5.2	51.8
Q4	70.2	2.4	11.8	4.7	51.3
2006 Q1	70.5	2.5	11.7	4.9	51.4
Q2	70.6	2.5	11.6	4.9	51.6
Q3	70.1	2.5	11.6	4.7	51.3
Q4	68.5	2.5	11.4	4.1	50.5
2007 Q1	68.8	2.4	11.4	4.8	50.2
Q2	69.0	2.2	11.2	5.1	50.5
Q3	68.0	2.1	11.0	5.2	49.7
Q4	66.3	2.2	10.8	4.3	49.1
2008 Q1	67.1	2.2	10.9	5.1	49.1

### 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
2005 Q2	5.4	-1.5	3.9	3.3	2.5	0.0	0.3	0.5	0.1	0.4	5.3
Q3	0.6	-2.5	-2.0	-2.4	-2.3	0.0	0.3	-0.4	0.1	0.4	0.5
Q4	-0.6	-1.4	-2.1	-0.4	0.0	0.0	-0.3	-0.1	0.0	-1.6	-0.6
2006 Q1	4.8	-2.9	1.9	1.3	1.0	0.1	0.6	-0.5	-0.4	1.0	5.2
Q2	3.3	0.2	3.5	3.2	2.5	0.1	0.4	0.2	0.6	-0.4	2.6
Q3	1.2	-1.8	-0.6	-0.8	-0.7	-0.1	0.2	-0.2	0.2	0.0	1.0
Q4	-3.1	-1.0	-4.1	-2.1	-1.2	-0.6	-0.2	-0.2	-0.1	-1.9	-3.0
2007 Q1	5.1	-2.2	2.9	2.0	1.1	0.1	0.6	0.2	-0.2	1.0	5.2
Q2	3.7	1.5	5.2	4.7	4.1	0.0	0.5	0.1	0.1	0.3	3.6
Q3	-0.6	-1.0	-1.6	-1.6	-2.2	0.0	0.4	0.2	0.0	-0.1	-0.6
Q4	-3.6	-0.7	-4.3	-2.9	-2.1	-0.1	-0.6	-0.1	-0.1	-1.3	-3.5
2008 Q1	5.7	-2.2	3.5	2.3	1.9	0.0	0.1	0.3	-0.1	1.2	5.7

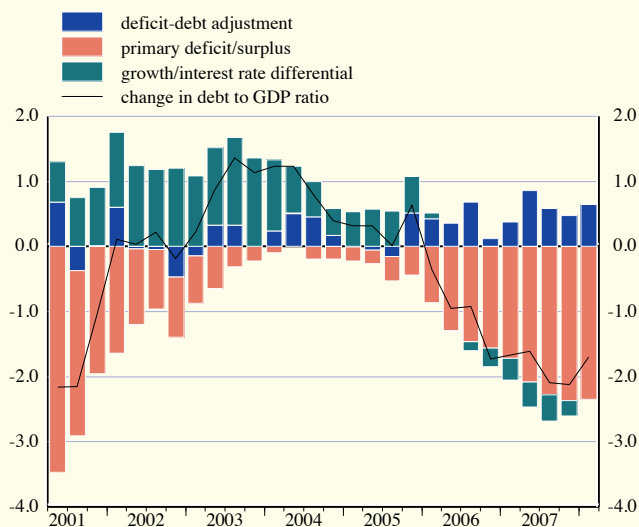
### C28 Deficit, borrowing requirement and change in debt

(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 data refer to the Euro 15.

2) The stock data in quarter t are expressed as a percentage of the sum of GDP in t and the previous three quarters.



## EXTERNAL TRANSACTIONS AND POSITIONS

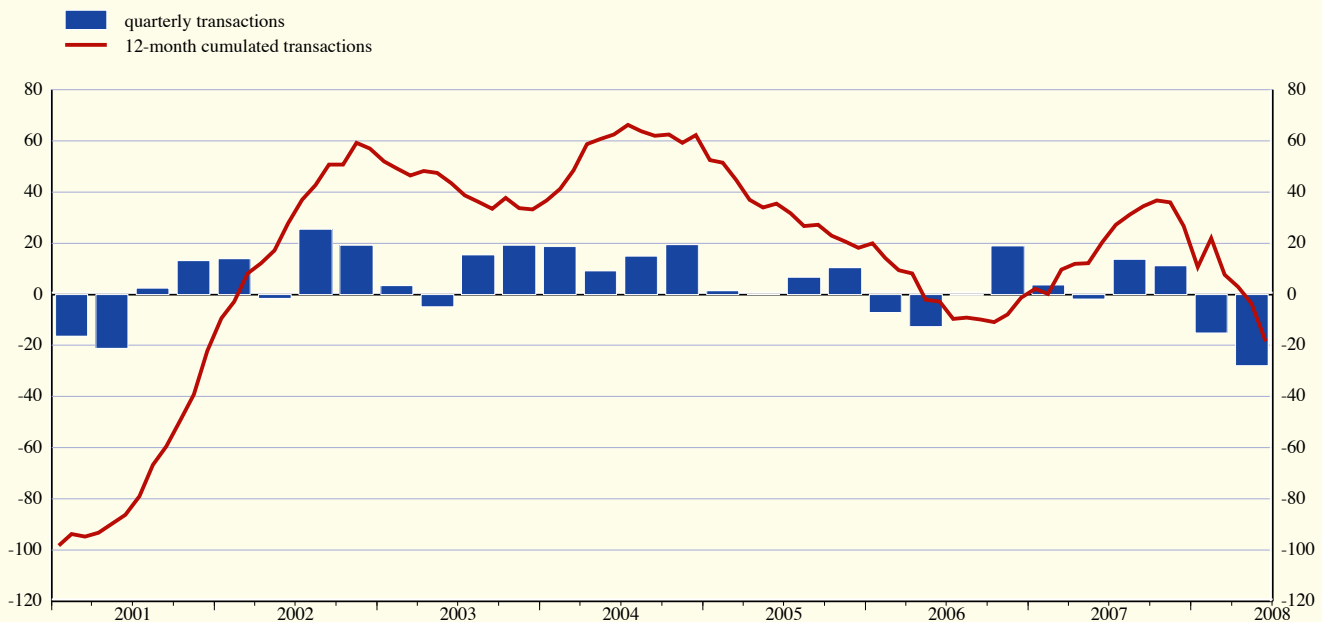
### 7.1 Summary balance of payments <sup>1)</sup>

(EUR billions; net transactions)

	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
2005	18.1	48.3	37.3	5.4	-72.9	11.4	29.6	9.2	-216.4	131.4	-18.2	94.5	18.0	-38.8
2006	-1.3	19.2	42.3	15.1	-77.9	9.2	7.9	112.4	-144.7	266.3	2.4	-10.3	-1.3	-120.3
2007	26.6	55.6	50.9	4.2	-84.1	13.9	40.5	96.2	-117.3	235.7	-90.5	73.7	-5.3	-136.7
2007 Q2	-2.0	20.1	14.0	-19.4	-16.7	2.1	0.1	49.8	-57.9	90.4	-19.7	41.2	-4.2	-50.0
Q3	13.6	17.1	17.2	5.0	-25.6	1.6	15.2	97.5	-40.9	65.1	-26.8	104.4	-4.4	-112.7
Q4	11.1	9.7	10.3	11.6	-20.5	5.6	16.7	-80.5	-4.3	-62.3	-28.8	10.0	4.9	63.8
2008 Q1	-15.2	-2.9	10.7	6.1	-29.0	5.6	-9.6	19.2	-104.8	73.4	-14.9	70.7	-5.1	-9.6
Q2	-28.0	2.9	11.3	-24.3	-17.9	2.1	-25.9	79.2	-53.2	72.7	-39.0	98.9	-0.1	-53.3
2007 June	13.7	11.2	6.5	0.0	-4.0	0.0	13.8	-8.8	-26.9	72.6	-8.3	-44.2	-1.9	-5.0
July	6.3	7.8	5.6	0.7	-7.7	0.9	7.2	48.0	-0.1	20.6	-12.9	43.4	-3.0	-55.3
Aug.	1.1	3.6	4.3	1.6	-8.5	0.2	1.3	66.5	0.5	3.8	-5.2	66.4	1.0	-67.8
Sep.	6.2	5.7	7.2	2.8	-9.4	0.4	6.7	-17.0	-41.2	40.7	-8.8	-5.3	-2.3	10.3
Oct.	4.2	7.2	4.0	3.3	-10.3	1.4	5.6	-41.0	35.4	-50.9	1.5	-27.0	0.1	35.5
Nov.	2.9	4.8	3.1	1.7	-6.7	1.1	3.9	12.6	9.6	9.9	-22.7	15.5	0.3	-16.5
Dec.	4.1	-2.2	3.1	6.6	-3.4	3.2	7.3	-52.1	-49.2	-21.2	-7.6	21.4	4.6	44.9
2008 Jan.	-18.0	-9.1	3.1	-1.3	-10.8	2.4	-15.6	22.9	-51.9	53.0	-19.2	47.4	-6.4	-7.2
Feb.	7.6	4.7	4.3	4.4	-5.8	2.2	9.8	-8.4	-22.4	14.7	1.7	-7.0	4.6	-1.4
Mar.	-4.8	1.4	3.2	3.0	-12.4	1.0	-3.8	4.7	-30.5	5.7	2.6	30.2	-3.3	-0.9
Apr.	-7.4	4.2	3.0	-7.0	-7.7	0.5	-6.8	18.2	-22.4	-3.7	-14.2	61.9	-3.4	-11.4
May	-19.6	-3.3	4.1	-15.6	-4.8	1.8	-17.8	45.3	-8.8	22.2	-29.6	58.7	2.8	-27.5
June	-1.0	1.9	4.2	-1.8	-5.4	-0.2	-1.2	15.7	-22.0	54.2	4.8	-21.7	0.5	-14.5
	<i>12-month cumulated transactions</i>													
2008 June	-18.4	26.8	49.5	-1.6	-93.1	14.9	-3.5	115.4	-203.2	148.9	-109.5	283.9	-4.7	-111.9

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

(EUR billions)



Source: ECB.

1) The sign convention is explained in the general notes.

## 7.2 Current and capital accounts

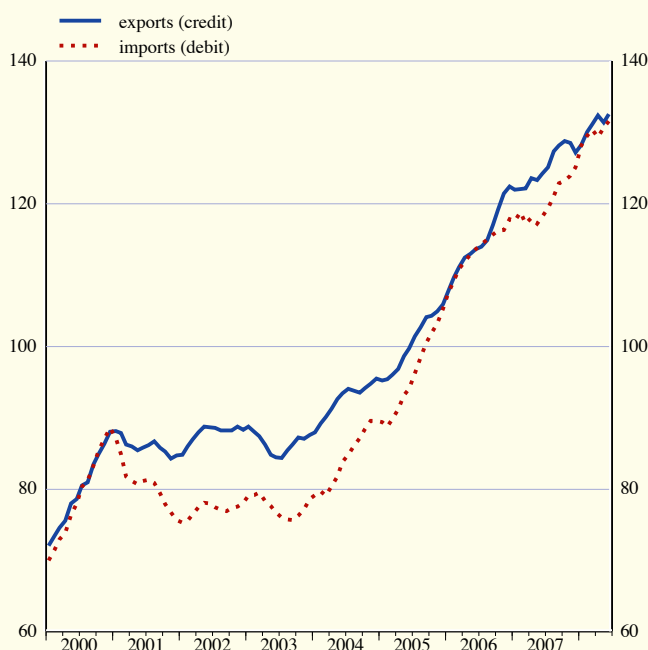
(EUR billions; transactions)

### 1. Summary 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				
											Workers remittances	Workers remittances			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2005	2,090.7	2,072.6	18.1	1,220.3	1,172.0	405.9	368.5	378.7	373.3	85.8	5.3	158.8	14.6	24.3	12.9
2006	2,401.1	2,402.4	-1.3	1,391.2	1,372.0	437.0	394.8	483.7	468.6	89.2	5.4	167.0	16.9	23.7	14.5
2007	2,643.9	2,617.3	26.6	1,504.4	1,448.8	492.2	441.3	557.2	553.0	90.1	6.1	174.2	20.3	25.6	11.7
2007 Q2	656.0	658.0	-2.0	373.6	353.5	120.2	106.2	142.7	162.0	19.5	1.6	36.2	4.9	4.6	2.5
Q3	665.5	651.9	13.6	376.1	359.0	135.4	118.2	137.6	132.6	16.4	1.7	42.1	5.2	4.3	2.8
Q4	694.9	683.7	11.1	393.2	383.4	125.2	114.9	149.4	137.8	27.1	1.4	47.6	5.5	8.9	3.4
2008 Q1	675.5	690.7	-15.2	387.1	390.1	114.9	104.2	147.6	141.5	25.9	1.5	54.9	5.0	8.9	3.3
Q2	695.4	723.4	-28.0	402.2	399.3	122.1	110.8	150.6	174.9	20.5	-	38.4	-	6.2	4.1
2008 Apr.	235.5	242.9	-7.4	138.0	133.7	39.9	36.9	50.1	57.1	7.5	.	15.2	.	1.5	1.0
May	225.5	245.1	-19.6	128.4	131.7	40.0	36.0	50.2	65.8	6.8	.	11.7	.	2.7	0.9
June	234.5	235.5	-1.0	135.8	133.9	42.2	38.0	50.3	52.1	6.2	.	11.6	.	2.0	2.2
	Seasonally adjusted														
2007 Q2	652.2	642.0	10.1	372.7	354.5	121.1	110.1	136.1	136.9	22.3	.	40.5	.	.	.
Q3	675.5	665.7	9.8	384.4	368.7	125.7	111.6	144.0	141.7	21.5	.	43.8	.	.	.
Q4	674.0	678.3	-4.3	381.5	375.4	124.5	112.6	146.5	144.0	21.4	.	46.3	.	.	.
2008 Q1	691.2	704.0	-12.8	393.3	391.2	125.0	109.5	152.1	154.4	20.8	.	49.0	.	.	.
Q2	687.6	699.9	-12.2	397.7	394.8	122.3	113.9	144.0	148.0	23.7	.	43.2	.	.	.
2008 Jan.	229.2	236.9	-7.6	131.9	131.8	41.9	36.5	50.3	52.4	5.1	.	16.1	.	.	.
Feb.	238.9	231.6	7.3	133.7	128.7	42.0	36.2	52.6	51.0	10.7	.	15.7	.	.	.
Mar.	223.1	235.6	-12.5	127.8	130.6	41.0	36.9	49.2	51.0	5.0	.	17.2	.	.	.
Apr.	235.0	233.5	1.5	135.7	128.6	41.4	37.8	47.9	50.0	10.0	.	17.1	.	.	.
May	228.0	233.5	-5.5	130.7	132.9	40.7	37.5	49.5	50.2	7.1	.	12.9	.	.	.
June	224.6	232.8	-8.2	131.3	133.3	40.1	38.6	46.6	47.8	6.6	.	13.1	.	.	.

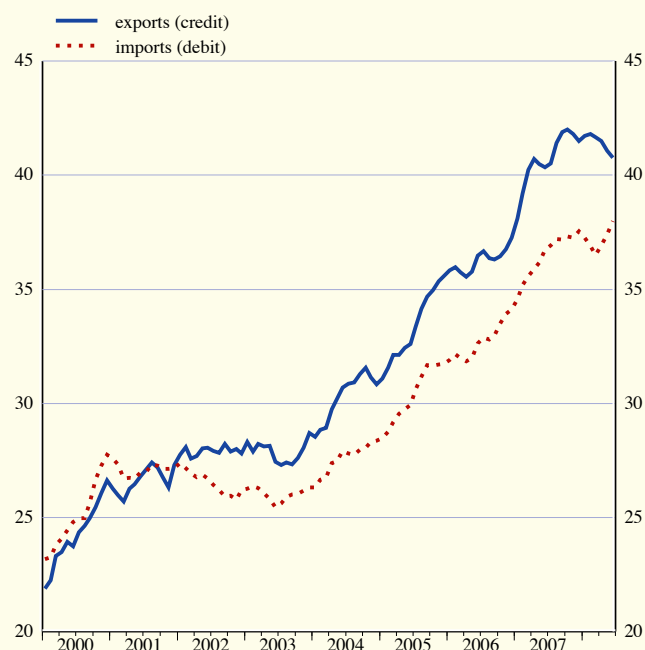
### C31 B.o.p. goods

(EUR billions, seasonally adjusted; three-month moving average)



### C32 B.o.p. services

(EUR billions, seasonally adjusted; three-month moving average)



Source: ECB.

## 7.2 Current and capital accounts

(EUR billions)

### 2. 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			Reinv. earnings	Debit	Credit	Debit	Credit	Debit	Credit	Debit				
			1	2									3	4	5	6
2005	15.7	9.3	363.1	364.0	140.2	38.5	97.6	-14.3	15.4	14.4	31.5	69.4	82.2	81.1	93.8	101.5
2006	16.5	10.0	467.2	458.6	171.4	36.8	106.0	39.0	19.7	17.3	39.1	99.2	102.2	85.6	134.7	150.5
2007	17.2	10.6	540.0	542.4	173.1	54.7	104.1	24.9	24.7	20.7	45.1	115.5	119.6	107.8	177.5	194.4
2007 Q1	4.2	2.0	123.4	118.6	39.7	18.4	27.0	6.5	5.5	4.8	9.8	18.3	27.9	24.1	40.4	44.4
Q2	4.2	2.6	138.5	159.4	44.4	6.2	27.7	1.0	6.3	5.4	15.2	52.5	28.9	26.4	43.7	47.5
Q3	4.3	3.2	133.3	129.4	40.4	16.4	23.5	10.7	5.9	5.0	10.9	23.9	30.4	26.7	45.7	50.2
Q4	4.6	2.7	144.7	135.0	48.6	13.6	25.9	6.7	6.9	5.5	9.1	20.9	32.4	30.6	47.7	52.2
2008 Q1	4.6	2.0	143.1	139.6	48.8	24.0	27.3	13.5	6.3	5.3	9.4	21.2	31.2	34.2	47.4	51.5

### 3. Geographical breakdown

(cumulated transactions)

	Total	European Union 27 (outside the euro area)						Brazil	Canada	China	India	Japan	Russia	Switzer-land	United States	Other
		Total	Den-mark	Sweden	United Kingdom	Other EU countries	EU institutions									
2007 Q2 to 2008 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Credits																
<b>Current account</b>	2,691.9	1,022.0	56.1	85.3	536.0	285.5	59.1	34.9	35.1	79.2	30.9	56.3	90.5	175.5	410.5	757.1
Goods	1,530.0	554.7	34.9	55.1	238.1	226.6	0.0	19.1	18.4	62.4	23.6	33.8	70.2	85.7	194.4	467.7
Services	495.7	175.9	10.8	13.2	116.6	29.2	6.0	5.6	6.9	13.5	5.5	10.7	11.3	48.3	83.3	134.9
Income	577.3	226.5	9.8	15.5	167.8	26.8	6.6	10.0	9.1	3.0	1.7	11.3	8.8	35.4	125.6	145.6
Investment income	559.6	220.3	9.7	15.4	165.6	26.6	3.0	10.0	9.0	3.0	1.7	11.3	8.7	28.8	124.0	142.8
Current transfers	89.0	64.9	0.7	1.4	13.5	2.9	46.4	0.2	0.7	0.3	0.1	0.4	0.2	6.1	7.3	8.9
<b>Capital account</b>	26.7	23.1	0.0	0.1	0.9	0.1	21.9	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.8	2.3
Debits																
<b>Current account</b>	2,684.3	889.9	44.5	81.7	435.5	222.9	105.3	-	29.5	-	-	97.6	-	170.2	362.5	-
Goods	1,486.0	435.5	28.3	51.4	177.0	178.8	0.0	25.7	12.9	165.8	18.9	56.0	95.7	74.8	136.7	464.1
Services	443.5	140.8	9.1	10.9	90.5	30.1	0.2	4.4	6.9	10.7	4.0	8.0	8.5	35.8	90.2	134.2
Income	573.9	198.7	6.4	17.9	156.8	9.8	7.8	-	7.6	-	-	33.2	-	53.8	128.6	-
Investment income	563.4	192.4	6.3	17.9	155.4	5.1	7.8	-	7.5	-	-	33.1	-	53.3	127.7	-
Current transfers	180.8	114.8	0.7	1.4	11.1	4.2	97.3	1.5	2.0	2.6	0.7	0.4	0.6	5.8	6.9	45.4
<b>Capital account</b>	11.9	2.3	0.0	0.1	1.3	0.3	0.6	0.2	0.1	0.1	0.2	0.1	0.1	0.6	0.9	7.5
Net																
<b>Current account</b>	7.6	132.1	11.6	3.6	100.5	62.6	-46.2	-	5.6	-	-	-41.4	-	5.3	48.0	-
Goods	44.0	119.2	6.5	3.7	61.1	47.8	0.0	-6.6	5.5	-103.3	4.7	-22.2	-25.5	10.9	57.7	3.7
Services	52.1	35.0	1.7	2.3	26.1	-0.8	5.8	1.2	0.0	2.8	1.6	2.7	2.8	12.5	-6.9	0.6
Income	3.4	27.8	3.4	-2.4	11.0	16.9	-1.1	-	1.5	-	-	-21.9	-	-18.4	-3.0	-
Investment income	-3.8	27.9	3.4	-2.4	10.2	21.5	-4.8	-	1.5	-	-	-21.8	-	-24.5	-3.7	-
Current transfers	-91.8	-49.9	0.0	0.0	2.4	-1.4	-50.9	-1.3	-1.3	-2.4	-0.6	0.0	-0.3	0.2	0.3	-36.5
<b>Capital account</b>	14.8	20.7	0.0	0.0	-0.4	-0.2	21.3	-0.1	-0.1	0.0	-0.2	-0.1	0.0	-0.1	-0.1	-5.1

Source: ECB.



## 7.3 Financial account

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

## 1. Summary financial account

	Total <sup>1)</sup>			Total as a % of GDP			Direct investment		Portfolio investment		Net financial derivatives	Other investment		Reserve assets
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Assets	Liabilities		Assets	Liabilities	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>Outstanding amounts (international investment position)</b>														
2003	7,817.7	8,608.3	-790.7	104.0	114.6	-10.5	2,169.3	2,084.2	2,655.4	3,585.9	-19.8	2,706.1	2,938.3	306.7
2004	8,609.8	9,497.9	-888.1	110.1	121.5	-11.4	2,314.6	2,242.0	3,042.9	4,076.4	-37.3	3,008.7	3,179.5	281.0
2005	10,737.9	11,575.7	-837.8	132.4	142.7	-10.3	2,796.4	2,444.5	3,887.8	5,105.7	-46.2	3,779.7	4,025.5	320.1
2006	12,195.1	13,226.4	-1,031.3	143.5	155.6	-12.1	3,050.2	2,654.1	4,459.3	5,960.7	-43.6	4,403.4	4,611.5	325.8
2007 Q4	13,754.8	15,049.5	-1,294.7	154.2	168.7	-14.5	3,472.3	2,988.8	4,710.3	6,715.2	46.5	5,178.5	5,345.5	347.3
2008 Q1	13,635.8	14,914.8	-1,279.0	151.5	165.7	-14.2	3,535.6	2,990.3	4,393.3	6,387.8	30.4	5,320.1	5,536.7	356.3
<b>Changes to outstanding amounts</b>														
2003	509.9	593.8	-83.9	6.8	7.9	-1.1	162.6	257.7	363.5	341.4	-7.2	50.4	-5.2	-59.4
2004	792.2	889.6	-97.4	10.1	11.4	-1.2	145.3	157.8	387.5	490.6	-17.6	302.6	241.2	-25.7
2005	2,128.0	2,077.8	50.3	26.2	25.6	0.6	481.8	202.5	844.9	1,029.3	-8.8	771.1	846.0	39.1
2006	1,457.3	1,650.7	-193.5	17.1	19.4	-2.3	253.8	209.6	571.5	855.1	2.6	623.7	586.1	5.7
2007 Q4	108.6	101.5	7.2	4.7	4.4	0.3	86.4	92.4	-74.8	7.4	46.9	43.2	1.7	6.8
2008 Q1	-119.0	-134.7	15.6	-5.3	-6.0	0.7	63.3	1.5	-317.0	-327.4	-16.0	141.6	191.2	9.0
<b>Transactions</b>														
2004	812.4	798.3	14.2	10.4	10.2	0.2	161.5	93.9	345.6	416.5	8.3	309.4	287.8	-12.5
2005	1,326.1	1,335.3	-9.2	16.4	16.5	-0.1	364.7	148.3	412.6	544.0	18.2	548.6	643.0	-18.0
2006	1,598.4	1,710.8	-112.4	18.8	20.1	-1.3	346.0	201.3	535.9	802.2	-2.4	717.7	707.3	1.3
2007	1,790.2	1,886.4	-96.2	20.1	21.2	-1.1	402.4	285.1	426.8	662.4	90.5	865.2	938.9	5.3
2007 Q4	293.8	213.3	80.5	12.6	9.2	3.5	78.9	74.7	98.7	36.4	28.8	92.2	102.2	-4.9
2008 Q1	482.4	501.6	-19.2	21.5	22.3	-0.9	143.2	38.4	46.5	119.8	14.9	272.8	343.4	5.1
Q2	45.6	124.9	-79.2	2.0	5.4	-3.4	21.6	-31.6	90.2	162.9	39.0	-105.3	-6.4	0.1
2008 Feb.	135.1	126.7	8.4	.	.	.	34.4	12.0	30.2	44.8	-1.7	76.8	69.9	-4.6
Mar.	25.2	29.9	-4.7	.	.	.	26.0	-4.5	-0.5	5.2	-2.6	-1.0	29.2	3.3
Apr.	83.8	102.0	-18.2	.	.	.	-18.8	-41.2	31.1	27.4	14.2	53.9	115.8	3.4
May	59.2	104.5	-45.3	.	.	.	10.1	1.3	53.7	76.0	29.6	-31.4	27.2	-2.8
June	-97.4	-81.7	-15.7	.	.	.	30.3	8.3	5.4	59.5	-4.8	-127.8	-149.5	-0.5
<b>Other changes</b>														
2003	-154.8	-55.6	-99.2	-2.1	-0.7	-1.3	15.7	121.2	82.0	4.1	-21.0	-200.0	-180.9	-31.6
2004	-20.2	91.3	-111.6	-0.3	1.2	-1.4	-16.2	63.9	41.9	74.1	-25.9	-6.8	-46.7	-13.3
2005	802.0	742.5	59.5	9.9	9.2	0.7	117.1	54.3	432.3	485.2	-27.0	222.5	203.0	57.1
2006	-141.1	-60.0	-81.1	-1.7	-0.7	-1.0	-92.2	8.3	35.6	52.9	5.0	-94.0	-121.3	4.4
2007 Q4	-185.2	-111.8	-73.4	-8.0	-4.8	-3.2	7.4	17.7	-173.5	-29.1	18.2	-49.0	-100.5	11.7
2008 Q1	-601.5	-636.3	34.8	-26.8	-28.3	1.5	-79.8	-36.9	-363.5	-447.2	-30.9	-131.1	-152.2	3.9
<b>Other changes due to exchange rate changes</b>														
2003	-433.3	-179.7	-253.6	-5.8	-2.4	-3.4	-101.9	26.9	-103.8	-49.8	.	-195.5	-156.9	-32.1
2004	-182.4	-138.3	-44.0	-2.3	-1.8	-0.6	-34.5	8.2	-67.5	-92.0	.	-70.9	-54.5	-9.4
2005	371.9	221.6	150.3	4.6	2.7	1.9	83.2	-21.0	120.7	125.3	.	149.4	117.2	18.7
2006	-292.6	-140.6	-151.9	-3.4	-1.7	-1.8	-66.0	14.5	-85.0	-51.0	.	-126.4	-104.0	-15.2
<b>Other changes due to price changes</b>														
2003	218.9	158.4	60.5	2.9	2.1	0.8	74.1	32.5	165.4	125.8	-21.0	.	.	0.4
2004	119.1	243.0	-123.9	1.5	3.1	-1.6	37.7	28.2	110.4	214.8	-25.9	.	.	-3.1
2005	285.2	351.1	-65.9	3.5	4.3	-0.8	73.5	55.8	196.5	295.3	-27.0	.	.	42.2
2006	317.1	272.2	44.9	3.7	3.2	0.5	74.8	46.1	220.8	226.0	5.0	.	.	16.4
<b>Other changes due to other adjustments</b>														
2003	59.6	-34.3	93.9	0.8	-0.5	1.2	43.5	61.7	20.5	-72.0	.	-4.5	-24.0	0.2
2004	43.0	-13.4	56.4	0.6	-0.2	0.7	-19.3	27.5	-1.0	-48.7	.	64.1	7.8	-0.7
2005	144.9	169.8	-24.9	1.8	2.1	-0.3	-39.6	19.4	115.1	64.6	.	73.1	85.8	-3.7
2006	-165.7	-191.6	25.9	-1.9	-2.3	0.3	-101.0	-52.3	-100.3	-122.1	.	32.4	-17.2	3.3
<b>Growth rates of outstanding amounts</b>														
2003	9.2	8.2	-	.	.	.	7.4	7.4	12.4	10.5	.	9.5	6.1	-7.9
2004	10.3	9.2	-	.	.	.	7.4	4.4	12.8	11.4	.	11.3	9.7	-4.1
2005	14.9	13.7	-	.	.	.	15.4	6.6	13.0	12.8	.	17.7	19.7	-5.9
2006	15.1	14.9	-	.	.	.	12.6	8.3	13.9	15.8	.	19.3	17.7	0.3
2007 Q4	14.7	14.2	-	.	.	.	13.1	10.7	9.6	11.1	.	19.6	20.5	1.7
2008 Q1	12.9	12.5	-	.	.	.	14.3	8.9	7.2	7.8	.	16.3	20.7	2.6
Q2	9.2	9.2	-	.	.	.	10.9	5.5	5.9	6.5	.	9.5	15.0	1.4

Source: ECB.

1) Net financial derivatives are included in assets.

## 7.3 Financial account

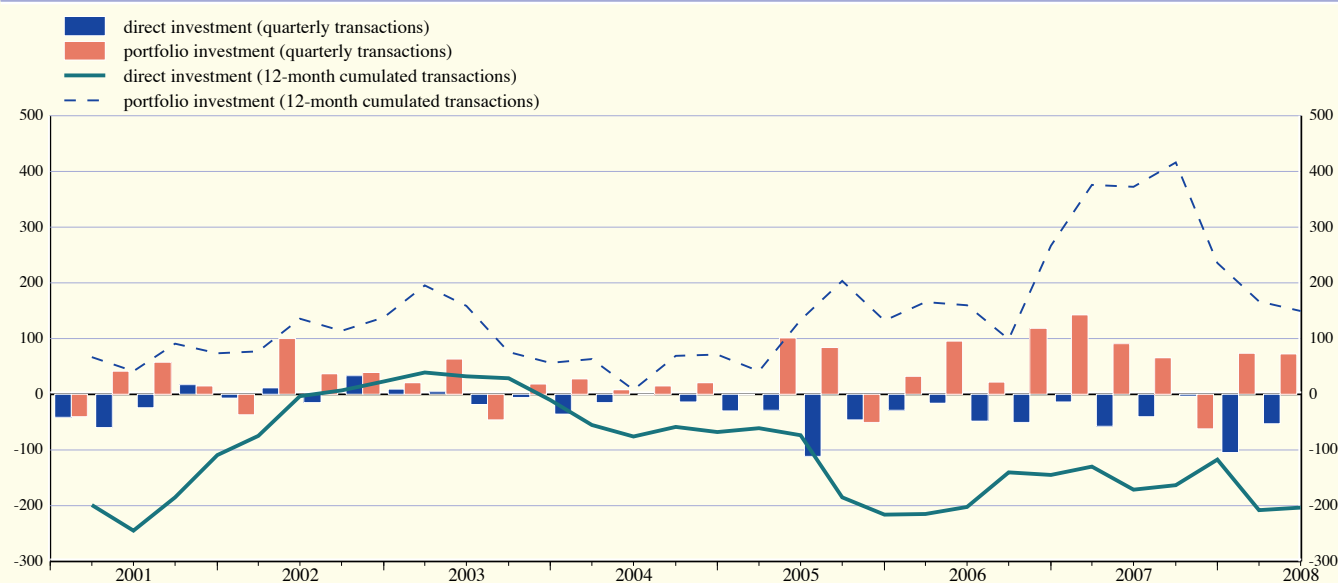
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 2. Direct investment

	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	MFI	Non-MFI	Total	MFI	Non-MFI		Total	into MFI	into Non-MFI	Total	to MFI	to Non-MFI
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts (international investment position)														
2005	2,796.4	2,278.8	176.0	2,102.8	517.6	4.0	513.5	2,444.5	1,839.6	56.2	1,783.4	605.0	8.5	596.4
2006	3,050.2	2,484.8	203.3	2,281.6	565.3	3.7	561.7	2,654.1	2,037.8	61.7	1,976.0	616.4	7.9	608.4
2007 Q4	3,472.3	2,818.3	237.0	2,581.3	654.0	8.4	645.6	2,988.8	2,259.1	61.7	2,197.3	729.8	13.7	716.0
2008 Q1	3,535.6	2,847.1	237.3	2,609.8	688.6	10.4	678.2	2,990.3	2,271.6	61.5	2,210.2	718.7	13.4	705.2
Transactions														
2006	346.0	271.5	38.6	232.9	74.5	0.0	74.5	201.3	171.7	5.8	165.9	29.5	0.1	29.5
2007	402.4	310.0	28.3	281.6	92.4	-0.5	92.9	285.1	185.8	1.9	183.9	99.3	1.3	98.0
2007 Q4	78.9	65.3	-4.6	69.8	13.7	0.6	13.0	74.7	29.1	1.9	27.2	45.6	0.7	44.9
2008 Q1	143.2	89.7	10.3	79.4	53.5	2.3	51.2	38.4	37.6	-0.1	37.8	0.7	0.1	0.6
2008 Q2	21.6	1.4	8.9	-7.5	20.2	-1.8	22.0	-31.6	-29.1	-1.7	-27.4	-2.5	0.2	-2.7
2008 Feb.	34.4	17.2	3.8	13.4	17.2	-0.5	17.7	12.0	5.4	0.4	5.1	6.5	0.1	6.4
Mar.	26.0	18.7	-0.1	18.8	7.3	2.6	4.7	-4.5	9.6	-0.8	10.4	-14.1	-0.9	-13.2
Apr.	-18.8	-25.0	4.4	-29.4	6.2	-0.1	6.3	-41.2	-31.9	1.0	-32.9	-9.3	0.0	-9.3
May	10.1	11.0	2.2	8.9	-0.9	-1.7	0.8	1.3	3.7	-2.0	5.7	-2.4	0.4	-2.8
June	30.3	15.4	2.3	13.0	14.9	0.0	14.9	8.3	-0.9	-0.8	-0.2	9.2	-0.2	9.4
Growth rates														
2005	15.4	15.8	13.4	16.0	13.4	-1.1	13.5	6.6	7.0	1.7	7.2	5.2	-4.4	5.3
2006	12.6	12.1	23.2	11.2	14.7	-2.2	14.8	8.3	9.3	10.4	9.3	5.0	-0.2	5.0
2007 Q4	13.1	12.4	13.6	12.3	16.0	-43.5	16.3	10.7	9.1	3.1	9.3	15.8	8.1	15.8
2008 Q1	14.3	13.1	14.8	12.9	19.4	67.9	18.9	8.9	8.3	1.5	8.5	10.7	18.1	10.6
2008 Q2	10.9	9.1	14.7	8.6	19.0	6.1	19.2	5.5	4.1	0.8	4.2	10.0	10.7	10.0

### C33 B.o.p. net direct and portfolio investment

(EUR billions)



Source: ECB.

## 7.3 Financial account

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

## 3. Portfolio investment assets

	3. Portfolio investment assets															
	Total	Equity					Debt instruments									
		Total	MFIs	Non-MFIs		Total	Bonds and notes			Money market instruments			Total	MFIs	Non-MFIs	
				Euro-system	General government		MFIs	Euro-system	General government	Euro-system	General government					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
	Outstanding amounts (international investment position)															
2005	3,887.8	1,726.5	102.5	3.0	1,624.0	27.2	1,845.3	710.9	9.0	1,134.4	11.6	316.0	263.0	0.8	53.0	0.4
2006	4,459.3	2,014.1	122.0	2.8	1,892.1	37.0	2,067.8	846.3	11.3	1,221.5	13.4	377.4	310.4	8.7	67.0	0.3
2007 Q4	4,710.3	2,046.3	144.4	2.8	1,901.9	41.7	2,260.5	929.2	11.7	1,331.2	15.2	403.5	323.7	8.2	79.8	0.4
2008 Q1	4,393.3	1,729.0	94.0	2.6	1,635.0	36.2	2,218.7	921.3	10.5	1,297.4	15.7	445.6	360.4	8.8	85.2	0.5
	Transactions															
2006	535.9	153.0	18.3	0.0	134.7	6.1	314.5	173.2	2.6	141.3	1.1	68.4	56.2	8.0	12.2	-0.1
2007	426.8	53.0	34.3	-0.1	18.7	5.3	319.5	161.0	2.3	158.5	2.4	54.3	50.8	6.1	3.5	0.3
2007 Q4	98.7	17.6	18.8	-0.1	-1.2	0.9	70.0	31.5	0.7	38.5	0.5	11.1	29.1	6.7	-18.0	-9.1
2008 Q1	46.5	-47.3	-40.9	0.1	-6.4	-0.6	27.1	25.1	-1.2	2.0	0.5	66.6	53.6	-0.1	13.0	0.1
Q2	90.2	14.3	-4.3	0.1	18.6	-	71.5	37.2	0.9	34.3	-	4.4	-3.3	0.5	7.7	-
2008 Feb.	30.2	-7.9	-2.4	0.0	-5.5	-	23.8	20.9	0.1	2.9	-	14.2	6.6	0.0	7.6	-
Mar.	-0.5	-18.4	-27.3	0.1	8.9	-	-1.2	-6.9	-0.6	5.8	-	19.0	12.6	-0.1	6.4	-
Apr.	31.1	1.3	1.1	-0.1	0.2	-	26.7	17.9	0.4	8.8	-	3.1	1.6	0.3	1.5	-
May	53.7	12.0	3.7	0.1	8.3	-	35.4	10.7	0.7	24.7	-	6.3	3.2	0.2	3.2	-
June	5.4	1.0	-9.1	0.0	10.1	-	9.4	8.5	-0.2	0.8	-	-5.0	-8.0	0.1	3.0	-
	Growth rates															
2005	13.0	9.8	18.2	5.9	9.3	19.7	17.0	20.9	9.7	14.7	8.0	5.9	6.2	-6.6	3.5	-8.3
2006	13.9	8.9	18.3	0.9	8.3	21.7	17.4	24.9	29.7	12.7	10.6	21.9	22.3	1,022.8	22.1	-20.8
2007 Q4	9.6	2.6	28.1	-3.0	0.9	13.8	15.6	19.4	20.8	13.1	18.1	14.6	16.8	69.3	4.9	70.1
2008 Q1	7.2	-0.6	-20.5	1.9	0.7	9.6	12.0	15.5	1.1	9.6	14.2	22.0	27.0	80.9	2.0	-90.4
Q2	5.9	-0.3	-26.6	3.8	1.5	-	9.7	11.9	6.1	8.3	-	16.4	20.9	89.5	-1.7	-

## 4. Portfolio investment liabilities

	4. Portfolio investment liabilities													
	Total	Equity			Debt instruments									
		Total	MFIs	Non-MFIs	Total	Bonds and notes			Money market instruments			Total	MFIs	Non-MFIs
						MFIs	Euro-system	General government	MFIs	Euro-system	General government			
1	2	3	4	5	6	7	8	9	10	11	12			
	Outstanding amounts (international investment position)													
2005	5,105.7	2,433.7	533.5	1,900.1	2,365.6	723.0	1,642.6	1,175.6	306.4	108.5	198.0	158.5		
2006	5,960.7	2,931.4	671.0	2,260.4	2,732.3	845.3	1,887.0	1,253.7	297.0	127.6	169.4	138.6		
2007 Q4	6,715.2	3,263.2	744.6	2,521.0	3,111.3	1,053.4	2,052.6	1,305.2	340.7	179.1	162.3	143.1		
2008 Q1	6,387.8	2,896.7	760.5	2,136.6	3,148.9	1,041.1	2,108.3	1,377.4	342.1	164.2	177.9	169.7		
	Transactions													
2006	802.2	302.4	95.1	207.3	498.1	212.9	285.1	149.1	1.6	28.2	-26.5	-20.1		
2007	662.4	188.2	60.0	128.1	421.1	194.2	225.2	144.1	53.1	48.4	5.2	12.0		
2007 Q4	36.4	-30.6	-33.0	2.6	92.9	35.9	55.4	37.3	-25.8	22.3	-47.8	-45.3		
2008 Q1	119.8	45.5	73.3	-27.8	68.0	23.1	45.0	60.4	6.3	-1.9	8.2	24.3		
Q2	162.9	5.1	30.3	-25.2	130.1	60.6	69.5	-	27.8	0.5	27.3	-		
2008 Feb.	44.8	27.5	-	-	23.6	-	-	-	-6.3	-	-	-		
Mar.	5.2	-5.8	-	-	4.5	-	-	-	6.4	-	-	-		
Apr.	27.4	-21.1	-	-	28.5	-	-	-	20.0	-	-	-		
May	76.0	18.5	-	-	72.6	-	-	-	-15.2	-	-	-		
June	59.5	7.7	-	-	29.0	-	-	-	22.9	-	-	-		
	Growth rates													
2005	12.8	13.0	-	-	11.2	-	-	-	23.6	-	-	-		
2006	15.8	12.3	17.7	10.8	21.8	31.4	17.7	13.1	0.5	26.7	-13.1	-12.5		
2007 Q4	11.1	6.4	8.8	5.6	15.5	23.1	12.0	11.8	17.8	37.6	3.4	8.9		
2008 Q1	7.8	4.0	10.4	2.0	11.7	15.8	9.7	13.8	11.3	29.4	-1.0	9.8		
Q2	6.5	1.6	12.4	-1.7	11.5	15.1	9.7	-	6.9	17.2	0.1	-		

Source: ECB.

## 7.3 Financial account

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

### 5. Other investment assets

	Outstanding amounts (international investment position)														
	Total	Eurosystem			MFIs (excluding Eurosystem)			General government				Other sectors			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2005	3,779.7	7.9	7.2	0.7	2,522.1	2,466.0	56.2	127.6	19.7	60.8	11.8	1,122.1	188.9	802.7	347.9
2006	4,403.4	11.3	10.6	0.7	2,946.2	2,887.1	59.1	117.1	14.2	57.8	15.4	1,328.7	187.2	990.3	377.7
2007 Q4	5,178.5	23.3	22.7	0.7	3,354.7	3,282.9	71.9	107.1	13.4	47.8	13.5	1,693.3	196.8	1,366.3	437.2
2008 Q1	5,320.1	33.2	32.9	0.3	3,462.3	3,392.7	69.6	99.8	13.3	41.9	11.2	1,724.9	199.3	1,394.4	445.4
Transactions															
2006	717.7	3.3	3.3	0.0	521.4	517.2	4.2	-2.0	0.0	-2.7	3.1	194.9	5.2	176.2	25.0
2007	865.2	13.3	13.3	0.0	560.3	548.9	11.4	-6.9	-0.5	-7.1	-2.0	298.5	10.2	274.2	17.7
2007 Q4	92.2	3.4	3.4	0.0	57.1	55.4	1.8	1.3	-0.4	1.7	-0.1	30.4	3.3	27.5	-19.8
2008 Q1	272.8	9.3	9.3	0.0	217.8	213.7	4.1	-5.3	-0.1	-5.0	-1.3	51.0	6.4	42.6	14.3
Q2	-105.3	1.8	-	-	-106.2	-	-	7.0	-	-	6.3	-7.9	-	-	-46.4
2008 Feb.	76.8	2.1	-	-	64.2	-	-	0.5	-	-	4.1	10.0	-	-	-8.0
Mar.	-1.0	3.8	-	-	-33.4	-	-	-1.7	-	-	-1.4	30.4	-	-	15.4
Apr.	53.9	2.2	-	-	50.3	-	-	1.9	-	-	1.4	-0.5	-	-	-16.4
May	-31.4	-0.7	-	-	-33.8	-	-	3.9	-	-	3.8	-0.8	-	-	-9.9
June	-127.8	0.3	-	-	-122.7	-	-	1.3	-	-	1.1	-6.6	-	-	-20.1
Growth rates															
2005	17.7	21.0	23.1	3.3	19.3	19.7	6.0	-3.5	0.2	-9.1	12.7	17.1	5.2	20.3	1.3
2006	19.3	41.9	45.7	3.1	21.1	21.3	7.6	-1.6	0.0	-4.5	26.1	17.5	2.8	22.3	7.0
2007 Q4	19.6	117.9	125.5	-3.9	19.1	19.1	18.9	-6.0	-3.8	-12.4	-13.3	22.0	5.4	26.5	5.0
2008 Q1	16.3	119.0	124.2	-5.3	15.4	15.5	10.2	-4.4	-4.3	-9.9	17.5	18.7	7.0	22.2	-0.5
Q2	9.5	86.6	-	-	7.4	-	-	-11.7	-	-	-32.0	15.0	-	-	-10.5

### 6. Other investment liabilities

	Outstanding amounts (international investment position)														
	Total	Eurosystem			MFIs (excluding Eurosystem)			General government				Other sectors			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2005	4,025.5	82.4	82.2	0.2	3,114.2	3,061.8	52.4	44.9	0.0	41.1	3.8	784.0	133.1	581.0	70.0
2006	4,611.5	100.2	100.0	0.2	3,487.0	3,433.1	53.9	48.3	0.0	44.4	3.8	976.1	144.5	744.1	87.5
2007 Q4	5,345.5	138.2	137.9	0.2	3,943.6	3,874.8	68.9	51.8	0.0	46.2	5.6	1,211.9	156.9	945.2	109.8
2008 Q1	5,536.7	158.2	157.8	0.4	4,073.8	4,032.5	41.3	51.0	0.0	46.9	4.1	1,253.8	160.5	980.1	113.1
Transactions															
2006	707.3	18.6	18.5	0.0	496.1	492.8	3.2	2.0	0.0	2.1	-0.1	190.8	11.7	167.2	11.9
2007	938.9	52.5	52.5	0.0	639.2	634.0	5.2	2.9	0.0	3.1	-0.1	244.3	10.8	240.9	-7.5
2007 Q4	102.2	37.5	37.5	-0.1	50.8	50.5	0.3	-1.7	0.0	-0.7	-0.9	15.6	3.7	20.2	-8.3
2008 Q1	343.4	21.3	21.2	0.2	283.9	281.3	2.7	-0.3	0.0	1.4	-1.7	38.4	3.2	31.6	3.6
Q2	-6.4	30.5	-	-	-24.6	-	-	-2.1	-	-	-	-10.3	-	-	-
2008 Feb.	69.9	-8.4	-	-	109.1	-	-	-4.2	-	-	-	-26.6	-	-	-
Mar.	29.2	19.2	-	-	-22.9	-	-	-0.3	-	-	-	33.2	-	-	-
Apr.	115.8	8.7	-	-	116.8	-	-	-0.3	-	-	-	-9.4	-	-	-
May	27.2	19.1	-	-	1.7	-	-	-1.6	-	-	-	8.0	-	-	-
June	-149.5	2.7	-	-	-143.1	-	-	-0.2	-	-	-	-8.9	-	-	-
Growth rates															
2005	19.7	8.9	8.9	4.3	19.2	19.5	4.3	-4.6	10.3	-4.4	-7.2	24.9	11.5	30.2	13.1
2006	17.7	22.6	22.6	6.6	16.2	16.3	6.1	4.2	-24.1	5.0	-3.2	24.0	8.7	28.3	16.8
2007 Q4	20.5	52.7	52.8	-3.3	18.5	18.6	9.6	5.9	53.8	6.8	-8.2	24.8	7.3	32.4	-5.7
2008 Q1	20.7	67.3	67.4	17.6	17.9	18.0	9.9	3.9	24.6	6.2	-13.8	27.5	10.9	35.7	-8.3
Q2	15.0	80.9	-	-	11.8	-	-	-0.7	-	-	-	20.8	-	-	-

Source: ECB.

## 7.3 Financial account

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

## 7. Reserve assets

	Reserve assets													Memo		
	Total	Monetary gold		Special drawing rights	Reserve position in the IMF	Foreign exchange							Other claims	Assets	Liabilities	
		In EUR billions	In fine troy ounces (millions)			Total	Currency and deposits		Securities			Financial derivatives		Claims on euro area residents in foreign currency	Predetermined short-term net drains in foreign currency	
							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>Outstanding amounts (international investment position)</b>																
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 Q3	340.5	187.0	356.925	4.7	3.8	144.9	7.5	27.5	109.6	0.3	85.8	23.5	0.4	0.0	26.2	-26.8
2007 Q4	347.3	201.0	353.688	4.6	3.6	138.2	7.2	22.0	108.5	0.4	87.7	20.4	0.5	0.0	44.1	-38.5
2008 Q1	356.3	208.4	353.060	4.3	3.4	140.1	6.6	26.8	105.9	0.5	89.8	15.6	0.9	0.1	36.7	-37.3
2008 May	349.2	201.4	352.697	4.3	4.1	139.3	6.7	23.8	109.0	-	-	-	-0.1	0.0	59.8	-60.0
2008 June	353.9	207.9	352.314	4.3	4.0	137.7	7.4	24.0	105.6	-	-	-	0.6	0.0	59.4	-59.2
2008 July	355.6	206.5	351.082	4.4	3.9	140.8	7.2	25.8	108.0	-	-	-	-0.1	0.0	59.8	-61.9
<b>Transactions</b>																
2005	-18.0	-3.9	-	0.2	-8.6	-5.7	-0.2	-7.2	1.6	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	13.7	0.0	19.4	-5.7	0.0	0.0	-	-
2007	5.3	-2.9	-	0.3	-0.9	8.8	0.9	1.8	6.0	0.0	14.3	-8.3	0.0	0.0	-	-
2007 Q4	-4.9	-1.5	-	0.1	-0.2	-3.3	-0.4	-4.4	1.5	0.1	4.0	-2.6	0.1	0.0	-	-
2008 Q1	5.1	-0.6	-	-0.3	0.0	5.9	-0.7	5.7	0.9	0.1	6.1	-5.3	0.1	0.1	-	-
2008 Q2	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Growth rates</b>																
2004	-4.1	-0.9	-	-10.4	-17.0	-4.6	30.2	-10.7	-6.1	-46.6	-22.4	45.1	-55.8	-	-	-
2005	-5.9	-2.8	-	4.4	-44.6	-4.1	-2.0	-25.3	1.5	2.2	7.1	-7.9	20.5	-	-	-
2006	0.3	-2.4	-	11.6	-49.0	7.7	-48.4	12.7	13.4	0.0	29.2	-15.4	-73.2	-	-	-
2007 Q4	1.7	-1.6	-	7.3	-18.0	6.2	14.1	7.3	5.6	1.1	18.4	-27.4	-59.1	-	-	-
2008 Q1	2.6	-1.6	-	0.4	-2.9	8.5	32.2	10.2	7.1	407.6	18.0	-33.1	-46.5	-	-	-
2008 Q2	1.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: ECB.

## 7.3 Financial account

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

### 8. Geographical breakdown

	Total		European Union 27 (outside the euro area)					Canada	China	Japan	Switzer-land	United States	Offshore financial centres	Internat. organisations	Other countries
	Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions									
	1	2	3	4	5	6	7								
<b>2006</b>	<b>Outstanding amounts (international investment position)</b>														
<b>Direct investment</b>	396.0	-63.7	-7.2	-21.0	-219.6	184.4	-0.3	37.0	22.1	-6.2	77.4	-24.8	-6.1	-0.2	360.5
Abroad	3,050.2	1,120.0	35.1	83.4	804.4	197.0	0.0	90.2	24.9	68.2	300.3	608.0	329.7	0.0	508.9
Equity/reinvested earnings	2,484.8	906.9	32.0	58.1	644.9	171.8	0.0	71.0	20.1	63.5	250.4	453.1	307.4	0.0	412.4
Other capital	565.3	213.1	3.1	25.3	159.4	25.3	0.0	19.2	4.8	4.7	49.9	154.9	22.3	0.0	96.5
In the euro area	2,654.1	1,183.7	42.3	104.5	1,024.0	12.7	0.3	53.1	2.7	74.4	222.9	632.8	335.8	0.3	148.4
Equity/reinvested earnings	2,037.8	951.9	36.8	86.3	826.7	1.8	0.2	47.3	0.3	60.7	164.8	477.1	209.6	0.0	126.1
Other capital	616.4	231.8	5.5	18.2	197.2	10.9	0.1	5.9	2.5	13.7	58.0	155.7	126.2	0.3	22.3
<b>Portfolio investment assets</b>	4,459.3	1,375.3	65.7	141.4	1,006.1	93.5	68.6	85.1	37.6	262.8	141.2	1,455.5	529.2	32.2	540.3
Equity	2,014.1	486.5	12.3	58.4	393.2	22.4	0.1	22.6	35.2	181.0	128.7	671.0	216.6	1.4	271.1
Debt instruments	2,445.2	888.9	53.4	83.0	612.9	71.2	68.4	62.4	2.4	81.8	12.5	784.5	312.6	30.8	269.3
Bonds and notes	2,067.8	732.6	48.6	71.1	474.4	70.4	68.2	60.2	2.3	62.3	8.5	660.3	273.0	29.8	238.8
Money market instruments	377.4	156.3	4.9	11.9	138.5	0.8	0.2	2.3	0.0	19.6	4.0	124.2	39.5	1.0	30.5
<b>Other investment</b>	-208.2	92.8	86.4	13.5	116.3	25.2	-148.6	-1.6	3.9	-37.5	-50.2	-5.1	-215.7	-20.0	25.2
Assets	4,403.4	2,291.6	111.4	69.2	1,988.1	113.3	9.5	19.5	25.3	73.7	263.5	586.7	438.6	45.7	659.0
General government	117.1	25.2	2.1	0.1	14.2	1.5	7.4	0.0	1.9	0.2	0.1	3.1	1.4	38.5	46.7
MFIs	2,957.5	1,718.0	95.7	47.9	1,490.9	82.8	0.8	11.0	12.0	38.9	162.7	344.7	274.7	6.6	389.0
Other sectors	1,328.7	548.3	13.6	21.2	483.0	29.1	1.4	8.4	11.4	34.7	100.7	238.9	162.5	0.6	223.3
Liabilities	4,611.5	2,198.8	25.0	55.7	1,871.8	88.1	158.1	21.0	21.3	111.2	313.6	591.8	654.3	65.7	633.8
General government	48.3	24.1	0.0	0.3	2.4	0.0	21.4	0.0	0.0	0.7	0.0	6.2	0.2	2.7	14.3
MFIs	3,587.2	1,659.8	19.5	35.0	1,440.4	67.9	97.0	14.2	8.5	60.3	253.7	416.6	583.6	60.4	530.2
Other sectors	976.1	514.9	5.5	20.4	429.0	20.2	39.8	6.8	12.8	50.3	59.9	169.0	70.5	2.6	89.3
<b>2007 Q2 to 2008 Q1</b>	<b>Cumulated transactions</b>														
<b>Direct investment</b>	207.9	90.7	2.0	-2.1	66.5	24.3	0.0	17.9	2.9	2.1	22.3	-35.3	40.7	-0.2	66.8
Abroad	451.8	129.5	1.3	5.4	90.9	32.0	0.0	19.7	2.7	10.3	40.6	76.1	73.3	-0.1	99.7
Equity/reinvested earnings	334.9	99.5	0.6	3.5	70.0	25.4	0.0	12.4	0.7	3.8	26.1	60.6	62.4	0.0	69.5
Other capital	116.9	30.1	0.7	1.9	20.9	6.5	0.0	7.3	2.0	6.5	14.5	15.5	10.9	-0.1	30.2
In the euro area	244.0	38.8	-0.7	7.4	24.4	7.7	0.0	1.8	-0.2	8.3	18.3	111.4	32.6	0.1	32.9
Equity/reinvested earnings	172.8	44.4	-1.8	8.6	36.8	0.8	0.0	-0.3	0.1	8.8	9.3	74.7	22.2	0.0	13.6
Other capital	71.2	-5.6	1.1	-1.2	-12.4	6.9	0.0	2.1	-0.3	-0.6	9.0	36.8	10.4	0.1	19.2
<b>Portfolio investment assets</b>	328.5	92.7	0.2	7.0	75.7	2.8	6.9	4.8	1.4	-15.9	-15.7	127.6	20.2	-3.3	116.7
Equity	-10.7	-17.5	0.2	1.1	-20.0	1.1	0.1	-1.6	0.6	-28.2	-19.6	4.2	29.9	-0.1	21.5
Debt instruments	339.2	110.2	0.1	5.9	95.7	1.7	6.8	6.5	0.8	12.3	3.9	123.4	-9.8	-3.2	95.1
Bonds and notes	253.9	64.0	0.8	2.1	53.1	1.7	6.3	7.0	0.4	4.7	2.3	86.5	6.1	-2.8	85.6
Money market instruments	85.3	46.2	-0.7	3.8	42.6	0.0	0.5	-0.6	0.5	7.6	1.5	36.9	-15.9	-0.4	9.5
<b>Other investment</b>	-226.3	-251.8	52.9	-1.2	-338.5	49.0	-14.0	1.0	16.5	4.2	-74.4	-93.1	42.6	29.4	99.5
Assets	770.8	199.4	23.9	2.2	99.6	67.3	6.5	3.6	9.7	16.0	-38.8	314.4	121.8	14.2	130.6
General government	-4.6	-1.4	1.0	0.2	-3.0	-0.3	0.6	0.0	-0.1	0.0	0.0	0.0	0.0	0.5	-3.7
MFIs	504.3	139.2	20.6	3.4	42.1	67.6	5.5	2.6	6.2	24.9	-37.7	133.9	98.6	13.7	122.9
Other sectors	271.1	61.7	2.3	-1.4	60.5	0.0	0.3	1.0	3.5	-8.9	-1.2	180.4	23.2	0.0	11.4
Liabilities	997.1	451.2	-29.0	3.4	438.1	18.3	20.5	2.6	-6.8	11.8	35.5	407.5	79.3	-15.2	31.1
General government	2.0	3.9	-0.1	0.1	-3.9	0.0	7.8	0.0	0.0	0.0	0.0	-0.3	0.1	-0.8	-0.9
MFIs	722.0	407.3	-28.6	0.5	414.2	13.1	8.1	2.0	-8.0	11.2	22.9	203.5	66.5	-14.3	31.0
Other sectors	273.0	40.1	-0.3	2.8	27.8	5.2	4.6	0.6	1.1	0.7	12.6	204.3	12.7	-0.1	1.0

Source: ECB.

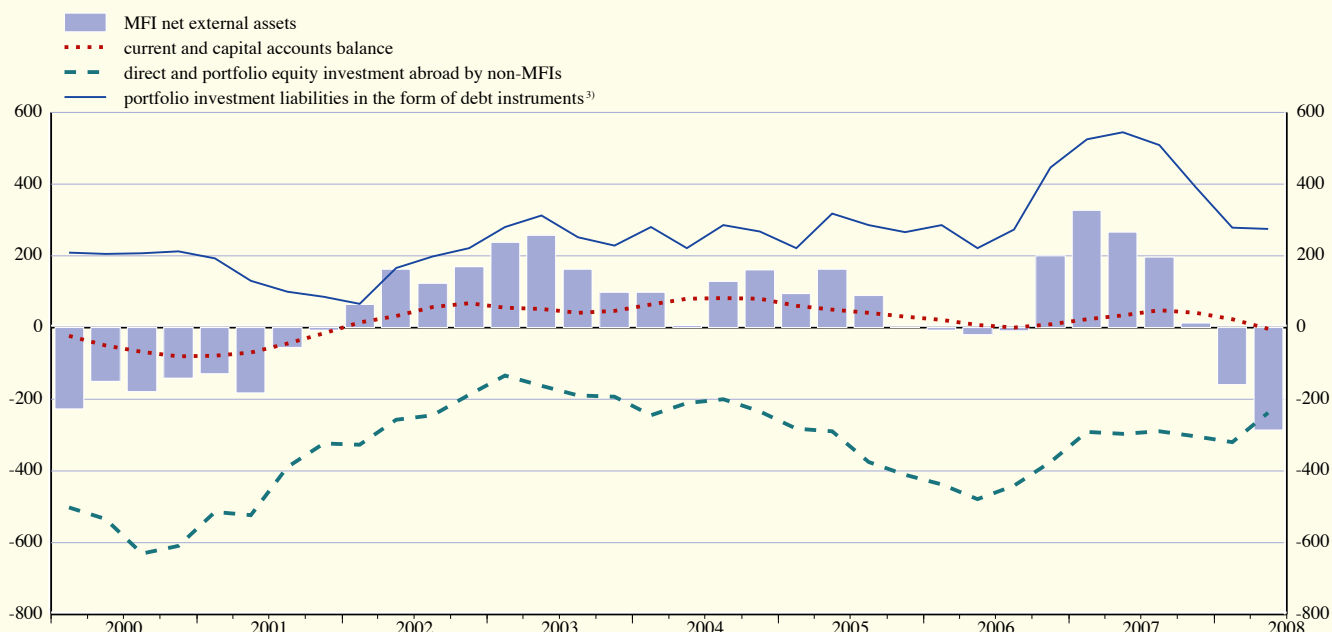
**7.4 Monetary presentation of the balance of payments <sup>1)</sup>**

(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	
2005	29.9	-349.1	149.6	-264.8	212.4	266.2	-150.8	148.2	-18.2	-33.9	-10.6	-0.1
2006	9.7	-313.5	206.6	-288.3	242.1	445.2	-192.9	192.8	2.4	-114.8	189.4	200.3
2007	41.4	-375.3	283.8	-182.0	142.4	390.1	-291.6	247.3	-90.7	-129.7	35.8	13.3
2007 Q2	-0.1	-101.3	53.8	-67.4	65.6	134.1	-56.8	46.7	-19.8	-56.7	-2.0	-0.2
Q3	14.9	-99.5	76.1	-42.9	25.3	48.0	-132.1	176.7	-26.8	-104.8	-65.3	-67.3
Q4	17.9	-84.3	74.1	-19.3	-39.8	42.6	-31.8	13.4	-28.8	68.0	12.0	-7.5
2008 Q1	-9.8	-130.6	38.2	-8.7	5.8	53.0	-45.7	38.1	-14.9	-9.4	-83.9	-83.3
Q2	-26.1	-14.5	-31.8	-60.5	-12.6	130.6	0.8	-12.4	-39.0	-53.1	-118.6	-128.4
2007 June	13.8	-35.4	11.5	-27.4	65.3	45.7	-23.1	17.4	-8.4	-10.8	48.6	55.7
July	7.0	-25.5	26.7	-22.3	33.1	19.5	32.2	4.9	-12.9	-53.7	9.0	8.2
Aug.	1.2	-28.5	33.3	-11.1	-14.7	23.6	-12.6	31.8	-5.1	-66.9	-48.9	-51.1
Sep.	6.6	-45.5	16.0	-9.5	7.0	4.8	-151.7	139.9	-8.8	15.8	-25.3	-24.4
Oct.	5.8	-34.9	59.2	-12.7	-24.2	4.3	-26.4	3.9	1.4	36.9	13.3	11.9
Nov.	4.3	-28.4	41.5	-2.4	-7.3	64.9	-12.6	10.7	-22.7	-14.5	33.5	28.6
Dec.	7.8	-21.0	-26.6	-4.2	-8.3	-26.6	7.3	-1.1	-7.6	45.6	-34.8	-47.9
2008 Jan.	-15.8	-75.9	30.0	17.4	-9.8	33.7	-6.5	36.1	-19.2	-7.1	-17.1	-18.5
Feb.	9.8	-31.1	11.9	-5.0	19.9	15.9	-10.5	-30.8	1.7	-1.4	-19.7	-13.9
Mar.	-3.9	-23.5	-3.6	-21.1	-4.3	3.3	-28.7	32.8	2.6	-0.9	-47.1	-51.0
Apr.	-6.9	23.1	-41.2	-10.5	-37.2	43.4	-1.4	-9.6	-14.2	-11.3	-65.7	-73.0
May	-17.9	-9.7	0.9	-36.2	3.5	38.2	-3.1	6.4	-29.6	-27.4	-74.8	-70.1
June	-1.3	-28.0	8.4	-13.9	21.0	49.0	5.3	-9.1	4.8	-14.4	21.9	14.7
<i>12-month cumulated transactions</i>												
2008 June	-3.2	-328.9	156.5	-131.5	-21.3	274.1	-208.7	215.9	-109.6	-99.3	-255.8	-286.4

**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.

## 7.5 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:			
			Intermediate	Capital	Consumption		Intermediate	Capital	Consumption	Manufactures	Oil		
	1	2	3	4	5	6	7	8	9	10	11	12	13
Values (EUR billions; annual percentage changes for columns 1 and 2)													
2004	9.0	9.3	1,144.4	543.6	246.4	313.7	995.0	1,075.8	604.7	184.3	256.8	771.3	130.0
2005	7.8	13.4	1,238.3	589.9	269.1	333.8	1,068.7	1,227.3	705.9	208.3	277.0	846.8	187.0
2006	11.6	13.7	1,384.8	686.4	296.5	365.3	1,182.9	1,397.4	856.7	216.5	304.6	943.8	224.6
2007	8.4	5.7	1,501.0	736.9	324.6	393.6	1,275.8	1,475.1	898.6	225.3	324.1	1,010.3	223.3
2007 Q1	9.0	5.3	367.6	180.6	79.6	96.6	311.4	359.4	216.6	56.8	79.8	250.2	48.1
Q2	9.4	3.7	370.4	181.5	80.6	97.1	316.9	360.5	220.9	54.1	79.4	249.6	52.9
Q3	10.2	6.4	381.3	187.3	82.0	100.1	326.2	375.3	227.1	58.1	82.6	259.8	57.5
Q4	5.4	7.3	381.6	187.5	82.4	99.7	321.3	379.9	234.0	56.2	82.4	250.6	64.7
2008 Q1	6.7	9.2	395.1	194.0	83.9	104.2	331.2	395.2	246.6	57.2	81.6	255.6	70.0
Q2	7.8	11.4	396.9	.	.	.	330.3	399.5	.	.	.	251.4	.
2008 Jan.	10.1	12.6	132.3	65.3	28.2	35.2	110.7	133.7	82.8	19.6	28.0	85.9	24.6
Feb.	13.0	10.1	134.1	65.9	28.6	35.6	112.9	131.7	81.8	19.0	27.3	86.0	21.5
Mar.	-1.8	5.2	128.7	62.7	27.1	33.4	107.6	129.8	82.0	18.5	26.2	83.7	23.9
Apr.	16.1	15.8	136.0	67.5	28.5	35.7	112.6	134.6	84.4	18.5	27.2	84.4	23.9
May	2.8	7.0	129.6	63.8	27.0	33.4	108.3	130.6	83.3	17.8	26.4	83.3	24.1
June	4.9	11.4	131.4	.	.	.	109.5	134.4	.	.	.	83.6	.
Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2004	9.0	6.4	117.5	114.9	120.2	118.6	118.6	108.0	104.1	108.8	117.6	109.0	106.2
2005	4.7	5.0	123.5	119.7	129.8	123.6	124.6	114.0	107.5	123.5	123.6	117.1	110.6
2006	7.8	6.0	133.5	133.6	140.2	131.2	134.4	121.0	117.8	128.5	131.3	126.1	110.0
2007	6.0	4.2	141.5	138.8	151.4	139.5	142.1	126.0	120.0	137.4	138.6	133.8	107.6
2007 Q1	7.1	6.4	139.8	137.2	149.0	137.1	139.1	126.3	121.4	137.3	137.0	132.4	109.4
Q2	6.4	3.5	139.3	136.3	149.8	137.9	140.6	124.5	119.8	132.6	137.2	132.3	106.5
Q3	7.4	5.4	143.3	140.5	152.7	141.5	144.9	126.8	119.5	141.9	139.6	136.8	106.6
Q4	3.4	1.6	143.6	141.0	153.9	141.6	143.6	126.3	119.3	137.8	140.5	133.6	108.0
2008 Q1	3.8	-1.1	146.2	142.5	154.2	146.1	146.8	125.7	119.3	138.7	137.3	134.3	109.3
Q2	.	.	.	.	.	.	.	.	.	.	.	.	.
2008 Jan.	6.9	1.9	147.3	144.6	155.6	149.1	147.7	128.2	121.5	142.6	140.2	135.4	117.2
Feb.	9.8	-0.3	148.6	145.3	158.4	148.8	149.8	126.0	119.3	137.8	137.8	135.2	101.6
Mar.	-4.0	-4.9	142.7	137.6	148.7	140.5	142.9	123.0	117.2	135.7	133.9	132.4	109.1
Apr.	13.7	5.3	150.7	147.8	158.2	150.2	149.7	127.3	120.2	136.4	139.5	134.0	106.9
May	0.9	-4.9	143.3	138.9	149.4	141.6	144.8	120.9	114.6	131.2	136.1	132.2	100.2
June	.	.	.	.	.	.	.	.	.	.	.	.	.
Unit value indices (n.s.a.; 2000 = 100; annual percentage changes for columns 1 and 2)													
2004	-0.1	2.7	97.6	96.6	95.7	101.2	97.3	97.4	98.3	92.3	99.0	96.3	99.6
2005	2.9	8.0	100.4	100.6	96.8	103.3	99.4	105.2	111.1	91.8	101.5	98.5	137.7
2006	3.6	7.4	104.0	104.9	98.7	106.5	102.0	113.0	123.1	91.9	105.1	101.9	166.5
2007	2.2	1.4	106.3	108.4	100.1	107.9	104.1	114.6	126.8	89.4	106.0	102.8	169.3
2007 Q1	1.7	-1.0	105.4	107.5	99.7	107.9	103.8	111.3	120.9	90.3	105.5	102.9	143.5
Q2	2.8	0.2	106.6	108.8	100.5	107.8	104.5	113.3	124.9	89.0	104.9	102.8	162.1
Q3	2.5	0.9	106.7	108.9	100.3	108.3	104.4	115.8	128.7	89.3	107.2	103.4	176.2
Q4	2.0	5.6	106.6	108.7	100.0	107.8	103.7	117.7	132.8	89.0	106.3	102.2	195.5
2008 Q1	2.8	10.5	108.3	111.2	101.7	109.1	104.6	123.0	140.0	89.9	107.7	103.6	209.0
Q2	.	.	.	.	.	.	.	.	.	.	.	.	.
2008 Jan.	3.1	10.5	108.0	110.7	101.7	108.5	104.2	122.4	138.5	89.8	108.5	103.7	205.8
Feb.	2.9	10.3	108.5	111.2	101.1	109.7	104.8	122.7	139.4	90.4	107.9	103.9	206.7
Mar.	2.4	10.6	108.5	111.7	102.2	109.2	104.8	123.9	142.1	89.4	106.6	103.3	214.4
Apr.	2.2	10.0	108.5	112.0	101.0	109.2	104.6	124.1	142.6	88.5	106.1	102.9	218.7
May	1.9	12.5	108.7	112.6	101.1	108.3	104.0	126.8	147.6	88.5	105.3	103.0	235.7
June	.	.	.	.	.	.	.	.	.	.	.	.	.

Source: Eurostat.



## 7.5 Trade in goods

(EUR billions, unless otherwise indicated; seasonally adjusted)

## 2. Geographical breakdown

	Total	European Union 27 (outside the euro area)				Russia	Switzer-land	Turkey	United States	Asia		Africa	Latin America	Other countries	
	1	Denmark	Sweden	United Kingdom	Other EU countries	6	7	8	9	China	Japan	13	14	15	
<b>Exports (f.o.b.)</b>															
2004	1,144.4	25.8	42.1	204.5	133.9	35.9	66.6	31.8	172.7	225.7	40.4	33.3	64.6	40.7	100.3
2005	1,238.3	29.0	45.2	203.3	153.2	43.7	70.8	34.7	185.3	244.2	43.3	34.1	73.4	46.9	108.6
2006	1,384.8	31.7	49.9	216.8	189.8	55.2	77.2	38.8	199.9	271.7	53.7	34.5	77.7	54.4	121.7
2007	1,501.0	33.7	55.3	229.0	220.0	67.0	81.9	40.9	195.0	296.0	60.2	34.3	87.2	61.3	133.5
2007 Q1	367.6	8.3	13.5	56.9	52.3	15.6	20.5	10.2	49.6	71.9	14.3	8.7	21.4	14.8	32.6
Q2	370.4	8.4	13.9	55.9	53.9	16.7	20.0	9.9	48.7	73.2	14.9	8.8	21.4	15.4	33.0
Q3	381.3	8.5	14.2	58.7	56.4	17.3	20.6	10.3	49.4	75.0	15.3	8.5	22.2	15.6	33.0
Q4	381.6	8.5	13.7	57.5	57.4	17.5	20.8	10.5	47.3	75.9	15.6	8.2	22.2	15.6	34.8
2008 Q1	395.1	8.8	13.9	57.4	60.4	19.2	20.8	11.7	48.4	78.3	16.7	8.5	23.8	16.0	36.4
Q2	396.9	.	.	.	.	19.3	21.8	11.0	46.2	77.4	17.0	8.4	24.3	16.1	.
2008 Jan.	132.3	2.9	4.6	19.7	20.1	6.2	6.9	4.0	16.4	26.1	5.7	2.9	7.8	5.3	12.1
Feb.	134.1	3.0	4.7	19.1	20.4	6.5	6.9	4.0	16.7	26.4	5.5	2.9	8.1	5.4	13.0
Mar.	128.7	2.9	4.6	18.6	19.9	6.5	7.0	3.7	15.2	25.8	5.5	2.8	7.9	5.3	11.3
Apr.	136.0	3.0	4.7	20.1	20.9	6.5	7.3	3.8	16.3	26.1	5.9	2.8	8.1	5.3	13.9
May	129.6	3.0	4.7	18.7	20.1	6.3	7.2	3.6	14.7	25.5	5.5	2.8	8.0	5.3	12.4
June	131.4	.	.	.	.	6.5	7.3	3.6	15.2	25.8	5.6	2.8	8.2	5.4	.
<i>% share of total exports</i>															
2007	100.0	2.2	3.7	15.3	14.7	4.5	5.5	2.7	13.0	19.7	4.0	2.3	5.8	4.1	8.9
<b>Imports (c.i.f.)</b>															
2004	1,075.8	25.4	39.8	144.8	115.5	56.6	53.3	23.2	113.4	309.2	92.4	54.1	72.9	45.2	76.3
2005	1,227.3	26.4	42.3	153.2	127.8	76.3	58.1	25.5	120.2	363.6	118.2	53.2	96.0	53.8	84.2
2006	1,397.4	28.5	47.9	167.2	152.3	95.6	62.3	29.4	125.9	418.6	144.5	57.0	110.5	66.2	93.1
2007	1,475.1	28.1	51.6	167.7	174.4	97.7	67.1	32.2	131.1	445.8	170.2	58.5	112.7	74.7	92.1
2007 Q1	359.4	7.0	12.8	40.7	41.4	22.8	17.0	7.9	33.4	110.8	42.4	14.9	26.5	18.1	21.1
Q2	360.5	7.0	12.8	41.7	42.5	23.9	16.5	7.9	32.1	107.8	39.9	14.3	26.9	18.3	23.0
Q3	375.3	7.3	12.8	42.8	44.9	23.6	17.2	8.1	33.3	114.6	44.7	14.9	28.1	18.9	23.6
Q4	379.9	6.7	13.2	42.5	45.5	27.4	16.5	8.3	32.2	112.6	43.2	14.4	31.2	19.4	24.4
2008 Q1	395.2	7.2	13.9	43.4	47.9	28.0	16.9	8.4	33.9	116.2	43.3	14.6	34.0	19.4	26.1
Q2	399.5	.	.	.	.	29.0	17.1	8.5	33.2	114.7	43.0	13.8	36.2	20.1	.
2008 Jan.	133.7	2.3	4.6	14.9	15.8	9.5	5.5	2.8	11.5	39.5	14.9	4.8	11.5	6.6	9.1
Feb.	131.7	2.6	4.7	14.4	16.0	9.2	5.8	2.7	11.2	38.3	14.5	5.0	11.3	6.4	9.0
Mar.	129.8	2.3	4.6	14.1	16.1	9.3	5.6	2.8	11.2	38.4	14.0	4.8	11.1	6.4	7.9
Apr.	134.6	2.7	4.5	14.1	16.6	9.9	5.7	2.9	11.1	38.6	14.4	4.8	12.3	6.8	9.3
May	130.6	2.6	4.5	13.5	15.9	9.7	5.5	2.8	10.8	37.5	14.2	4.5	11.6	6.8	9.4
June	134.4	.	.	.	.	9.3	5.8	2.8	11.3	38.5	14.3	4.5	12.4	6.6	.
<i>% share of total imports</i>															
2007	100.0	1.9	3.5	11.4	11.8	6.6	4.5	2.2	8.9	30.2	11.5	4.0	7.6	5.1	6.2
<b>Balance</b>															
2004	68.7	0.4	2.3	59.6	18.4	-20.7	13.3	8.6	59.2	-83.6	-52.0	-20.8	-8.3	-4.5	23.9
2005	10.9	2.6	2.9	50.1	25.4	-32.5	12.7	9.2	65.1	-119.4	-74.8	-19.1	-22.6	-6.9	24.4
2006	-12.5	3.2	2.0	49.7	37.6	-40.4	15.0	9.4	74.0	-146.9	-90.8	-22.4	-32.8	-11.9	28.7
2007	25.9	5.6	3.7	61.2	45.7	-30.6	14.9	8.7	63.9	-149.7	-110.1	-24.3	-25.5	-13.4	41.4
2007 Q1	8.2	1.3	0.7	16.2	11.0	-7.2	3.6	2.3	16.2	-38.9	-28.1	-6.2	-5.1	-3.3	11.5
Q2	10.0	1.4	1.1	14.3	11.3	-7.2	3.5	2.0	16.5	-34.6	-25.0	-5.5	-5.5	-2.9	10.0
Q3	6.0	1.2	1.4	15.8	11.5	-6.4	3.4	2.2	16.1	-39.5	-29.4	-6.4	-5.9	-3.3	9.4
Q4	1.7	1.8	0.5	15.0	11.9	-9.9	4.3	2.2	15.1	-36.7	-27.6	-6.2	-8.9	-3.9	10.4
2008 Q1	-0.1	1.6	0.0	14.0	12.5	-8.8	4.0	3.3	14.5	-37.9	-26.6	-6.2	-10.2	-3.4	10.3
Q2	-2.6	.	.	.	.	-9.6	4.7	2.5	13.1	-37.3	-26.0	-5.4	-12.0	-4.1	.
2008 Jan.	-1.4	0.7	0.0	4.8	4.3	-3.3	1.4	1.1	5.0	-13.4	-9.1	-2.0	-3.7	-1.3	3.0
Feb.	2.4	0.4	0.0	4.7	4.4	-2.7	1.2	1.2	5.5	-11.9	-9.0	-2.2	-3.3	-1.0	3.9
Mar.	-1.0	0.6	0.1	4.4	3.8	-2.8	1.4	0.9	4.0	-12.6	-8.5	-2.0	-3.2	-1.2	3.4
Apr.	1.4	0.3	0.2	6.0	4.3	-3.4	1.5	1.0	5.2	-12.5	-8.6	-2.0	-4.2	-1.5	4.6
May	-1.0	0.4	0.2	5.3	4.2	-3.4	1.7	0.8	3.9	-12.0	-8.7	-1.7	-3.6	-1.4	3.0
June	-3.0	.	.	.	.	-2.9	1.5	0.8	3.9	-12.7	-8.7	-1.7	-4.2	-1.2	.

Source: Eurostat.



## EXCHANGE RATES

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

(period averages; index 1999 Q1=100)

	EER-22						EER-42		
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI	
	1	2	3	4	5	6	7	8	
2005	103.3	104.2	102.5	102.2	98.2	101.9	109.7	103.7	
2006	103.6	104.6	103.0	102.2	98.7	101.5	110.0	103.4	
2007	107.7	108.3	106.8	106.0	101.6	104.7	114.2	106.6	
2007 Q2	107.1	107.7	106.1	105.5	101.8	104.4	113.5	106.0	
Q3	107.6	108.2	106.8	106.0	101.3	104.6	114.1	106.4	
Q4	110.5	111.2	109.5	108.5	104.1	107.4	117.0	109.0	
2008 Q1	112.7	113.1	111.3	110.7	105.9	109.4	119.4	110.8	
Q2	115.7	115.7	113.2	-	-	-	122.6	113.3	
2007 Aug.	107.1	107.7	106.4	-	-	-	113.7	106.0	
Sep.	108.2	108.8	107.5	-	-	-	114.8	107.0	
Oct.	109.4	110.1	108.7	-	-	-	115.8	108.0	
Nov.	111.0	111.7	109.9	-	-	-	117.6	109.6	
Dec.	111.2	111.7	110.0	-	-	-	117.6	109.4	
2008 Jan.	112.0	112.3	110.4	-	-	-	118.3	109.9	
Feb.	111.8	111.9	110.4	-	-	-	118.2	109.5	
Mar.	114.6	115.0	112.9	-	-	-	121.5	112.8	
Apr.	116.0	116.1	113.9	-	-	-	123.1	113.8	
May	115.5	115.5	113.1	-	-	-	122.4	113.1	
June	115.4	115.4	112.6	-	-	-	122.4	113.0	
July	115.8	115.5	112.5	-	-	-	122.8	113.2	
Aug.	113.5	113.2	110.1	-	-	-	120.0	110.5	
	<i>% change versus previous month</i>								
2008 Aug.	-2.0	-2.0	-2.2	-	-	-	-2.3	-2.4	
	<i>% change versus previous year</i>								
2008 Aug.	6.0	5.1	3.5	-	-	-	5.5	4.2	

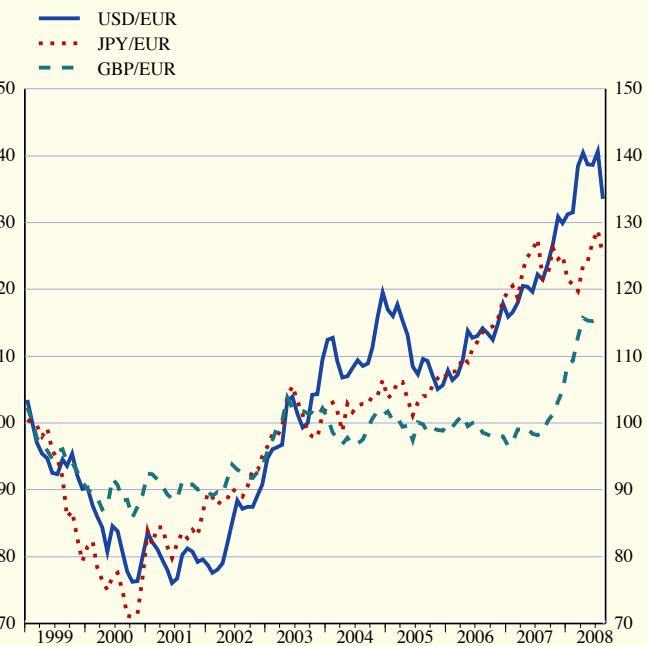
### C35 Effective exchange rates

(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.

## 8.2 Bilateral exchange rates

(period averages; units of national currency per euro)

	Danish kroner	Swedish krona	Pound sterling	US dollar	Japanese yen	Swiss franc	South Korean won	Hong Kong dollar	Singapore dollar	Canadian dollar	Norwegian kroner	Australian dollar
	1	2	3	4	5	6	7	8	9	10	11	12
2005	7.4518	9.2822	0.68380	1.2441	136.85	1.5483	1,273.61	9.6768	2.0702	1.5087	8.0092	1.6320
2006	7.4591	9.2544	0.68173	1.2556	146.02	1.5729	1,198.58	9.7545	1.9941	1.4237	8.0472	1.6668
2007	7.4506	9.2501	0.68434	1.3705	161.25	1.6427	1,272.99	10.6912	2.0636	1.4678	8.0165	1.6348
2007 Q4	7.4557	9.2899	0.70782	1.4486	163.83	1.6596	1,334.12	11.2639	2.1061	1.4201	7.8778	1.6279
2008 Q1	7.4534	9.3996	0.75698	1.4976	157.80	1.6014	1,430.84	11.6737	2.1107	1.5022	7.9583	1.6533
2008 Q2	7.4599	9.3517	0.79286	1.5622	163.35	1.6114	1,590.82	12.1845	2.1346	1.5769	7.9401	1.6559
2008 Feb.	7.4540	9.3642	0.75094	1.4748	157.97	1.6080	1,392.57	11.4996	2.0808	1.4740	7.9480	1.6156
Mar.	7.4561	9.4020	0.77494	1.5527	156.59	1.5720	1,523.14	12.0832	2.1489	1.5519	7.9717	1.6763
Apr.	7.4603	9.3699	0.79487	1.5751	161.56	1.5964	1,555.98	12.2728	2.1493	1.5965	7.9629	1.6933
May	7.4609	9.3106	0.79209	1.5557	162.31	1.6247	1,613.18	12.1341	2.1259	1.5530	7.8648	1.6382
June	7.4586	9.3739	0.79152	1.5553	166.26	1.6139	1,604.95	12.1425	2.1278	1.5803	7.9915	1.6343
July	7.4599	9.4566	0.79308	1.5770	168.45	1.6193	1,604.58	12.3004	2.1438	1.5974	8.0487	1.6386
Aug.	7.4595	9.3984	0.79279	1.4975	163.63	1.6212	1,566.23	11.6932	2.1024	1.5765	7.9723	1.6961
	% change versus previous month											
2008 Aug.	0.0	-0.6	0.0	-5.0	-2.9	0.1	-2.4	-4.9	-1.9	-1.3	-0.9	3.5
	% change versus previous year											
2008 Aug.	0.2	0.8	17.0	9.9	2.9	-1.0	23.0	9.8	1.3	9.3	0.0	3.2
	Czech koruna	Estonian kroon	Latvian lats	Lithuanian litas	Hungarian forint	Polish zloty	Slovak koruna	Bulgarian lev	New Roma- nian leu	Croatian kuna	New Turkish lira	
	13	14	15	16	17	18	19	20	21	22	23	
2005	29.782	15.6466	0.6962	3.4528	248.05	4.0230	38.599	1.9558	3.6209	7.4008	1.6771	
2006	28.342	15.6466	0.6962	3.4528	264.26	3.8959	37.234	1.9558	3.5258	7.3247	1.8090	
2007	27.766	15.6466	0.7001	3.4528	251.35	3.7837	33.775	1.9558	3.3353	7.3376	1.7865	
2007 Q4	26.826	15.6466	0.7005	3.4528	252.86	3.6584	33.424	1.9558	3.4489	7.3281	1.7261	
2008 Q1	25.564	15.6466	0.6973	3.4528	259.30	3.5759	33.069	1.9558	3.6887	7.2852	1.8036	
2008 Q2	24.830	15.6466	0.6997	3.4528	248.04	3.4070	31.403	1.9558	3.6521	7.2556	1.9717	
2008 Feb.	25.377	15.6466	0.6967	3.4528	262.15	3.5768	33.085	1.9558	3.6557	7.2707	1.7632	
Mar.	25.208	15.6466	0.6970	3.4528	259.94	3.5363	32.499	1.9558	3.7194	7.2662	1.9309	
Apr.	25.064	15.6466	0.6974	3.4528	253.75	3.4421	32.374	1.9558	3.6428	7.2654	2.0500	
May	25.100	15.6466	0.6987	3.4528	247.69	3.4038	31.466	1.9558	3.6583	7.2539	1.9408	
June	24.316	15.6466	0.7032	3.4528	242.42	3.3736	30.322	1.9558	3.6556	7.2469	1.9206	
July	23.528	15.6466	0.7035	3.4528	231.82	3.2591	30.319	1.9558	3.5764	7.2297	1.9128	
Aug.	24.287	15.6466	0.7039	3.4528	235.88	3.2920	30.334	1.9558	3.5271	7.1947	1.7669	
	% change versus previous month											
2008 Aug.	3.2	0.0	0.1	0.0	1.8	1.0	0.1	0.0	-1.4	-0.5	-7.6	
	% change versus previous year											
2008 Aug.	-12.8	0.0	0.9	0.0	-7.6	-13.6	-9.7	0.0	9.4	-1.7	-1.4	
	Brazilian real <sup>1)</sup>	Chinese yuan renminbi	Icelandic krona	Indonesian rupiah	Malaysian ringgit	Mexican peso <sup>1)</sup>	New Zealand dollar	Philippine peso	Russian rouble	South African rand	Thai baht	
	24	25	26	27	28	29	30	31	32	33	34	
2005	3.0360	10.1955	78.23	12,072.83	4.7119	13.5643	1.7660	68.494	35.1884	7.9183	50.068	
2006	2.7333	10.0096	87.76	11,512.37	4.6044	13.6936	1.9373	64.379	34.1117	8.5312	47.594	
2007	2.6594	10.4178	87.63	12,528.33	4.7076	14.9743	1.8627	63.026	35.0183	9.6596	44.214	
2007 Q4	2.5863	10.7699	88.69	13,374.03	4.8613	15.7217	1.8965	62.330	35.6947	9.8088	45.097	
2008 Q1	2.6012	10.7268	101.09	13,861.78	4.8325	16.1862	1.8960	61.211	36.3097	11.2736	46.461	
2008 Q2	2.5882	10.8687	119.09	14,460.45	5.0183	16.2919	2.0129	67.174	36.9108	12.1648	50.437	
2008 Feb.	2.5516	10.5682	98.06	13,542.26	4.7548	15.8786	1.8513	59.845	36.1357	11.2899	46.085	
Mar.	2.6445	10.9833	112.08	14,241.09	4.9455	16.6678	1.9344	64.031	36.8259	12.3712	48.848	
Apr.	2.6602	11.0237	116.65	14,497.21	4.9819	16.5608	1.9960	65.790	37.0494	12.2729	49.752	
May	2.5824	10.8462	117.46	14,436.99	5.0081	16.2402	2.0011	66.895	36.9042	11.8696	49.942	
June	2.5185	10.7287	123.28	14,445.41	5.0666	16.0617	2.0424	68.903	36.7723	12.3467	51.649	
July	2.5097	10.7809	123.61	14,442.77	5.1258	16.1119	2.0900	70.694	36.8261	12.0328	52.821	
Aug.	2.4103	10.2609	122.07	13,700.21	4.9843	15.1269	2.1097	67.307	36.2502	11.4680	50.697	
	% change versus previous month											
2008 Aug.	-4.0	-4.8	-1.2	-5.1	-2.8	-6.1	0.9	-4.8	-1.6	-4.7	-4.0	
	% change versus previous year											
2008 Aug.	-9.8	-0.5	38.0	7.3	5.0	0.5	12.3	7.1	3.8	16.6	17.0	

Source: ECB.

1) For these currencies the ECB computes and publishes euro reference exchange rates as from 1 January 2008. Previous data are indicative.



## 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	Latvia	Lithuania	Hungary	Poland	Romania	Slovakia	Sweden	United Kingdom
	1	2	3	4	5	6	7	8	9	10	11	12
HICP												
2006	7.4	2.1	1.9	4.4	6.6	3.8	4.0	1.3	6.6	4.3	1.5	2.3
2007	7.6	3.0	1.7	6.7	10.1	5.8	7.9	2.6	4.9	1.9	1.7	2.3
2007 Q4	11.2	4.9	2.2	9.2	13.7	7.9	7.1	3.7	6.8	2.4	2.3	2.1
2008 Q1	12.4	7.6	3.2	11.3	16.3	10.8	6.9	4.5	8.0	3.4	3.1	2.4
Q2	14.0	6.7	3.7	11.5	17.5	12.3	6.8	4.3	8.6	4.0	3.8	3.4
2008 Mar.	13.2	7.1	3.3	11.2	16.6	11.4	6.7	4.4	8.7	3.6	3.2	2.5
Apr.	13.4	6.7	3.4	11.6	17.4	11.9	6.8	4.3	8.7	3.7	3.2	3.0
May	14.0	6.8	3.6	11.4	17.7	12.3	6.9	4.3	8.5	4.0	3.9	3.3
June	14.7	6.6	4.2	11.5	17.5	12.7	6.6	4.3	8.7	4.3	4.1	3.8
July	14.4	6.8	4.4	11.2	16.5	12.4	7.0	4.5	9.1	4.4	4.1	4.4
General government deficit (-)/surplus (+) as a % of GDP												
2005	1.8	-3.6	5.0	1.8	-0.4	-0.5	-7.8	-4.3	-1.2	-2.8	2.2	-3.4
2006	3.0	-2.7	4.8	3.4	-0.2	-0.5	-9.2	-3.8	-2.2	-3.6	2.3	-2.6
2007	3.4	-1.6	4.4	2.8	0.0	-1.2	-5.5	-2.0	-2.5	-2.2	3.5	-2.9
General government gross debt as a % of GDP												
2005	29.2	29.7	36.4	4.5	12.4	18.6	61.6	47.1	15.8	34.2	50.9	42.1
2006	22.7	29.4	30.4	4.2	10.7	18.2	65.6	47.6	12.4	30.4	45.9	43.1
2007	18.2	28.7	26.0	3.4	9.7	17.3	66.0	45.2	13.0	29.4	40.6	43.8
Long-term government bond yield as a % per annum, period average												
2008 Feb.	5.24	4.53	4.08	-	5.11	4.51	7.58	5.82	7.29	4.36	4.02	4.45
Mar.	4.85	4.68	4.04	-	5.25	4.36	8.41	5.99	7.34	4.34	3.92	4.42
Apr.	4.80	4.72	4.29	-	5.93	4.59	8.02	5.99	7.35	4.46	4.06	4.62
May	4.95	4.84	4.42	-	5.93	4.80	8.08	6.10	7.26	4.52	4.18	4.84
June	5.17	5.13	4.82	-	6.25	5.33	8.50	6.42	7.15	4.94	4.43	5.16
July	5.17	4.90	4.78	-	6.57	5.49	8.11	6.45	7.28	5.06	4.37	5.00
3-month interest rate as a % per annum, period average												
2008 Feb.	6.65	3.94	4.61	6.62	7.52	4.90	-	5.74	9.67	4.28	4.62	5.64
Mar.	6.68	4.04	4.81	6.35	6.49	4.82	8.21	6.03	10.54	4.29	4.84	5.89
Apr.	6.77	4.11	5.00	6.33	5.96	5.05	8.54	6.29	11.59	4.28	4.86	5.92
May	6.88	4.14	5.14	6.39	5.74	5.17	8.40	6.41	10.87	4.32	4.96	5.83
June	7.02	4.21	5.32	6.41	6.15	5.45	8.87	6.58	11.29	4.34	5.02	5.93
July	7.19	4.11	5.38	6.37	6.23	5.77	8.99	6.62	11.41	4.33	5.09	5.83
Real GDP												
2006	6.3	6.8	3.9	11.2	12.2	7.7	3.9	6.2	7.9	8.5	4.1	2.9
2007	6.2	6.6	1.7	7.1	10.3	8.8	1.3	6.6	6.0	10.4	2.7	3.1
2007 Q4	6.9	6.3	1.5	4.8	8.1	8.5	0.7	6.6	6.6	14.3	2.4	2.8
2008 Q1	7.0	5.3	-0.7	0.1	3.3	6.8	1.2	6.2	8.2	8.7	1.9	2.3
Q2	.	.	1.3	.	.	5.5	1.8	6.1	9.3	7.6	1.0	1.4
Current and capital accounts balance as a % of GDP												
2006	-17.1	-2.9	2.9	-13.2	-21.3	-9.6	-5.4	-2.1	-10.5	-7.1	7.8	-3.8
2007	-20.3	-2.0	1.1	-16.6	-20.9	-11.9	-3.8	-2.7	-13.5	-4.7	8.1	-4.1
2007 Q4	-25.1	-2.1	1.7	-14.2	-13.2	-10.2	-2.4	-1.9	-13.5	-6.8	9.1	-2.5
2008 Q1	-22.7	3.8	-2.2	-11.2	-18.3	-14.0	-1.3	-3.3	-14.3	-0.5	10.4	-2.2
Q2	.	.	2.7	.	.	-10.0	.	-4.0	-14.2	-5.0	4.3	.
Unit labour costs												
2006	4.4	1.2	1.7	8.1	15.3	8.8	1.4	0.1	12.3	1.7	-0.2	2.6
2007	14.2	2.3	3.7	18.9	24.9	7.0	6.8	2.5	14.9	0.2	4.3	1.3
2007 Q4	14.5	1.1	3.5	19.1	-	7.9	-	-	-	-1.6	5.3	1.4
2008 Q1	16.8	5.1	6.8	19.1	-	13.1	-	-	-	5.5	1.8	2.4
Q2	.	.	3.0	.	.	.	.	.	.	.	.	.
Standardised unemployment rate as a % of labour force (s.a.)												
2006	9.0	7.2	3.9	5.9	6.8	5.6	7.5	13.9	7.3	13.4	7.0	5.4
2007	6.9	5.3	3.8	4.6	6.0	4.3	7.4	9.6	6.4	11.2	6.1	5.3
2007 Q4	6.1	4.9	3.3	4.2	5.6	4.2	7.8	8.5	6.2	10.6	6.0	5.1
2008 Q1	6.1	4.5	3.0	4.2	6.1	4.6	7.6	7.8	6.0	10.4	5.8	5.2
Q2	5.6	4.4	2.7	3.9	5.6	4.5	7.6	7.5	.	10.4	5.5	.
2008 Mar.	6.0	4.4	2.9	4.2	6.0	4.7	7.6	7.5	6.0	10.3	5.8	5.2
Apr.	5.6	4.4	2.7	4.1	5.6	4.5	7.5	7.6	.	10.4	5.6	5.2
May	5.6	4.4	2.7	3.9	5.6	4.5	7.6	7.5	.	10.4	5.4	5.3
June	5.5	4.4	2.6	3.9	5.7	4.4	7.6	7.3	.	10.4	5.3	.
July	5.3	4.3	2.3	4.0	5.7	4.6	7.6	6.8	.	10.3	5.3	.

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

## 9.2 In the United States and Japan

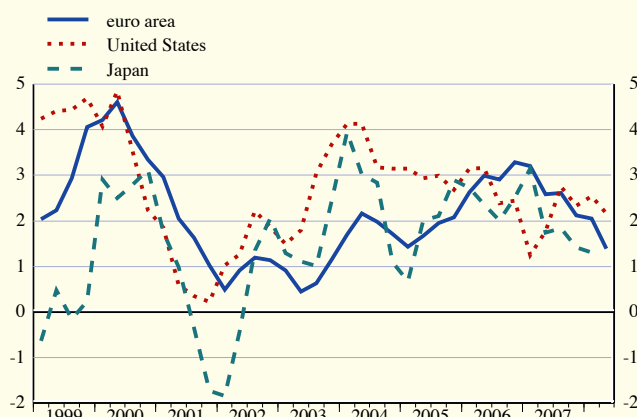
(annual percentage changes, unless otherwise indicated)

### 1. Economic and financial developments

	Consumer price index	Unit labour costs <sup>1)</sup>	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>	10-year zero coupon government bond yield <sup>3)</sup> end-of-period	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											
2004	2.7	0.8	3.6	3.1	5.5	4.7	1.62	4.80	1.2439	-4.4	48.9
2005	3.4	2.2	2.9	4.2	5.1	4.4	3.56	5.05	1.2441	-3.6	49.2
2006	3.2	2.8	2.8	2.8	4.6	4.8	5.19	5.26	1.2556	-2.6	48.6
2007	2.9	2.7	2.0	1.8	4.6	5.9	5.30	4.81	1.3705	-3.0	49.2
2007 Q2	2.7	3.7	1.8	1.8	4.5	6.1	5.36	5.78	1.3481	-2.7	48.3
Q3	2.4	2.0	2.8	2.2	4.7	6.3	5.45	5.34	1.3738	-3.1	48.7
Q4	4.0	0.9	2.3	2.5	4.8	5.8	5.02	4.81	1.4486	-3.3	49.2
2008 Q1	4.1	0.3	2.5	2.0	4.9	6.5	3.26	4.24	1.4976	.	.
Q2	4.4	1.4	2.2	-0.2	5.3	6.3	2.75	4.81	1.5622	.	.
2008 Apr.	3.9	-	-	0.0	5.0	6.5	2.79	4.59	1.5751	-	-
May	4.2	-	-	-0.1	5.5	6.4	2.69	4.82	1.5557	-	-
June	5.0	-	-	-0.5	5.5	6.1	2.77	4.81	1.5553	-	-
July	5.6	-	-	-0.9	5.7	6.3	2.79	4.80	1.5770	-	-
Aug.	.	-	-	.	.	.	2.81	4.63	1.4975	-	-
Japan											
2004	0.0	-3.2	2.7	4.8	4.7	.	0.05	1.53	134.44	-6.2	156.8
2005	-0.3	-2.1	1.9	1.4	4.4	1.8	0.06	1.66	136.85	-6.7	163.2
2006	0.2	-0.6	2.4	4.5	4.1	1.0	0.30	1.85	146.02	-1.4	159.5
2007	0.1	-1.6	2.0	2.8	3.8	1.6	0.79	1.70	161.25	.	.
2007 Q2	-0.1	-1.5	1.8	2.3	3.8	1.5	0.69	2.11	162.89	.	.
Q3	-0.1	-1.5	1.8	2.6	3.8	1.9	0.89	1.88	161.90	.	.
Q4	0.5	-1.5	1.4	3.4	3.8	2.0	0.96	1.70	163.83	.	.
2008 Q1	1.0	-0.1	1.2	2.3	3.9	2.2	0.92	1.48	157.80	.	.
Q2	1.4	.	1.0	1.0	4.0	2.0	0.92	1.88	163.35	.	.
2008 Apr.	0.8	.	-	1.9	4.0	1.9	0.92	1.76	161.56	-	-
May	1.3	.	-	1.1	4.0	2.0	0.92	2.00	162.31	-	-
June	2.0	.	-	0.1	4.1	2.2	0.92	1.88	166.26	-	-
July	2.3	.	-	2.0	.	2.1	0.92	1.77	168.45	-	-
Aug.	.	-	-	.	.	.	0.89	1.70	163.63	-	-

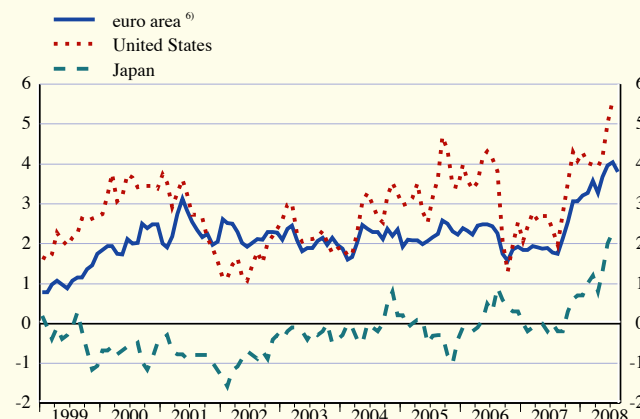
### C37 Real gross domestic product

(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) Seasonally adjusted. The data for the United States refer to the private non-agricultural business sector.
- 2) Average-of-period values; M2 for US, M2+CDs for Japan.
- 3) Percentages per annum. For further information on 3-month interbank deposit rate, see Section 4.6.
- 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:

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

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

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:

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

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:

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

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:

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

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

The method used to calculate the growth rates for securities other than shares is the same as that used for the monetary aggregates, the only difference being that an “N” is used rather than an “F”. The reason for this is to distinguish between the different ways of obtaining “net issues” for securities issues statistics and the equivalent “transactions” calculated used for the monetary aggregates.

The average growth rate for the quarter ending in month t is calculated as:

$$m) \quad \left( \frac{0.5I_t + \sum_{i=1}^2 I_{t-i} + 0.5I_{t-3}}{0.5I_{t-12} + \sum_{i=1}^2 I_{t-i-12} + 0.5I_{t-15}} - 1 \right) \times 100$$

where  $I_t$  is the index of notional stocks as at month t. Likewise, for the year ending in month t, the average growth rate is calculated as:

$$n) \quad \left( \frac{0.5I_t + \sum_{i=1}^{11} I_{t-i} + 0.5I_{t-12}}{0.5I_{t-12} + \sum_{i=1}^{11} I_{t-i-12} + 0.5I_{t-24}} - 1 \right) \times 100$$

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:

$$o) \quad a_t = \left[ \prod_{i=0}^5 \left( 1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$p) \quad a_t = \left( \frac{I_t}{I_{t-6}} - 1 \right) \times 100$$

#### 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 factors are revised at annual intervals or as required.

4 For details, see “Seasonal adjustment of monetary aggregates and HICP for the euro area”, ECB (August 2000) and the “Statistics” section of the ECB’s website ([www.ecb.europa.eu](http://www.ecb.europa.eu)), under the “Money, banking and financial markets” sub-section.

**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.

**RELATING TO SECTION 7.3****CALCULATION OF GROWTH RATES FOR THE  
QUARTERLY AND ANNUAL SERIES**

The annual growth rate for quarter  $t$  is calculated on the basis of quarterly transactions ( $F_t$ ) and positions ( $L_t$ ), as follows:

$$a_t = \left( \prod_{i=t-3}^t \left( 1 + \frac{F_i}{L_{i-1}} \right) - 1 \right) \times 100$$

The growth rate for the annual series is equal to the growth rate in the last quarter of the year.





## 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’s 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 3 September 2008.

Unless otherwise indicated, all data series covering observations for 2008 relate to the Euro 15 (i.e. the euro area including Cyprus and Malta) 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, 2007 and 2008, calculated from bases in 2000, 2006 and 2007, use a series which takes into account the impact of the entry of Greece, Slovenia, and Cyprus and Malta, respectively, into the euro area. Historical data referring to the euro area before the entry of Cyprus and Malta 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 for 2007 refer to the Euro 13, i.e. the Euro 12 plus Slovenia, and data after 2008 refer to the Euro 15, i.e. the Euro 13 plus Cyprus and Malta.

Given that the composition of the European currency unit (ECU) does not coincide with the former currencies of the countries that have adopted the single currency, pre-1999 amounts originally expressed in the participating currencies and converted into ECU at current ECU exchange rates are affected by movements in the currencies of EU Member States that 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, Latvia, Lithuania, Hungary, 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 (NCBs) 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 MROs (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 NCBs 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 an analysis, by sector and instrument, 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 that do not arise from transactions. Section 2.7 shows selected revaluations that 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 that NCBs are recommended to follow. 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, 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.

<sup>1</sup> OJ L 356, 30.12.1998, p. 7.

<sup>2</sup> OJ L 250, 2.10.2003, p. 19.



## 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 interaction between these sectors and both the euro area and the rest of the world. The non-seasonally adjusted data on current prices 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 the 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 provide 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. those resulting from the impact of changes in asset prices) 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) 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 so 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 15 (i.e. the Euro 13 plus Cyprus and Malta) 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 broken down further 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 re-fixed 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. The 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 that 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 that 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 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, ranging 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.

Table 4.7 shows end-of-period rates estimated from nominal spot yield curves based on AAA-rated euro-denominated bonds issued by euro area central governments. The yield curves are estimated using the Svensson model<sup>3</sup>. Spreads between the ten-year rates and the three-month and two-year rates are also released. Additional yield curves (daily releases, including charts and tables) and the corresponding methodological information are available at <http://www.ecb.europa.eu/stats/money/yc/html/index.en.html>. Daily data may also be downloaded.

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

<sup>3</sup> Svensson, L. E., 1994, "Estimating and Interpreting Forward Interest Rates: Sweden 1992-1994", Centre for Economic Policy Research, Discussion Paper No 1051.

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 by households on final consumption in 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>4</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>5</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>6</sup> and in

the implementing Commission Regulation (EC) No 1216/2003 of 7 July 2003<sup>7</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 the textile, pulp and paper, chemical, metal, capital goods and durable consumer goods industries. The data are calculated on the basis of current prices.

Indices for turnover in industry and for the retail trade (Table 4 in Section 5.2) measure the turnover, including all duties and taxes with the exception of VAT, invoiced during the reference period. Retail trade turnover covers all retail trade (excluding sales of motor vehicles and motorcycles), except repairs. New passenger car registrations cover registrations of both private and commercial passenger cars. The series for the euro area excludes Cyprus and Malta.

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

4 OJ L 162, 5.6.1998, p. 1.

5 OJ L 86, 27.3.2001, p. 11.

6 OJ L 69, 13.3.2003, p. 1.

7 OJ L 169, 8.7.2003, p. 37.

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 on the basis of 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>8</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 on quarterly non-financial accounts for general government<sup>9</sup>. 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 No 222/2004 and data provided by the NCBs.

## 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>10</sup> and the amending ECB Guideline of 31 May 2007 (ECB/2007/3)<sup>11</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/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), all of 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

8 OJ L 172, 12.7.2000, p. 3.

9 OJ L 179, 9.7.2002, p. 1.

10 OJ L 354, 30.11.2004, p. 34.

11 OJ L 159, 20.6.2007, p. 48.

based on the Task Force's recommendations, is available on the ECB's website.

The tables in Sections 7.1 and 7.4 follow the sign convention in the IMF Balance of Payments Manual, i.e. surpluses in the current account and in the capital account have a plus sign, while in the financial account a plus sign denotes an increase in liabilities or a decrease in assets. In the tables in Section 7.2, both credit and debit transactions are presented with a plus sign. Furthermore, starting with the February 2008 issue of the Monthly Bulletin, the tables in Section 7.3 have been restructured in order to allow the data on balance of payments, the international investment position and related growth rates to be presented together; in the new tables, transactions in assets and liabilities that correspond to increases in positions are shown with a plus sign.

The euro area b.o.p. is compiled by the ECB. 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 7.2, Table 1 also contains seasonally adjusted data for the current account. Where appropriate, the adjustment also covers working-day, leap-year and/or Easter effects. Table 3 in Section 7.2 and Table 8 in Section 7.3 present a breakdown of the euro area b.o.p. and i.i.p. 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. The breakdown does not cover transactions or positions in portfolio investment liabilities, financial derivatives and international reserves. In addition, separate data

are not provided for investment income payable to Brazil, mainland China, India and Russia. 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 b.o.p. financial account and i.i.p. in Section 7.3 are based on transactions and 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, Box 5 in the January 2007 issue of the Monthly Bulletin and Box 6 in the January 2008 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 for unquoted shares, and other investments (e.g. loans and deposits). 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, asset prices and foreign exchange developments.

Table 1 in Section 7.3 summarises the i.i.p. and financial transactions in the euro area b.o.p. The breakdown of the change in the annual i.i.p. is obtained by applying a statistical model to the i.i.p. changes other than transactions with information from the geographical breakdown and currency composition of assets and liabilities, as well as price indices for different financial assets. In this table, Columns 5 and 6 refer to direct investment by resident units abroad and direct investment by non-resident units in the euro area.

In Table 5 in Section 7.3, the breakdown into "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.

The outstanding amounts of the Eurosystem's international reserves and related assets and liabilities are shown in Section 7.3, Table 7. 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 7 are in line with the recommendations for the 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 7.4 contains a monetary presentation of the euro area balance of payments, in which the balance of payments transactions mirror the transactions in the external counterpart to M3. In portfolio investment liabilities (Columns 5 and 6), the transactions include sales and purchases of equity and debt securities issued by MFIs in the euro area, excluding 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 balance of payments 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 7.5 shows data on euro area external trade in goods. The source is Eurostat. Unit value indices are shown without any adjustment, while value data and volume indices are seasonally and working day-adjusted. 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. 4 definition. The geographical breakdown (Table 2 in Section 7.5) shows main trading partners individually or in regional groups. China excludes Hong Kong. On account of 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 b.o.p. statistics (Sections 7.1 and 7.2). Part of the difference arises from the inclusion of insurance and freight services in the recording of goods imported.

## 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-22 group of trading partners is composed of the 12 non-euro area EU Member States plus Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland and the United States. The EER-42 group includes the EER-22 and 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. The 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>



### 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 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

<sup>1</sup> The chronology of monetary policy measures taken by the Eurosystem between 1999 and 2005 can be found in the ECB's Annual Report for the respective years.

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, AND  
10 JANUARY, 7 FEBRUARY, 6 MARCH, 10 APRIL,  
8 MAY AND 5 JUNE 2008**

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.

### **3 JULY 2008**

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 4.25%, starting from the operation to be settled on 9 July 2008. In addition, it decides to increase by 25 basis points the interest rates on both the marginal lending facility and the deposit facility, to 5.25% and 3.25% respectively, with effect from 9 July 2008.

### **7 AUGUST AND 4 SEPTEMBER 2008**

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 4.25%, 5.25% and 3.25% respectively.







## DOCUMENTS PUBLISHED BY THE EUROPEAN CENTRAL BANK SINCE 2007

This list is designed to inform readers about selected documents published by the European Central Bank since January 2007. For Working Papers, the list only refers to publications released between June and August 2008. Unless otherwise indicated, hard copies can be obtained or subscribed to free of charge, stock permitting, by contacting [info@ecb.europa.eu](mailto:info@ecb.europa.eu).

For a complete list of documents published by the European Central Bank and by the European Monetary Institute, please visit the ECB's website (<http://www.ecb.europa.eu>).

### ANNUAL REPORT

- "Annual Report 2006", April 2007.
- "Annual Report 2007", April 2008.

### CONVERGENCE REPORT

- "Convergence Report May 2007".
- "Convergence Report May 2008".

### MONTHLY BULLETIN SPECIAL EDITION

- "10th anniversary of the ECB 1998-2008", May 2008.

### MONTHLY BULLETIN ARTICLES

- "The enlarged EU and euro area economies", January 2007.
- "Developments in the structural features of the euro area labour markets over the last decade", January 2007.
- "Putting China's economic expansion in perspective", January 2007.
- "Challenges to fiscal sustainability in the euro area", February 2007.
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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-22 (comprising the 12 non-euro area EU Member States and the 10 main trading partners outside the EU) and the EER-42 (composed of the EER-22 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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