



EUROPEAN CENTRAL BANK

MONTHLY BULLETIN 03 | 2005

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ABBREVIATIONS

COUNTRIES

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

OTHERS

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

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



EDITORIAL

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

The Governing Council continues to see no significant evidence of underlying domestic inflationary pressures building up in the euro area. Accordingly, it has left the key ECB interest rates unchanged. These interest rates are at historically low levels and are making an important contribution to the economic recovery. At the same time, upside risks to price stability over the medium term exist. These require continued vigilance on the part of the Governing Council.

Starting with the economic analysis underlying the Governing Council's assessment, real GDP in the euro area grew at a quarter-on-quarter rate of 0.2% in the fourth quarter of 2004 according to Eurostat's first estimate. In addition, third-quarter real GDP growth was revised down to 0.2%. This overall outcome for the second half of last year was disappointing. However, the composition of demand growth in the fourth quarter also offered some positive signs with regard to the underlying trend. The strengthening of domestic demand and, in particular, consumption may point to the recovery in economic activity in the euro area regaining some momentum.

There are a number of reasons why the weaker real GDP growth in the second half of 2004 could be a transitory phenomenon. On the external side, growth in the world economy remains strong, supporting euro area exports. On the domestic side, investment is expected to continue to benefit from very favourable financing conditions, robust earnings and greater business efficiency. Consumption growth should benefit from anticipated developments in real disposable income.

Accordingly, the Governing Council expects continued economic growth in 2005 and 2006. This assessment is also reflected in the March 2005 ECB staff projections. Euro area real GDP growth is projected to be, on average, between 1.2% and 2.0% in 2005 and between 1.6% and 2.6% in 2006. These projections are lower than the Eurosystem staff projections published in December 2004, reflecting the weaker economic developments in late 2004. Available forecasts from international and private sector organisations convey a broadly similar outlook.

The picture emerging from the projections contains a number of risks. On the external side, high and volatile oil prices and persistent global imbalances pose downside risks to growth. As regards exchange rates, the Governing Council confirms its position – expressed when the euro rose sharply – that such moves are unwelcome and undesirable for economic growth. On the domestic side, there are uncertainties surrounding the evolution of consumption, while the very favourable financing conditions and the recovery in corporate earnings could lead to higher investment growth than currently projected.

Turning to consumer prices, annual HICP inflation declined quite substantially in January 2005, falling to 1.9% from 2.4% in December 2004. This was largely a result of base effects from developments in indirect taxes and administered prices in some countries. In February, according to Eurostat's flash estimate, annual HICP inflation was 2.0%.

In the coming months, annual inflation rates are likely to fluctuate around 2%. Looking further ahead, there is no evidence that stronger underlying domestic inflationary pressures are building up in the euro area. Over recent quarters, wage increases have remained moderate. In the context of moderate economic growth, this trend should continue.

These views are also embodied in the March 2005 ECB staff projections. Average annual HICP inflation is projected to lie between 1.6% and 2.2% in 2005 and between 1.0% and 2.2% in 2006. These projections are broadly unchanged from the Eurosystem staff projections published in December 2004 and consistent with forecasts recently released by international and private sector organisations.

Several upside risks to these projections need to be taken into account, notably future oil price developments. Developments in indirect taxes and administered prices may also again surprise on the upside. Furthermore, continued vigilance is required regarding the potential risk of past price increases leading to second-round effects in wage and price-setting throughout the economy. In this respect, developments in longer-term inflation expectations need to be monitored closely.

Further insight into the outlook for price developments at medium to longer-term horizons is provided by the monetary analysis. The latest monetary data confirm the strengthening of M3 growth observed since mid-2004. This increasingly reflects the stimulative effect of the historically very low level of interest rates in the euro area. As a result of the persistently strong growth in M3 over the past few years, substantially more liquidity in the euro area exists than is needed to finance non-inflationary economic growth. This could pose risks to price stability over the medium term and warrants vigilance.

The exceptionally low level of real interest rates is also further stimulating private sector demand for credit. Growth in loans to non-financial corporations has continued to pick up in recent months. Moreover, demand for loans for house purchase has continued to be robust, contributing to strong house price dynamics in some regions of the euro area.

To sum up, the economic analysis confirms that underlying domestic inflationary pressures remain contained, while medium-term upside

risks to price stability exist and will be monitored closely. Cross-checking with the monetary analysis supports the case for continued vigilance with regard to the materialisation of risks to price stability over the medium term.

Turning to fiscal policies, the Governing Council notes that, while some progress with fiscal consolidation and the correction of excessive deficits is envisaged in euro area countries' updated stability programmes, further consolidation in a number of countries is needed. In particular, several countries do not plan to pursue an appropriately ambitious adjustment path and are not targeting close-to-balance or in-surplus budgetary positions by the end of the programme horizon. In addition, in some cases, fiscal targets are based on rather favourable growth assumptions and on insufficiently specified measures.

With respect to the Stability and Growth Pact, discussions now need to be brought to a convincing conclusion with an outcome that safeguards fiscal discipline. The credibility of the excessive deficit procedure needs to be fully preserved. This is not only fundamental for macroeconomic stability and cohesion in the euro area but also for confidence and growth prospects in all Member States.

In this regard, the Governing Council welcomes the decision by the ECOFIN Council, based on a recommendation by the European Commission, to move, for the first time, to the next procedural step in the excessive deficit procedure and to give notice, in accordance with Treaty Article 104(9), to Greece. The Governing Council also takes the view that the extension of the deadline, from 2005 to 2006, for correcting the excessive deficit pushes the room for interpretation of the rules and procedures to the limit. It is now indispensable for Greece to take effective action to correct its severe fiscal imbalances.

As regards structural developments, the euro area has seen relatively low trend productivity

growth since the mid-1990s. An analysis of the determinants of productivity shows that lower productivity growth in the euro area has been partly related to higher employment due to greater participation of lower-skilled labour. Sustained wage moderation and some progress in labour market reforms aimed at increasing labour market participation appear to have partially shifted production towards a more intensive use of labour.

There are also indications that the slower pace of productivity growth observed in the euro area since the mid-1990s reflects an insufficient use of new productivity-enhancing technologies. While productivity growth has increased in sectors that produce information and communication technologies or provide related services, it has declined in many other areas of the economy. This points to structural rigidities in the euro area that prevent or hinder the fast and effective dissemination of new technologies and improved production processes across the economy.

Against this background, structural reforms that stimulate innovation, investment and productivity, and promote the use of new productivity-enhancing technologies are crucial. Stimulating product market competition, facilitating restructuring and improving human capital through adequate educational systems and “on-the-job” training are likely to speed up productivity gains from the use of new technologies.

ECONOMIC AND MONETARY DEVELOPMENTS

I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

Growth in the global economy, although moderating somewhat, remains strong, with Japanese growth being a notable exception. Policy stimulus is generally being withdrawn gradually and favourable financing conditions continue to support growth. Oil prices, however, remain at elevated levels amid considerable volatility. At the same time, global imbalances persist. These risk factors notwithstanding, the outlook for the global economy and for euro area foreign demand continues to be relatively favourable.

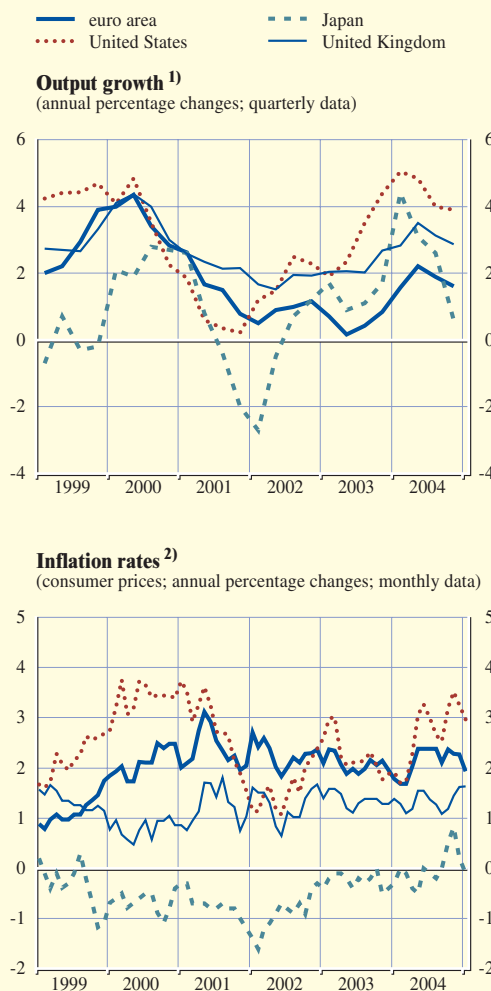
I.1 DEVELOPMENTS IN THE WORLD ECONOMY

The global economy continued to grow at a fairly robust pace until the end of 2004, and indicators available thus far suggest that this was also the case in early 2005. Policy stimulus is generally being withdrawn gradually and growth continues to be supported by favourable financing conditions, as real interest rates generally remain at low levels. Global growth at the end of 2004 benefited from strong activity both in the United States and in China, where year-on-year growth increased again in the fourth quarter. Japan was a notable exception in the overall picture of fairly solid and broad-based global growth, experiencing its third consecutive quarter of negative growth in the last quarter of 2004.

All in all, consumer price inflation has recently moderated in many countries, partly reflecting developments in oil and commodity prices towards the end of 2004. Annual CPI inflation excluding energy and food components, however, continued to exhibit a further gradual increase in a number of major countries. This indicator rose to 2.1% for the OECD countries in the fourth quarter of 2004 from 2.0% in the third quarter.

Elevated and volatile oil prices continued to weigh on the global economy. At the same time, global financial markets continued to show some concern about external imbalances, as evidenced by the reaction of foreign exchange markets to various data releases in February, which affected the market's assessment of the likely course of adjustment.

Chart I Main developments in major industrialised economies



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

UNITED STATES

In the United States economic activity slowed down only marginally in the last quarter of 2004. According to preliminary data, real GDP grew at an annualised quarterly rate of 3.8% in the fourth quarter. A negative trade contribution partly offset the persistent underlying strength of spending on private consumption – bolstered by still robust spending on durable goods – and of business investment in equipment and software. For 2004 as a whole, real GDP growth was 4.4%, its highest rate in five years. Available data for early 2005 suggest that domestic economic activity, while remaining solid, might have slowed somewhat from its robust pace at the end of 2004. Concerning businesses, monthly industrial production growth was flat in January with a corresponding almost unchanged capacity utilisation rate, reflecting, to a large extent, weakness in utilities, a component which is weather sensitive. At the same time, orders for non-defence capital goods excluding aircraft increased further in January. Though indices of business sentiment in the manufacturing sector generally indicate some retreat from highs last year, they continue to signal a rise at the beginning of 2005. With regard to households, real personal consumption expenditures declined month on month in January, to a large extent reflecting a decline in car purchases from the high levels recorded at the end of 2004.

Looking ahead, the growth of the US economy is expected to remain robust, overall, in the near term. High corporate profitability and low financing costs should help support business investment. Households' consumption spending also continues to benefit from favourable financing conditions, as well as from wealth accruing through the persistently robust expansion in the housing market. At the same time, consumer confidence remained relatively solid throughout early 2005. Given a historically low rate of personal saving and historically high household indebtedness, continued robust growth in household spending rests largely on developments in disposable income. A further absorption of slack in the labour market should help support households' wage and salary income, thereby bolstering disposable income. The response of wages and salaries to a further improvement in labour market conditions largely depends on how the latter affects the labour force participation rate, which is currently at historically low levels.

Annual consumer price inflation was 3.0% in January, down from a high of 3.5% in November. The annual increase in the CPI excluding food and energy rose slightly to 2.3% in the same month. Developments in the personal consumption expenditure deflator were similar to those in the consumer price index in January.

With regard to monetary policy, the Federal Open Market Committee raised the target for the federal funds rate by 25 basis points for the sixth consecutive time to 2.50% at its meeting on 1 and 2 February 2005. In line with previous statements, the press release indicated that “policy accommodation can be removed at a pace that is likely to be measured.” The budget proposal for the fiscal year 2006, which was released in early February, retained the goal of halving the fiscal deficit through proposed cuts to discretionary spending by the fiscal year 2009, with the deficit reduction plans being based on the assumption of no additional military spending for operations in Iraq and Afghanistan beyond the current fiscal year.

JAPAN

In Japan economic activity has been going through a period of weakness. According to a first estimate, real GDP declined by 0.1% on a quarterly basis in the last quarter of 2004. The decomposition of the latest GDP figures shows that this decline largely reflected a negative contribution both of private consumption and of net exports. Positive contributions, by contrast, were recorded for private non-residential investment and government consumption. At the same

time, GDP growth for the first three quarters of 2004 was revised downwards, partly reflecting changes to the seasonal adjustment method. On the basis of these revised data, Japan experienced negative quarterly real GDP growth rates also in the second and third quarters of 2004 (-0.2% and -0.3%, respectively). Nevertheless, due to base effects and a strong first quarter, real GDP growth for the year as a whole – at 2.6% – was the highest recorded since 1996. These GDP figures are likely to be further revised, possibly bringing them more into line with other economic indicators, which – although also signalling some significant weakening after the first quarter – do not suggest an actual contraction over the last three quarters.

Looking ahead, economic activity is likely to remain weak over the next few quarters as the ongoing adjustment of inventories in the manufacturing sector, particularly in the IT industry, comes to an end.

With regard to price developments, moderate deflationary pressures persist and some downward impact on consumer prices has emanated more recently from the ongoing deregulation of utility services. In January 2005 the annual rate of change in the CPI declined to -0.1%, from 0.2% in the preceding month, with the corresponding rate for the CPI excluding fresh food decreasing to -0.3%, from -0.2% in December. At the same time, the GDP deflator declined by 0.3% year on year in the fourth quarter of 2004, following a decrease of 1.4% in the previous quarter. On 17 February 2005, the Bank of Japan confirmed its target of JPY 30-35 trillion for the outstanding balance on current accounts.

UNITED KINGDOM

Growth continues to be strong in the United Kingdom. Real GDP growth picked up to reach a quarter-on-quarter rate of 0.7% in the fourth quarter of 2004. Growth was driven by domestic demand, particularly by investment, which rose to a quarterly rate of 1.4%. Net trade made a negative contribution to GDP growth in the fourth quarter of 2004. Housing market activity decelerated further in January 2005, but the slower increase in house prices seemed to have a more limited impact on consumption than in the past. The labour market continued to be tight, given that the employment rate rose to 74.9% in the fourth quarter of 2004 and the number of job vacancies increased as well. Furthermore, the annual growth of average earnings – both including and excluding bonuses – increased slightly in the fourth quarter of 2004, with the impact on unit labour costs being mitigated by rather strong gains in labour productivity. Annual HICP inflation stood at 1.6% in January (unchanged from December 2004), thus remaining below the inflation target of 2%.

Looking ahead, the growth of the UK economy is expected to decline somewhat in the near term. This slowdown is, in part, a reflection of the dampening impact both of the recent series of interest rate increases and of the recent moderation in housing market activity.

OTHER EUROPEAN COUNTRIES

The economic picture for the other non-euro area EU countries continues to be relatively favourable, although output growth in the second half of 2004 was generally slightly less strong than in the first half. Demand from this region nevertheless continues to have a positive impact on foreign demand in the euro area. At the same time, inflationary pressures remain muted in most of these countries.

In Denmark and Sweden quarter-on-quarter real GDP growth declined slightly to 0.1% and 0.9%, respectively, in the third quarter of 2004. In Denmark the rise in domestic demand growth was

offset by significant import growth. In Sweden growth was driven mainly by an increase in stocks, while the contribution from net exports turned negative. In the fourth quarter, real GDP in Denmark picked up again to 0.7%. Annual HICP inflation declined to below 1% in both countries in January 2005, reflecting declining fuel prices. Looking ahead, real GDP growth in Denmark is expected to be driven by domestic demand. In Sweden, output growth is expected to remain relatively high, with rising domestic demand compensating for a more moderate contribution of net exports.

In the three largest new EU Member States (Poland, Hungary, Czech Republic), economic activity continued to increase strongly in the second half of 2004, although at a slower pace than before, while inflationary pressures diminished. In Poland, according to preliminary estimates, the annual rate of real GDP growth moderated further to slightly below 4% in the fourth quarter of 2004 and in Hungary it remained stable at 3.7%. In the Czech Republic, annual real GDP growth moderated to 3.5% in the third quarter. Investment continued to be a key factor driving growth in the two latter countries in the third quarter, whereas capital spending strengthened only gradually in Poland. Except in the case of Poland, the contribution of net exports to growth was generally limited or negative. Imports increased strongly due to the strength of investment and the high import content of this expenditure component. Looking ahead, output growth is expected to remain strong. Annual HICP inflation, which had increased considerably in the first half of 2004, continued to decline in all three countries. The recent appreciation of the national currencies may have had some downward impact on prices. In the Czech Republic HICP inflation was relatively subdued at 1.5% in January, whereas in Poland and Hungary it stood at 3.8% and 3.9%, respectively.

In most other non-euro area EU countries, economic activity continued to grow strongly in the third quarter of 2004 and output growth is likely to have remained strong towards the end of the year. Inflation in most of these Member States declined towards the end of the year, with the effect that earlier one-off price increases gradually faded.

In Switzerland recent data releases indicated a slowdown in activity towards the end of last year. While exports weakened towards the end of 2004, they may rebound later this year, given that the previous strengthening of the Swiss franc was largely reversed in December. Reflecting lower energy prices, annual CPI inflation was 1.2% in January 2005, compared with 1.6% in November 2004. On 16 December 2004, the Swiss National Bank decided to leave the target range for the three-month Libor rate unchanged at 0.25-1.25%.

In Russia economic activity remained fairly robust, receiving continued support from high oil prices. In the fourth quarter of 2004, year-on-year real GDP growth was 6.7%, after 7.1% in the third quarter. Growth was supported by the continued strength of both private consumption and investment. First estimates suggest that growth for 2004 as a whole was 7.1%, slightly less than in the previous year. Inflation remained high, with the annual rate of change in the CPI reaching 12.7% in January 2005, partly reflecting hikes in administered prices.

NON-JAPAN ASIA

In non-Japan Asia economic activity continued to slow down moderately in a number of economies, but remained steady in China. Nonetheless, the region as a whole, which accounts for around 14% of euro area foreign demand, continued to expand at a robust pace. The slowdown in activity largely reflected a moderation of export momentum, which translated into a slowdown in

industrial activity. Private consumption, by contrast, was generally still relatively robust. At the same time, inflationary pressures continued to ease across the region.

In China robust growth continued into early 2005, supported by trade developments. Exports rose by 42.2%, year on year, in January, while imports rose by 23.9%, resulting in a sizeable trade surplus. Inflation declined further, from 2.4% in December to 1.9% in January. In South Korea overall economic activity remained relatively robust, led by exports. Domestic demand, however, was still weak, even though there were some signs of improvement in consumer spending.

Looking forward, overall activity in non-Japan Asia is expected to remain robust. While trade growth is likely to decline somewhat, private consumption is expected to maintain a healthy growth momentum, reflecting mainly a general improvement in the labour markets. Hence, domestic demand is likely to replace net exports as the main driving force behind economic growth in 2005. The underlying inflationary pressures are likely to remain modest.

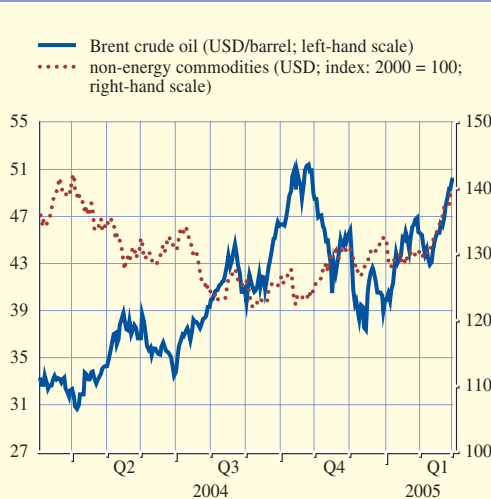
LATIN AMERICA

In Latin America available information points to continued strength in real output growth. The economic expansion remained rather broad-based in the region's three largest economies (Argentina, Brazil, Mexico) as both exports and domestic demand registered robust gains, bolstered, in part, by strong global demand for commodities. In Mexico and Brazil real GDP rose by 4.9% (year on year) in the final quarter of last year, while industrial production in Argentina increased by 8.5% (year on year). Looking ahead, economic conditions are likely to remain favourable, with both exports and domestic demand expected to remain strong. Persistent inflationary pressures stemming mainly from the region's solid domestic demand growth constitute one of the downside risks to the outlook. At the current juncture, it is difficult to assess the exact economic impact of the ongoing debt restructuring process in Argentina, which constitutes a major source of uncertainty in the region.

1.2 COMMODITY MARKETS

Oil price developments continued to be characterised by considerable volatility. After the historical highs reached in October 2004, oil prices declined for most of the remainder of last year before rebounding strongly in January. In late February, oil prices approached the levels reached in October. The initial decline in oil prices in February occurred after the election in Iraq passed without major disruptions to the country's oil supply and the decision by the Organisation of Petroleum Exporting Countries (OPEC) to keep its production quota unchanged at the end of January. However, oil prices rebounded in the second half of February after the International Energy Agency (IEA) released its February Oil Market Report, which projected a tightening of the oil market in 2005 in contrast

Chart 2 Main developments in commodity markets



Sources: Bloomberg and HWWA.

to its earlier assessment. The IEA revised its outlook for demand growth in 2005 upwards, while the outlook for non-OPEC production growth in 2005 was revised downwards. A bout of cold weather in both Europe and North America, as well as comments from OPEC delegates suggesting that oil prices will remain high throughout the year, further supported prices. The price of Brent crude oil reached USD 50 on 2 March. Limited spare capacity all along the oil supply chain and a resulting high sensitivity to unanticipated changes in the balance between supply and demand are expected to keep oil prices both high and volatile. Market participants expect oil prices to decline only gradually towards USD 42.9 by the end of 2007.

In February, prices of non-energy commodities increased as both the prices of industrial raw materials and food prices edged higher. In US dollar terms, non-energy commodity prices in February 2005 were 1% higher, all in all, than a year earlier.

I.3 OVERALL OUTLOOK FOR THE EXTERNAL ENVIRONMENT

Growth in the global economy and in euro area foreign demand is expected to remain strong, even though undergoing some moderation in comparison with the high rates observed in 2004. Growth can be expected to benefit from continued favourable financing conditions. This assessment is broadly confirmed by global indicators, such as the Global Purchasing Managers' Index and the OECD Composite Leading Indicator. The persistently elevated price of oil, combined with considerable short-run volatility, however, is a risk weighing on the outlook. Furthermore, issues related to global imbalances persist.

2 MONETARY AND FINANCIAL DEVELOPMENTS

2.1 MONEY AND MFI CREDIT

The strengthening of M3 growth observed in the second half of 2004 continued at the turn of the year, despite evidence of an ongoing, albeit gradual, normalisation of portfolio allocation behaviour by euro area residents. Monetary dynamics continued to be driven by the stimulative impact of the low level of interest rates on the most liquid components of M3. The low level of interest rates also contributed to a further strengthening of credit growth. Overall, there remains significantly more liquidity in the euro area than is needed to finance non-inflationary growth. This could pose risks to price stability over the medium term.

THE BROAD MONETARY AGGREGATE M3

The strengthening of M3 growth observed in the second half of 2004 continued at the turn of the year. In January 2005 the annual growth rate of M3 increased further to 6.6%, from 6.0% in the fourth quarter of 2004 and 5.6% in the third quarter. The three-month moving average of annual M3 growth rates over the period from November 2004 to January 2005 rose to 6.3%, from 6.1% in the period from October to December 2004 (see Chart 3).

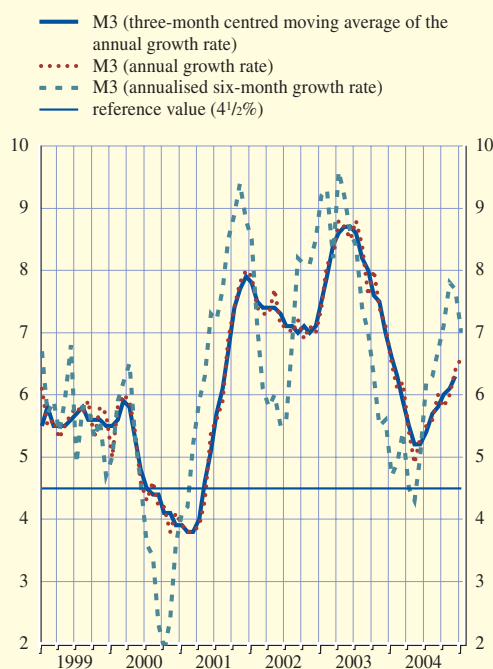
Monetary developments continued to be driven by two opposing forces. On the one hand, the low level of interest rates implied low opportunity costs of holding money and thus exerted an upward impact on M3 growth, especially on its most liquid components. This stimulative effect may be particularly strong at low levels of interest rates owing to the transaction costs associated with shifts to less liquid assets.

On the other hand, the ongoing normalisation of portfolio allocation behaviour following the exceptional preference for liquidity between 2001 and mid-2003 has tended to dampen monetary growth. In fact, although annual M3 growth has been rising since the second half of 2004, further moderation in the growth of money market fund shares and units and continued strong inflows in MFI longer-term financial liabilities indicate that the normalisation of financial investment patterns has continued, albeit at a gradual pace.

The annual growth rate of a measure of M3 corrected for the estimated impact of portfolio shifts continued to exceed the official M3 annual growth rate (see Chart 4).¹ The difference between the annual growth rates of the corrected measure and the official M3 is not large, and it narrowed further towards the turn of the year as the

Chart 3 M3 growth and the reference value

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



Source: ECB.

¹ For further details, see the article entitled "Monetary analysis in real time" in the October 2004 issue of the Monthly Bulletin.

pace of normalisation in the portfolio allocation behaviour of euro area residents moderated further. However, it should be noted that, given the inevitable uncertainties surrounding estimates of the magnitude of these portfolio shifts, some caution is required in interpreting the corrected series.

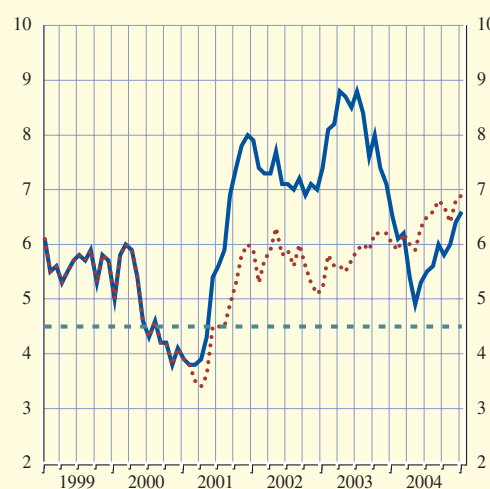
MAIN COMPONENTS OF M3

Over the period under review, strong annual M1 growth continued to be the main contributor to M3 growth (see Chart 5), supporting the view that the low level of interest rates is currently the main driving force of monetary dynamics. Compared with 9.6% in the third quarter of 2004, the annual rate of growth of M1 declined somewhat in the fourth quarter but nonetheless remained high at 9.3% (see Table 1). This decline resulted from a moderation in the growth rates of currency in circulation and overnight deposits, a development which was, at least partly, reversed in January. The annual growth rate of M1 rose to 9.2% in January, from 8.4% in December, the figures having been affected by the impact of end-of-year effects.

Chart 4 M3 and M3 corrected for the estimated impact of portfolio shifts

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

— official M3
 M3 corrected for the estimated impact of portfolio shifts ¹⁾
 - - - reference value (4½%)



Source: ECB.

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

Table 1 Summary table of monetary variables

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

	Outstanding amount as a percentage of M3 ¹⁾	Annual growth rates						
		2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2004 Dec.	2005 Jan.
M1	45.0	11.0	11.0	10.2	9.6	9.3	8.4	9.2
Currency in circulation	7.1	26.5	24.0	21.6	20.3	19.1	17.0	18.5
Overnight deposits	37.9	8.7	9.1	8.5	7.9	7.6	6.9	7.7
M2 - M1 (= other short-term deposits)	40.6	4.8	3.3	1.7	2.0	3.4	4.5	4.4
Deposits with an agreed maturity of up to and including two years	15.7	-3.0	-4.4	-7.0	-5.9	-2.4	0.2	0.6
Deposits redeemable at notice of up to and including three months	24.9	11.0	9.2	8.1	7.6	7.5	7.4	7.0
M2	85.6	7.9	7.2	6.0	5.8	6.4	6.5	6.9
M3 - M2 (= marketable instruments)	14.4	5.8	2.4	2.0	4.0	3.8	5.8	4.8
M3	100.0	7.6	6.4	5.4	5.6	6.0	6.4	6.6
Credit to euro area residents		5.8	5.8	6.0	6.2	6.0	6.0	6.5
Credit to general government		6.5	6.0	6.4	6.4	3.7	2.3	3.7
Loans to general government		1.5	1.2	2.3	2.4	0.7	-0.6	0.3
Credit to the private sector		5.6	5.7	5.9	6.2	6.6	7.0	7.3
Loans to the private sector		5.3	5.4	5.6	6.2	6.8	7.0	7.3
Longer-term financial liabilities (excluding capital and reserves)		6.4	7.2	8.3	8.6	8.9	9.3	9.1

Source: ECB.

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

The annual growth rate of short-term deposits other than overnight deposits picked up to 3.4% in the fourth quarter, from 2.0% in the previous quarter. This reflected a lower annual rate of decline in deposits with an agreed maturity of up to and including two years (time deposits), while deposits redeemable at notice of up to and including three months (savings deposits) continued to grow strongly at a broadly unchanged rate. However, developments during the fourth quarter were substantially affected by shifts of funds from overnight deposits into other short-term deposits which, on the basis of the January data, seem to have been largely temporary. These shifts affected M1 dynamics, but only represented substitution within M3.

After rising to 4.0% in the third quarter of 2004, the annual rate of growth of marketable instruments decreased to 3.8% in the fourth quarter. This reflects an ongoing decline in the annual growth rate of money market fund shares and units. This development lends support to the view that the normalisation of portfolio allocation behaviour of euro area households and firms, albeit gradual, continued in the last quarter of 2004. The other components of marketable instruments showed volatility between December 2004 and January 2005.

MAIN COUNTERPARTS OF M3

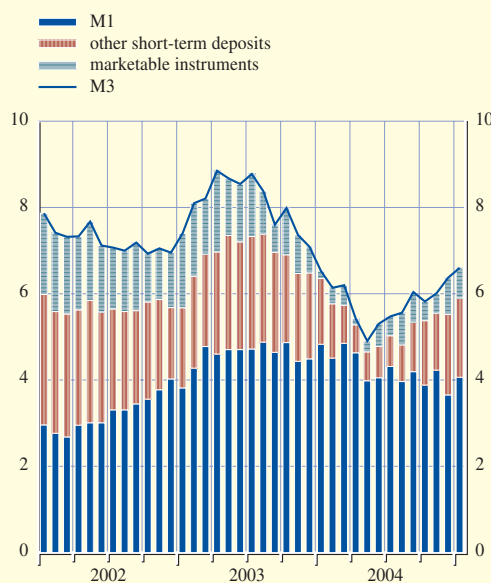
On the counterpart side, the annual growth rate of total MFI credit to euro area residents strengthened further to 6.5% in January 2005, broadly confirming the dynamics observed over the course of 2004. This masked a continuous upward trend in the growth of credit to the private sector, while the dynamics of credit to general government tended to moderate.

The low level of interest rates, together with improved credit supply conditions, contributed to a further strengthening of the growth of credit to the private sector in the fourth quarter (6.6% compared with 6.2% in the third quarter). The upward trend in credit and loan dynamics continued in January, with the annual growth rate of loans to the private sector increasing to 7.3%, from 7.0% in December. Lending to the private sector also became more broadly based across the non-financial sectors (see Sections 2.6 and 2.7 for sectoral developments in loans to the private sector).

The annual growth rate of credit granted to general government fell from 6.4% in the third quarter to 3.7% in the fourth quarter. The moderation in credit to general government observed in 2004 may have been related to the strong demand for euro area government securities from non-residents as a consequence of developments in exchange rate expectations towards the end of the year. In January 2005, due to a reversal of the previous month's strong decline in MFIs' holdings of government securities, the annual rate of growth of credit to general government rose to 3.7%, from 2.3% in December.

Chart 5 Contributions to annual M3 growth

(contributions in percentage points; M3 growth in percent; adjusted for seasonal and calendar effects)



Source: ECB.

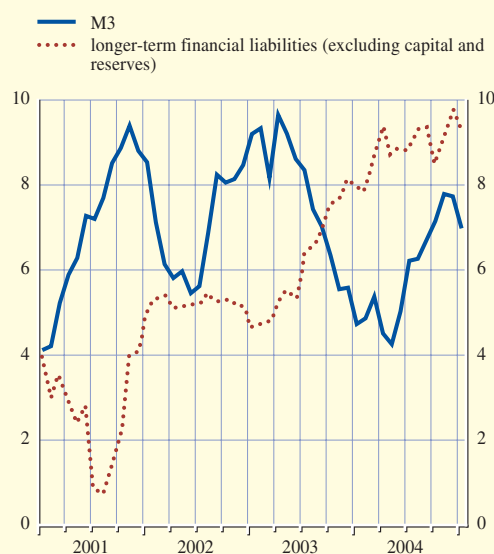
Among the other counterparts of M3, the dynamics of longer-term financial liabilities (excluding capital and reserves) have been strengthening since mid-2003 (see Chart 6), expanding at an annual rate of 9.1% in January, up further from 8.9% and 8.6% in the fourth and third quarters respectively. The increased demand for these longer-term instruments on the part of euro area investors supports the view that a gradual shift towards more normal portfolio allocation behaviour of households and firms, and thus towards greater demand for longer-term assets, is taking place.

At the same time, the annual flow in the net external asset position of the euro area MFI sector rose by only €112 billion in January 2005, compared with €160 billion in December (see Chart 7). This reflects a reversal of the trend observed in the second half of 2004 whereby monthly flows into net external assets were positive, driven by relatively strong investment by non-residents in euro area assets. The monthly flow was negative in January, consistent with a shift of the wealth portfolio of the euro area money-holding sector into foreign assets. This development supports the view of a growing appetite among euro area residents for riskier assets, as their exceptional preference for liquidity normalises. However, short-term movements in this indicator should not be given undue emphasis, in particular given the potential volatility of exchange rate developments which may lead to flows of investment into euro area assets from abroad and vice versa.

Overall, developments in the counterparts of M3 confirm recent trends. On the one hand, the strong growth of MFI longer-term financial liabilities is consistent with the continued normalisation of portfolio allocation behaviour by euro area residents. On the other hand, the

Chart 6 M3 and MFI longer-term financial liabilities (excluding capital and reserves)

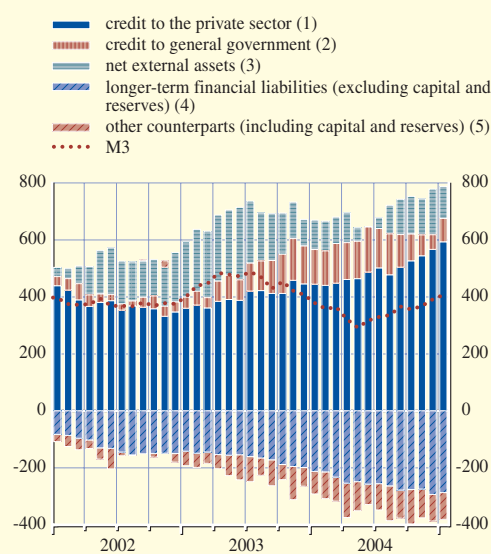
(annualised six-month percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.

Chart 7 Counterparts of M3

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



Source: ECB.

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

strong pace of growth in credit to the private sector, driven largely by the low level of interest rates, continues to support current monetary dynamics.

GENERAL ASSESSMENT OF LIQUIDITY CONDITIONS IN THE EURO AREA

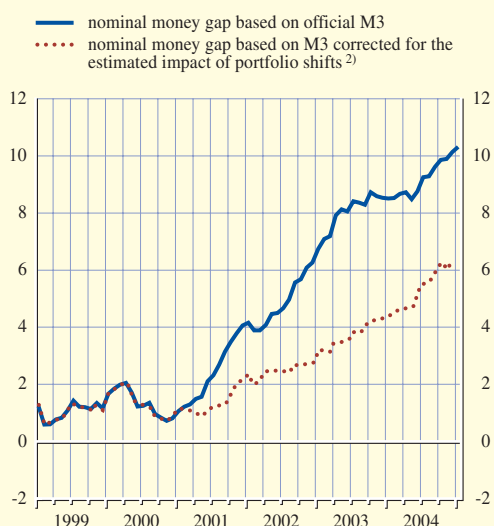
The further strengthening of M3 growth in the last quarter of 2004 led to the accumulation of further excess liquidity in the euro area, as suggested by developments in the nominal and real money gaps.

The nominal money gaps constructed on the basis of the official M3 series and of the M3 series corrected for portfolio shifts both rose further in the last quarter of 2004 to reach new peaks. Nevertheless, the two gaps remained at very different levels, with the money gap constructed using the corrected M3 series pointing to a substantially lower level of excess liquidity (see Chart 8).

The real money gaps take account of the fact that part of the accumulated excess liquidity has been absorbed by higher prices, reflecting upward deviations of inflation rates from the ECB's objective of price stability. After remaining broadly stable between mid-2003 and mid-2004, the real money gap constructed using the official M3 series resumed its upward trend, likewise reaching new highs. The real money gap constructed using a measure of M3 corrected for the estimated impact of past portfolio shifts is at a much lower level than that constructed using the

Chart 8 Estimates of the nominal money gap¹⁾

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



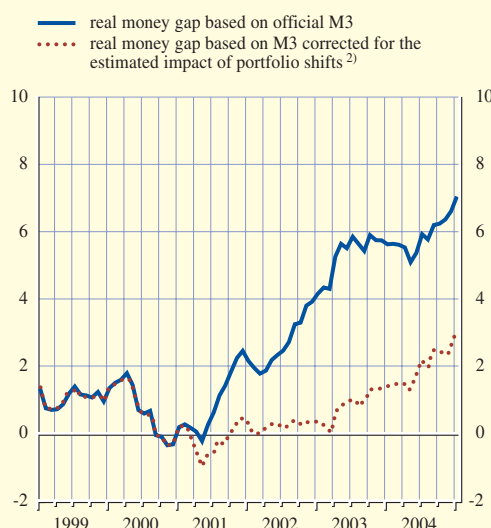
Source: ECB.

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% taking December 1998 as the base period.

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

Chart 9 Estimates of the real money gap¹⁾

(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 approach discussed in Section 4 of the article entitled "Monetary analysis in real time" in the October 2004 issue of the Monthly Bulletin.

official M3 series (see Chart 9), and its recent dynamics have been quite different. Based on the corrected measure, indicators of excess liquidity have risen substantially since mid-2003, a trend which continued in the fourth quarter of 2004.

While these measures are only estimates and thus have to be treated with caution, they nonetheless point to a large and rising stock of excess liquidity in the euro area. A stabilisation or reduction in this excess liquidity will depend crucially on further normalisation of the portfolio allocation behaviour of the euro area money-holding sector. Viewed from a medium-term perspective, excess liquidity poses a risk to price stability, especially if liquid holdings were transformed into transaction balances at a time when confidence and economic activity are strengthening. Moreover, the combination of high excess liquidity and strong credit growth could become a source of strong asset price increases. Box 1 illustrates the risks to price stability associated with developments in monetary indicators on the basis of simple leading indicator models.

Box 1

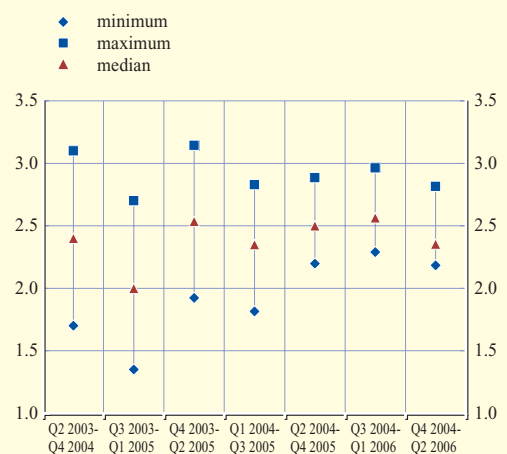
INFLATION FORECASTS DERIVED FROM MONETARY INDICATORS

Monetary developments in the course of 2004 point to a need for continued vigilance with regard to risks to price stability over the medium term. For example, M3 growth has strengthened since mid-2004, measures of excess liquidity (whether corrected or not for the estimated impact of portfolio shifts) have increased further over recent quarters, and the substantial contribution of M1 to the high level of M3 growth and the increased co-movement of the growth of MFI loans to the private sector and M3 growth point to a possibly large impact of the low level of interest rates on monetary developments.

The qualitative assessment that these developments imply risks to price stability from the monetary side can be underpinned by the quantitative results of simple leading indicator models of inflation which use information from a number of monetary indicators. These leading indicator models forecast average inflation over a specific horizon using past values of inflation and past values of a monetary indicator. In a simulated out-of-sample exercise conducted with this methodology, it has been shown that monetary and credit aggregates can provide useful information about medium-term inflation prospects in the euro area.¹ Moreover, at longer horizons

The range of annualised HICP inflation forecasts over six quarters from bivariate leading indicator models

(annualised percentage growth rates; real-time results of the last seven quarters)



Source: ECB estimates.

Note: The chart shows the range of the annualised inflation forecasts of seven bivariate leading indicator models of inflation. Each forecast is based on information available at the time the forecast was made. For example, the forecast for Q4 2004 to Q2 2006 contains information on money and inflation up to and including Q4 2004. For the methodology underlying the inflation forecasts of the seven models see the reference in footnote 1 of this box.

¹ See S. Nicoletti-Altimari, "Does money lead inflation in the euro area?", ECB Working Paper No 63, May 2001.

the information content of monetary indicators for future inflation is superior to that of other non-monetary indicators.

The chart presents forecasts of annualised HICP inflation over six quarters, which have been made using the methodology described above on the basis of past inflation figures and seven monetary indicators.² The chart shows the range of the respective inflation forecasts (bounded by the minimum and maximum of the forecasts derived using the various indicator models), together with the median of the forecasts for each of the last seven quarters. This real-time assessment only uses information available at the time the forecast was made and a comparison of the various vintages of forecasts shown in the chart thus illustrates in a simple way how the assessment of risks to price stability derived from monetary developments has evolved over time.

Two observations can be made with regard to this illustrative exercise. First, the median and the minimum of the inflation forecasts have been above 2% throughout 2004. Second, the breadth of the range of forecasts was considerably smaller in 2004 than in 2003. This narrowing of the range reflects the convergence of developments in money growth and loan growth and the recent co-movements of the growth in M3 and M3 corrected for the estimated impact of portfolio shifts (see Chart 4 in the main text).

This exercise would suggest that there are upside risks to price stability stemming from monetary developments. Moreover, the confidence attached to this interpretation has risen, as the dispersion of signals from the various monetary indicators has diminished. However, in interpreting the results of this exercise, the high uncertainty that surrounds such forecasts and the simplicity of the underlying tools need to be kept in mind.

2 The monetary indicators considered are: M1 growth, M2 growth, M3 growth, the growth of M3 corrected for the estimated impact of portfolio shifts, the growth of MFI loans to the private sector, a P-star measure of excess liquidity based on M3 and a P-star measure of excess liquidity based on M3 corrected for the estimated impact of portfolio shifts. For further details of the P-star measures and the P-star model framework, see the reference given in footnote 1 of this box.

2.2 FINANCIAL INVESTMENT OF THE NON-FINANCIAL SECTOR AND INSTITUTIONAL INVESTORS

In the third quarter of 2004 (latest available data on financial investment), euro area investors reduced their purchase of securities, in particular of quoted shares, and increased their money holdings. Insurance products were the preferred type of investment for the non-financial sector in the first three quarters of 2004.

FINANCIAL INVESTMENT OF THE NON-FINANCIAL SECTOR

The latest data available on financial investment by the non-financial sector refer to the third quarter of 2004. They indicate broad stability in the annual rate of growth of financial investment, which was 4.5% in the third quarter after 4.6% in the second quarter (see Table 2). This overall stability in the pace of financial investment concealed a shift from long-term towards short-term financial investment (see Chart 10). This shift represents an interruption of the trend prevailing since the summer of 2003 whereby investors have been cautiously increasing the pace of their investment in long-term financial assets. It is also in line with the slight pick-up in the annual growth of M3 in the third quarter of 2004. By contrast with the lower annual growth of investment

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

	Outstanding amount as a percentage of financial assets ¹⁾	Annual growth rates									
		2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
Financial investment	100	4.1	3.8	4.1	4.5	4.7	4.4	4.3	4.6	4.5	.
Currency and deposits	38	4.7	4.9	5.9	6.4	6.5	5.5	5.3	5.3	5.6	.
Securities other than shares	12	1.9	0.7	-0.9	-2.5	-3.5	-2.4	-0.6	3.7	3.2	.
of which: short-term	1	-15.6	-13.8	-17.6	-15.7	-25.3	-16.1	-4.7	15.4	11.9	.
of which: long-term	11	4.6	2.7	1.1	-1.0	-0.9	-0.7	-0.2	2.6	2.4	.
Mutual fund shares	12	6.4	4.6	5.6	7.1	6.9	6.9	4.6	2.3	1.3	.
of which: mutual fund shares, excluding money market fund shares	9	4.6	3.4	4.4	5.7	6.4	6.5	5.2	2.4	1.6	.
of which: money market fund shares	3	16.5	12.0	12.0	13.6	9.3	8.5	2.8	1.7	0.5	.
Quoted shares	13	-1.4	-0.1	0.2	0.5	2.0	1.1	1.3	3.3	2.6	.
Insurance technical reserves	25	7.0	6.2	6.2	6.3	6.4	6.6	6.3	5.9	5.8	.
M3 ²⁾		7.2	6.9	8.2	8.5	7.6	7.1	5.3	5.3	6.0	6.4
Annual gains and losses in the securities holdings of the non-financial sector (as a percentage of GDP)		-9.4	-14.1	-17.1	-6.5	1.7	4.1	7.9	3.8	3.6	.

Source: ECB.

Note: See also Table 3.1 in the "Euro area statistics" section of the Monthly Bulletin.

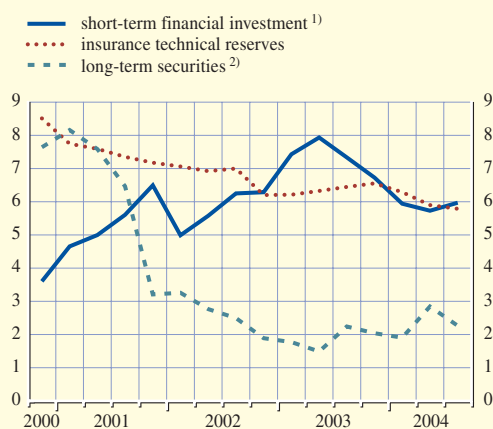
1) As at the end of the third quarter of 2004. Figures may not add up due to rounding.

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

in long-term securities, households continued to invest in insurance products at a high rate. These products remained the preferred type of long-term financial investment in 2004.

Chart 10 Short-term and long-term financial investment of the non-financial sector

(annual percentage changes)



Source: ECB.

1) Short-term deposits, currency and money market fund shares and debt securities up to one year.

2) Net purchase of mutual fund shares except money market fund shares; debt securities above one year and quoted shares. Long-term financial investment comprises long-term securities and insurance technical reserves.

Looking at the figures in more detail, the slight decrease in the annual rate of growth of long-term securities affected all categories: quoted shares, debt securities and mutual fund shares (excluding money market fund shares). This may have been related in part to the slight decline in equity prices during the third quarter, but possibly also to the relative strength of the euro in 2004, which increasingly led euro area investors to reduce their net purchase of foreign securities.

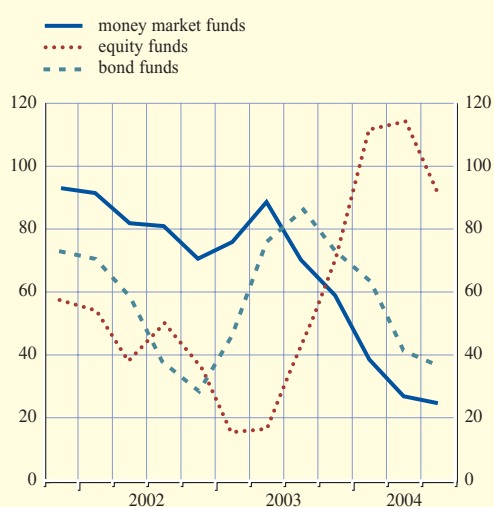
INSTITUTIONAL INVESTORS

Data provided by EFAMA² suggest that the decline in the annual rate of growth of mutual fund shares in the third quarter of 2004 was mainly due to lower demand for equity funds, which nevertheless still attracted the largest

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

Chart 11 Net annual flows into investment funds (by category)

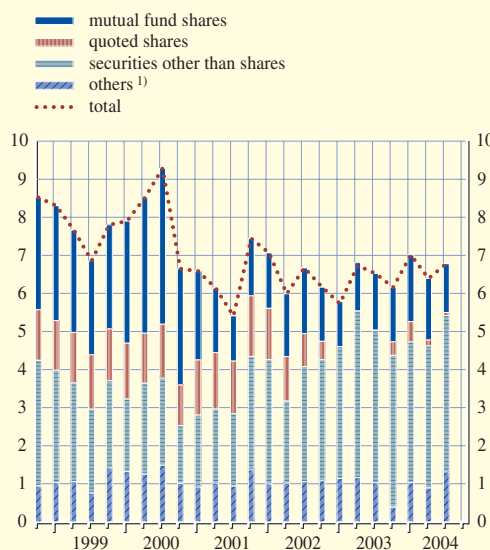
(EUR billions)



Sources: ECB and EFAMA.

Chart 12 Financial investment of insurance corporations and pension funds

(annual growth rates; contributions in percentage points)



Source: ECB.

1) Loans, deposits and insurance technical reserves.

amount of investors' savings (see Chart 11). The net annual purchase of bond funds also declined in the third quarter, continuing a downward trend that has been apparent since the last quarter of 2003 and reflecting the historically low levels of long-term bond yields in the euro area. The annual growth of the total assets held by investment funds moderated, reflecting both the lower net annual inflows and valuation effects.

In line with the general market trend, insurance corporations and pension funds reduced their purchase of quoted shares and mutual fund shares (see Chart 12). By contrast, they further increased their net acquisition of securities other than shares. Bond purchases by insurance corporations have accounted for around 60% of their cumulated financial investment since the start of 2003, compared with 40% in the period between 1998 and 2002. Since incurring losses on their holdings in the period from 2001 to 2002, insurance corporations and pension funds seem to have adopted relatively cautious behaviour vis-à-vis investment in equity.

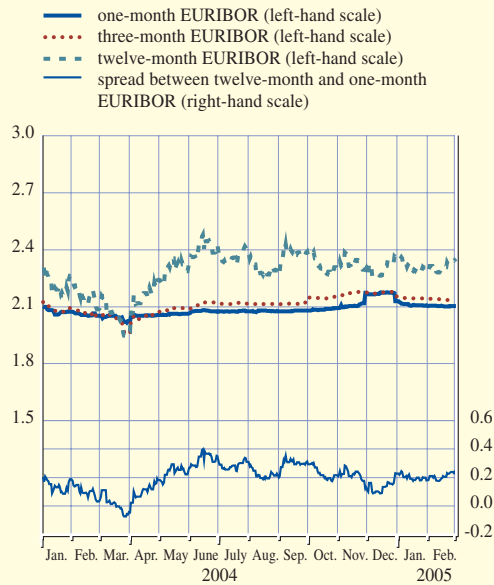
2.3 MONEY MARKET INTEREST RATES

After rising in December 2004, longer-term money market interest rates remained broadly stable over the past two months. With short-term interest rates increasing by less than longer-term rates in December and then declining slightly in January and February 2005, the slope of the money market yield curve steepened somewhat towards the turn of the year, remaining stable thereafter.

After rising during December 2004, largely due to the usual end-of-year effect, short-term money market interest rates have declined slightly since the beginning of January. Longer-term money market rates rose somewhat more than short-term rates in December, and then remained broadly

Chart 13 Short-term money market interest rates

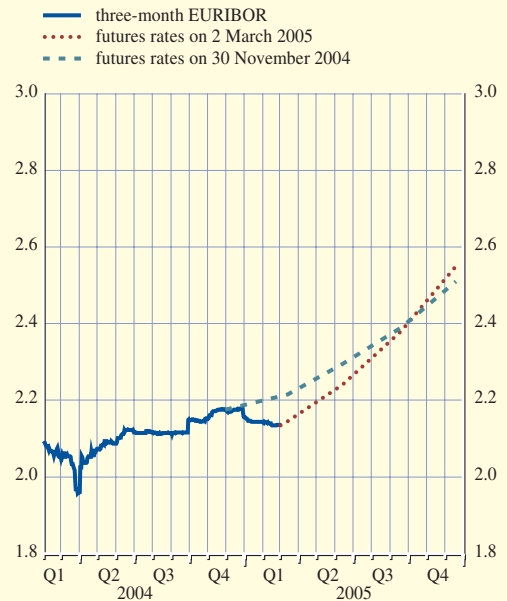
(percentages per annum; percentage points; daily data)



Source: Reuters.

Chart 14 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.

stable after the turn of the year. Consequently, the slope of the money market yield curve increased gradually in December and then remained broadly stable during January and February. On 2 March 2005 the spread between the twelve-month and the one-month EURIBOR interest rates stood at 24 basis points, 13 basis points higher than the level observed at the beginning of December (see Chart 13).

Between the beginning of December 2004 and early March 2005, market participants revised their expectations slightly downwards regarding the course of short-term interest rates during most of 2005 (see Chart 14). The rates implied by three-month EURIBOR futures contracts maturing in June, September and December 2005 decreased by 6, 5 and 5 basis points respectively between the beginning of December and 2 March, to stand at 2.24%, 2.38% and 2.56% respectively.

The implied volatilities derived from options on the three-month EURIBOR futures rates have decreased over the past three months. At the beginning of March 2005 they stand at levels which are low by historical standards (see Chart 15). This suggests that uncertainty among market participants with regard to the development of short-term interest rates in the coming months is currently relatively low. Box 2 in this Bulletin issue presents similar results based on an alternative measure of volatility for the overnight rate, i.e. the realised volatility, and analyses its evolution from a medium-term perspective.

For most of the period between 1 December 2004 and 2 March 2005, interest rate conditions in the money market were relatively stable. One exception was the usual end-of-year effect, although the magnitude of this effect was relatively modest in 2004 compared with previous years. The

Chart 15 Implied volatilities derived from options on three-month EURIBOR futures maturing in September 2005

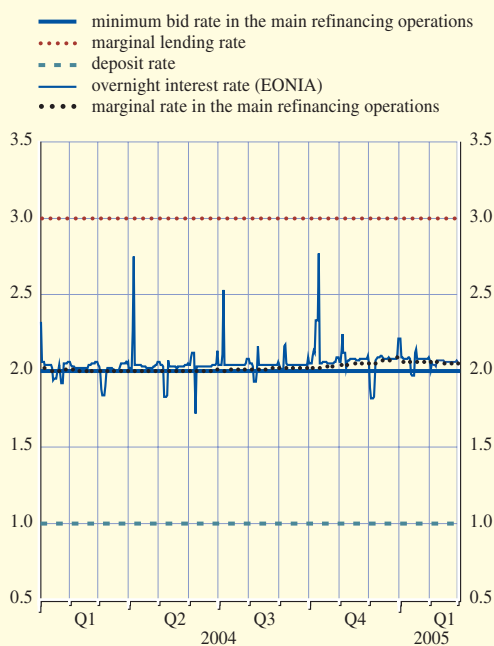
(percentages per annum; basis points; daily data)



Sources: Bloomberg 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 16 ECB interest rates and the overnight interest rate

(percentages per annum; daily data)



Sources: ECB and Reuters.

marginal and weighted average rates in the Eurosystem’s main refinancing operations increased in December 2004 and reached peaks of 2.09% and 2.17% respectively in the last main refinancing operation of 2004. In January and February tender rates declined progressively to reach levels very close to those observed at the end of November. With the exception of the turn of the year and the final days of the reserve maintenance period ending on 19 January, the EONIA has remained broadly stable (see Box 3). In the three longer-term refinancing operations of the Eurosystem settled on 23 December, 27 January and 24 February, the tender rates were respectively 5, 1 and 6 basis points below the three-month EURIBOR rates prevailing on those dates.

Box 2

THE VOLATILITY OF THE OVERNIGHT INTEREST RATE FROM A MEDIUM-TERM PERSPECTIVE

One of the main rationales for introducing changes to the Eurosystem’s operational framework for monetary policy implementation in March 2004 was the elimination of underbidding episodes in the weekly main refinancing operations. Underbidding created unbalanced liquidity conditions and led to greater volatility of the overnight interest rate. Underbidding took place during periods when market participants expected key ECB interest rates to be cut. In this context, banks delayed their accumulation of reserve holdings to meet reserve requirements in anticipation of being able to accumulate holdings later in the maintenance period at a lower interest rate.

On 10 March 2004, a number of changes were implemented to the Eurosystem's operational framework. First, the timing of the reserve maintenance period was changed so that a maintenance period always starts on the settlement day of the main refinancing operation following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled. Second, changes to the standing facility rates are implemented at the start of the new reserve maintenance period. Finally, the maturity of the main refinancing operations was shortened from two weeks to one week. The changes have led to a situation in which expectations of key ECB interest rates are flat over the entire maintenance period, and there are thus no incentives for underbidding. The changes were introduced smoothly and overall the framework has worked well.¹

One year after the introduction of the changes, this box analyses the evolution of the volatility of the overnight interest rate from a medium-term perspective. This analysis is based on a specific measure of interest rate volatility, which is described below.

A measure of volatility: realised volatility

Volatility is measured on the basis of realised volatility. This measure is constructed by summing the squared changes in the overnight interest rate calculated for each five minute interval between 9 a.m. and 6 p.m. For technical reasons, the exercise focuses on the logarithm of this measure. Unlike measures of implied volatility derived from options prices, realised volatility does not impose restrictive assumptions on the distribution of volatility, and, unlike other possible measures of volatility, it is independent of the mean level of the overnight interest rate.²

The results

The evolution of the volatility of the overnight interest rate is shown in the chart, which displays the log realised volatility of the overnight rate between 4 December 2000 and 7 February 2005. A smoothed series (the moving average over 21 business days) is also shown in the chart, together with the average level of volatility of this measure computed before and after the changes to the operational framework.

In general, the realised volatility of the overnight interest rate has followed a downward trend over the entire sample period, which has become more pronounced since the introduction of the changes to the operational framework. After August 2004, volatility increased again but has remained fairly low. Overall, volatility since March 2004 has been consistently lower than prior to the introduction of the changes to the framework.

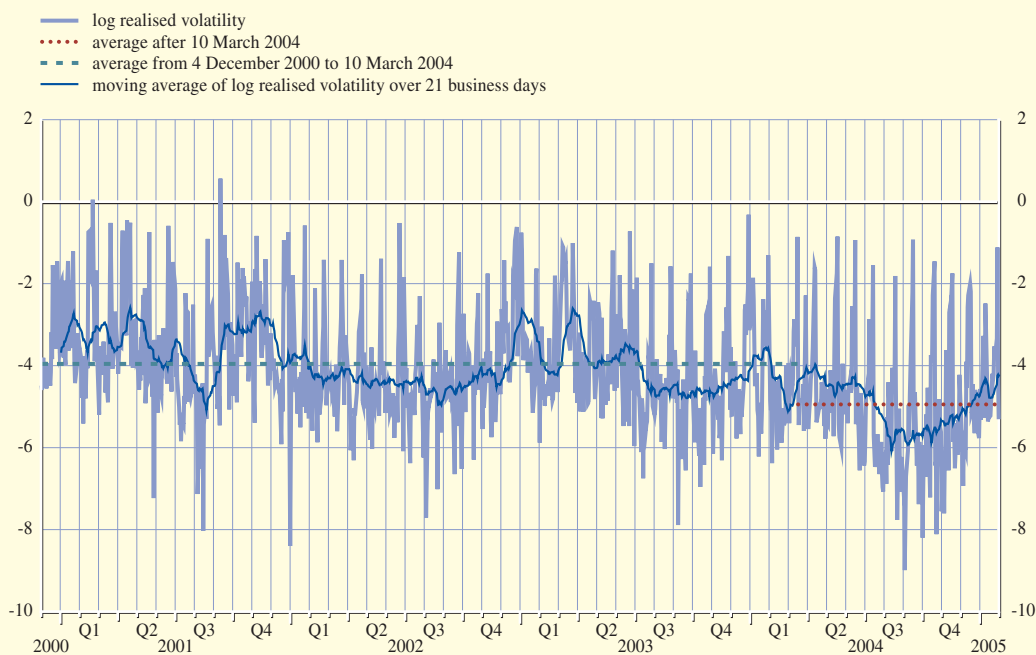
Standard statistical tests confirm that the average realised volatility has been significantly lower after the changes to the operational framework were introduced (see table). Moreover, in the last days of the maintenance periods, i.e. the days between the last main refinancing

1 For a more detailed analysis and a comprehensive assessment of the changes introduced in the Eurosystem's operational framework, see the article entitled "First experience with the changes to the Eurosystem's operational framework for monetary policy implementation", published in the February 2005 issue of the Monthly Bulletin.

2 For more details on realised volatility, see Andersen, T. G., Bollerslev, T. (1997), "Intraday periodicity and volatility persistence in financial markets", *Journal of Empirical Finance*, 4, pp. 115-158, and Andersen, T. G., Bollerslev, T. (1998), "Answering the skeptics: yes, standard volatility models do provide accurate forecasts", *International Economic Review*, 39, pp. 885-905.

Log realised volatility of the overnight interest rate

(from 4 December 2000 to 7 February 2005)



operation and the end of the maintenance period, statistical evidence also suggests that the realised volatility of the overnight interest rate has been significantly lower since March 2004.

When interpreting these results, however, some caveats should be considered. First, the evidence available since March 2004 is rather limited, especially compared with the relatively long experience prior to the changes to the operational framework. Second, some events which may increase the volatility of the overnight interest rate, such as changes to the key ECB interest rates, have not occurred since March 2004. Against this background, any conclusions on the change in the volatility of the overnight interest rate should be regarded as preliminary.

Descriptive statistics and t-test for the difference between the means of log realised volatility before and after the changes to the operational framework

	All days		Days between last allotment and end of the maintenance period	
	before 10 March 2004	after 10 March 2004	before 10 March 2004	after 10 March 2004
Mean	-3.96	-4.94	-2.84	-3.46
Standard deviation	1.72	2.11	1.87	2.05
Number of observations	831	235	158	63
t-statistics (difference in means)		9.41 (349 degrees of freedom)		2.97 (110 degrees of freedom)

Sources: Reuters and ECB calculations.

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS FROM 9 NOVEMBER 2004 TO 7 FEBRUARY 2005

This box reviews the ECB's liquidity management during the three reserve maintenance periods ending on 7 December 2004, 18 January and 7 February 2005.

Liquidity needs of the banking system

Banks' liquidity needs increased substantially over the period under review as a result of the seasonal increase in banknotes in circulation (see Chart A). Banknotes, which are the largest "autonomous factor" (i.e. a factor which normally does not stem from the use of monetary policy instruments), reached a historic high of €504.6 billion on 24 December 2004. On average, autonomous factors absorbed €208.0 billion of liquidity in the period under review, which is more than in any other period since the introduction of the euro. By contrast, reserve requirements, which are the other major source of banks' liquidity needs, remained stable at around €138.4 billion. Excess reserves (i.e. current account holdings in excess of reserve requirements) were higher than normal (€0.60 billion in the first reserve maintenance period, €0.74 billion in the second and €0.75 billion in the third; see Chart B). The high value observed for the period ending on 18 January was probably related to a higher demand for liquidity buffers around the Christmas holiday period to cope with unexpected payment shocks. Regarding the maintenance period which ended on 7 February, its rather short length (only three weeks) may explain the high average value.

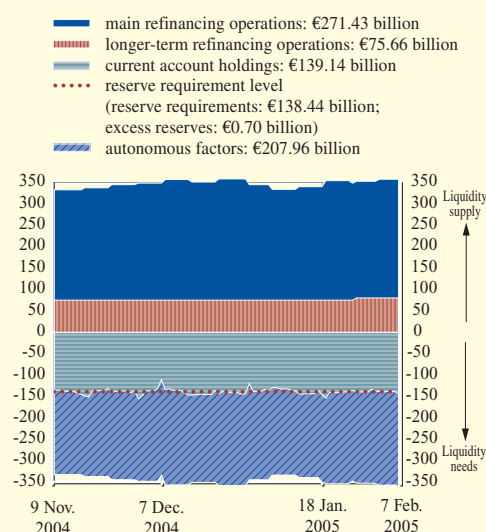
Liquidity supply and interest rates

In parallel with the growing demand for liquidity, the volume of open market operations increased (see Chart A). The allotment amount in the main refinancing operation (MRO) settled on 22 December 2004 was €283.5 billion, the highest since the introduction of the euro. Nevertheless, the ratio between bids submitted by counterparties and satisfied bids (the bid-cover ratio) remained stable at a comfortable level of 1.29 on average during the period under review.

The ECB generally applied a policy of loose allotments during this period, attempting to smooth money market conditions. Accordingly, the ECB allotted either €0.5 or 1 billion more than the benchmark amount in most of the MROs of the period. In the MROs close to the Christmas holidays and the year-end, the ECB decided to increase the

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.

allotment amounts to €4.5 billion above the benchmark amount. Thereafter, the ECB gradually returned to moderate deviations from the benchmark.

In order to restore neutral liquidity conditions, the ECB conducted a fine-tuning operation on the last day of each of the three maintenance periods under review.

The differences between the marginal and the weighted average rates in all the weekly tenders were either zero or one basis point, except for the MRO settled on 30 December where the difference reached 8 basis points.

In the longer-term refinancing operation settled on 27 January the allotment amount was increased to €30 billion, in line with the Governing Council's decision announced on 14 January 2005.

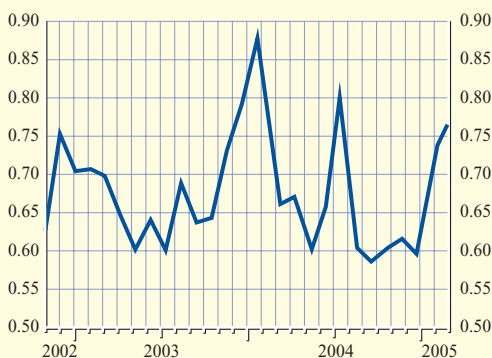
Generally, the EONIA was fairly stable during most of the period under review, although its spread versus the minimum bid rate remained somewhat higher than the historical level (see Chart C). As usual, the EONIA increased at month ends and exhibited higher volatility after the last MRO allotments and the end of the maintenance periods.

After the last MRO allotment of the maintenance period ending 7 December, the EONIA initially declined to levels well below the minimum bid rate of 2%, as market participants apparently perceived liquidity conditions to be loose. However, on 6 December the ECB announced its readiness to conduct a fine-tuning operation and the EONIA rose to 1.83%. The ECB indeed absorbed €15 billion on the last day of the maintenance period, which ended with a net recourse to the marginal lending facility of €0.5 billion and the EONIA at 1.98%.

Market expectations of loose liquidity conditions at the end of the following maintenance period emerged after the slightly loose allotment of the last main refinancing operation, settled on January 12. The EONIA thus dipped slightly below the minimum bid rate. However, liquidity absorbing errors in autonomous factors pushed the EONIA

Chart B Excess reserves ¹⁾

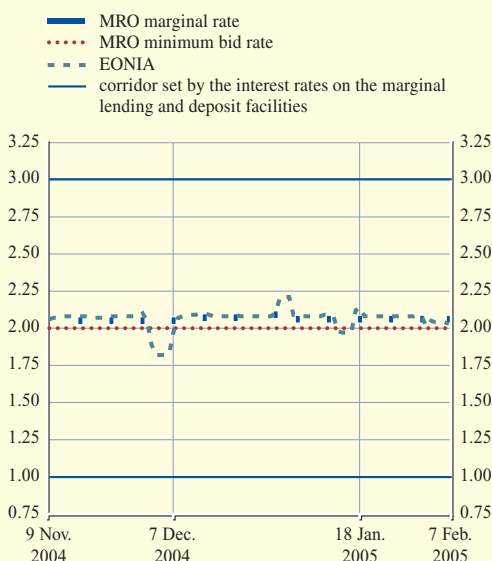
(EUR billions, average level in each maintenance period)



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

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.

upwards to 2.12% on 17 January. On 18 January, the last day of that maintenance period, the ECB injected €8 billion through a fine-tuning operation. In spite of this action, an unusually large autonomous factor forecast error, related to a technical failure of the German RTGS payment system, generated a net recourse to the marginal lending facility of €2.5 billion and left the EONIA at 2.14% on that day.

The EONIA remained very stable after the last allotment of the maintenance period ending on 7 February, although at a slightly lower level than observed earlier in the maintenance period. On 7 February the ECB injected €2.5 billion through a fine-tuning operation and the net recourse to the marginal lending facility on that last day was of €0.2 billion, with the EONIA at 2.03%.

2.4 BOND MARKETS

Over the last three months, long-term interest rates in major markets first declined gradually before rebounding sharply in the second half of February 2005 to stand broadly unchanged, all in all. In the euro area, long-term government bond yields initially continued on the general downward trend that has prevailed since mid-2004. As a result, in mid-February euro area long-term bond yields stood at the lowest levels recorded since the introduction of the euro. The subsequent sharp rebound brought euro area long-term bond yields back to the levels observed at the end of November 2004, suggesting that market participants' expectations of long-term economic growth and inflation generally also remained broadly unchanged in that period.

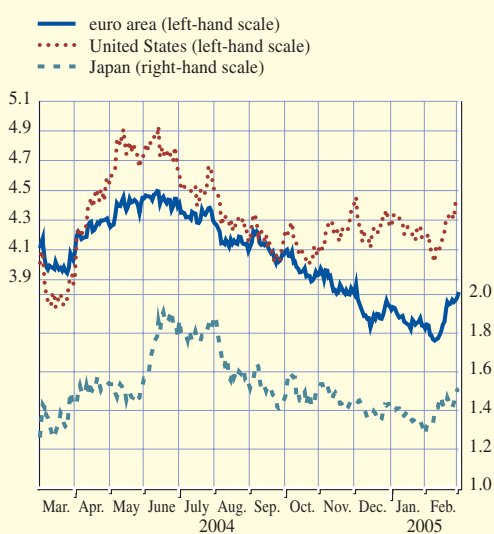
Global bond market conditions over the past three months were characterised by further declines in long-term interest rates over most of that period to historically very low levels (see Chart 17). All in all, however, long-term interest rates remained broadly unchanged owing to a sharp rebound in global bond yields after mid-February 2005. The market for US Treasuries appears to have been the main driver of global bond market movements in the last three months since the decoupling of long-term interest rates in the United States from those in other major economies between mid-October and early December 2004.

In the United States the downturn in long-term bond yields over the first 2½ months of the period under review seemed to reflect several factors. On the one hand, there are some indications that market participants revised their expectations regarding future growth and inflation in the US economy downwards over that period. For example, bond yields declined on release of employment reports in the United States, which generally showed lower than expected employment growth. Inflationary concerns among market participants also appear to have eased between the end of November and mid-February, most likely as a result of generally weaker than expected data releases on US consumer and producer prices. On the other hand, yield declines may have been amplified by non-fundamental market factors, such as increased demand for US long-term government bonds by institutional investors. At the same time, the Federal Reserve System increased its policy rates in both December 2004 and early February 2005. Since these measures were widely anticipated, they did not have any significant impact on long-term interest rates.

In the second half of February, long-term bond yields in the United States rebounded rather sharply following the testimonies by Alan Greenspan, Chairman of the Federal Open Market

Chart 17 Long-term government bond yields

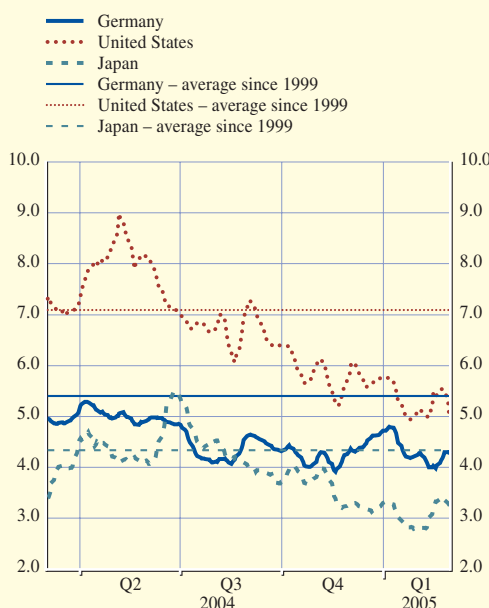
(percentages per annum; daily data)



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

Chart 18 Implied bond market volatility

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



Source: Bloomberg.
Note: The implied volatility series represents the nearby implied volatility on the near-contract generic future, rolled over 20 days prior to expiry, as defined by Bloomberg. This means that 20 days prior to expiry of the contracts, a change in the choice of contracts used to obtain the implied volatility is made, from the contract closest to maturity to the next contract.

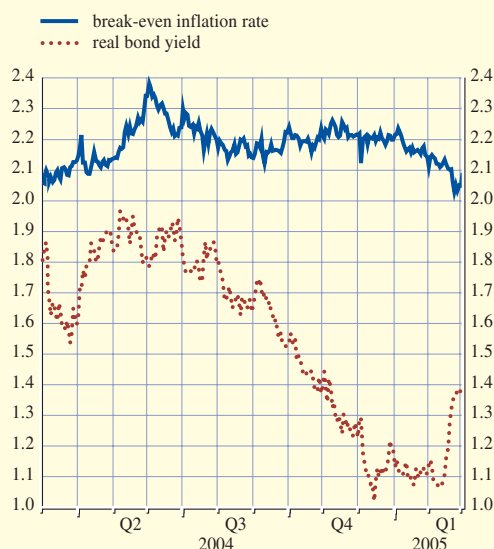
Committee (FOMC), before committees of Congress. Apparently, the testimonies caused market participants to expect a somewhat stronger tightening of monetary policy over the coming quarters. In addition, the increases in long-term interest rates were probably also linked to the finding in the statement from the Federal Reserve that the strong earlier decline in global bond yields might reflect a “short-term aberration”. Moreover, inflationary concerns resurfaced among market participants, especially as the PPI data released in the latter part of February turned out to be higher than expected by the market. This led to a significant increase in the ten-year break-even inflation rate, which stood at the relatively high level of around 2.8% on 2 March.

Between the end of January and 2 March, nominal ten-year government bond yields in the United States increased by around 25 basis points, while those in Japan rose by around 20 basis points over the same period. Despite the recent swings in long-term interest rates, market participants’ uncertainty about near-time bond market developments, as indicated by implied bond market volatility in the major economies (see Chart 18), remained relatively low.

Over the past three months, the movements in long-term interest rates in the United States and in the euro area were again highly synchronised. As a result, the differential between US and euro area ten-year government bond yields remained broadly unchanged at around 60 basis points on 2 March.

Chart 19 Euro area real bond yield and break-even inflation rate

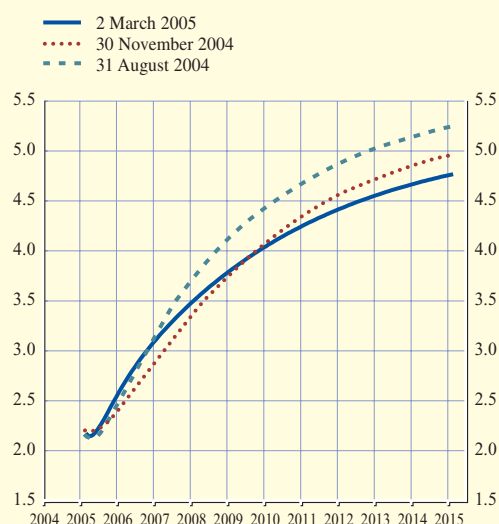
(percentages per annum; daily data)



Sources: Reuters and ECB calculations.
 Notes: Real bond yields are derived from the market prices of French government bonds which are indexed to the euro area HICP (excluding tobacco prices) and which mature in 2012. The method used to calculate the break-even inflation rate was outlined in Box 2 of the February 2002 issue of the Monthly Bulletin.

Chart 20 Implied forward euro area overnight interest rates

(percentages per annum; daily data)



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

The sharp initial decline in long-term bond yields in the euro area until mid-February – which thus reached the lowest levels recorded since the introduction of the euro – may to some extent reflect slightly less optimistic expectations by market participants about the long-term growth prospects for the euro area economy. This is indicated by the steep downturn observed in the yield on ten-year inflation-indexed French government bonds (linked to the euro area HICP excluding tobacco) over the same period (see Chart 19). However, the sharp and fast rebound of real long-term bond yields after mid-February, in a period without any major positive economic data releases in the euro area, suggests that the marked swings in bond yields over the past few months may have been driven largely by technical market adjustments and shifting market sentiments rather than by fundamental factors. In particular, there is some evidence that institutional investors stepped up their demand for long-maturity bonds, driving down yields at mainly the long end of the yield curve (see Chart 20). On 2 March, the nominal ten-year government bond yield and the real ten-year government bond yield stood at 3.8% and 1.4% respectively.

In contrast to real bond yields, long-term break-even inflation rates (calculated as the yield differential between comparable French nominal and index-linked government bonds maturing in 2012) fluctuated less over the last three months and declined, all in all, by around 10 basis points between the end of November 2004 and 2 March 2005 to stand at around 2.1% on the latter date (see Chart 19). This, in turn, may suggest that market participants' concerns about the long-term risks to price stability have moderated somewhat over that period.

All in all, corporate bond spreads in the euro area declined in the past three months and thus remained at rather low levels (see Chart 25 in Section 2.6). The differential between the yields on long-term bonds issued by BBB-rated corporations and those on comparable government bonds in the euro area declined by about 5 basis points between the end of November 2004 and 2 March 2005, to stand at around 65 basis points on the latter date. To some extent, the further downturn reflects the slightly declining level of volatility in financial markets, but may also suggest that market participants perceived corporate credit risk as having fallen slightly in the euro area.

2.5 EQUITY MARKETS

Stock prices have risen further in the major markets since the end of November 2004, thereby continuing the upward trend observed since mid-August 2004. The latest stock price increases probably indicated further improvements in corporate profitability. Stock markets in the euro area and in Japan recorded marginally higher increases than those in the United States.

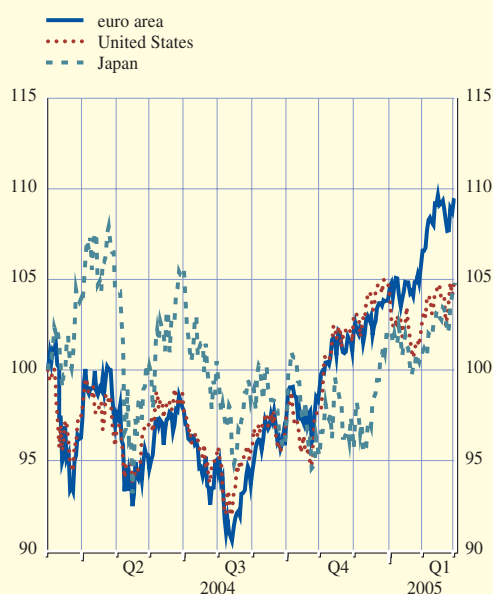
Equity prices increased in the major markets over the past three months (see Chart 21). In the United States, sharp increases in the actual earnings of listed companies appear to have been the most important driver of higher equity prices (see Chart 23). The increase in US stock prices was broadly based. The most marked price gains were recorded in the energy and basic materials sectors. More recently, stock prices, as measured by the Standard and Poor's 500 index, increased by 2% between the end of January and 2 March. In Japan over the same period, the Nikkei 225 index increased by 4%.

The level of uncertainty prevailing in global markets, as measured by the implied volatility derived from options on the Standard & Poor's 500 index in the United States and the Nikkei 225 index in Japan, declined marginally between the end of November 2004 and 2 March 2005. The level of implied stock market volatility in these markets thus remained well below the averages of the period since 1999 (see Chart 22).

In the euro area, stock prices followed the global upward trend in equity prices over the past three months. Moreover, euro area corporations reported rather sharp improvements in actual earnings in the period. Earnings data from Thomson Financial Datastream indicate that aggregate earnings per share of the companies of the Dow Jones EURO STOXX index continued to grow at an annual rate of around 35% in February 2005, as was the case in previous

Chart 21 Stock price indices

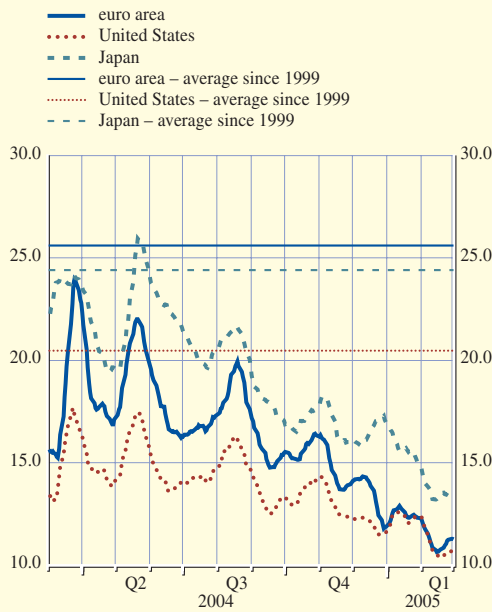
(index: 1 March 2004 = 100; daily data)



Sources: Reuters and Thomson Financial Datastream.
Note: 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 22 Implied stock market volatility

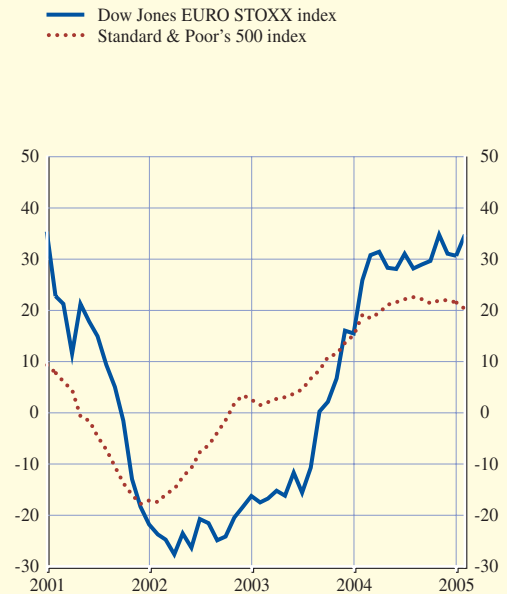
(percentages per annum; ten-day moving average of daily data)



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

Chart 23 Growth in earnings per share in the United States and the euro area

(annual percentage change; monthly data)



Sources: Thomson Financial Datastream I/B/E/S and ECB calculations.

months (see Chart 23). More recently, between the end of January and 2 March, the Dow Jones EURO STOXX index rose by around 3%.

Market participants' uncertainty regarding the near-term outlook for stock prices, as measured by the implied stock market volatility extracted from options on the Dow Jones EURO STOXX 50 index, also decreased further in the euro area over the past three months (see Chart 22). Implied stock market volatility in the euro area thus remained far below the average over the period since 1999.

Developments in the ten main economic sectors of the Dow Jones EURO STOXX index between the end of November 2004 and 2 March 2005 were marked by general price increases, except in the case of the technology sector (see Table 3). This would suggest that the improvements seen in corporate profitability in this period were broad-based. More recently, however, in an environment of high commodity prices, the basic materials and the oil and gas sectors recorded the sharpest price increases, as was the case in the United States and Japan.

Table 3 Price changes and historical volatility in the Dow Jones EURO STOXX economic sector indices

(price changes as percentages of end-of-period prices; historical volatility as a percentage per annum)

	Basic materials	Consumer services	Consumer goods	Oil and gas	Financial	Health-care	Industrial	Technology	Tele-communications	Utility	EURO STOXX
Share of sector in market capitalisation (end-of-period data)	5.0	7.1	10.9	11.6	30.6	3.8	9.4	5.4	9.0	7.1	100.0
Price changes (end-of-period data)											
2003 Q4	15.5	7.8	9.8	12.0	16.8	13.2	13.6	12.6	13.1	15.1	13.5
2004 Q1	-4.7	2.0	1.0	0.4	-0.9	11.6	1.3	10.1	4.0	7.2	1.9
2004 Q2	6.7	2.4	5.1	5.2	1.5	4.2	2.5	-13.6	-0.6	5.1	1.7
2004 Q3	1.5	-6.4	-9.0	3.3	-0.8	6.0	0.1	-13.0	-1.4	0.8	-2.1
2004 Q4	9.9	6.3	5.0	1.6	11.2	1.8	6.6	6.6	17.0	11.1	8.3
January	0.1	5.3	2.0	3.0	1.6	-2.0	5.4	-2.6	0.4	3.2	1.9
February	7.1	2.2	2.6	7.2	3.4	-0.3	1.1	3.9	-2.2	0.2	2.7
End-December 2004 to 2 March 2005	8.0	8.2	5.3	11.3	5.7	-0.1	7.2	1.6	-1.6	2.5	5.3
Volatility (period averages)											
2003 Q4	17.5	14.6	15.1	13.9	14.5	17.2	12.8	23.9	13.2	11.2	14.0
2004 Q1	15.2	17.2	15.0	16.6	15.6	16.4	15.3	26.9	18.3	14.3	14.3
2004 Q2	16.1	14.7	14.4	14.5	15.6	15.8	15.8	30.3	15.0	13.4	14.1
2004 Q3	13.1	13.6	12.7	12.8	11.6	12.4	11.7	25.3	11.7	8.6	11.2
2004 Q4	12.8	10.4	11.5	10.9	10.1	15.5	9.8	19.2	12.9	9.8	10.1
January	8.9	8.7	8.6	8.9	8.4	9.7	9.8	17.8	9.2	6.7	7.5
February	10.5	8.7	9.8	12.6	8.0	14.1	10.8	16.2	11.1	18.1	8.6
End-December 2004 to 2 March 2005	10.1	8.4	9.0	10.5	8.1	16.8	9.9	16.8	10.0	13.0	7.9

Sources: Thomson Financial Datastream and ECB calculations.

Notes: Historical volatility is calculated as the annualised standard deviation of daily index level changes over the period. Sector indices are shown in the "Euro area statistics" section of this issue of the Monthly Bulletin.

2.6 FINANCING AND FINANCIAL POSITION OF NON-FINANCIAL CORPORATIONS

In the fourth quarter of 2004, non-financial corporations enjoyed low costs of debt financing and generally unconstrained access to financing sources. Financial flows to non-financial corporations picked up slightly in the fourth quarter of 2004, especially in real terms, but nevertheless remain relatively moderate on account of improvements in corporate earnings. The debt ratios of non-financial corporations have tended to decrease somewhat over recent quarters, but remain at a rather high level. High debt ratios are currently not translating into markedly higher costs of debt servicing, given the very low cost of debt financing.

FINANCING CONDITIONS

The marginal real cost of the external financing of non-financial corporations in the euro area, calculated by weighting the cost of different financing sources on the basis of outstanding amounts, declined slightly in the fourth quarter of 2004 (see Chart 24 and Box 4). Even if the break in the series that occurred in 2003 is taken into account, it appears that the current level of the cost of financing is very low by historical standards. This is due to a fall in the real cost of all components, i.e. of MFI loans, debt securities and quoted shares. It is also worth mentioning that

the weighting based on the amounts outstanding (representing, to some extent, the long-term financing structure of non-financial corporations) currently gives a large weight to the cost of equity, which was higher than the cost of debt financing in the fourth quarter of 2004. Flows related to new share issuance, by contrast, have been relatively muted over the past few quarters, as firms may have preferred to tap other, cheaper sources of financing.

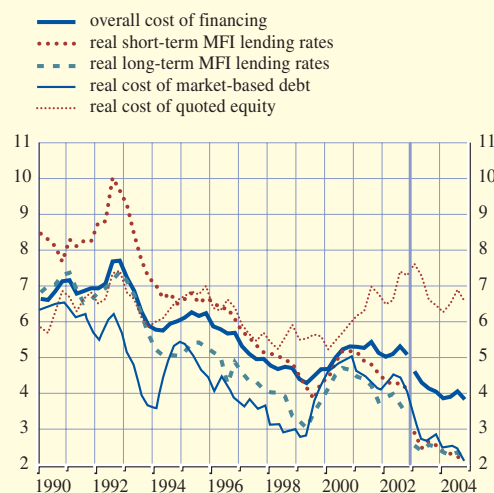
Regarding the components, the most important source of debt financing for non-financial corporations are MFI loans. The real cost of bank financing declined further to very low levels in the last quarter of 2004 (see Chart 24). In fact, short-term and long-term MFI interest rates on new loans to non-financial corporations mostly continued to decline from the already low levels observed in the third quarter (see Table 4). Over the past three months to December 2004, the spread of short-term MFI interest rates to market interest rates for comparable maturities has not changed significantly. By contrast, over the same period, MFIs somewhat increased the spread between long-term MFI interest rates and the market interest rates for comparable maturities. For example, the rates on loans to non-financial corporations (both loans of up to €1 million and loans of over €1 million) with an initial rate fixation of over five years decreased by around 25 basis points, which compares with a decrease of around 40 basis points in the yield on five-year government bonds. This may reflect the normal lags observed in the adjustment of long-term lending rates to market interest rates (see Box 5).

Taking a somewhat longer perspective, MFIs have tended to reduce their lending rates over recent years, but the extent to which this has narrowed the spread to market interest rates for comparable maturities has been more muted in comparison with the strong decreases in corporate bond spreads.

The real cost of market-based debt issued by non-financial corporations also declined slightly in comparison with the already low levels observed in the third quarter. The low cost of bond financing reflects the historically low level of interest rates across the maturity spectrum as well as the very low level of corporate bond spreads (see Chart 25). Most spreads on corporate bonds stabilised at a low level in the fourth quarter of 2004. In particular, the spread of high-yield and BBB-rated bonds over benchmark bonds stood at the lowest level recorded since the introduction of the euro. The strong decreases in the level of bond spreads point towards the perception of a relatively favourable outlook for non-financial corporations in the euro area. At the same time, when comparing developments in corporate bond yields with those in MFI lending rates, it is worth mentioning that corporate bond spreads have actually increased significantly in periods of financial turmoil (after 11 September 2001 and again in the second half of 2002), while bank

Chart 24 Real cost of the external financing of euro area non-financial corporations

(percentages per annum)



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

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

Box 4

A MEASURE OF THE REAL COST OF THE EXTERNAL FINANCING OF EURO AREA NON-FINANCIAL CORPORATIONS

This box introduces a measure of the marginal real cost of the external financing of euro area non-financial corporations. Such measure provides a synthetic indicator of the cost of financing of non-financial corporate borrowers, which is an important determinant of firms' investment decisions.

The marginal real cost of the external financing of non-financial corporations in the euro area is computed as a weighted average of the real cost of bank lending on new business, the real cost of market-based debt – traded on the secondary market – and the real cost of equity (see Chart 24 in the main text). In this respect, it is important to mention that, under the rather strict assumptions of the Modigliani and Miller (1958) theorem,¹ the actual value of the firm would, in equilibrium, be independent of its capital structure. In this environment the analysis of the development of the different sources of financing – including their costs – would not provide additional informative value for assessing the financing conditions of firms. In the real world, however, there are a number of factors – such as taxes, the existence of different levels of information between borrowers and lenders, or the liquidity of markets – that make the actual value of the firm dependent on its capital structure. Therefore, it may be informative to provide indicators of the cost of financing that reflect the capital structure of firms.

The real-cost-of-external-financing indicator for non-financial corporations has been calculated on a quarterly basis back to 1990. Its components are weighted by their amounts outstanding (corrected for valuation effects) according to the quarterly financial accounts, on the assumption that they reflect the long-term financing structure of euro area non-financial corporations. Its components are deflated by inflation expectations as provided by the Consensus Economics Forecast. Clearly, this indicator could often result in an overestimation of the cost incurred by non-financial corporations, as borrowers tend to take advantage of the less costly financing instruments available and modify their capital structure accordingly.

The real cost of bank lending

For the cost of bank lending of euro area non-financial corporations, a short-term and a long-term MFI lending rate are calculated by weighting single MFI lending rates by their respective amounts outstanding wherever possible.

When calculating the cost of bank lending of euro area non-financial corporations, it should be taken into account that there was a statistical break in the MFI lending rates at the beginning of 2003. This was due to the substitution of the non-harmonised MFI interest rates by the more accurate harmonised interest rate statistics (i.e. the so called MIR rates).² As no reliable adjustment of the rates before 2003 is possible for the time being, the difference in the level has not been corrected.

1 See F. Modigliani and M. Miller (1958), "The cost of capital, corporation finance and the theory of investment", American Economic Review, Vol. 48.

2 For further details on the new harmonised statistics, see the box entitled "New ECB statistics on MFI interest rates" in the December 2003 issue of the ECB's Monthly Bulletin.

From 2003, based on harmonised MFI lending rates, the short-term MFI lending rate is a weighted average of:

- overdraft rates and
- floating rates and rates on new loans with an initial rate fixation period of up to one year.

The long-term MFI lending rate is a weighted average of:

- rates on new loans with an initial rate fixation period of over one year and up to five years and
- rates on new loans with an initial rate fixation period of more than five years.

Before 2003, on the basis of non-harmonised MFI lending rates, there was only one short-term MFI lending rate for loans with maturities of up to one year and one long-term rate for loans with maturities of over one year. In order to show the cost of bank lending back to 1990, the non-harmonised long-term MFI lending rate, which dated back to November 1996, was extended backwards on the basis of national retail rates.

In addition, as regards the harmonised statistics, there is a mismatch between the definition of the rates on new business, which are defined according to the initial rate fixation period of the loan, and the amounts outstanding, which are defined by original maturity. Consequently, the weighting of the rates by the corresponding amounts outstanding leads to an implicit assumption of no financing at variable rates. For instance, rates with an initial fixation period of more than five years are weighted by the total amount outstanding of loans with an original maturity of over five years, although part of this amount outstanding might be financed at rates for shorter fixation periods. Accordingly, the weight applied to the long-term rates is likely to be somewhat too high, whereas the weight applied to the short-term rates is likely to be somewhat too low. The impact of this potential bias is probably relatively limited and should not affect developments over time.

Moreover, in the harmonised statistics, the breakdown of the rates is deeper than the breakdown of the amounts outstanding. Consequently, the rates for the credit sizes (up to €1 million and over €1 million) have been weighted by the annual moving sum of the new business volume in these two credit sizes.

As regards the deflation of the nominal cost by inflation expectations, the rates have been deflated on the basis of forward-looking measures covering periods related to the duration of the instruments. Short-term MFI lending rates are deflated by the average Consensus Economics Forecast inflation expectations for this year and the next (leading to an average horizon of around nine months). For the long-term MFI lending rates, two-year-ahead inflation expectations are used in line with empirical evidence.

The real cost of market-based debt

The calculation of the real cost of market-based debt is based on a Merrill Lynch index of the average yield of corporate bonds with a maturity of more than one year issued by euro area non-financial corporations with investment grade ratings (data available since April 1998), corporate bond yields in the six largest euro area countries in the period before April 1998 and a euro-currency high-yield index. National yields are aggregated using GDP weights corresponding to the purchasing power parities in 2001. A distinction between the short-term

and the long-term cost of market-based debt is not provided as there is no appropriate measure of the short-term cost of market-based debt of euro area non-financial corporations.

The indicator is deflated by the inflation expectations provided by the Consensus Economics Forecast, in line with the duration of the corporate bonds, which is broadly five years, on average.

The real cost of equity

The estimation of the real cost of equity of euro area non-financial corporations is measured by the Three-Stage Gordon Dividend Discount model as applied by Fuller and Hsia (1984).³ This model states that the price of a share is equivalent to the expected discounted sum of all future dividends paid out by the stock. Hence the model is relatively simple and does not account for a number of other factors which could have an impact on stock market prices. In addition, in order to estimate the model, a number of additional assumptions are needed. First, it is assumed that dividends are a constant proportion of earnings so that the expected dividend growth rate can be replaced by the expected future growth rate of earnings. Second, it is also assumed that corporate earnings growth is expected to develop in three stages:

- The first stage includes the first four years. Thomson Financial First Call earnings forecasts by analysts for the Morgan Stanley Capital International (MSCI) EMU stock market index are used as a forecast of the average growth of earnings over the next four years. This average growth rate has been deflated with average inflation expectations over the next four years to attain a real growth indicator.
- The second stage is expected to last for an interim period of eight years, during which a linear adjustment of real corporate earnings growth towards the long-term growth rate is assumed.
- In the third stage, the long-term growth of real corporate earnings is assumed to be constant at 2.25%, which is within the range of the estimate of the trend potential growth of the euro area.

Overall, when estimating the cost of equity via the Three-Stage Gordon Dividend Discount model, it is assumed that the discount rate, which can be decomposed as the sum of a risk-free interest rate and an equity risk premium, can be taken as a proxy for the cost of equity. Against the background of the assumptions taken (for instance, the long-term earnings growth), the measure of the cost of equity is surrounded by higher uncertainty than the other cost-of-financing components. This needs to be kept in mind when comparing the cost of the various financing instruments.

³ For a description of the application of the model to the euro area, see Box 2 in the article entitled “Extracting information from financial asset prices” in the November 2004 issue of the Monthly Bulletin. See also M. J. Gordon, “The Investment, Financing and Valuation of Corporations”, Greenwood Publishing Group, 1962, and R. J. Fuller and C.-C. Hsia, “A simplified common stock valuation model”, *Financial Analysts Journal*, September-October 1984.

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

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

							Change in basis points up to Dec. 2004			
	2004 July	2004 Aug.	2004 Sep.	2004 Oct.	2004 Nov.	2004 Dec.	2003 Jan.	2003 Dec.	2004 Sep.	2004 Nov.
MFI interest rates on loans										
Bank overdrafts to non-financial corporations	5.37	5.40	5.38	5.40	5.37	5.27	-93	-31	-11	-10
Loans of up to €1 million to non-financial corporations										
with a floating rate and an initial rate fixation of up to one year	4.02	4.02	3.99	4.01	4.01	3.98	-89	-4	-1	-3
with an initial rate fixation of over five years	4.68	4.71	4.70	4.65	4.55	4.44	-71	-37	-26	-11
Loans of over €1 million to non-financial corporations										
with a floating rate and an initial rate fixation of up to one year	3.03	2.98	3.00	2.98	2.95	3.05	-68	-6	5	10
with an initial rate fixation of over five years	4.31	4.18	4.31	4.19	4.15	4.06	-48	-28	-25	-9
Memo items										
Three-month money market interest rate	2.12	2.11	2.12	2.15	2.17	2.17	-66	2	5	0
Two-year government bond yield	2.70	2.53	2.60	2.47	2.41	2.36	-28	-22	-24	-5
Five-year government bond yield	3.49	3.33	3.35	3.18	3.08	2.93	-47	-66	-42	-15

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 2003 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.

lending rates have reacted in a more muted way to macroeconomic shocks. In addition, some "search for yields" by investors may have contributed to reducing corporate bond spreads.

The real cost of quoted equity also fell slightly, partially compensating for the increase seen in the third quarter. This was driven by the more favourable developments in the euro area stock markets.

Box 5

THE PASS-THROUGH OF MARKET INTEREST RATES TO MFI LENDING RATES SINCE THE START OF STAGE THREE OF EMU

Bank lending rates tend to be driven by developments in money and capital markets, after some adjustment delays.¹ Changes in bank lending rates, in turn, are an important aspect of the monetary policy transmission process because they affect financing conditions and, hence, spending decisions with respect to housing and non-housing investment as well as consumption, which will eventually spill-over to prices and output. This box examines how the conditions in money and capital markets have affected bank lending rates between January 1999 and December 2004.

The analysis is based, for the past two years, on the new harmonised statistics on MFI interest rates on new business (available since January 2003). For the period from 1999 to 2002, the

¹ For more details, see, for example, Box 3 entitled "The determination of bank lending rates in the euro area" in the ECB's Annual Report of 2002.

previous non-harmonised retail interest rates have been used. In addition, the period between January 1999 and December 2000 is considered separately in order to take account of the fact that market interest rates had reached a peak towards the end of 2000. This last sub-division is somewhat artificial because most market interest rates declined in the first few months of 1999.

Looking at the period starting in January 2003, for which a more precise analysis can be conducted, all MFI interest rates on new loans declined. The most pronounced downturn, which exceeded the decline in market interest rates, occurred in interest rates on *loans to households for house purchase*. This may, in part, have been driven by strong competition in this market segment, and by increases in the value of mortgage collateral as a result of the strong housing market dynamics in several countries (see also the results of the latest Bank Lending Survey).² In the preceding periods, for which a comparison can only be tentative since the underlying retail interest rates referred to loans of all maturities, changes in interest rates on loans for house purchase tended to respond significantly to those in market interest rates, irrespective of whether market interest rates were rising or falling.

Since early 2003, the decrease in short-term MFI interest rates on *loans to non-financial corporations* has also tended to exceed the decrease in the three-month EURIBOR, while long-term MFI interest rates fell by broadly the same order of magnitude as the five-year and ten-year government bond yields. The decline in MFI interest rates on loans to non-financial corporations since the beginning of 2003, in particular in those on short-term loans, may reflect

² See Box 1 entitled "The results of the January 2005 bank lending survey for the euro area" in the February 2005 issue of the Monthly Bulletin.

MFI interest rates on new loans

	Change in basis points		
	Jan. 1999 to Dec. 2000	Dec. 2000 to Dec. 2002	Jan. 2003 to Dec. 2004
Loans to non-financial corporations			
(a) original maturity of up to one year	112	-120	-
bank overdrafts	-	-	-93
floating rate and an initial rate fixation of up to one year	-	-	-74
(b) original maturity of over one year	141	-111	-
initial rate fixation of over one and up to five years	-	-	-43
initial rate fixation of over five years	-	-	-55
Loans to households			
(a) for consumption	56	-61	-
bank overdrafts	-	-	-36
floating rate and an initial rate fixation of up to one year	-	-	-47
initial rate fixation of over one year	-	-	-74
(b) for house purchase	133	-133	-
floating rate and an initial rate fixation of up to one year	-	-	-92
initial rate fixation of over five years	-	-	-84
Memo items			
Three-month Euribor	179	-199	-66
Two-year government bond yield	176	-190	-28
Five-year government bond yield	152	-119	-47
Ten-year government bond yield	125	-66	-58

Source: ECB.

Note: From 1999 to 2002, data refer to retail interest rates; as from 2003, data refer to MFI interest rates. The latter are weight-adjusted. 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 fact that MFIs have recently reduced their credit risk premia against the background of the improved profitability of, and balance sheet restructuring efforts by, non-financial corporations (see also Section 2.6). In addition, some lagged adjustments to previous decreases in market interest rates, related to the normal delays in the pass-through to lending rates,³ may also have contributed to the more marked decline in MFI interest rates since January 2003. This view is supported by the observation that, in the past, retail interest rates on loans to non-financial corporations have tended to move less than market interest rates, signalling that, for a variety of reasons such as customer-bank relations, banks adjust their interest rates on these loans only gradually in phases of rising or falling interest rates.

Short-term MFI interest rates on *loans to households for consumption* have generally also fallen since January 2003, but by significantly lower orders of magnitude than, for example, the three-month EURIBOR. The results of the latest Bank Lending Survey suggest that credit standards, although easing progressively, may still reflect banks' negative perceptions regarding the creditworthiness of consumers. At the same time, it should be noted that consumer credit rates have displayed significant sluggishness also in the past. For example, in both sub-periods starting in January 1999 and in December 2000, retail interest rates on loans for consumption moved by only a fraction of the changes that occurred in market interest rates at short to medium-term maturities. Long-term MFI interest rates on loans to households for consumption, by contrast, have declined more than market interest rates (e.g. the ten-year government bond yield) since January 2003. This may reflect that, at least in some countries, longer-term consumer credit is collateralised to a greater degree, thereby reducing credit risk considerations.

Overall, considering the period from 1999 to 2004, the rates on loans to non-financial corporations tended, to a significant extent, to reflect changes in market interest rates, but with some lag. The rates on loans to households for house purchase more closely followed market interest rates in the first few years of the single monetary policy and tended, more recently, to fall more sharply than market interest rates, in an environment of increasing house prices and enhanced competition. Most rates on loans to households for consumption, at least the short-term rates, continued to display, until recently, significant sluggishness in their response to movements to market interest rates.

³ For available empirical evidence, see, for example, G. de Bondt, "Retail bank interest rate pass-through: new evidence at the euro area level", ECB Working Paper No 136, April 2002.

FINANCING FLOWS

In the course of 2004, the internal financing capacity of non-financial corporations improved considerably, as indicated by the development of corporate earnings. For example, the earnings of major companies in the Dow Jones EURO STOXX index have stabilised at a relatively high level (see Section 2.5 on equity markets). In addition, the recovery of the gross operating surplus in recent quarters points to an increased availability of internal funds to euro area firms. This may have reduced the need of non-financial corporations to rely on external financing. As investment increased at a slower pace, the financing gap, measured broadly by the difference between gross saving and gross capital formation (see also Box 4 entitled “Financing conditions of non-financial corporations in the euro area” in the December 2004 issue of the Monthly Bulletin), decreased somewhat.

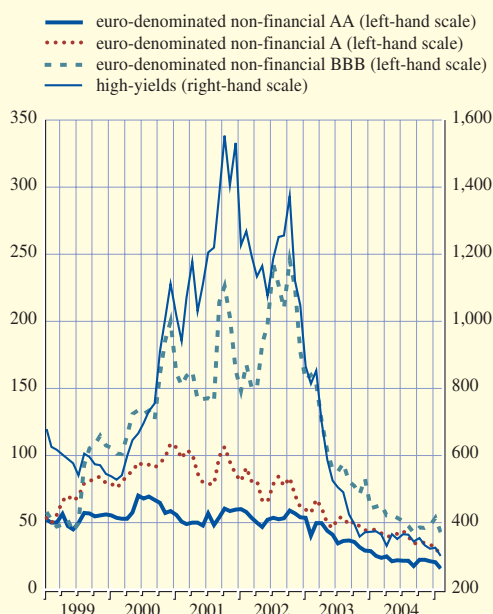
While external financing by non-financial corporations remained moderate overall, the debt financing of non-financial corporations picked up slightly in the fourth quarter of 2004. In particular, the annual growth of MFI loans to non-financial corporations rose from 4.5% in the third quarter to 5.4% in the fourth quarter (see Table 5). The latest monthly data indicate that this growth rate rose further to 5.7% in January 2005. By contrast, the annual growth of debt securities issued by non-financial corporations fell to 3.3% in the fourth quarter, from 3.9% in the previous quarter. This difference in recourse to various forms of debt financing may to some extent reflect a gradual relaxation of credit standards by banks, as suggested by the January 2005 Bank Lending Survey. Non-financial corporations may therefore have taken recourse more easily to bank loans than in the past few years. In addition, the low net issuance of debt securities by non-financial corporations over recent months may also be a consequence of relatively high redemptions, in particular in several euro area countries, after the strong issuance activity in previous years.

As regards equity financing at the end of 2004, net equity issuance by non-financial corporations in the euro area remained subdued at the very low level observed over the past two years. The annual growth of quoted shares issued by non-financial corporations remained broadly stable at 0.8% in the fourth quarter of 2004, after 0.7% in the third quarter. The low recourse to equity financing is a consequence both of relatively low demand for external financing and of the very low cost of other sources of finance.

Overall, the annual growth in the total financing of non-financial corporations is estimated to have increased to 2½% in the fourth quarter of 2004, from the rate of 1.9% reported for the third quarter of 2004 (see Table 5).

Chart 25 Corporate bond spreads of non-financial corporations

(basis points; monthly averages)



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

Table 5 Financing of non-financial corporations

	Outstanding amount at the end of the last quarter available (EUR billions)	Annual growth rates (percentage changes)				
		2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
MFI loans	3,155	3.5	3.2	4.0	4.5	5.4
up to one year	974	-0.8	-2.4	-2.1	-0.5	2.5
over one and up to five years	549	3.0	3.6	6.4	6.1	6.2
over five years	1,632	6.5	6.9	7.2	7.2	6.9
Debt securities issued	601	9.9	6.9	3.2	3.9	3.3
short-term	90	5.1	-1.8	2.1	3.9	-1.4
long-term, of which: ¹⁾	511	10.9	8.8	3.5	3.9	4.2
fixed rate	418	13.0	9.9	3.6	1.3	0.8
variable rate	80	-15.7	-8.5	-0.1	20.7	32.0
Quoted shares issued	2,984	0.8	0.9	0.8	0.7	0.8
Memo items²⁾						
Total financing	7,382	3.0	1.8	1.8	1.9	2½
Loans to non-financial corporations	3,703	3.2	1.6	2.0	2.1	3
Pension fund reserves of non-financial corporations	303	6.0	5.9	5.8	5.8	5¾

Source: ECB.

Note: Data shown in this table (with the exception of the memo items) are reported in money and banking statistics and securities issues statistics. Small differences 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 may not add up to total long-term debt securities because zero-coupon long-term debt securities, which include valuation effects, are not shown separately in this table.

2) Data are reported from financial accounts statistics. Total financing of non-financial corporations includes loans, debt securities issued, quoted shares issued and pension fund reserves. Loans to non-financial corporations comprise loans granted by MFIs and other financial corporations. The latest quarter is estimated using data reported in money and banking statistics and in securities issues statistics.

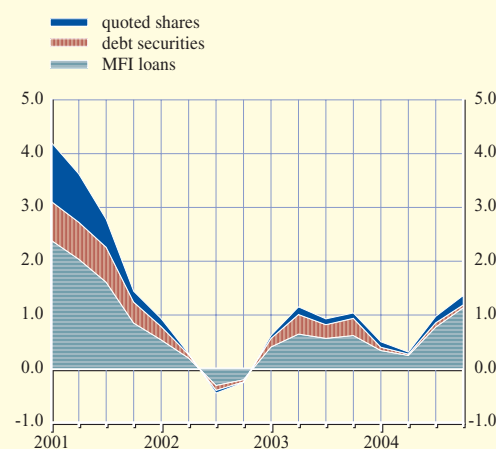
The annual growth of the main sources of external financing also increased in real terms (see Chart 26), but remained relatively low.

FINANCIAL POSITION

The subdued debt financing contributed to a decrease in the debt ratios of non-financial corporations over recent quarters, although they remain, from a historical perspective, at a rather high level (see Chart 27). This may reflect the fact that companies feel a less urgent need to cut debt as a result of the low cost of debt financing. Indeed, debt servicing for non-financial corporations, as measured by the difference between interest paid on euro-denominated MFI loans outstanding and the interest received on euro-denominated MFI deposits outstanding, continued to decline over the past two years (see Chart 28).

Chart 26 Breakdown of the real annual rate of growth of financing to non-financial corporations

(percentage changes)

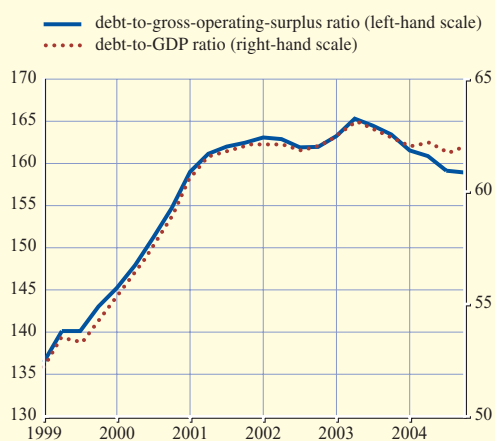


Source: ECB.

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

Chart 27 Debt ratios of the non-financial corporate sector

(percentages)

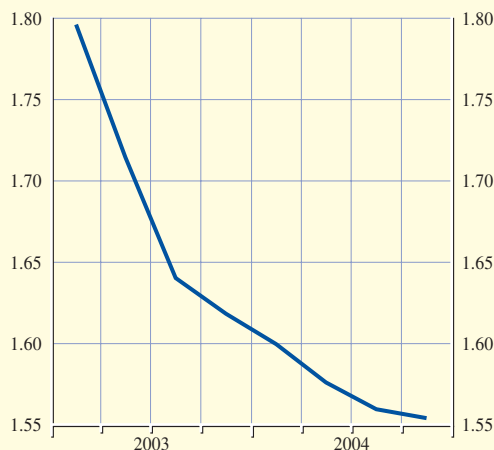


Sources: ECB and Eurostat.

Notes: The gross operating surplus relates to gross operating surplus plus mixed income for the whole economy. Debt is reported from financial accounts statistics. It includes loans, debt securities issued and pension fund reserves. The latest quarter is estimated using data from money and banking statistics and securities issues statistics.

Chart 28 Net interest payments of non-financial corporations

(as a percentage of GDP)



Sources: ECB and Eurostat.

Note: Net interest payments relate to interest payments on euro-denominated MFI loans minus interest received on euro-denominated MFI deposits.

2.7 FINANCING AND FINANCIAL POSITION OF THE HOUSEHOLD SECTOR

Supported by favourable financing conditions, household borrowing increased further in the fourth quarter of 2004, driven mainly by the continuing strong dynamics of loans for house purchase. This resulted in a further rise in the debt-to-GDP ratio of the household sector.

FINANCING CONDITIONS

In the fourth quarter of 2004 the financing conditions for the euro area household sector remained favourable. In particular, interest rates on loans extended to households remained at very low levels by historical standards.

Short-term MFI interest rates on new loans to households, as measured by the interest rate on consumer credit with a floating rate and an initial rate fixation of up to one year and the interest rate on loans for house purchase with a floating rate and an initial rate fixation of up to one year, remained broadly stable in the fourth quarter (see Chart 29). At the same time, long-term MFI interest rates, as measured by the rate on loans to households with an initial rate fixation of over five and up to ten years, decreased further in the fourth quarter, by more than 30 basis points. The spreads of short and long-term MFI interest rates over comparable market rates remained broadly stable in the fourth quarter. Box 5 takes a longer perspective on the developments in MFI interest rates on loans to households and the extent to which they reflect changes in market interest rates.

FINANCING FLOWS

According to the latest quarterly financial accounts data, total loans granted to the household sector by all financial institutions grew at an annual rate of 8.2% in the third quarter of 2004. On the basis of information from money and banking statistics, this annual growth rate is estimated to have remained at around 8% in the fourth quarter.

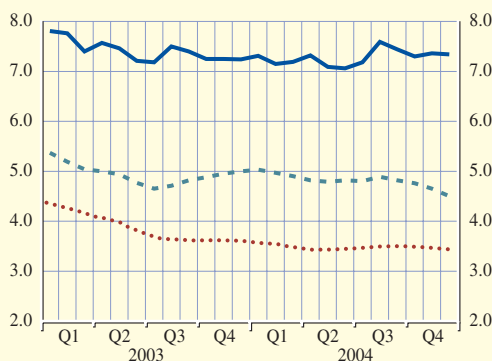
The continued strong growth of household financing was mainly due to developments in loans granted by MFIs, which increased at an annual growth rate of 7.8% in the fourth quarter. Since the end of 2002, the annual growth rate of total loans granted to households has been notably higher than that of MFI loans, reflecting sustained growth of loans by other financial institutions (OFIs) associated with the securitisation of residential mortgages in a number of euro area countries. Over recent quarters, however, the dynamics of OFI loans in household financing seem to have receded somewhat (see Chart 30).

In the fourth quarter of 2004 the growth of MFI loans to households continued to be driven by further strong increases in the annual growth rate of MFI loans for house purchase (10.0% in December, compared with 9.8% in September), supported by favourable financing conditions in a context of dynamic housing markets in several euro area countries. This is corroborated by the results of the Bank Lending Survey which reported an increased net demand for housing loans for the fourth quarter mainly as a result of a continuing perception of improved housing market prospects by borrowers. The trend in the annual growth rate of MFI loans for house purchase continued in January 2005 (10.1%).

Chart 29 MFI interest rates on loans to households

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

- loans to households for consumption with a floating rate and an initial rate fixation of up to one year
- loans to households for house purchase with a floating rate and an initial rate fixation of up to one year
- - - loans to households for house purchase with an initial rate fixation of over five and up to ten years



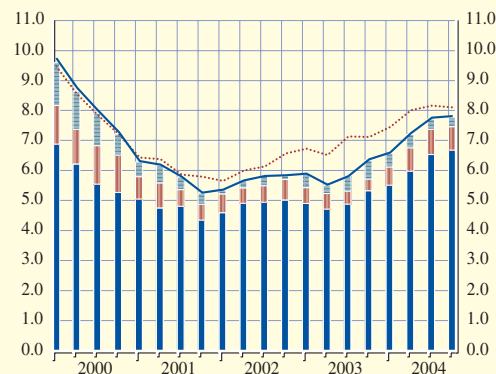
Source: ECB.

1) For the period from December 2003 onwards, the weight-adjusted MFI interest rates are calculated using country weights constructed from a 12-month moving average of new business volumes. For the preceding period, from January to November 2003, the weight-adjusted MFI interest rates are calculated using country weights constructed from the average of new business volumes in 2003.

Chart 30 Total loans granted to households

(annual growth rates in percentages; contributions in percentage points)

- contribution of MFI loans for house purchase
- contribution of MFI consumer loans
- contribution of other MFI loans
- total MFI loans
- total loans (MFIs + OFIs)



Source: ECB.

Note: Total loans (MFIs + OFIs) in the fourth quarter of 2004 have been estimated on the basis of transactions reported in money and banking statistics.

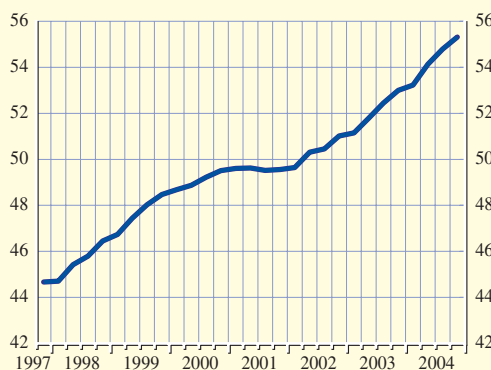
The annual growth rate of consumer credit decreased in December 2004 (to 5.8%, from 6.2% in September), after showing an upward trend in previous quarters. The annual growth rate of MFI other lending to households stood at 1.7% in December. According to the Bank Lending Survey, the decline in net demand for consumer credit and other lending reported by banks in the fourth quarter of 2004 was attributed to weaker consumer confidence and improved household saving. In January the annual growth rate of both categories of loans increased substantially to 6.8% for consumer credit and to 2.3% for other lending.

FINANCIAL POSITION

Following continued strong dynamics in household borrowing, the ratio of household debt to GDP recorded a further rise, to above 55% in the fourth quarter of 2004 (see Chart 31). These developments raise the question of the sustainability of current levels of household indebtedness, a lagged indicator of which is provided by figures for non-performing loans (see Box 6). However, the total debt service burden of the household sector (interest payments plus repayments of principal) is estimated to have remained broadly stable since 2000 as a ratio to disposable income, due to the historically low interest rate environment.

Chart 31 Ratio of household debt to GDP

(in percentages)



Source: ECB.

Notes: Data for debt in the fourth quarter of 2004 have been estimated on the basis of transactions reported in money and banking statistics. Compared with the annual financial accounts, the ratio of debt to GDP is somewhat lower on the basis of the quarterly financial accounts, mainly because loans granted by non-financial sectors and by banks outside the euro area are not included.

Box 6

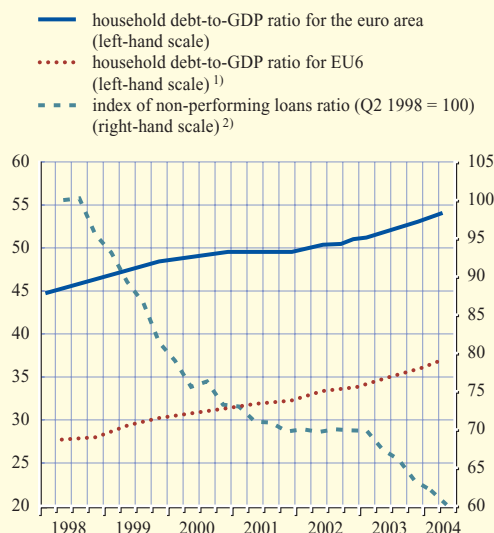
TRENDS IN HOUSEHOLD DEBT AND NON-PERFORMING LOANS IN THE EURO AREA

Since the late 1990s there has been a rapid accumulation of debt by households in the euro area. In the fourth quarter of 2004 the ratio of total household debt to GDP was somewhat above 55%, around 10 percentage points higher than in early 1998. The higher debt ratio would most likely amplify the impact of income or interest rate shocks on household balance sheets and debt servicing. As most of the rise in indebtedness reflects strong mortgage financing growth in an environment of dynamic housing markets, such amplifying effects can also emerge as a result of pronounced changes in house prices and thus in the value of collateral. In the context of shocks, the higher level of debt thus implies a greater risk that households will face problems in servicing their debt and that the number of non-performing loans will increase. This box discusses some factors that can help to assess linkages between developments in debt and non-performing loans.

Non-performing loans are defined as loans that are at least three months in arrears. However, this concept can differ across countries in terms of the regulations and policies on how quickly non-performing loans are written off or otherwise dealt with and thus drop out of the statistics. The public availability of data on non-performing loans in euro area countries is rather poor

Chart A Debt and non-performing loans of households in the euro area

(percentages; index Q2 1998 = 100)



Sources: ECB, Eurostat.

1) The ratio includes the six countries for which non-performing loans data are available (Belgium, Spain, France, Ireland, Italy and Portugal). By contrast with the euro area-wide figure, this ratio is calculated on the basis of MFI loans only.

2) The ratio is calculated as countries' non-performing loans as a share of countries' total loans. The weighted index is calculated using the share of each country in the aggregate debt.

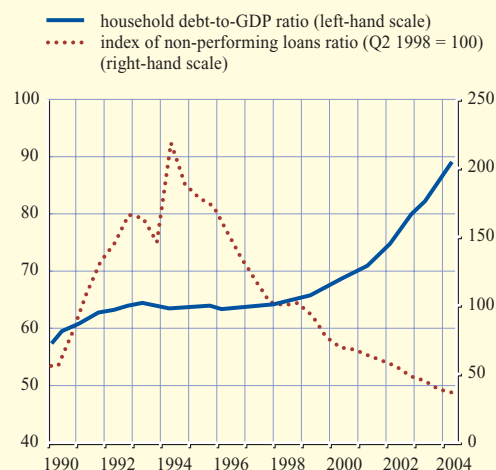
and, to the extent that they are available at all, the sectoral breakdown into households and non-financial corporations typically covers only a short period. Moreover, the lack of harmonisation of the data suggests that they need to be assessed with caution. Chart A shows an index of the ratio between household non-performing loans and total household loans, constructed on the basis of data published by the national central banks of Belgium, Spain, France, Ireland, Italy and Portugal. These countries account for 57% of the euro area's GDP, but only for 40% in terms of the stock of household loans. The sample covers the period from the second quarter of 1998 to the second quarter of 2004. The data show that the ratio of non-performing loans has been falling since 1998, especially in the first part of the period, which was characterised by strong economic growth, but also during the subsequent economic slowdown.

Broadly similar developments in the debt ratio and the ratio of non-performing loans have been observed in the United Kingdom and the United States. In both these economies, the debt ratio has accelerated since the late 1990s. As regards non-performing loans, the ratio has strongly declined in the United Kingdom over the past few years, continuing the downward trend that started after the housing crisis of the early 1990s. By comparison, the decline in the ratio of non-performing loans in the United States has been more muted since the late 1990s (see Charts B and C).

When assessing the continued decline in the ratio of non-performing loans, it should be noted that this indicator naturally lags unsustainable debt developments. The assessment of the risks associated with the accumulation of debt over recent years thus needs to focus directly on the

Chart B Debt and non-performing loans of households in the United Kingdom

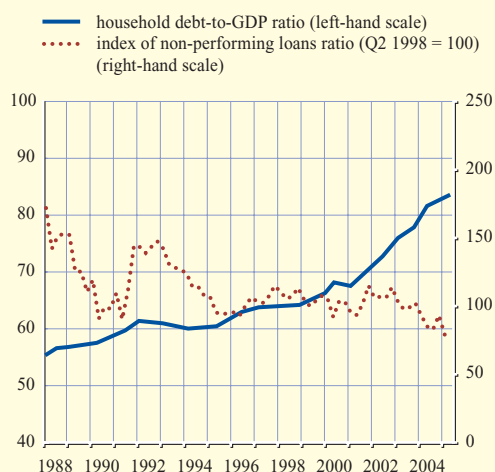
(percentages; index Q2 1998 = 100)



Sources: Council of Mortgage Lenders, APACS and Bank of England.

Chart C Debt and non-performing loans of households in the United States

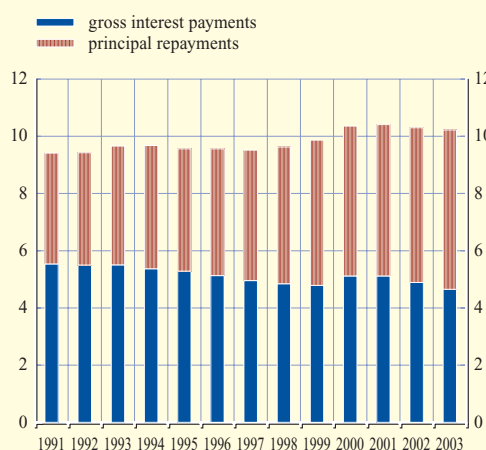
(percentages; index Q2 1998 = 100)



Source: US Federal Reserve Board.

Chart D Interest payments and principal repayment of households in the euro area

(as a percentage of disposable income)



Sources: ECB and ECB estimates.

question of whether this accumulation is sustainable. In this respect, it can be argued that the strong rise in the debt ratio in past years reflects an equilibrating process.

First, as part of the convergence process prior to Monetary Union, inflation rates across the euro area converged to low and stable levels. More stable macroeconomic conditions since the end of the 1990s are reflected in lower unemployment rates and lower real interest rates, implying less uncertainty with regard to income streams and lower debt servicing burdens. This allows households to incur more debt at a given level of income without necessarily incurring more risk. For instance, in the euro area the ratio of the debt burden (i.e. interest payments and principal repayments) to household disposable income has remained broadly stable since 1998 at around 9-10%, despite the rise in the debt ratio (see Chart D).

Second, the rise in mortgage debt might be associated with a structurally higher demand for housing in the face of demographic change. This could be explained by the fact that the baby boom cohorts of the 1960s have in past years reached the age at which households are most likely to buy a house. In addition, there is a secular trend towards smaller households.

Third, there may also be structural factors that can more directly explain the lower ratio of non-performing loans. These would, for instance, include the use of better risk management techniques by banks and/or the availability of better opportunities for larger banks to offload part of their credit risks, either via securitisation or by using credit derivatives.

Notwithstanding such explanations for structurally higher debt and lower non-performing loans, the risks associated with the likely linkages between strong house price increases, on the one hand, and a high household debt ratio and low ratio of non-performing loans, on the other, need to be closely monitored. The Eurosystem's bank lending survey suggests, for instance, that the continued net easing of credit standards for loans to households for house purchase in

past quarters reflects strong competition among banks rather than an improvement in housing market prospects. The possibility cannot be ruled out that the general risks associated with the rapid rise in house prices are currently being underestimated due to the strong competition in the banking sector and the current low levels of non-performing loans.

3 PRICES AND COSTS

The annual growth rate of the HICP in the euro area declined substantially to 1.9% in January 2005, 0.5 percentage point lower than in the previous month and also significantly below the 2.3% recorded on average since May 2004. This decline was broadly based across components of HICP inflation and partly driven by base effects. According to Eurostat's flash estimate, annual HICP inflation rose slightly, to 2% in February. The annual growth rate of producer prices excluding construction rose to 3.9% in January, returning almost to the peak recorded in October 2004. The recent increase appears to be driven by higher energy producer prices. Finally, labour cost indicators suggest that wage pressures were moderate during 2004.

3.1 CONSUMER PRICES

FLASH ESTIMATE FOR FEBRUARY 2005

According to Eurostat's flash estimate, euro area HICP inflation rose to 2.0% in February, from 1.9% in the previous month (see Table 6). Although a detailed breakdown is not currently available, rising energy prices are likely to have driven the slight increase in inflation between January and February. Uncertainty surrounding this estimate remains significant, given the preliminary nature of the data.

HICP INFLATION IN JANUARY 2005

Euro area HICP inflation fell to 1.9% in January 2005, down 0.5 percentage point from December 2004 (see Chart 32) and 0.2 percentage point below Eurostat's flash estimate, published in early February. Some decline in inflation was expected in January on account of a number of predictable base effects, but this decline was amplified by favourable developments in the more volatile components of the HICP, especially in oil and unprocessed food prices.

The annual rate of change in both energy and unprocessed food prices declined substantially. The annual growth rate of energy prices was dampened by both a base effect and the drop in oil prices at the beginning of January. The fall in the annual rate of change of unprocessed food prices to -0.6% in January was primarily due to vegetable prices, which remained essentially unchanged at the beginning of the year when sharp increases are normally recorded. Both factors may, however, be short-lived, as oil prices increased again from mid-January, returning to levels that prevailed in

Table 6 Price developments

(annual percentage changes, unless otherwise indicated)

	2003	2004	2004 Sep.	2004 Oct.	2004 Nov.	2004 Dec.	2005 Jan.	2005 Feb.
HICP and its components								
Overall index ¹⁾	2.1	2.1	2.1	2.4	2.2	2.4	1.9	2.0
Energy	3.0	4.5	6.4	9.8	8.7	6.9	6.2	.
Unprocessed food	2.1	0.6	-1.5	-1.2	-1.0	0.0	-0.6	.
Processed food	3.3	3.4	3.3	2.8	2.3	3.2	2.8	.
Non-energy industrial goods	0.8	0.8	0.8	0.8	0.8	0.8	0.5	.
Services	2.5	2.6	2.6	2.6	2.7	2.7	2.4	.
Other price indicators								
Industrial producer prices	1.4	2.3	3.3	4.1	3.7	3.5	3.9	.
Oil prices (EUR per barrel)	25.1	30.5	35.0	39.4	34.5	30.0	33.6	35.2
Non-energy commodity prices	-4.5	10.8	6.9	3.7	0.4	-0.2	-1.9	-1.8

Sources: Eurostat, Thomson Financial Datastream and HWWA.

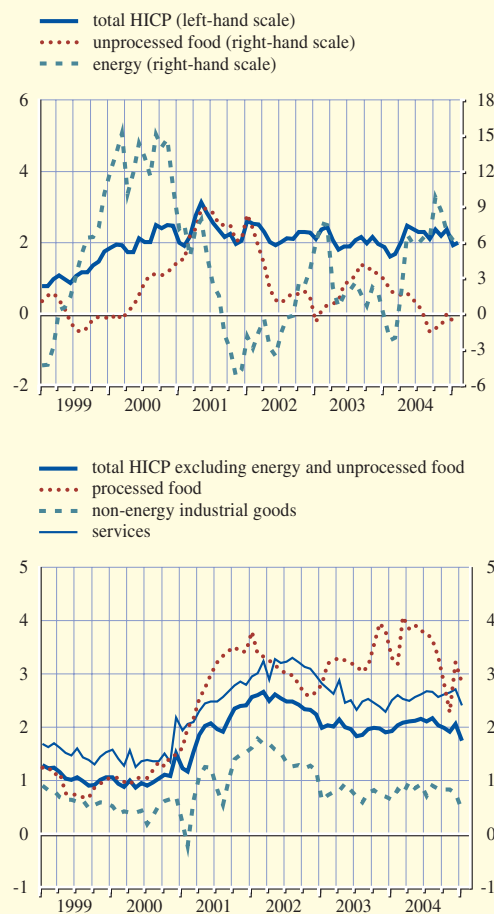
1) HICP inflation in February 2005 refers to Eurostat's flash estimate.

early November 2004, while vegetable prices are known to be very volatile, as they are dependent on weather conditions.

The annual rate of change in the HICP excluding unprocessed food and energy declined by 0.3 percentage point to 1.8% in January 2005. This reflects a broadly based moderation in price increases in the euro area economy, as well as base effects associated with price increases in January 2004. While the annual growth rate of processed food prices was largely influenced by a base effect from last year's tobacco tax increases in France, there was also some levelling-off in the annual rate of change of non-tobacco processed food prices. Non-energy industrial goods prices also recorded a decline in their annual rate of change, from 0.8% in December to 0.5% in January. This may be attributable to the amplification of the seasonal sales pattern that has emerged in some euro area countries over recent years. This pattern is particularly noticeable in clothing and footwear prices on account of seasonal sales discounts; however, on the basis of past experience these prices are likely to rebound relatively quickly. Finally, most of the decline in the annual rate of change in services prices in January may be attributable to a base effect from last year's increases in the administered prices of healthcare services in Germany.

Chart 32 Breakdown of HICP inflation: main sub-components

(annual percentage changes; monthly data)



Source: Eurostat.

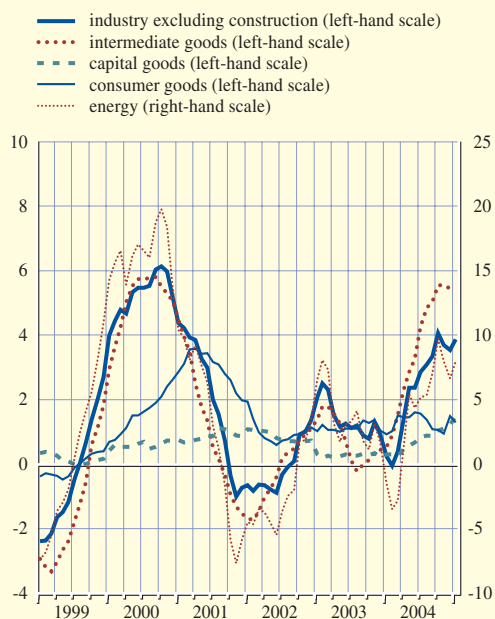
3.2 PRODUCER PRICES

The latest data for euro area producer prices show some rise in the annual rate of increase, which has been driven by higher energy prices. The annual growth rate of overall producer prices excluding construction rose to 3.9% in January, 0.4 percentage point higher than in the previous month and nearly returning to the peak recorded last October. The recent increase can be explained entirely by developments in energy producer prices. The year-on-year growth rate of energy producer prices increased from 6.6% in December 2004 to 8.0% in January 2005 and is likely to have been driven by rising oil prices. Meanwhile, the annual growth rate of producer prices in industry excluding construction and energy remained unchanged at 2.9% in January.

Looking at various components of producer prices, the year-on-year rate of change in intermediate goods prices remained constant at 5.5% in January, in line with the levelling-off

Chart 33 Breakdown of industrial producer prices

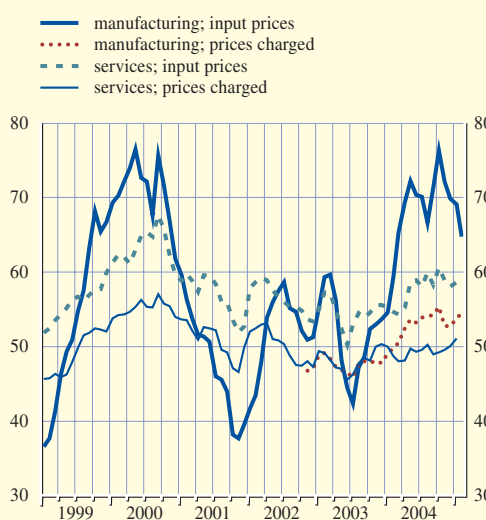
(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

Chart 34 Producer input and output price surveys

(diffusion indices; monthly data)



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

observed since last October (see Chart 33). This levelling-off is likely to reflect the easing in the annual growth rate of non-oil commodity prices in euro terms and the decline in oil prices between October and December 2004. The annual growth rate of intermediate goods prices, however, remains high, mirroring the relatively high levels of raw materials prices in general. By contrast, the annual growth rate of capital goods prices continued to increase in January. Finally, the annual growth rate of consumer goods producer prices declined to 1.3% in January, largely driven by movements in non-durable consumer goods prices. While the relatively high outcome observed in December was mainly attributable to the impact of tobacco tax increases in Germany and Italy, the year-on-year change in non-durable consumer goods prices in January was affected by a downward base effect of last year's tobacco tax increase in France. Excluding the impact of food and tobacco, there would, in fact, have been a slight upward movement in the annual growth rate of consumer goods prices over the last two months.

Looking ahead, survey data for February 2005 continued to point to a possible easing of producer price increases. In the manufacturing sector, the Eurozone Input Price Index from the Purchasing Managers' Survey, while still indicating price increases, declined further in February. However, the index for prices charged by manufacturers (or output prices) increased again in February, suggesting that producers continued to pass on some of the past increase in input prices through the pricing chain (see Chart 34). Over the relatively short time-span for which information is available, producer prices in manufacturing have shown a relatively high degree of correlation with survey results on input and output prices (see Box 7 on PMI survey data on producer input and output prices). In the services sector, while at the time of writing data were only available for January 2005, both input prices and prices charged continued to point to further increases.

PMI SURVEY DATA ON PRODUCER INPUT AND OUTPUT PRICES

This box considers the usefulness of information from the Purchasing Managers' Index (PMI) surveys on prices for understanding producer price developments in the euro area. These survey data, which are available for both the manufacturing and services industries, may provide an insight into the pass-through of movements in input costs to input price and producer output price developments.

The monthly opinion surveys in the euro area on recent developments in economic activity and prices (PMI surveys) are conducted by NTC Research, a private company. By means of questionnaires, purchasing executives in the manufacturing and services industries provide information on recent movements in input prices and prices charged by indicating whether these prices have gone up, down or remained the same as compared with the previous month. The responses are converted into diffusion indices in which a figure of 50 indicates an unchanged price level and results above (below) 50 signal increasing (decreasing) prices. PMI surveys are conducted mid-month and results for the euro area are published on the first working day (for manufacturing) and the third working day (for services) following the reference month.

The manufacturing survey is conducted in eight euro area countries, which account for 92% of euro area GDP. The services survey covers five euro area countries, which account for 81% of euro area GDP. For the manufacturing industry, the survey is conducted among some 3,000 companies and the average price developments for all goods purchased are covered by the question on input prices. In addition, respondents are asked to provide qualitative information on specific price developments for individual items and the reasons for these developments, if known.¹ For the services industries (data are collected among 2,000 companies covering various market services industries, but not the retail and wholesale trade), the average prices of all inputs – i.e. including purchases of goods and services, staff costs, rents – are covered by the survey question on input prices.

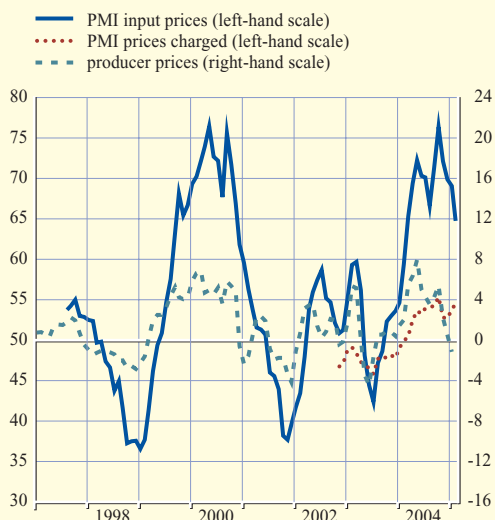
Chart 34 in this section of the Monthly Bulletin presents the input price and prices charged series for both manufacturing and services.² Given the relatively short time span of the available data, these developments should be interpreted with caution. The input price series for manufacturing has been more volatile than that for services, reflecting the fact that the latter refers to all inputs, including labour costs, rents and the like. At the current juncture the index for manufacturing input prices is higher than that for services input prices. This reflects purchasing managers' assessment that goods input prices have risen in line with the upward movement observed in (oil and non-oil) commodity prices since mid-2003. On the other hand, the lower level of the index for services input prices, while also increasing since mid-2003, reflects the fact that increases in labour costs, which are included in the service input price index but not in that for manufacturing, have been relatively moderate during the same period.

1 For example, in recent months, high energy and steel prices have been cited as factors behind the relatively high level of the manufacturing input price index. In the February release for the services sector, energy costs were also mentioned as being important, and motorway tolls were cited as a factor in Germany.

2 NTC Research compiles "composite" euro area series using manufacturing and services survey results, which are not presented here.

Chart A PMI survey data and producer prices for manufacturing

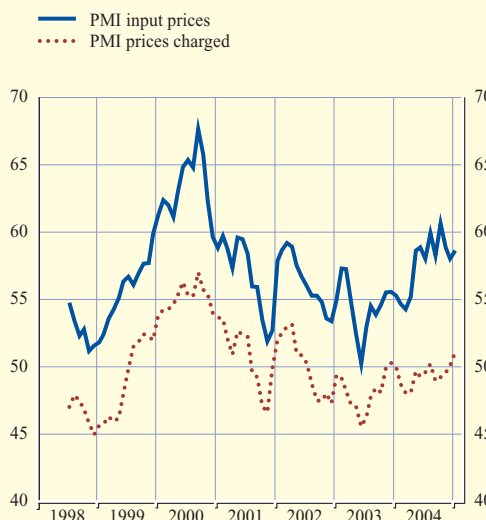
(diffusion index; three-month annualised percentage change)



Sources: Eurostat, NTC Research and ECB calculations.
 Notes: Purchasing Managers' Survey. An index value above 50 indicates an increase in manufacturing input or charged prices, whereas a value below 50 indicates a decrease.

Chart B PMI survey data for services

(diffusion index)



Source: NTC Research.
 Notes: Purchasing Managers' Survey. An index value above 50 indicates an increase in service input or charged prices, whereas a value below 50 indicates a decrease.

It should also be noted that the prices charged series for manufacturing has increased less than the input price series. This suggests that some of the increase in input costs may have been absorbed in profit margins. The decline in unit labour cost growth in the manufacturing sector since mid-2003 may also have been a factor behind this development.

Chart A presents the PMI survey data for manufacturing input prices and prices charged together with the developments in manufacturing output prices using official statistics. Given the relatively short time-span of data available for the prices charged index, it is difficult to draw firm conclusions. Nonetheless, there appears to be a fairly high degree of correlation between manufacturing output price data and the input prices and prices charged time series.

As stated above, for the services industries the PMI input price series includes all inputs, and not only purchased goods. Thus, the gap between the input prices and the prices charged data may provide a tentative insight into profit margin developments. However a number of caveats should be borne in mind. First, the PMI survey questions ("Are input prices/prices charged higher, the same or lower?") provide qualitative information. Second, data are at present only available for a relatively short time period. Third, it is noticeable that the input price series has been above that of the prices charged series over the entire period for which data are available. These observations suggest that relative movements in the survey series only signal directional developments in profit margins and not actual developments in the level of profit margins. The gap between the prices charged index and the input prices index (both shown in Chart B) suggests that the commodity price increases in 1999/2000 and since mid-2003 have placed

some pressure on profit margins in the services industries, despite the fact that these inputs account for a relatively small share of overall inputs for that sector. However, in some services sectors, such as airline services, margins are significantly affected by oil price developments.

In conclusion, PMI survey data on input prices and prices charged in the manufacturing and services industries provide a timely and useful insight into producer price developments, particularly in the case of services, where official producer price statistics are not yet available.³

³ Official euro area input price statistics do not exist. It is expected that euro area producer output price indices for the services industries will be implemented as from 2007 following a forthcoming revision of the Community regulation on short-term statistics.

3.3 LABOUR COST INDICATORS

The euro area indicator of negotiated wages provides an initial indication of labour cost developments in the last quarter of 2004. Negotiated wages grew by 2.2% year on year during this period, which is 0.2 percentage point higher than in the third quarter, but slightly lower than in the first half of the year (see Table 7). This increase was largely driven by a small rise in the annual growth rate of negotiated wages in Germany, although it was also heightened by a rounding effect.

All other indicators of labour cost growth tended to decline over the first three quarters of 2004, substantiating the overall picture of moderate wage growth in the euro area. The annual growth rate in hourly labour costs in the non-agricultural business sector declined sharply in the course of the year, from 2.8% in the first quarter to 1.9% in the third quarter. Similarly, compensation per employee fell to 1.5% in the third quarter of 2004, although this fall was exaggerated by the volatility of Italian public sector data (see Chart 35). The decline in the annual growth rate of compensation per employee was observed in industry, services and, albeit to a lesser extent, in construction (see Chart 36).

All in all, recent developments in negotiated wages confirm the continuation of the slowdown in wage growth observed in the last two years. With the recovery in economic activity, productivity growth improved in 2004. Combined with the slowdown in wage growth, the upturn in productivity growth put downward pressure on unit labour cost growth. The annual growth rate of unit labour costs declined from 1.0% year-on-year in the first quarter of 2004 to 0.1% in the third quarter. It is thus likely that inflationary pressures stemming from the labour market in the period up to end-2004 have been subdued.

Table 7 Labour cost indicators

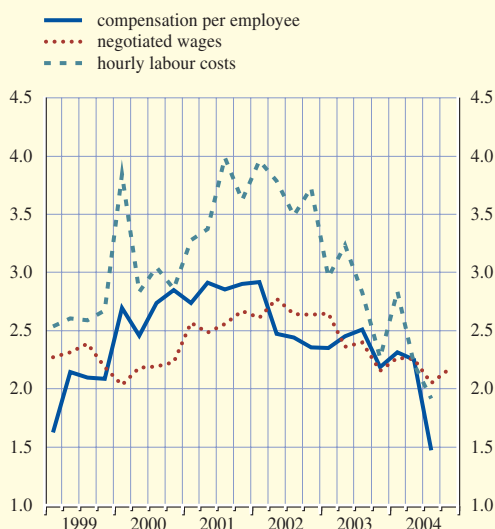
(annual percentage changes, unless otherwise indicated)

	2003	2004	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
Negotiated wages	2.4	2.2	2.2	2.3	2.3	2.0	2.2
Total hourly labour costs	2.8	.	2.3	2.8	2.2	1.9	.
Compensation per employee	2.4	.	2.2	2.3	2.2	1.5	.
<i>Memo items:</i>							
Labour productivity	0.4	.	0.7	1.3	1.9	1.4	.
Unit labour costs	2.0	.	1.5	1.0	0.4	0.1	.

Sources: Eurostat, national data and ECB calculations.

Chart 35 Selected labour cost indicators

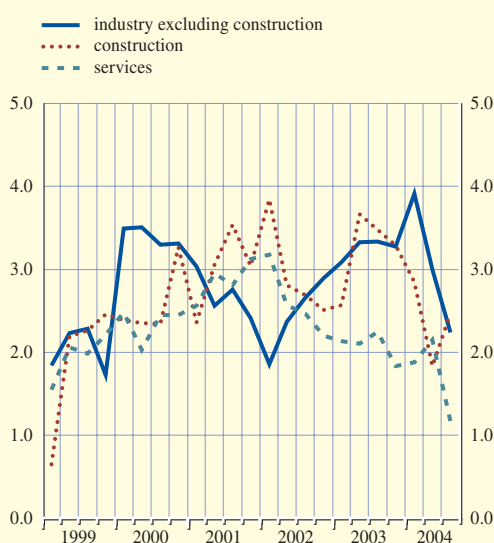
(annual percentage changes)



Sources: Eurostat, national data and ECB calculations.

Chart 36 Sectoral compensation per employee

(annual percentage changes; quarterly data)



Sources: Eurostat and ECB calculations.

3.4 THE OUTLOOK FOR INFLATION

Barring further increases in oil prices or in taxes and administered prices, the annual HICP inflation rate is likely to remain around 2% in the coming months, although some degree of volatility is to be expected. The latest indicators do not suggest that strong underlying domestic inflationary pressures are building up in the euro area. Wage increases, in particular, remained contained, against the background of ongoing moderate economic growth and weak labour markets. The March 2005 ECB staff projections anticipate that HICP inflation will lie between 1.6% and 2.2% in 2005 and between 1.0% and 2.2% in 2006 (see Box 10 entitled “ECB staff macroeconomic projections for the euro area” in this issue of the Monthly Bulletin). Several upside risks to these projections need to be taken into account, notably future oil price developments. In addition, developments in indirect taxes and administered prices may again entail surprises on the upside. Furthermore, vigilance is required with regard to the potential risk of past rises in inflation leading to second-round effects in wage and price-setting throughout the economy. Such risks may become more relevant in the medium term as labour market conditions improve. In this respect, developments in longer-term inflation expectations need to be monitored closely.

4 OUTPUT, DEMAND AND THE LABOUR MARKET

Euro area real GDP increased by 0.2% in the fourth quarter of 2004, confirming the weaker pace of economic activity in the second half of last year. The breakdown by expenditure components shows that a positive impulse from stronger domestic demand was counterbalanced by a negative contribution from both inventory changes and net trade. While part of the recent weakness in output growth would appear temporary, available short-term indicators suggest only a modest improvement in the first quarter of 2005. Looking ahead, conditions remain in place for growth to continue in the course of the year, strengthening further in 2006.

4.1 OUTPUT AND DEMAND DEVELOPMENTS

REAL GDP AND EXPENDITURE COMPONENTS

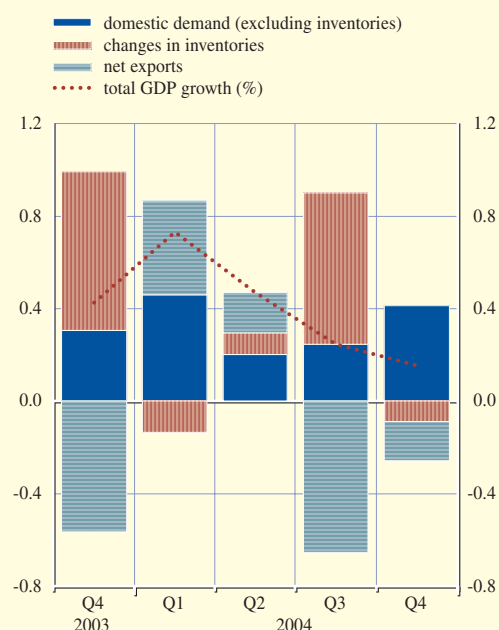
First estimates of euro area national accounts in the fourth quarter of 2004 confirm the more moderate pace of growth during the second half of last year. Quarter-on-quarter real GDP growth is estimated at 0.2% in the fourth quarter, unchanged from a downwardly revised estimate for the third quarter and significantly lower than the average of 0.6% in the first half of 2004 (see Chart 37). In the fourth quarter, statistical working day adjustments partly related to the timing of public holidays may have played a role in explaining the weak real GDP growth estimate. For 2004 as whole, real GDP increased by 1.8% on a working day adjusted basis, while it is estimated to have risen by 2.0% on a non-adjusted basis. The gap between the two annual real GDP growth estimates reflects the fact that there were around four additional working days in 2004 as compared with 2003.

Beyond its impact on average growth in 2004, the slower pace of economic activity during the second half of last year also implies a limited positive carry-over effect on average annual real GDP growth in 2005 (see Box 8 entitled “The carry-over effect on annual average real GDP growth in 2005”). This accounts for some of the recent downward revisions to annual real GDP growth forecasts for 2005.

Regarding the expenditure breakdown, the contribution of domestic demand rose in the fourth quarter of 2004 as a result of a recovery in private consumption, combined with ongoing investment growth. The pick-up in consumer spending may partly reflect the unwinding of the impact of higher oil prices on households’ purchasing power and confidence earlier last year. Meanwhile, export growth decreased further in the fourth quarter, in line with indications of a slowdown in foreign demand and the dampening impact of the appreciation of the euro on the price competitiveness of euro area exporters. At the same time, a significant decline in import growth resulted in a less negative contribution from net trade as

Chart 37 Real GDP growth and contributions

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



Sources: Eurostat and ECB calculations.

compared with the third quarter. Another factor behind the low GDP growth estimate was the negative contribution of stocks, following a substantial accumulation of inventories in the previous quarter.

Overall, the recovery in domestic demand offers some positive signs for the short-term outlook, while real GDP growth in the fourth quarter may have been temporarily affected by a significant downward impact of estimated calendar effects.

Box 8

THE CARRY-OVER EFFECT ON ANNUAL AVERAGE REAL GDP GROWTH IN 2005

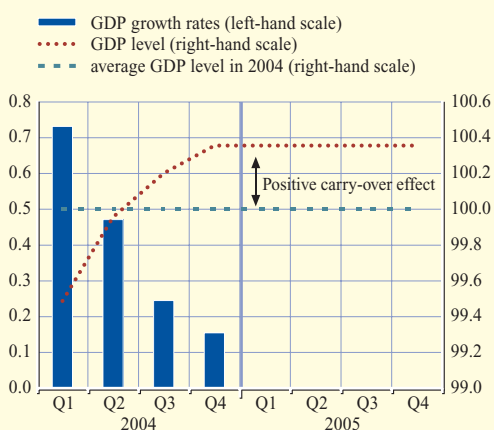
The carry-over effect on annual average real GDP growth refers to the impact of the pattern of growth recorded in the course of one year on the annual average growth rate in the following year. This concept is useful when looking at annual average growth rates, because it allows the dynamics of growth within a given year to be distinguished from the mechanical effect of growth in the previous year. It can also be useful to bear it in mind when interpreting forecasts and projections of annual average real GDP growth. This box briefly describes the concept of these carry-over effects and gives an estimate of the carry-over effect on average real GDP growth in 2005.¹

Conceptually, carry-over effects denote the annual average rate of growth that would result if the level of GDP reached in the fourth quarter of a given year were to remain constant throughout the subsequent year. This is equivalent to the percentage difference between the

¹ A more detailed explanation of the concept of carry-over effects on annual average growth rates of real GDP can be found in Box 6 entitled "Carry-over effects on annual average growth rates of real GDP" in the December 2001 issue of the ECB's Monthly Bulletin.

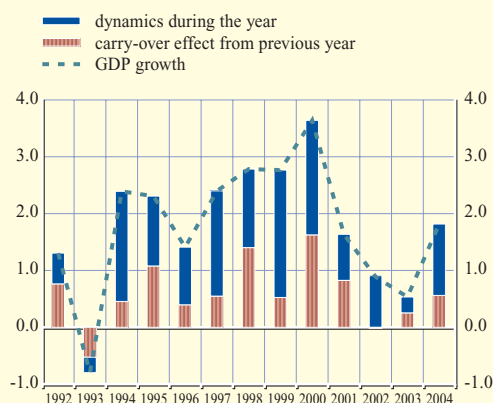
Chart A The level and development of euro area real GDP in 2004 and carry-over effect in 2005

(2004 = 100; quarter-on-quarter growth rates; seasonally adjusted)



Sources: Eurostat and ECB calculations.

Chart B Annual average euro area real GDP growth and its decomposition into carry-over effect and dynamics during the year



Sources: Eurostat and ECB calculations.
Note: Dynamics during the year is calculated as the difference between GDP growth and carry-over effect.

level of GDP in the fourth quarter of the year and the average level of GDP for the year as a whole. For example, when the level of GDP in the fourth quarter of a year is above the average level of GDP for the year as a whole, the carry-over effect on annual average growth in the next year is positive.² In 2004 there was such a positive carry-over effect (see Chart A).

Depending on the pattern of growth, carry-over effects can vary significantly from one year to another. Current estimates of GDP in 2004 point to a carry-over effect of 0.4 percentage point for 2005, which is broadly in line with that recorded in 2003 and is only slightly below that recorded, on average, for the 1990s (see Chart B).³ The fact that the flash estimate of real GDP growth in the fourth quarter was slightly lower than expected may lead to a downward revision of some forecasts of annual real GDP growth for 2005. For instance, the survey conducted by the Euro Zone Barometer in mid-January, prior to the release of the flash estimate for the fourth quarter, pointed to real GDP growth of 0.4% in the fourth quarter of 2004, leading to a carry-over effect of 0.6 percentage point at the time. Therefore, the rather weak outcome in the fourth quarter of 2004 implies a mechanical downward effect in the order of 0.2 percentage point on most real GDP forecasts for 2005.

2 Given that real GDP predominantly shows a positive trend, carry-over effects are, on average, positive.

3 The estimated carry-over effect for 2005 may change, as the forthcoming release of annual accounts could affect the quarterly profile.

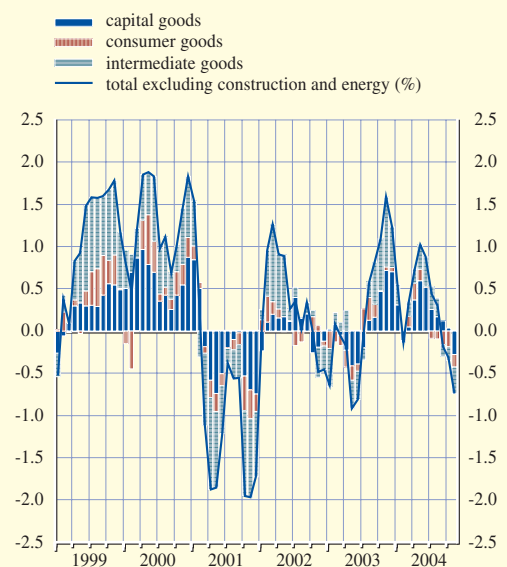
SECTORAL OUTPUT AND INDUSTRIAL PRODUCTION

Euro area industrial production (excluding construction) rose by 0.5% month on month in December, after having fallen in the previous two months. For the fourth quarter as a whole, industrial production declined by 0.4%. Specific features, such as large destocking in the automobile sector and calendar effects in some euro area countries together with the impact of slower world trade growth and the appreciation of the euro, are likely to have accounted for this slowdown.

From a sectoral perspective, the decline in industrial production during the fourth quarter was strongest in the durable consumer goods sector, while there was also some decline in the capital and non-durable consumer goods sectors (see Chart 38). As regards the capital goods sector, there was a sharp fall in the production of motor vehicles, which, according to survey evidence, may be linked to significant destocking in this industry. In the intermediate goods sector, production

Chart 38 Industrial production growth and contributions

(growth rate and percentage point contributions; seasonally adjusted)



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

increased slightly, although this represented a slowdown as compared with the previous quarter.

More positively, data on actual new orders in manufacturing showed a considerable increase in December. This provides a positive signal in the short term, as new orders tend to lead the developments in production by around one month (see the box entitled “New orders in euro area manufacturing industries” in the December 2003 issue of the Monthly Bulletin). However, new orders are notoriously volatile and their link to short-term production trends can at times be rather loose.

SURVEY DATA FOR THE MANUFACTURING AND SERVICES SECTORS

Survey data for the first two months of 2005 have been relatively mixed but remain consistent with moderate ongoing growth in both the industry and services sectors.

According to the European Commission Business Survey, industrial confidence fell by two index points in February, back to its level at the beginning of 2004. All components of confidence contributed to this decline. The assessment of order books displayed the largest fall, while production expectations and the assessment of stock levels both deteriorated slightly. The Purchasing Managers’ Index (PMI) provides a somewhat more positive assessment of conditions in the manufacturing sector during the first quarter of the year (see Chart 39). Following a rise in January, the PMI was unchanged in February at 51.9, which is higher than the average level of the index in the fourth quarter and remains consistent with ongoing moderate growth in industry.

Service sector surveys deteriorated in February 2005, reversing for the most part the improvement observed in January. The business activity index of the services sector PMI fell to 53.0 in February. Despite a significant decline in February, the European Commission’s confidence indicator for the services sector has remained broadly stable over recent months. Overall, conditions in the services sector appear to have been unchanged since the fourth quarter of 2004, when services value added increased by 0.4% quarter on quarter.

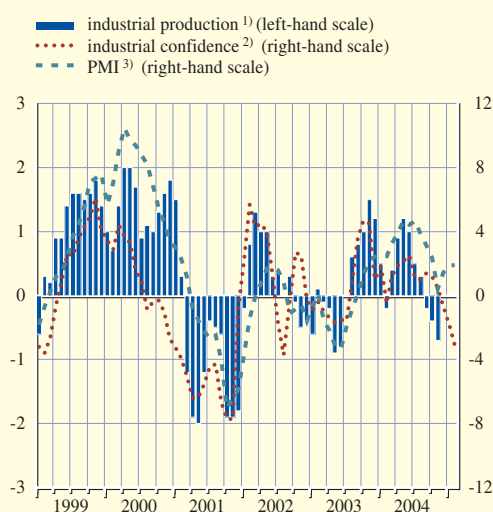
INDICATORS OF HOUSEHOLD SPENDING

While national accounts data for the fourth quarter of 2004 indicate a significant recovery in private consumption at the end of last year, it remains uncertain whether this momentum will be sustained at the start of this year.

The upturn in consumer spending in the fourth quarter of 2004 was supported by a strong rise in new passenger car registrations and a return to positive retail sales growth, following contractions in the previous two quarters.

Chart 39 Industrial production, industrial confidence and the PMI

(monthly data; seasonally adjusted)



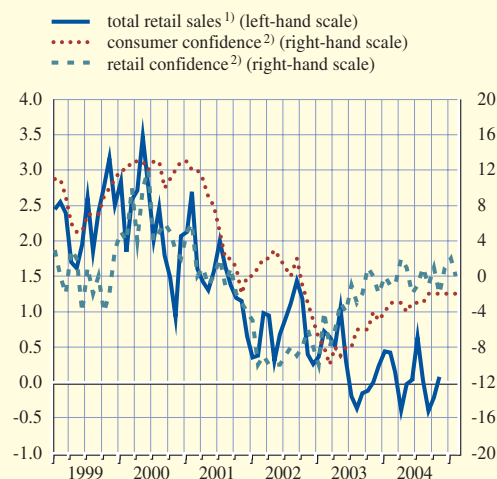
Sources: Eurostat, European Commission Business and Consumer Surveys, NTC Research and ECB calculations.
1) Manufacturing; three-month on three-month percentage changes.
2) Percentage balances; changes compared with three months earlier.
3) Purchasing Managers’ Index; deviations from an index value of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

However, the contribution from other spending items, for which little information is available, appears to have also remained robust. As regards the most recent developments, retail sales volumes increased slightly in December, but the underlying momentum continues to be that of moderate growth (see Chart 40). Moreover, new passenger car registrations contracted in both December and January, hence implying a low starting point for their contribution to private consumption developments in the first quarter of 2005.

The European Commission's consumer confidence indicator has remained broadly stable in recent months and was unchanged in February despite a deterioration in unemployment expectations. From a historical perspective, consumer confidence is at a low level. This reflects ongoing weak labour market conditions combined with uncertainty surrounding the future course of fiscal policies and long-term prospects for public health and pension systems.

Chart 40 Retail sales and confidence in the retail trade and household sectors

(monthly data)



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

4.2 LABOUR MARKET

Available data suggest a slow improvement in labour market conditions during the second half of last year, mainly reflecting the moderate pace of economic activity.

UNEMPLOYMENT

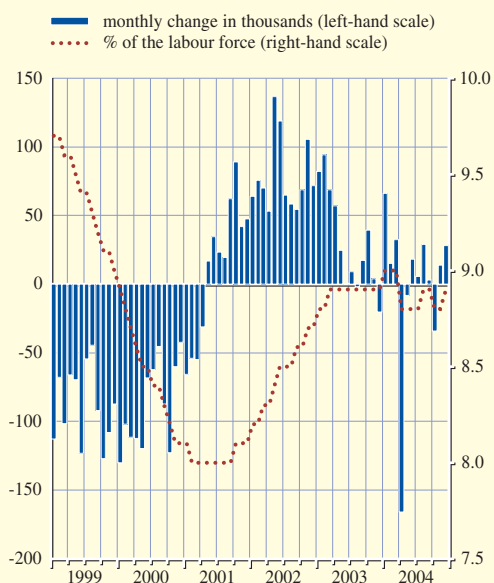
The euro area standardised unemployment rate was 8.9% in December 2004, up from 8.8% in November. The number of unemployed in the euro area rose more significantly in December than in previous months, although declining slightly for the fourth quarter as a whole. A break in the Italian data is currently affecting the euro area series and is most visible in April 2004 (see Chart 41). However, this is expected to be corrected with the release of January data, which were not available by the cut-off date for this issue of the Monthly Bulletin.

EMPLOYMENT

Employment increased by 0.2% quarter on quarter in the third quarter of 2004, a rate of increase similar to that of the previous quarter. However, broadly unchanged growth rates at the aggregate level conceal continued divergent trends across sectors (see Table 8). More specifically, higher employment growth in the services sector in the third quarter was offset by a contraction in both construction and industry following positive growth rates in the second quarter. From a longer-term perspective, employment data indicate that, following a gradual improvement in the first half of the year, conditions stabilised around mid-2004.

Chart 41 Unemployment

(monthly data; seasonally adjusted)

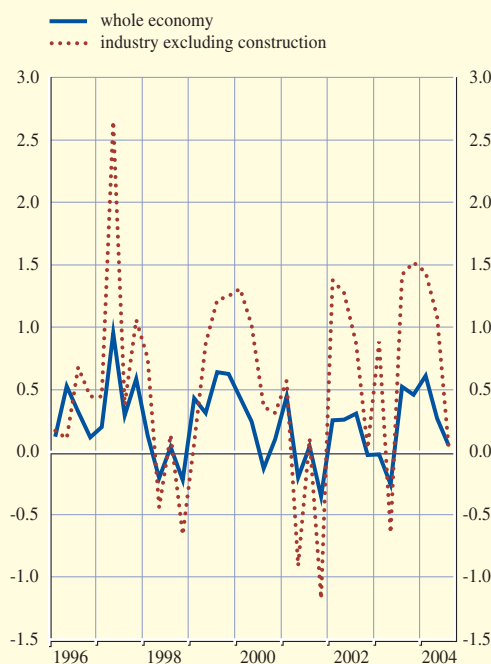


Source: Eurostat.

Note: The apparent large decline in unemployment in April 2004 is caused by a break in the euro area unemployment series at the beginning of 2004. This will be corrected in future releases.

Chart 42 Labour productivity

(quarterly percentage changes; seasonally adjusted)



Sources: Eurostat and ECB calculations.

Further modest increases in employment growth, combined with a slower pace of economic activity, led to a deceleration in labour productivity in the third quarter of 2004 (see Chart 42). Beyond the short-term fluctuations, there is growing evidence of a relatively low trend of labour productivity growth since the mid-1990s. Although low productivity growth mainly results from past increases in labour utilisation, it also reflects the low use of productivity-enhancing technologies (see Box 9 on “Developments in euro area labour productivity”).

Table 8 Employment growth

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

	Annual rates		Quarterly rates				
	2002	2003	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3
Whole economy	0.6	0.2	0.0	0.0	0.1	0.2	0.2
<i>of which:</i>							
Agriculture and fishing	-2.0	-2.3	-0.1	-0.1	-0.4	0.1	-0.1
Industry	-1.1	-1.5	-0.5	-0.5	-0.5	0.3	-0.2
Excluding construction	-1.3	-2.0	-0.5	-0.7	-0.6	0.0	-0.2
Construction	-0.6	0.0	-0.4	0.0	-0.2	1.2	-0.1
Services	1.4	1.0	0.2	0.1	0.4	0.2	0.3
Trade and transport	0.4	0.5	0.4	0.1	0.3	0.3	0.5
Finance and business	2.4	1.3	0.7	0.4	1.0	0.0	0.6
Public administration	1.8	1.2	-0.1	0.1	0.1	0.2	0.1

Sources: Eurostat and ECB calculations.

DEVELOPMENTS IN EURO AREA LABOUR PRODUCTIVITY

Productivity gains are a key factor driving long term economic growth and increases in living standards. In this respect, euro area productivity growth in recent years has been disappointing. For example, euro area labour productivity growth as measured by real GDP per hour worked declined from an average of 2.2% during the period 1990-95 to only 1.3% in the period 1996-2004. This box briefly reviews the factors behind this decline.

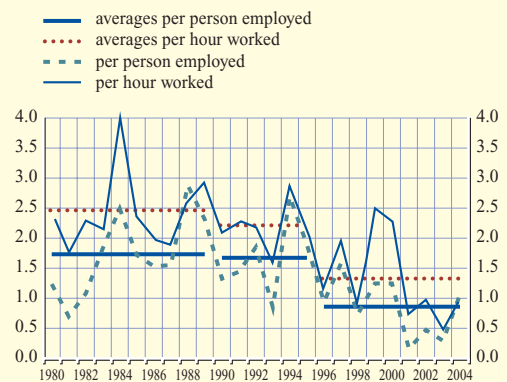
Two measures of productivity are considered. The first and most commonly used measure is labour productivity, i.e. real output per unit of labour input. Labour input is most often measured in terms of total hours worked, but when data for hours worked are not available or are of poor quality it may also be measured by the number of persons employed. The second measure of productivity is total factor productivity (TFP), which measures the efficiency of all (combined) inputs. While it is often assumed that TFP growth reflects technological progress, in practice it is not observable. For this reason it is estimated as a residual item of a standard production function and thus also captures the impact of a number of other factors, such as improvements in the internal organisation of firms and changes in the skills composition of the workforce. It is important to recognise that measurement difficulties are pervasive in the analysis of productivity, in particular as regards the measurement of TFP.¹

A decline in euro area labour productivity growth since the mid-1990s is observed irrespective of whether labour input is measured per hour worked or per person employed (see Chart A). However, owing to the trend decline in average hours worked in the euro area, average productivity growth tends to be lower when measured per person employed.

The standard growth accounting framework is useful for analysing the immediate determinants of labour productivity.² Within this framework, labour productivity growth per hour worked can be decomposed into two components: capital deepening, i.e. growth in the ratio of capital services to total hours worked, and TFP growth. Capital services can be further broken down into information and communication technology (ICT) capital services and non-ICT capital services. The breakdown for the euro area suggests that the

Chart A Labour productivity growth

(annual percentage changes)



Sources: Groningen Growth and Development Centre (GGDC) and ECB calculations.

Note: Averages calculated over the periods 1980-89, 1990-95 and 1996-04 (GGDC estimates for 2004).

¹ Data from the Groningen Growth and Developments Centre (GGDC) were used in this analysis and the source data are available from <http://www.gdgc.net>. The GGDC data are based on OECD sources, but also include additional calculations (most importantly accounting for quality adjustment) that improve international comparability. Note that time periods covered in the charts differ due to data availability.

² For a discussion of the framework, see A. Musso and T. Westermann (2005): "Assessing potential output growth in the euro area – a growth accounting perspective", ECB Occasional Paper No 22.

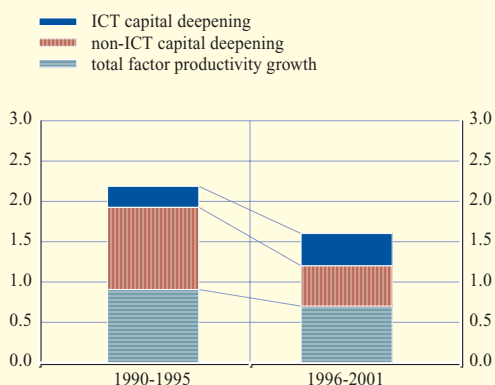
decline in labour productivity growth since the mid-1990s resulted mainly from lower non-ICT capital deepening and, to a lesser extent, lower TFP growth (see Chart B). Lower non-ICT capital deepening may in turn be associated with the improved pace of job creation since the mid-1990s. Stronger employment growth may be related to wage moderation and progress in labour market reforms aimed at increasing labour market participation. Thus, there has been a marked shift towards a more intensive use of labour.

However, productivity developments in the euro area may also reflect a relatively low use of new productivity-enhancing technologies. In particular, while labour productivity growth has increased in sectors that produce ICT, it has declined in other sectors of the economy, including those that use ICT more intensively (see Chart C).³ This contrasts with evidence for the United States, where a few sectors that use ICT more intensively (such as the retail and wholesale trade sectors, and auxiliary services for financial intermediation) saw strong productivity increases, possibly linked to a more intensive use of ICT technology.

This analysis suggests that the fall in euro area productivity growth may be partly due to an increase in labour utilisation. As a rise in labour utilisation also increases real GDP per capita and thus leads to higher living standards, this can be seen as a positive development. At the same time, in order to increase productivity growth over the longer term, economic policies should also aim at stimulating innovation and promoting the use of productivity-enhancing technologies. Policies that contribute to increasing product market competition, facilitating restructuring and increasing human capital are likely to speed up productivity gains from the use of new technologies.

Chart B Decomposition of hourly labour productivity growth

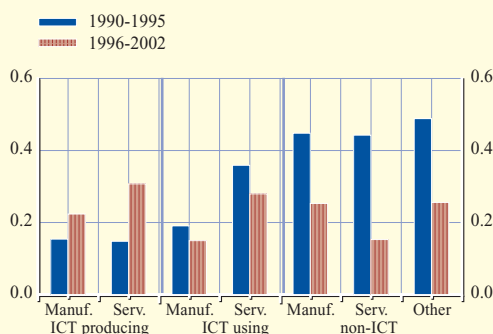
(average annual percentage point contributions)



Sources: GGDC and ECB calculations.
Note: ICT refers to Information and Communication Technology.

Chart C Sectoral contributions to average hourly labour productivity growth

(percentage point contributions)



Sources: GGDC and ECB calculations.
Note: The sectoral breakdown into ICT producing, ICT using and non-ICT is determined according to the share of ICT capital in total capital services of that sector.

³ These results update and confirm those presented earlier in: "New Technologies and Productivity in the Euro Area", July 2001 Monthly Bulletin.

Employment expectations have generally stabilised in recent months and continue to suggest ongoing modest employment growth. With regard to manufacturing, the European Commission surveys indicate broadly stable, albeit slightly improving, expectations for the fourth quarter of 2004 and the first two months of this year. The PMI employment index has seen a gradual deterioration over the same period, although this was offset by a significant improvement in February. In the services sector, the European Commission surveys point to lower expectations in recent months, whereas the PMI index for employment signals stable conditions since mid-2004.

All in all, available information would suggest broadly constant employment growth at the end of 2004 and the beginning of 2005.

4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY

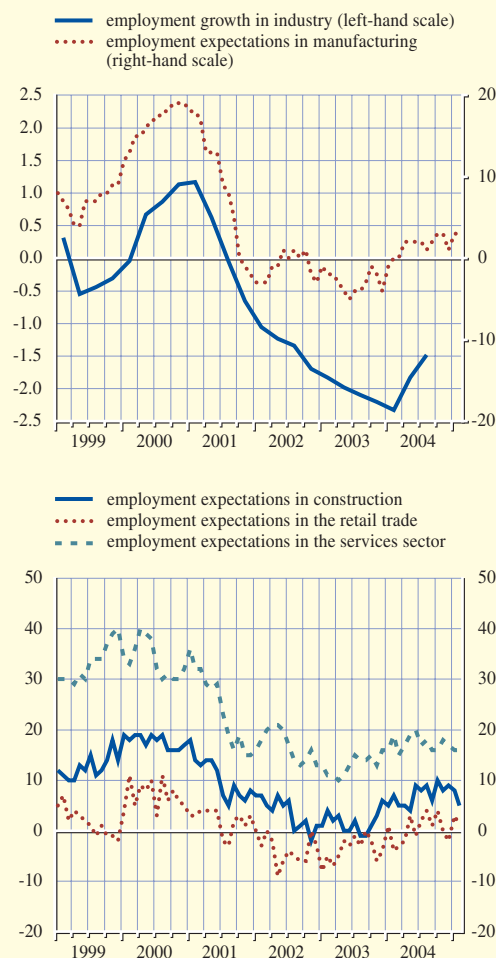
Real GDP growth in the fourth quarter of 2004 was disappointing and appears to have been restrained by the combination of a correction in inventory changes and a further negative contribution from net trade. Moreover, real GDP growth in the fourth quarter may have been temporarily affected by a significant downward impact of estimated calendar effects. However, the strengthening of domestic demand and, in particular, consumption may point to the recovery in economic activity in the euro area regaining some domestic momentum.

Economic conditions appear to remain in place for continued economic growth in the course of this year, strengthening further in 2006. This view is broadly shared by international institutions and private forecasters and is confirmed by the March 2005 ECB Staff projections (see Box 10 entitled “ECB Staff Macroeconomic Projections for the euro area”). Externally, world trade growth is expected to remain dynamic, thereby sustaining euro area export growth, despite the past appreciation of the euro. Domestically, favourable financing conditions and strong earnings growth are supporting investment, while consumption is expected to develop broadly in line with a gradual strengthening of real disposable income growth.

The picture, however, contains a number of risks. On the external side, high and volatile oil prices and persistent global imbalances pose

Chart 43 Employment growth and employment expectations

(annual percentage changes; percentage balances; seasonally adjusted data)



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

downside risks to growth. On the domestic side, there are uncertainties surrounding the evolution of consumption, while the very favourable financing conditions and the recovery in corporate earnings may lead to higher investment growth than currently projected.

Box 10**ECB STAFF MACROECONOMIC PROJECTIONS FOR THE EURO AREA**

On the basis of the information available up to 18 February 2005, ECB staff have prepared projections for macroeconomic developments in the euro area.¹

The ECB staff projections are based on a series of assumptions about interest rates, exchange rates, oil prices, world trade outside the euro area and fiscal policies. In particular, the technical assumption is made that short-term market interest rates and bilateral exchange rates will remain unchanged over the projection horizon, based on the levels prevailing in the two-week period up to 8 February. The technical assumptions concerning long-term interest rates and both oil and non-energy commodity prices are based on market expectations until 8 February.² Fiscal policy assumptions are based on national budget plans in the individual euro area member countries. They include all policy measures that have already been approved by parliament or that have been specified in detail and are likely to pass the legislative process.

To express the uncertainty surrounding the projections, ranges are used to present the results for each variable. The ranges are based on the differences between actual outcomes and previous projections carried out over a number of years. The width of the ranges is twice the average absolute value of these differences.

Assumptions with regard to the international environment

World economic growth is expected to remain robust over the horizon, albeit at a slower pace than in 2004. Real GDP growth in the United States should also remain robust, although lower than in 2004. Real GDP growth in non-Japan Asia is expected to remain well above the global average, but also at lower rates than in recent years. Growth in the other large economies is projected to remain dynamic. In addition, the countries that joined the European Union on 1 May 2004 are expected to continue to record strong growth rates. Over the projection horizon, global inflation is projected to increase slightly with the continuation of global expansion.

1 The ECB staff projections complement the Eurosystem staff macroeconomic projections that are produced jointly by experts from the ECB and from euro area national central banks 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.

2 Short-term interest rates as measured by the three-month EURIBOR are therefore assumed to remain constant at 2.14% over the projection horizon. The technical assumption of constant exchange rates implies that the EUR/USD exchange rate stays at 1.30 over the horizon and that the effective exchange rate of the euro is 1.8% higher than the average for 2004. Market expectations for euro area ten-year nominal government bond yields imply a small increase from an average of 3.7% in 2005 to an average of just under 4.0% in 2006. The increase in annual average non-energy commodity prices in USD is assumed to be 3.3% in 2005 and 1.5% in 2006. Based on the path implied by futures markets, annual average oil prices are assumed to decrease gradually from USD 44.7 per barrel in 2005 to USD 42.2 per barrel in 2006.

Annual growth in world real GDP outside the euro area is estimated to average about 4.7% in 2005 and 4.6% in 2006. Growth in the euro area's external export markets is projected to be about 8.0% in 2005 and 7.4% 2006.

Real GDP growth projections

Eurostat's flash estimate for quarter-on-quarter growth of euro area real GDP in the fourth quarter of 2004³ confirms a slowdown in activity in the second half of the year. However, there are reasons to assume that this slowdown will be temporary. Against this background, it is projected that average annual real GDP growth will be between 1.2% and 2.0% in 2005 and between 1.6% and 2.6% in 2006. Export growth, as implied by the assumption of continued strength in foreign demand, is, over the horizon, expected to continue to support economic activity. Domestic demand and employment should gradually strengthen. At the same time, labour supply is expected to increase as a result of improved job prospects and structural labour market reforms in various euro area countries. Overall, according to the projections, the unemployment rate should start to decline this year.

Among the domestic expenditure components of GDP, private consumption is projected to pick up in line with real disposable income. Growth in real disposable income will be supported by stronger growth in employment, lower inflation and a positive contribution from other income components such as distributed profits. The savings ratio, however, is expected to remain high, due inter alia to on-going concerns about the development of public finances and the longer-term prospects for public health care and pension systems. Total investment growth is projected to recover due mainly to business investment, which should benefit from favourable credit conditions and robust corporate earnings. Residential private investment is projected to continue to grow at moderate rates over the horizon. As domestic demand will stimulate import growth, net trade is not expected to contribute to real GDP growth over the projection horizon.

Price and cost projections

The average rate of increase in the overall HICP is projected to be between 1.6% and 2.2% in 2005 and between 1.0% and 2.2% in 2006. This projection is based on the assumptions of lower

³ The growth rate in the fourth quarter of 2004 is strongly influenced by a statistical downward adjustment for the unusually high number of working days in that quarter.

Table A Macroeconomic projections for the euro area

(average annual percentage changes)¹⁾

	2004	2005	2006
HICP	2.1	1.6-2.2	1.0-2.2
Real GDP	1.8	1.2-2.0	1.6-2.6
Private consumption	1.1	1.2-1.8	1.2-2.6
Government consumption	1.5	0.7-1.7	0.6-1.6
Gross fixed capital formation	1.7	1.6-4.2	2.1-5.3
Exports (goods and services)	6.1	4.0-7.0	4.9-8.1
Imports (goods and services)	6.5	4.7-8.1	4.9-8.3

1) For each variable and horizon, ranges are based on the average absolute differences between actual outcomes and past projections by euro area central banks. The projections for real GDP refer to working-day-adjusted data.

oil prices and a smaller contribution of indirect taxes and administered prices in 2005 and 2006, compared with 2004.

The growth in nominal compensation per employee is assumed to remain moderate over the horizon. This projection not only takes into account current wage settlements and the projected, only modest, improvement in labour market conditions, but also embodies the assumption of no significant second-round effects of higher oil prices on nominal compensation. The projections for real GDP growth and employment imply that labour productivity growth will slowly pick up. As a result of the developments in wages and productivity, unit labour cost growth is assumed to remain relatively contained in both 2005 and 2006.

Comparison with December 2004 projections

Compared with the Eurosystem staff macroeconomic projections published in the December 2004 issue of the Monthly Bulletin, the range projected for growth in euro area real GDP has been adjusted slightly downwards for 2005 and 2006. Revisions to technical assumptions in comparison with the December projections are small and have a limited impact. The downward adjustment for 2005 reflects mainly a carry-over effect from the weaker than expected fourth quarter of 2004.

The range projected for the annual rate of increase in the overall HICP for 2005 is within the range of the December 2004 macroeconomic projections. The HICP projection range for 2006 remains unchanged.

Table B Comparison of macroeconomic projections for the euro area

(average annual percentage changes)

	2004	2005	2006
HICP – March 2005	2.1	1.6-2.2	1.0-2.2
HICP – December 2004	2.1-2.3	1.5-2.5	1.0-2.2
Real GDP – March 2005	1.8	1.2-2.0	1.6-2.6
Real GDP – December 2004	1.6-2.0	1.4-2.4	1.7-2.7

5 FISCAL DEVELOPMENTS

While fiscal developments in 2004 were unsatisfactory, the updated stability programmes envisage moderate progress in fiscal consolidation in 2005 and beyond. On the basis of these programmes, the euro area average deficit is targeted to decline from close to 3% of GDP in 2004 to 1.3% in 2007. The euro area debt ratio will return to a declining path, albeit at a very slow pace. Planned progress in consolidation is largely based on expenditure restraint, which will more than compensate for further tax cuts. All euro area countries but one are expected to reduce their deficits below 3% of GDP in 2005. Several countries with significant or moderate imbalances plan unambitious consolidation strategies, with the result that most of them will not attain close to balance or in surplus positions over the programme horizon. Moreover, there are risks from optimistic growth assumptions, unspecified policy measures and the back-loading of adjustment efforts. Comprehensive structural reforms towards more growth-friendly tax and expenditure levels and structures, as well as sustainable social security systems, are also lacking.

FISCAL DEVELOPMENTS IN 2004

According to data included in the updated stability programmes that were submitted by euro area member countries at the end of 2004, fiscal developments in 2004 were disappointing. The general government deficit ratio in the euro area remained broadly stable at 2.8% of GDP in 2004 (see Table 9). This outcome generally confirms the European Commission's autumn forecast for the euro area in 2004 (see Table 11 in the December 2004 issue of the Monthly Bulletin). The euro area budget deficit is expected to be about ½ percentage point of GDP higher than the deficit target envisaged, on average, in the previous stability programme updates.

The developments at the euro area level reflect the persistence of fiscal imbalances in many member countries. Half of the euro area countries are likely to show relatively large deviations – in excess of ½ percentage point of GDP – from their initial budget targets. Three countries have recorded deficit ratios above the 3% deficit limit and a further three countries estimate deficits to be very close to or at that level.

The negative development in public finances for the euro area as a whole in 2004, compared with 2003, is due mainly to the fact that the moderate budget tightening, envisaged across the member countries' initial plans, did not materialise. Although growth was broadly in line with earlier forecasts, revenue developments were adversely affected by weak private consumption. However, most of the consolidation shortfall is due to tax cuts and the gradual phasing out of temporary adjustment measures that were not fully compensated for by other consolidation measures. Nevertheless, the figures for 2004 contained in the stability programmes point towards some progress in expenditure retrenchment for the first time in recent years.

According to the most recent updated stability programmes, the average euro area debt ratio marginally increased in 2004 – at 71.1% of GDP – instead of declining as targeted. Seven countries reported debt ratios above 60% of GDP, of which three are near to or above 100%.

FISCAL PLANS BETWEEN 2005 AND 2007-08

On average, the updated stability programmes project a steady, though moderate, improvement in fiscal balances in the euro area for 2005 and beyond. This is underpinned by a strengthening of economic activity and renewed consolidation efforts. The euro area deficit ratio is expected to decline by about ½ percentage point to 2.2% of GDP in 2005, while the euro area government debt is projected to decline marginally to 70.7% of GDP in 2005.

Table 9 Euro area countries' updated stability programmes

	Real GDP growth rate (%)					Budget balance ratio (% of GDP)					Debt ratio (% of GDP)				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
Belgium															
Updated programme (Nov. 2003)	1.8	2.8	2.5	2.1		0.0	0.0	0.0	0.3		97.6	93.6	90.1	87.0	
Updated programme (Dec. 2004)	2.4	2.5	2.5	2.1	2.0	0.0	0.0	0.0	0.3	0.6	96.6	95.5	91.7	88.0	84.2
Germany															
Updated programme (Jan. 2004) ¹⁾	1.7	2¼	2¼	2¼		-3¼	-2½	-2	-1½		65	65½	65½	65	
Updated programme (Dec. 2004)	1.8	1.7	1¾	2	2	-3¼	-2.9	-2½	-2	-1½	65½	66	66	65½	65
Greece															
Updated programme (Dec. 2003)	4.2	4.0	3.8			-1.2	-0.5	0.0			98.5	94.6	90.5		
Updated programme (Dec. 2004)	3.7	3.9	4.0	4.2		-5.3	-2.8 ²⁾	-2.6	-2.5		112.1	109.5	106	102.5	
Spain															
Updated programme (Jan. 2004)	3.0	3.0	3.0	3.0		0.0	0.1	0.2	0.3		49.6	47.7	45.7	43.8	
Updated programme (Dec. 2004)	2.6	2.9	3.0	3.0	3.0	-0.8	0.1	0.2	0.4	0.4	49.1	46.7	44.3	42.0	40.0
France															
Updated programme (Dec. 2003)	1.7	2.5	2.5	2.5		-3.6	-2.9	-2.2	-1.5		62.8	63.2	62.8	61.8	
Updated programme (Dec. 2004)	2.5	2.5	2.5	2.5	2.5	-3.6	-2.9	-2.2	-1.6	-0.9	64.8	65.0	64.6	63.6	62.0
Ireland															
Updated programme (Dec. 2003)	3.3	4.7	5.2			-1.1	-1.4	-1.1			33.3	33.5	33.3		
Updated programme (Dec. 2004)	5.3	5.1	5.2	5.4		0.9	-0.8	-0.6	-0.6		30.5	30.1	30.1	30.0	
Italy															
Updated programme (Nov. 2003)	1.9	2.2	2.5	2.6		-2.2	-1.5	-0.7	0.0		105.0	103.0	100.9	98.6	
Updated programme (Nov. 2004)	1.2	2.1	2.2	2.3	2.3	-2.9	-2.7	-2.0	-1.4	-0.9	106.0	104.1	101.9	99.2	98.0
Luxembourg															
Updated programme (Nov. 2003)	2.0	3.0	3.8			-1.8	-2.3	-1.5			5.2	5.0	4.4		
Updated programme (Nov. 2004)	4.4	3.8	3.3	4.3		-1.4	-1.0	-0.9	-1.0		5.0	5.0	4.6	4.5	
The Netherlands															
Updated programme (Oct. 2003)	1	2½	2½	2½		-2.3	-1.6	-0.9	-0.6		54.5	53.7	53.0	52.2	
Updated programme (Nov. 2004)	1¼	1½	2½	2½		-3.0	-2.6	-2.1	-1.9		56.3	58.1	58.6	58.3	
Austria															
Updated programme (Nov. 2003)	1.9	2.5	2.5	2.4		-0.7	-1.5	-1.1	-0.4		65.8	64.1	62.3	59.9	
Updated programme (Nov. 2004)	1.9	2.5	2.5	2.2	2.4	-1.3	-1.9	-1.7	-0.8	0.0	64.2	63.6	63.1	61.6	59.1
Portugal															
Updated programme (Dec. 2003)	1.0	2.5	2.8	3.0		-2.8	-2.2	-1.6	-1.1		60.0	59.7	58.6	57.0	
Updated programme (Dec. 2004)	1.0	2.4	2.7	2.8		-2.9	-2.8	-2.5	-1.8		62.0	63.1	62.7	61.4	
Finland															
Updated programme (Nov. 2003)	2.7	2.5	2.4	2.4		1.7	2.1	2.1	2.2		44.7	44.9	45.0	44.6	
Updated programme (Nov. 2004)	3.2	2.8	2.4	2.2	2.0	2.0	1.8	2.1	2.2	2.0	44.6	43.4	42.5	41.7	41.1
Euro area³⁾															
2003-04 updated programmes	1.9	2.5	2.6	2.5		-2.4	-1.8	-1.3	-0.8		70.1	69.5	68.5	67.6	
2004-05 updated programmes	2.0	2.3	2.4	2.4	2.3	-2.8	-2.2	-1.8	-1.3	-0.8	71.1	70.7	69.7	68.3	68.1

Sources: 2003-04 and 2004-05 updated stability programmes and ECB calculations.

1) The updated stability programme was submitted in December 2003, with a further update submitted in January 2004.

2) On 17 February 2005, the ECOFIN Council adopted a Decision requesting Greece, in accordance with Article 104(9) of the Treaty establishing the European Community, to submit a report outlining consolidation plans consistent with reducing the deficit below 3% in 2006 at the latest, instead of 2005.

3) The euro area aggregate is calculated as a weighted average of the data available for individual countries.

Budget plans imply a moderately restrictive fiscal stance at the euro area level in 2005, while the economic cycle will have a slightly favourable effect on the evolution of budget balances. The planned deficit reduction varies considerably across countries and is most significant in the case of those that currently are in excessive deficits or have reported large imbalances.

The projected budgetary consolidation is largely based on primary expenditure restraint. This is due to public consumption adjustment and social security reform. In some countries, planned structural consolidation efforts are greater than the headline figures in the programme suggest, as

they partly compensate for the effect of temporary measures that will be phased out. A few countries will also implement further tax cuts, which are, in most cases, intended to be fully financed by spending cuts.

Notwithstanding planned improvements, significant fiscal imbalances will persist at the euro area and country level in 2005. Of the countries that are currently subject to the excessive deficit procedure, Germany, France and the Netherlands have confirmed their commitment to reduce their budget deficits below 3% of GDP in 2005. Greece's original stability programme update also planned a deficit reduction to below 3% in 2005, but following an ECOFIN Council decision, Greece has been requested to submit, by 21 March 2005, a report in which it will have to outline consolidation plans consistent with reducing the deficit below 3% in 2006 at the latest. With regard to the countries with large imbalances but not in excessive deficit, Italy and Portugal are targeting deficit ratios that indicate little adjustment and remain very close to 3% of GDP.

Compared with the European Commission's autumn forecasts for the euro area in 2005, the deficit forecasts included in the stability programmes are more optimistic. This largely reflects additional measures approved for 2005 in a few euro area countries since the publication of the Commission's autumn forecasts. In some countries, more favourable than expected macroeconomic developments last autumn will also make a small contribution to improving fiscal balances.

Beyond 2005 the programmes envisage further modest progress in fiscal consolidation in a favourable economic environment. Fiscal tightening is expected to continue, particularly in countries with fiscal imbalances, through expenditure restraint. Economic activity at or above potential growth will also help to reduce deficits. The euro area deficit ratio is expected to decline at an average of $\frac{1}{2}$ percentage point of GDP per year over the programmes' horizon. Nonetheless, in 2007, despite several years of favourable growth, the euro area will still record an average deficit of above 1%. This is due mainly to a number of the largest euro area member countries, which continue to project considerable deficits over the forecast horizon.

On the whole, updated stability programmes envisage a less ambitious medium-term deficit target compared with the previous round of updated stability programmes. Slippages, however, are fully explained by the deficit overrun in 2004. In subsequent years, the adjustment effort is expected to remain broadly unchanged.

ASSESSMENT OF MEDIUM-TERM PLANS

The stability programmes have to be assessed against the requirements of the Treaty establishing the European Community and the Stability and Growth Pact. The most important objective is to avoid – or correct in a timely manner – excessive deficits. In addition, the Stability and Growth Pact requires that countries attain budgetary positions that are close to balance or in surplus over the medium term, so as to strengthen the sustainability of public finances and create room for the safe operation of automatic fiscal stabilisers. According to the Eurogroup agreement of October 2002, a minimum consolidation effort of 0.5% of GDP per year is needed to attain the close-to-balance or in-surplus objective in an appropriate period of time. Macroeconomic assumptions underlying fiscal plans must be realistic and measures well-specified. On the nature of the adjustment, the 2003-05 Broad Economic Policy Guidelines (BEPGs) and their 2004 updates call for progress in structural reform towards more sustainable and growth-friendly public finances. These institutional commitments and guidelines for fiscal policies aim to safeguard confidence in the soundness of public finances and therefore macroeconomic stability.

Against these references, the latest round of updated stability programmes represents some progress, but there are still reasons for concern. The euro area average deficit is projected to fall steadily, but the pace of fiscal consolidation is too slow with the result that, at the end of the programmes' horizon, despite three years of growth at or above potential growth, the euro area as a whole will still record a notable deficit. Furthermore, the average debt ratio is expected to decline only very slightly and to remain close to 70% of GDP. The risk, therefore, is that member countries will not make sufficient use of the expected good economic conditions to put their "fiscal houses" in order, thus potentially repeating the mistakes of the past economic upswing.

Euro area figures also disguise a very diverse picture of fiscal developments across member countries (see Table 10 for an overview of ECOFIN Council opinions on updated stability programmes). On the positive side, all countries but one are expected to correct their excessive deficits in 2005. A small number intend to maintain or attain sound budgetary positions over the medium term. However, at least half of the euro area countries will not have reached close-to-balance budgetary positions over the programmes' horizon. In a number of cases, the realisation of budget plans relies on somewhat optimistic macroeconomic scenarios. Furthermore, in member countries with fiscal imbalances, the attainment of their medium-term fiscal objectives is not only contingent on the macroeconomic environment, but also requires the full and timely specification and implementation of consolidation measures.

With regard to the sustainability of public finances and prospects for a favourable economic environment, significant challenges remain. Expenditure and revenue ratios, as well as debt and implicit liabilities related to population ageing, remain high throughout much of the euro area. Although several member countries plan to take further steps towards reforming their social security systems, such reforms are not always sufficiently ambitious, concrete or comprehensive. Considerably more progress is therefore needed to enhance the euro area's growth potential and prepare for the fiscal implications of demographic changes in accordance with the objectives of the Lisbon agenda and the BEPGs.

COUNTRIES' STRATEGIES AND MAIN RISKS

When considering the four countries that were in excessive deficit in 2004, their updated stability programmes provide a rather mixed picture. Germany and France plan to reduce their deficits to the 3%-of-GDP deficit reference value or marginally below it, thereby just complying with their commitments. The Netherlands plans to post a deficit somewhat below 3% of GDP. This is welcome, although in the first two cases, while significant one-off measures may help to attain these targets, the fiscal situation will remain very vulnerable. In the medium term, all three countries plan overly slow progress towards close-to-balance or in-surplus positions, which will not be reached by 2007.

In the case of Greece, the ECOFIN Council, in accordance with Article 104(8) of the Treaty, has decided that effective action has not been taken towards correcting the country's excessive deficit in 2005, resulting in non-compliance with the Council's Recommendation under Article 104(7). Subsequently, the Council has adopted a Decision under Article 104(9) giving notice to Greece to take measures in order to put an end to the excessive deficit situation, although it has extended the deadline for correcting the excessive deficit from 2005 to 2006.

It is important and welcome that the excessive deficit procedure affecting Greece has proceeded to the next step. This reflects the Commission's and the Council's willingness to follow the procedural steps beyond previous limits. However, the extension of the deadline for correcting

Table 10 Council opinions on euro area countries' updated stability programmes (2005 to 2007-8¹⁾)

Country	Deficit in excess of 3% of GDP	Close to balance	Macroeconomic scenario	Compliance with country-specific BEPGs	Risk of deficit exceeding 3% of GDP in 2005 or later	Long-term budgetary risk
Belgium (2005-08)	No	Yes, every year	Reflects plausible growth assumptions	Broadly consistent	No, in the event of normal cyclical fluctuations	Appears to be at some risk on grounds of current level of gross debt
Germany (2005-08)	Targets to correct it in 2005	Not until 2008	Growth forecast for 2005 appears rather favourable; scenario appears plausible thereafter	Partly consistent. Planned adjustment in 2007-08 below ½ percentage point of GDP and subject to risk	Budgetary stance does not seem to provide sufficient safety margin with normal macroeconomic fluctuations before 2008	Appears to be at some risk. Long-term sustainability hinges crucially on achievement of planned budgetary consolidation in medium term and on reducing debt level
Spain (2005-08)	No	Yes, every year	Relatively optimistic	Partly consistent. Recommended reform of public pension system yet to be implemented	No, with normal macroeconomic fluctuations	Relatively favourable position, but supplementary measures, in particular pension reform, still needed
France (2005-08)	Targets to correct it in 2005	Not until 2008	Seems to reflect plausible growth assumptions	Partly consistent. No full attainment of close-to-balance position over period covered by programme	Budgetary stance does not seem to provide sufficient safety margin with normal macroeconomic fluctuations before 2007	Appears to be at some risk. Additional budgetary consolidation and reforms needed in years ahead
Ireland (2005-07)	No	Yes, every year	Seems to reflect plausible growth assumptions	Broadly consistent	No, with normal macroeconomic fluctuations	Appears to be in relatively favourable position
Italy (2005-08)	No	Not until 2008	Seems to reflect somewhat favourable growth assumptions	Partly consistent. Programme does not envisage close-to-balance or in-surplus position	In 2005 and 2006, budgetary stance does not seem to provide sufficient safety margin with normal macroeconomic fluctuations	Appears to be at some risk. Conditional on full implementation of budgetary targets and pension reform, could be in a relatively favourable position
Luxembourg (2005-07)	No	Yes, every year	Seems to reflect plausible growth assumptions	-	Budgetary stance seems to provide sufficient safety margin with normal cyclical fluctuations	Appears to be in favourable position
Netherlands (2005-07)	No	Not until 2007	Broadly plausible	Partly consistent. No progress towards a close-to-balance budgetary position after 2005	In 2006-07 budgetary stance does not seem to provide sufficient safety margin with normal macroeconomic fluctuations	Relatively favourable position regarding long-term sustainability
Austria (2005-08)	No	No, except for 2008	Realistic, but appears rather favourable in 2007-08	Partly consistent. Cyclically adjusted position strongly deteriorates in 2005	No, with normal macroeconomic fluctuations	Appears to be in relatively favourable position
Finland (2005-08)	No	Yes, every year	Seems to reflect rather cautious growth assumptions	Broadly consistent	No, with normal macroeconomic fluctuations	Appears to be in favourable position regarding long-term sustainability

1) Opinions delivered by the Ecofin Council on 18 January, 17 February and 8 March 2005 on programmes submitted by countries at the end of 2004.

the excessive deficit is of concern. It establishes a less ambitious target than Greece had already planned in its 2005 budget and pushes the room for interpretation of the rules and procedures to the limit. This could have adverse implications for the credibility of the fiscal framework also given that the extension of the deadline follows significant transparency problems, important data revisions and unduly expansionary policies in 2004. Such a step must not be allowed to create moral hazard. Countries should not feel that imbalances only have to be severe enough in order to obtain a more generous deadline for correcting excessive deficits. This would run counter to the Pact's objective of deterring countries from incurring excessive deficits and, if they do occur, requiring their prompt correction. Moreover, giving more time to correct an excessive deficit may prove to be counterproductive if it implies that ambitious reforms are delayed and that concerns about the soundness of public finances undermine confidence.

For countries in excessive deficit, a vigorous implementation of commitments is now needed. "Windfalls" from higher than expected growth or other factors should be allocated for more rapid deficit reduction. All member countries should also reach a close-to-balance or in-surplus budgetary position by the end of the programme horizon. Fiscal plans need to be based on realistic macroeconomic scenarios and sufficiently ambitious and well-specified consolidation measures to minimise the risk of renewed or persistently high deficits. Ambitious consolidation does not necessarily impact adversely on economic activity if it is part of a comprehensive reform strategy. Such a strategy should not only address high deficits, but also heavily distortive tax regimes, inefficient expenditure levels and patterns, and future large implicit liabilities when populations are expected to age.

A number of other countries are experiencing important fiscal imbalances, in particular Italy and Portugal. In these countries, there are plans to phase out temporary measures but budget plans indicate insufficient consolidation, at least in some years. Consequently, the risk of incurring an excessive deficit will remain high in the short term. Close-to-balance budgetary positions will not be reached until late in the programme horizon, if at all. The achievement of the budget targets is subject to risks, mainly stemming from optimistic growth assumptions and insufficiently specified or back-loaded adjustment measures. These countries should implement measures in a timely manner and carefully execute their budgets so as to build sufficient safety margins to allow automatic stabilisers to operate without breaching the 3% deficit limit. Sufficiently fast progress towards attaining sound budgetary positions and reducing public debt ratios is warranted and consolidation is best integrated in a credible and confidence-building reform strategy.

The remaining member countries need to maintain their sound budgetary positions, pursuing fiscal structural reform where necessary. This will also help to strengthen the sustainability of public finances, while boosting the prospects for robust long-term economic growth. In this context, economic stability can be supported safely by the operation of the automatic fiscal stabilisers.

6 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

6.1 EXCHANGE RATES

In foreign exchange markets, the euro experienced a slight appreciation against most major currencies in February 2005, after some initial movements in the opposite direction. In trade-weighted terms, the appreciation was most pronounced against the Japanese yen and the US dollar. Overall, on 2 March the nominal effective exchange rate of the euro was almost unchanged compared with its end-January level and 1.3% above its 2004 average level.

US DOLLAR/EURO

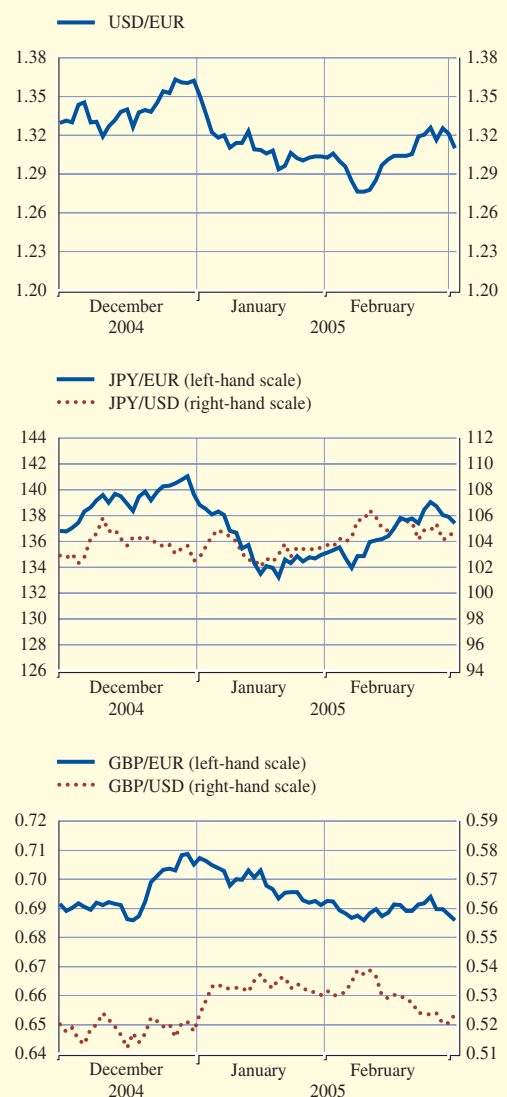
After depreciating against the US dollar in the first half of February, the euro appreciated in the second half of the month to close the period on 2 March at a somewhat higher level than that recorded in late January (see Chart 44). These fluctuations in the euro/dollar exchange rate, which reflected similar developments in the exchange rate of the US dollar vis-à-vis other main currencies, appear to have been associated with changes in the assessment by market participants of the channels and pace of a possible US current account adjustment. In more detail, the strengthening of the US dollar against the euro and other major currencies in the first half of February seemed to relate to dissipating market concerns about the US external imbalances. This lower level of concern was brought about by reassuring statements from US policy-makers, indicating a willingness to address the fiscal deficit more actively. Later in the month, however, the initial optimism about the outlook for the US current account and fiscal policy seemed to turn into a more cautious attitude on the part of market participants. These renewed concerns, coupled with the news that Asian central banks were considering diversifying their foreign exchange reserves, weighed on the US currency, especially towards the end of February. Overall, on 2 March the euro stood at USD 1.31, 0.5% higher than its level at the end of January and 5.3% above its 2004 average level.

JAPANESE YEN/EURO

After trading within fairly narrow ranges, the Japanese yen has been losing ground vis-à-vis the euro since the second week of February. This development initially mirrored a more general weakening of the Japanese currency,

Chart 44 Patterns in exchange rates

(daily data)



Source: ECB.

which was reportedly linked to reduced market expectations about a near-term increase in the exchange rate flexibility of the Chinese renminbi. Towards the end of the period under review, the decline of the Japanese yen vis-à-vis the euro was further reinforced following news of negative real GDP growth in Japan during the last three quarters of 2004. On 2 March 2005 the euro was quoted at JPY 137.4, 1.8% above its end-January level and 2.2% higher than its 2004 average.

EU MEMBER STATES' CURRENCIES

In ERM II, the Danish krone and the Slovenian tolar moved in very narrow ranges close to their respective central parities (see Chart 45). The Estonian kroon and the Lithuanian litas remained unchanged relative to their ERM II central parities, in line with those countries' unilateral commitments to maintain currency board arrangements within the standard ERM II fluctuation bands.

With regard to the currencies of other EU Member States, the euro depreciated slightly against the pound sterling, with some short-run fluctuations in the course of February mainly reflecting mixed data releases indicating, on the one hand, strong UK industrial output in December 2004 and, on the other hand, sluggish consumer demand. On 2 March the euro traded against the pound sterling at GBP 0.69, 0.8% lower than its level at the end of January and 1.1% above its 2004 average. In February, the euro continued to depreciate against the Polish zloty (by 4.2%) and the Czech koruna (by 1.6%) – which brought both currencies to a two-year high against the euro – as well as against the Hungarian forint, the Slovak koruna and the Swedish krona (by 1.4%, 0.8% and 0.5% respectively). At the same time, the euro remained broadly unchanged against the Cyprus pound, the Latvian lats and the Maltese lira.

OTHER CURRENCIES

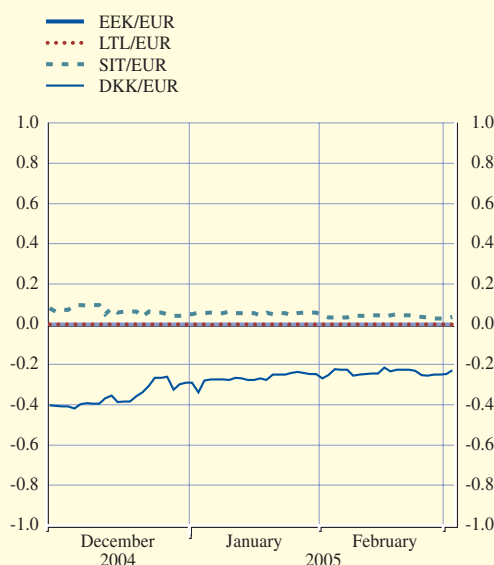
As far as other currencies are concerned, the euro exchange rate declined by 0.4% vis-à-vis the Swiss franc between the end of January and 2 March. Other notable developments over the same period were the appreciation of the euro against the Canadian dollar (by 0.7%) and the depreciation of the euro against the Taiwan dollar and the Korean won (by 2.3% and 1.3% respectively). While the latter development was, in part, the continuation of a general trend that has seen these two Asian currencies appreciate vis-à-vis the US dollar since the second half of 2004, it was also influenced by speculation about a possible shift by some Asian central banks in the currency composition of their foreign exchange reserves.

EFFECTIVE EXCHANGE RATE OF THE EURO

On 2 March 2005 the nominal effective exchange rate of the euro – as measured against the currencies of 23 of the euro area's important trading partners – was almost unchanged compared

Chart 45 Patterns in exchange rates within ERM II

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



Source: ECB.

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

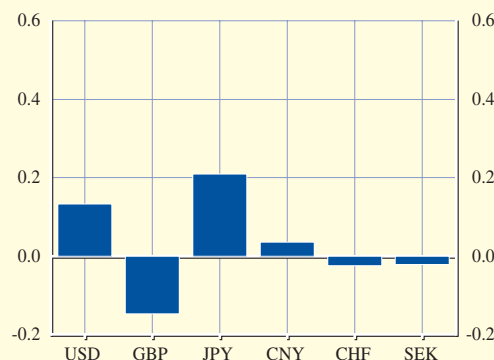
Chart 46 Euro effective exchange rate and its decomposition¹⁾

(daily data)



Contributions to EER changes²⁾

From 31 January 2005 to 2 March 2005
(in percentage points)



Source: ECB.

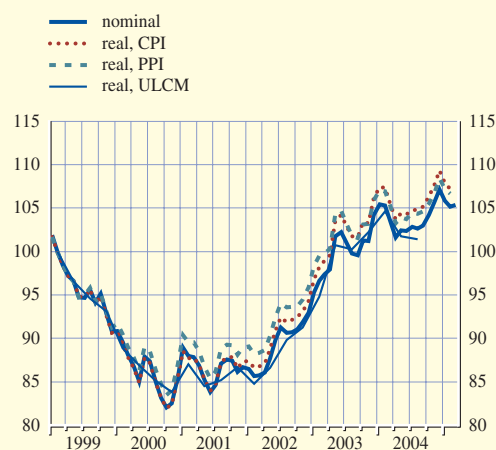
1) An upward movement of the index represents an appreciation of the euro against the currencies of the most important trading partners of the euro area and all non-euro area EU Member States.

2) Contributions to EER-23 changes are displayed only for the currencies of the six main trading partners of the euro area. Changes are calculated using the corresponding overall trade weights in the EER-23 index.

suggest that, after a period of relative stability between May and September 2004, the real effective exchange rate indices of the euro increased during the last three months of 2004, mainly on account of the euro's appreciation. This has led to a reduction in the price competitiveness of euro area companies. In February 2005 the real effective exchange rate index based on developments in consumer prices was 1.3% above its average level in 2004, while it was 1.2% above this level if based on developments in producer prices.

Chart 47 Euro nominal and real effective exchange rates¹⁾

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



Source: ECB.

1) An upward movement of the EER-23 indices represents an appreciation of the euro. The latest observations for monthly data are for February 2005. In the case of the ULCM-based real EER-23, the latest observation is for 2004 Q3 and is partly based on estimates.

with its end-January level and 1.3% higher than its average level in 2004 (see Chart 46). The appreciation of the euro in effective terms was driven by its strengthening against the Japanese yen, the US dollar and the Chinese renminbi – currencies with a relatively high weight in the trade-weighted euro effective exchange rate basket. This was only slightly counterbalanced by the euro's depreciation against the pound sterling and the Polish zloty.

The real effective exchange rates of the euro – based on different cost and price indices – have closely followed developments in the nominal index (see Chart 47). The most recent data

6.2 BALANCE OF PAYMENTS

In the fourth quarter of 2004 the value of extra-euro area exports of goods and services rose by 0.5%, while the value of imports of goods and services rose by 1.2%, indicating a deceleration from the strong growth rate of imports recorded in the third quarter. In 2004 as a whole, the euro area current account surplus amounted to €40.2 billion, i.e. around 0.5% of GDP, compared with €22.2 billion in 2003 (around 0.3% of GDP). This increase resulted from lower deficits in income and, to a lesser extent, current transfers, as well as from a higher surplus in services. Combined direct and portfolio investment of the euro area recorded net inflows of €18.3 billion in 2004, compared with net inflows of €38.3 billion in 2003.

CURRENT ACCOUNT AND TRADE

The seasonally adjusted current account of the euro area showed a surplus of €2.7 billion in December 2004 (corresponding to a €6.6 billion surplus in non-seasonally adjusted terms). This reflected surpluses in goods and services, which were partly offset by deficits in current transfers and income.

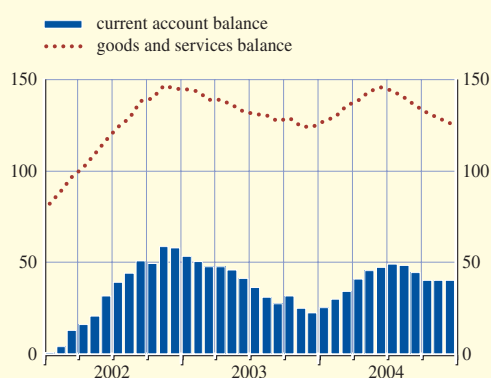
Compared with the revised data for November 2004, the seasonally adjusted current account surplus increased by €1.0 billion in December, as a result of a rise (of €1.4 billion) in the goods surplus and a fall in the deficit in current transfers, which were only partly offset by a lower surplus in services and a higher income deficit.

In terms of quarterly figures, exports and imports of goods increased in similar orders of magnitude – 1.9% and 2.1% respectively – in the fourth quarter of 2004, while trade in services was significantly weaker, with exports and imports of services actually falling (by 4% and 1.7% respectively). As a result, total exports of goods and services increased by 0.5% and total imports of goods and services rose by 1.2% in the fourth quarter.

Looking at trade developments throughout 2004, the 12-month seasonally adjusted surplus on goods and services recorded two major movements: an initial increase until June, and a subsequent decrease until December (see Chart 48). The initial increase was due to very robust exports of goods and services in the first half of the year, driven predominantly by strong foreign demand. In the second half of the year export growth slowed, partly due to slacker foreign demand over this period, while the lagged effects of the past appreciation of the euro may also have played a role. The subsequent decrease was also due to strong import growth in the second and third quarters of the year, consistent with both higher oil prices over this period and the robust growth of the import-intensive categories of domestic expenditure (investment and, in particular, inventories) recorded in the third quarter (see Chart 49).

Chart 48 The euro area current account balance and goods and services balance

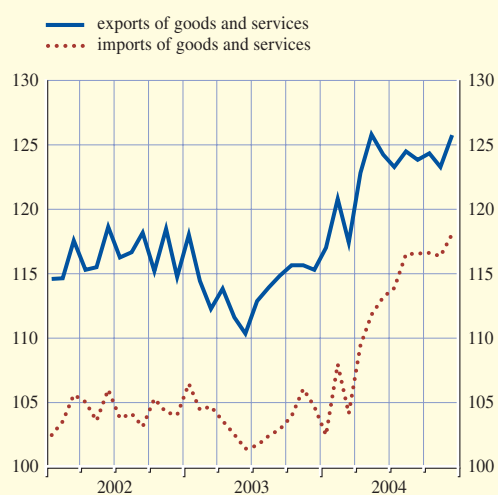
(EUR billions; 12-month cumulated data; seasonally adjusted)



Source: ECB.

Chart 49 Euro area exports and imports of goods and services

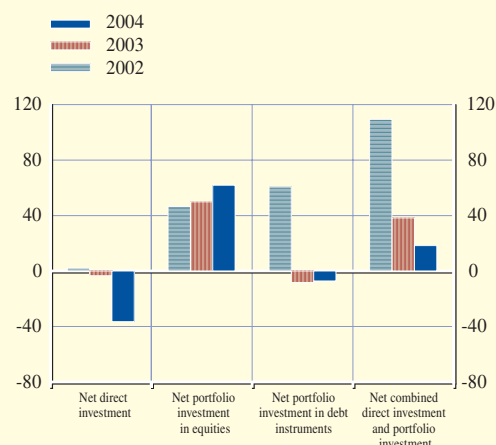
(EUR billions; three-month moving averages; seasonally adjusted)



Source: ECB.

Chart 50 Net direct and portfolio investment flows

(EUR billions)



Source: ECB.

In 2004 as a whole, the euro area current account surplus amounted to €40.2 billion, i.e. around 0.5% of GDP, compared with €22.2 billion in 2003 (around 0.3% of GDP). This increase resulted from lower deficits in income and, to a lesser extent, current transfers, as well as from a higher surplus in services. The reduction in the income deficit was mainly due to higher credits received from the rest of the world compared with 2003. The surplus in goods remained broadly unchanged at around €105 billion in 2004, as both imports and exports increased by approximately €90 billion.

FINANCIAL ACCOUNT

Euro area combined direct and portfolio investment recorded large net inflows of €44.4 billion in December 2004, reflecting net inflows in equity portfolio investment (€40 billion) and, to a much smaller extent, in direct investment (€7.3 billion). Net flows in debt instruments were close to balance. The developments in equity portfolio investment were mainly driven by large net purchases of euro area equities by non-residents (€28.9 billion).

For 2004 as a whole, combined direct and portfolio investment recorded net inflows of €18.3 billion, compared with net inflows of €38.3 billion in 2003. The lower net financial inflows to the euro area mainly resulted from increased net outflows in direct investment that were only partly offset by higher net inflows in portfolio investment (see Chart 50).

The developments in direct investment stemmed primarily from a gradual decline in foreign direct investment inflows to the euro area, which was basically due to the fact that investment in euro area equity capital by non-residents amounted to just one-third of that recorded in 2003. This decline was larger than the decline in direct investment by euro area residents in equity capital abroad and might partly be attributed to the stronger economic performance of other regions of the world relative to the euro area in 2004.

The higher net inflows in portfolio investment derived mainly from an increase in net purchases of euro area equity securities by non-residents. Market surveys suggested renewed interest on the part of foreign investors in euro area equity securities, with market participants indicating that euro area equities had become, in relative terms, more attractively priced. The expectation of an appreciation of the euro in the course of 2004 might also have contributed to these developments.

As regards debt instruments, cross-border flows were of similar orders of magnitude in 2003 and 2004, amounting to roughly €200 billion on both the asset and the liability sides. On the liability side, the low level of euro area short-term interest rates did not encourage foreign investment in euro area money market instruments – non-residents invested almost exclusively in euro area bonds and notes in 2004. On the asset side, euro area investors allocated about 75% of their international portfolio of debt instruments to bonds and notes and 25% to money market instruments. This allocation indicated that residents gave international bonds and notes a lesser weight in 2004 than in 2003. This might have been associated with the anticipation of capital losses due to expectations of higher long-term interest rates in the United States. In fact, euro area flows in bonds and notes to the United States declined from €75 billion in 2003 to €29 billion over the first three quarters of 2004.

EURO AREA STATISTICS



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

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WHAT'S NEW

From now on, Table 7.5.2 (Trade in goods, geographical breakdown) will also include data on trade in goods vis-à-vis China, Russia and Turkey.

Conventions used in the tables

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

EURO AREA OVERVIEW



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

1. Monetary developments and interest rates

	M1 ¹⁾	M2 ¹⁾	M3 ^{1),2)}	M3 ^{1),2)} 3-month moving average (centred)	MFI loans to euro area residents excluding MFIs and general government ¹⁾	Securities other than shares issued in euro by non- financial and non- monetary financial corporations ¹⁾	3-month interest rate (EURIBOR, % per annum, period averages)	10-year government bond yield (% per annum, period averages)
	1	2	3	4	5	6	7	8
2003	10.9	8.0	8.1	-	4.9	20.2	2.33	4.16
2004	10.0	6.3	5.8	-	6.0	11.3	2.11	4.14
2004 Q1	11.0	7.2	6.4	-	5.4	15.8	2.06	4.15
Q2	10.2	6.0	5.4	-	5.6	10.7	2.08	4.36
Q3	9.6	5.8	5.6	-	6.2	10.0	2.12	4.21
Q4	9.3	6.4	6.0	-	6.8	9.1	2.16	3.84
2004 Sep.	9.7	6.3	6.0	5.8	6.5	8.8	2.12	4.11
Oct.	9.0	6.3	5.8	6.0	6.7	8.5	2.15	3.98
Nov.	9.8	6.5	6.0	6.1	6.9	9.5	2.17	3.87
Dec.	8.4	6.5	6.4	6.3	7.0	9.5	2.17	3.69
2005 Jan.	9.2	6.9	6.6	.	7.3	.	2.15	3.63
Feb.	.	.	.	.	.	.	2.14	3.62

2. Prices, output, demand and labour markets

	HICP	Industrial producer prices	Hourly labour costs	Real GDP	Industrial production excluding construction	Capacity utilisation in manufacturing (percentages)	Employment	Unemployment (% of labour force)
	1	2	3	4	5	6	7	8
2003	2.1	1.4	2.8	0.5	0.3	81.1	0.2	8.9
2004	2.1	2.3	.	1.8	1.9	81.7	.	8.9
2004 Q1	1.7	0.2	2.8	1.6	1.0	81.1	0.2	9.0
Q2	2.3	2.0	2.2	2.2	3.1	81.6	0.3	8.8
Q3	2.2	3.1	1.9	1.9	2.9	82.1	0.4	8.9
Q4	2.3	3.8	.	1.6	0.8	82.1	.	8.8
2004 Sep.	2.1	3.3	-	-	3.7	-	-	8.9
Oct.	2.4	4.1	-	-	1.0	82.1	-	8.8
Nov.	2.2	3.7	-	-	0.4	-	-	8.8
Dec.	2.4	3.5	-	-	1.0	-	-	8.9
2005 Jan.	1.9	3.9	-	-	.	82.0	-	.
Feb.	2.0	.	-	-	.	-	-	.

3. Balance of payments, reserve assets and exchange rates

(EUR billions, unless otherwise indicated)

	Balance of payments (net transactions)				Reserve assets (end-of-period positions)	Effective exchange rate of the euro: EER-23 ³⁾ (index, 1999 Q1 = 100)		USD/EUR exchange rate
	Current and capital accounts	Goods	Direct investment	Portfolio investment		Nominal	Real (CPI)	
2003	35.0	105.3	-3.4	41.7	306.5	99.9	101.7	1.1312
2004	57.3	105.7	-36.4	54.7	279.6	103.8	105.9	1.2439
2004 Q1	17.2	28.6	-23.6	-3.1	308.4	104.7	106.7	1.2497
Q2	9.9	31.5	-12.9	21.7	301.4	102.1	104.1	1.2046
Q3	14.0	24.6	5.3	3.6	298.2	102.8	104.9	1.2220
Q4	16.2	21.0	-5.2	32.5	279.6	105.7	107.7	1.2977
2004 Sep.	2.6	5.0	2.5	43.9	298.2	103.0	105.2	1.2218
Oct.	1.8	7.7	-11.6	6.2	294.2	104.2	106.3	1.2490
Nov.	5.4	5.9	-0.8	-10.8	291.6	105.6	107.6	1.2991
Dec.	9.0	7.5	7.3	37.1	279.6	107.1	109.3	1.3408
2005 Jan.	.	.	.	.	289.0	105.8	107.9	1.3119
Feb.	.	.	.	.	.	105.1	107.2	1.3014

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

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

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



MONETARY POLICY STATISTICS

1.1 Consolidated financial statement of the Eurosystem (EUR millions)

1. Assets

	2005 4 Feb.	2005 11 Feb.	2005 18 Feb.	2005 25 Feb.
Gold and gold receivables	125,477	125,420	125,327	125,228
Claims on non-euro area residents in foreign currency	155,222	151,334	152,586	151,081
Claims on euro area residents in foreign currency	17,141	18,758	16,833	17,180
Claims on non-euro area residents in euro	6,542	7,686	8,174	8,258
Lending to euro area credit institutions in euro	357,501	355,522	356,702	369,509
Main refinancing operations	277,500	275,501	276,500	284,501
Longer-term refinancing operations	79,999	79,999	79,999	84,999
Fine-tuning reverse operations	0	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	0	0	201	1
Credits related to margin calls	2	22	2	8
Other claims on euro area credit institutions in euro	3,449	3,057	3,455	3,303
Securities of euro area residents in euro	72,786	73,500	74,776	75,393
General government debt in euro	41,260	41,260	41,260	41,260
Other assets	120,094	120,568	121,225	122,637
Total assets	899,472	897,105	900,338	913,849

2. Liabilities

	2005 4 Feb.	2005 11 Feb.	2005 18 Feb.	2005 25 Feb.
Banknotes in circulation	490,010	489,846	488,203	488,195
Liabilities to euro area credit institutions in euro	138,645	142,246	145,086	140,881
Current accounts (covering the minimum reserve system)	138,556	142,198	145,064	140,814
Deposit facility	89	48	10	59
Fixed-term deposits	0	0	0	0
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	0	0	12	8
Other liabilities to euro area credit institutions in euro	125	125	125	125
Debt certificates issued	0	0	0	0
Liabilities to other euro area residents in euro	71,834	68,099	69,868	88,013
Liabilities to non-euro area residents in euro	8,039	8,175	8,230	8,498
Liabilities to euro area residents in foreign currency	254	296	317	303
Liabilities to non-euro area residents in foreign currency	11,609	9,309	8,439	7,505
Counterpart of special drawing rights allocated by the IMF	5,573	5,573	5,573	5,573
Other liabilities	50,716	50,769	51,093	51,565
Revaluation accounts	64,842	64,842	64,842	64,842
Capital and reserves	57,825	57,825	58,562	58,349
Total liabilities	899,472	897,105	900,338	913,849

Source: ECB.

1.2 Key ECB interest rates

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

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

Source: ECB.

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

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

(EUR millions; interest rates in percentages per annum)

1. Main and longer-term refinancing operations ³⁾

Date of settlement	Bids (amount)	Number of participants	Allotment (amount)	Variable rate tenders			Running for (... days)
				Minimum bid rate	Marginal rate ⁴⁾	Weighted average rate	
1	2	3	4	5	6	7	
Main refinancing operations							
2004 3 Nov.	381,182	331	264,500	2.00	2.04	2.04	6
9	358,101	316	258,000	2.00	2.04	2.04	8
17	384,039	341	262,500	2.00	2.05	2.05	7
24	368,690	346	270,000	2.00	2.05	2.06	7
1 Dec.	370,856	323	273,500	2.00	2.05	2.06	7
8	329,144	298	282,000	2.00	2.05	2.06	7
15	354,121	339	276,000	2.00	2.07	2.08	7
22	350,812	340	283,500	2.00	2.07	2.08	8
30	284,027	355	270,000	2.00	2.09	2.17	6
2005 5 Jan.	324,154	321	259,000	2.00	2.06	2.07	7
12	343,644	332	265,000	2.00	2.06	2.07	7
19	362,771	364	279,500	2.00	2.06	2.07	7
26	368,794	358	273,000	2.00	2.06	2.07	7
2 Feb.	332,198	329	277,500	2.00	2.06	2.06	6
8	327,172	305	275,500	2.00	2.06	2.06	8
16	352,917	341	276,500	2.00	2.05	2.06	7
23	349,248	352	284,500	2.00	2.05	2.06	7
2 Mar.	329,036	325	275,000	2.00	2.05	2.06	7
Longer-term refinancing operations							
2004 26 Feb.	34,597	139	25,000	-	2.01	2.03	91
1 Apr.	44,153	141	25,000	-	1.85	1.90	91
29	54,243	180	25,000	-	2.01	2.03	91
27 May	45,594	178	25,000	-	2.04	2.05	91
1 July	37,698	147	25,000	-	2.06	2.08	91
29	40,354	167	25,000	-	2.07	2.08	91
26 Aug.	37,957	152	25,000	-	2.06	2.08	91
30 Sep.	37,414	138	25,000	-	2.06	2.08	84
28 Oct.	46,646	187	25,000	-	2.10	2.11	91
25 Nov.	51,095	174	25,000	-	2.13	2.14	91
23 Dec.	34,466	155	25,000	-	2.12	2.14	98
2005 27 Jan.	58,133	164	30,000	-	2.09	2.10	91
24 Feb.	40,340	145	30,000	-	2.08	2.09	91

2. Other tender operations

Date of settlement	Type of operation	Bids (amount)	Number of participants	Allotment (amount)	Fixed rate tenders	Variable rate tenders			Running for (... days)
					Fixed rate	Minimum bid rate	Marginal rate ⁴⁾	Weighted average rate	
1	2	3	4	5	6	7	8	9	
2000 5 Jan. ⁵⁾	Collection of fixed-term deposits	14,420	43	14,420	-	-	3.00	3.00	7
21 June	Reverse transaction	18,845	38	7,000	-	-	4.26	4.28	1
2001 30 Apr.	Reverse transaction	105,377	329	73,000	-	4.75	4.77	4.79	7
12 Sep.	Reverse transaction	69,281	63	69,281	4.25	-	-	-	1
13	Reverse transaction	40,495	45	40,495	4.25	-	-	-	1
28 Nov.	Reverse transaction	73,096	166	53,000	-	3.25	3.28	3.29	7
2002 4 Jan.	Reverse transaction	57,644	61	25,000	-	3.25	3.30	3.32	3
10	Reverse transaction	59,377	63	40,000	-	3.25	3.28	3.30	1
18 Dec.	Reverse transaction	28,480	50	10,000	-	2.75	2.80	2.82	6
2003 23 May	Collection of fixed-term deposits	3,850	12	3,850	2.50	-	-	-	3
2004 11 May	Collection of fixed-term deposits	16,200	24	13,000	2.00	-	-	-	1
8 Nov.	Reverse transaction	33,175	42	6,500	-	2.00	2.06	2.07	1
7 Dec.	Collection of fixed-term deposits	18,185	16	15,000	2.00	-	-	-	1
2005 18 Jan.	Reverse transaction	33,065	28	8,000	-	2.00	2.05	2.05	1
7 Feb.	Reverse transaction	17,715	24	2,500	-	2.00	2.05	2.05	1

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.
- 5) This operation was conducted with a maximum rate of 3.00%.

1.4 Minimum reserve and liquidity statistics

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

1. Reserve base of credit institutions subject to reserve requirements

Reserve base as at ¹⁾ :	Total	Liabilities to which a 2% reserve coefficient is applied		Liabilities to which a 0% reserve coefficient is applied		
		Deposits (overnight, up to 2 years' agreed maturity and notice period)	Debt securities up to 2 years' agreed maturity	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
2002	11,116.8	6,139.9	409.2	1,381.9	725.5	2,460.3
2003	11,538.7	6,283.8	412.9	1,459.1	759.5	2,623.5
2004 Q1	11,926.7	6,404.7	442.5	1,483.2	867.7	2,728.6
Q2	12,148.5	6,524.1	439.1	1,515.1	859.0	2,811.2
2004 July	12,182.0	6,517.4	442.6	1,527.7	857.0	2,837.3
Aug.	12,167.5	6,470.2	446.4	1,531.1	884.2	2,835.5
Sep.	12,209.6	6,488.0	435.3	1,535.3	880.8	2,870.3
Oct.	12,262.1	6,496.9	448.2	1,546.5	888.8	2,881.7
Nov.	12,371.7	6,535.7	452.7	1,551.1	946.6	2,885.6
Dec.	12,415.9	6,593.7	458.1	1,565.2	913.7	2,885.3

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
2002	128.8	129.5	0.8	0.0	3.06
2003	131.8	132.6	0.8	0.0	2.00
2004 Q1	133.4	134.1	0.7	0.0	2.00
Q2	136.4	137.1	0.7	0.0	2.00
Q3	138.7	139.3	0.6	0.0	2.02
2004 11 Oct.	138.7	139.3	0.6	0.0	2.02
8 Nov.	137.8	138.4	0.7	0.0	2.03
7 Dec.	137.9	138.5	0.6	0.0	2.05
2005 18 Jan.	138.4	139.1	0.7	0.0	2.07
7 Feb.	139.3	140.0	0.8	0.0	2.06
8 Mar.	140.5	.	.	.	.

3. Liquidity

Maintenance period ending on:	Liquidity-providing factors						Liquidity-absorbing factors				Credit institutions current accounts	Base money
	Eurosystème's net assets in gold and foreign currency	Monetary policy operations of the Eurosystem					Banknotes in circulation	Central government deposits with the Eurosystem	Other factors (net)			
		Main refinancing operations	Longer-term refinancing operations	Marginal lending facility	Other liquidity-providing operations	Deposit facility						
	1	2	3	4	5	6	7	8	9	10	11	12
2002	371.5	168.1	45.0	1.1	2.0	0.2	0.0	350.7	51.7	55.5	129.5	480.5
2003	320.1	235.5	45.0	0.6	0.0	0.1	0.0	416.1	57.0	-4.5	132.6	548.7
2004 Q1	303.3	219.4	56.7	0.4	0.0	0.2	0.0	418.0	48.6	-21.1	134.1	552.3
Q2	311.3	224.7	75.0	0.1	0.0	0.5	0.0	442.5	52.2	-21.1	137.1	580.1
Q3	299.4	251.6	75.0	0.1	0.0	0.2	0.0	462.8	56.3	-32.4	139.3	602.3
2004 11 Oct.	298.8	256.4	75.0	0.3	0.0	0.0	0.0	465.1	58.2	-32.1	139.3	604.4
8 Nov.	298.3	257.9	75.0	0.1	0.2	0.3	0.0	469.7	55.1	-32.1	138.4	608.4
7 Dec.	298.0	265.7	75.0	0.1	0.0	0.1	0.5	475.4	60.2	-36.0	138.5	614.1
2005 18 Jan.	290.3	272.9	75.0	0.2	0.2	0.1	0.0	496.0	45.3	-41.9	139.1	635.2
7 Feb.	280.6	276.6	78.0	0.1	0.1	0.1	0.0	487.1	63.8	-55.5	140.0	627.2

Source: ECB.

1) End of period.



MONEY, BANKING AND INVESTMENT FUNDS

2.1 Aggregated balance sheet of euro area MFIs

(EUR billions; outstanding amounts at end of period)

1. Assets

	Total	Loans to euro area residents				Holdings of securities other than shares issued by euro area residents				Money market fund shares/units ¹⁾	Holdings of shares/other equity issued by euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	MFIs	Total	General government	Other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Eurosystem														
2002	1,042.8	416.2	24.2	0.6	391.3	94.6	86.0	1.0	7.6	-	13.2	374.2	11.9	132.7
2003	1,086.8	471.3	22.6	0.6	448.0	133.6	121.5	1.3	10.8	-	12.8	317.9	12.4	138.8
2004 Q1	1,102.7	467.6	22.6	0.7	444.3	143.4	128.9	1.5	13.0	-	13.1	320.7	14.0	143.9
Q2	1,200.0	560.9	22.2	0.6	538.0	147.8	133.5	1.9	12.3	-	13.3	311.3	14.1	152.7
Q3	1,193.5	544.3	22.2	0.6	521.5	150.7	135.2	1.9	13.6	-	13.5	309.2	14.2	161.7
2004 Oct.	1,224.8	572.6	22.2	0.6	549.8	152.9	137.3	1.7	13.9	-	13.8	307.5	14.2	163.9
Nov.	1,206.6	550.5	22.2	0.6	527.6	156.6	141.7	1.3	13.5	-	14.1	305.5	14.3	165.7
Dec.	1,197.3	546.6	21.5	0.6	524.4	154.8	140.0	1.7	13.1	-	14.2	291.6	14.2	176.0
2005 Jan. ^(p)	1,240.6	581.9	21.5	0.6	559.8	159.3	143.6	1.7	14.0	-	13.8	298.2	14.9	172.5
MFIs excluding the Eurosystem														
2002	18,857.9	11,611.4	813.0	6,780.6	4,017.8	2,671.5	1,135.0	366.2	1,170.4	62.4	827.6	2,465.5	167.6	1,051.8
2003	19,800.8	12,114.7	819.1	7,101.8	4,193.8	2,944.0	1,242.6	427.7	1,273.6	67.3	895.1	2,569.9	161.8	1,048.2
2004 Q1	20,395.6	12,218.0	823.3	7,170.1	4,224.6	3,077.6	1,301.6	434.2	1,341.8	78.0	926.4	2,836.1	160.0	1,099.5
Q2	20,757.5	12,434.3	818.3	7,319.9	4,296.2	3,153.6	1,347.0	447.1	1,359.4	76.8	948.7	2,874.0	159.7	1,110.4
Q3	20,984.2	12,569.9	812.2	7,401.3	4,356.4	3,179.2	1,345.9	447.5	1,385.9	77.5	920.6	2,907.3	161.0	1,168.7
2004 Oct.	21,158.9	12,675.6	812.2	7,447.4	4,416.0	3,200.1	1,343.3	450.4	1,406.4	77.9	925.0	2,913.7	161.7	1,204.8
Nov.	21,346.1	12,717.6	808.2	7,510.7	4,398.7	3,217.1	1,346.0	456.1	1,414.9	78.3	944.7	2,978.5	161.2	1,248.6
Dec.	21,344.6	12,824.9	814.9	7,549.6	4,460.4	3,185.4	1,295.8	465.3	1,424.3	72.5	947.0	2,943.1	160.3	1,211.4
2005 Jan. ^(p)	21,646.5	12,886.0	820.1	7,590.0	4,475.9	3,233.5	1,336.6	468.5	1,428.4	75.6	962.7	3,075.5	157.1	1,256.0

2. Liabilities

	Total	Currency in circulation	Deposits of euro area residents				Money market fund shares/units ²⁾	Debt securities issued ³⁾	Capital and reserves	External liabilities	Remaining liabilities
			Total	Central government	Other general government/other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11
Eurosystem											
2002	1,042.8	392.9	328.4	29.5	15.6	283.3	-	3.6	165.9	32.9	119.1
2003	1,086.8	450.5	324.0	21.3	16.9	285.8	-	1.6	143.8	27.5	139.4
2004 Q1	1,102.7	439.9	336.6	43.1	15.8	277.7	-	1.6	155.5	23.6	145.3
Q2	1,200.0	465.1	413.2	67.1	18.4	327.6	-	1.6	145.5	23.5	151.1
Q3	1,193.5	480.6	380.4	57.8	16.3	306.3	-	1.6	148.5	23.6	158.8
2004 Oct.	1,224.8	487.0	401.4	64.1	18.2	319.2	-	1.6	147.5	24.2	163.2
Nov.	1,206.6	491.9	379.2	53.0	17.9	308.3	-	0.5	145.7	24.9	164.3
Dec.	1,197.3	517.3	346.7	24.7	15.0	306.9	-	0.5	138.0	27.2	167.7
2005 Jan. ^(p)	1,240.6	502.4	401.7	57.6	15.7	328.4	-	0.5	144.9	25.8	165.3
MFIs excluding the Eurosystem											
2002	18,857.9	0.0	10,197.8	106.9	5,954.3	4,136.6	532.8	2,993.5	1,108.7	2,593.3	1,431.7
2003	19,800.8	0.0	10,774.7	132.3	6,277.6	4,364.9	648.8	3,161.4	1,151.0	2,606.5	1,458.5
2004 Q1	20,395.6	0.0	10,863.5	140.7	6,310.3	4,412.5	680.6	3,304.6	1,160.4	2,832.6	1,553.9
Q2	20,757.5	0.0	11,087.9	156.6	6,408.5	4,522.8	686.0	3,370.5	1,177.6	2,870.3	1,565.2
Q3	20,984.2	0.0	11,174.2	146.3	6,441.3	4,586.6	687.0	3,447.8	1,187.2	2,838.0	1,650.0
2004 Oct.	21,158.9	0.0	11,291.2	133.4	6,491.6	4,666.2	695.0	3,477.8	1,191.2	2,823.3	1,680.4
Nov.	21,346.1	0.0	11,319.3	129.8	6,528.3	4,661.2	691.8	3,489.0	1,208.8	2,880.2	1,757.1
Dec.	21,344.6	0.0	11,479.6	138.9	6,638.4	4,702.3	676.3	3,498.8	1,205.6	2,814.7	1,669.6
2005 Jan. ^(p)	21,646.5	0.0	11,502.9	122.9	6,652.3	4,727.8	689.0	3,533.7	1,205.3	2,967.4	1,748.2

Source: ECB.

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

2.2 Consolidated balance sheet of euro area MFIs

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

1. Assets

	Total	Loans to euro area residents			Holdings of securities other than shares issued by euro area residents			Holdings of shares/ other equity issued by other euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	Total	General government	Other euro area residents				
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2002	13,931.2	7,618.5	837.2	6,781.2	1,588.1	1,221.0	367.1	572.7	2,839.7	179.5	1,132.7
2003	14,557.4	7,944.2	841.7	7,102.5	1,793.1	1,364.1	429.0	623.8	2,887.8	174.1	1,134.4
2004 Q1	15,066.3	8,016.8	846.0	7,170.8	1,866.2	1,430.5	435.7	649.4	3,156.8	173.9	1,203.1
Q2	15,333.6	8,161.0	840.5	7,320.5	1,929.6	1,480.5	449.0	662.9	3,185.3	173.8	1,221.1
Q3	15,489.3	8,236.4	834.5	7,401.9	1,930.4	1,481.1	449.3	643.1	3,216.5	175.2	1,287.8
2004 Oct.	15,585.4	8,282.5	834.5	7,448.0	1,932.7	1,480.6	452.1	647.0	3,221.2	175.9	1,326.1
Nov.	15,777.9	8,341.8	830.4	7,511.3	1,945.2	1,487.8	457.4	660.2	3,284.0	175.5	1,371.2
Dec.	15,704.7	8,386.6	836.4	7,550.2	1,902.8	1,435.8	467.0	667.5	3,234.8	174.5	1,338.5
2005 Jan. ^(p)	15,993.2	8,432.3	841.6	7,590.6	1,950.4	1,480.1	470.3	678.8	3,373.7	172.0	1,386.0
Transactions											
2002	602.8	299.2	-9.4	308.6	72.2	43.4	28.8	7.7	245.2	-1.3	-20.1
2003	767.4	385.9	13.7	372.2	170.4	116.2	54.1	19.4	222.0	-3.6	-26.8
2004 Q1	430.6	84.6	5.8	78.8	56.6	52.8	3.8	24.6	214.4	-0.4	51.0
Q2	269.4	150.3	-7.1	157.4	64.7	50.3	14.3	8.3	33.1	1.6	11.4
Q3	190.6	87.6	-5.7	93.3	-4.0	-1.8	-2.2	-19.6	60.8	1.6	64.2
2004 Oct.	122.8	49.5	0.2	49.4	1.8	-1.1	2.9	2.9	30.7	0.7	37.2
Nov.	239.2	65.2	-3.9	69.0	12.4	6.9	5.5	12.2	106.1	-0.4	43.8
Dec.	-9.3	55.8	5.7	50.1	-41.6	-52.3	10.7	5.6	-11.6	0.4	-17.8
2005 Jan. ^(p)	223.4	44.8	5.0	39.8	44.4	41.3	3.1	11.8	82.1	-2.3	42.6

2. Liabilities

	Total	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Money market fund shares/ units ¹⁾	Debt securities issued ²⁾	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities
Outstanding amounts										
2002	13,931.2	341.2	136.4	5,969.9	470.5	1,819.0	1,006.4	2,626.2	1,550.9	10.8
2003	14,557.4	397.9	153.6	6,294.4	581.5	1,878.5	1,010.7	2,634.0	1,597.9	8.9
2004 Q1	15,066.3	399.6	183.8	6,326.1	602.6	1,951.5	1,025.8	2,856.2	1,699.3	21.4
Q2	15,333.6	423.0	223.7	6,427.0	609.2	2,000.4	1,024.1	2,893.8	1,716.3	16.1
Q3	15,489.3	438.0	204.1	6,457.6	609.5	2,049.9	1,044.7	2,861.6	1,808.8	15.0
2004 Oct.	15,585.4	444.4	197.4	6,509.8	617.1	2,059.1	1,047.0	2,847.4	1,843.6	19.6
Nov.	15,777.9	448.7	182.8	6,546.2	613.5	2,061.1	1,055.8	2,905.1	1,921.4	43.2
Dec.	15,704.7	468.4	163.6	6,653.4	603.8	2,062.0	1,049.8	2,841.9	1,837.3	24.4
2005 Jan. ^(p)	15,993.2	459.9	180.5	6,667.9	613.3	2,091.8	1,052.5	2,993.2	1,913.5	20.6
Transactions										
2002	602.8	101.4	-5.8	222.0	70.0	106.1	39.7	75.1	-92.3	86.5
2003	767.4	79.0	12.9	315.8	57.2	133.4	40.1	130.3	-61.0	59.8
2004 Q1	430.6	1.7	30.2	25.2	22.4	61.3	8.2	174.7	117.7	-10.7
Q2	269.4	23.4	39.4	102.4	2.2	48.7	10.0	32.3	13.2	-2.3
Q3	190.6	15.1	-19.7	35.5	1.6	54.8	19.2	-3.7	79.5	8.3
2004 Oct.	122.8	6.4	-6.7	55.2	7.4	14.1	1.8	10.4	22.9	11.4
Nov.	239.2	4.4	-14.6	41.7	-3.1	11.1	5.9	96.0	63.4	34.3
Dec.	-9.3	19.7	-19.2	111.3	-9.2	8.9	0.1	-34.4	-73.4	-13.1
2005 Jan. ^(p)	223.4	-8.5	16.8	8.2	9.8	10.0	6.6	104.6	88.7	-12.9

Source: ECB.

1) Amounts held by euro area residents.

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

2.3 Monetary statistics

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

1. Monetary aggregates¹⁾ and counterparts

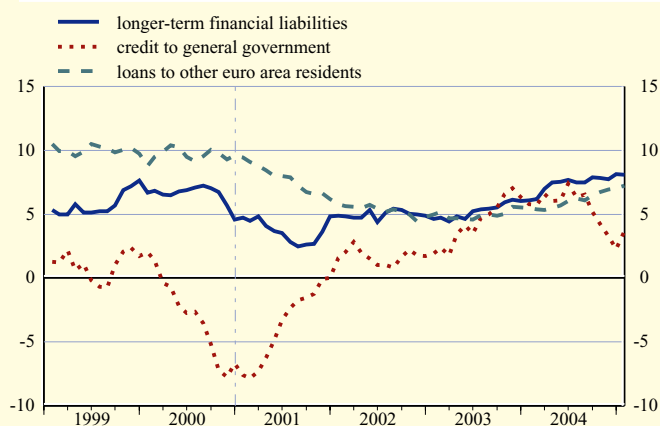
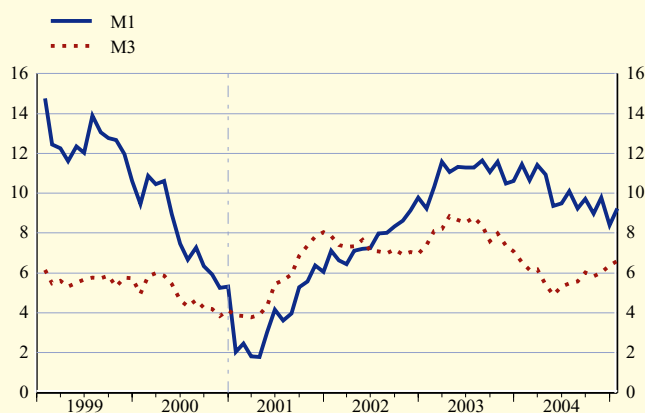
	M1		M2	M3-M2	M3	M3 3-month moving average (centred)	Longer-term financial liabilities	Credit to general government	Credit to other euro area residents		Net external assets ²⁾
	1	2	3	4	5	6	7	8	Loans		11
									9	10	
Outstanding amounts											
2002	2,441.7	2,475.9	4,917.6	853.5	5,771.1	-	3,989.2	2,072.2	7,723.3	6,778.9	189.3
2003	2,676.1	2,559.6	5,235.7	912.3	6,148.1	-	4,142.6	2,222.3	8,158.0	7,100.9	231.3
2004 Q1	2,769.2	2,552.2	5,321.4	905.9	6,227.2	-	4,240.8	2,259.5	8,241.7	7,165.0	316.9
Q2	2,790.3	2,581.9	5,372.2	931.8	6,304.0	-	4,307.3	2,306.9	8,403.2	7,293.3	290.2
Q3	2,868.9	2,621.1	5,490.0	941.3	6,431.3	-	4,395.1	2,324.9	8,523.4	7,415.2	344.8
2004 Oct.	2,881.6	2,642.6	5,524.2	946.2	6,470.3	-	4,416.0	2,326.6	8,577.3	7,465.0	355.9
Nov.	2,907.3	2,637.7	5,544.9	945.7	6,490.6	-	4,443.4	2,316.7	8,646.2	7,518.0	355.5
Dec.	2,892.3	2,672.3	5,564.6	963.8	6,528.5	-	4,459.3	2,290.0	8,687.4	7,548.7	372.4
2005 Jan. ^(p)	2,956.1	2,664.9	5,621.0	949.3	6,570.4	-	4,493.4	2,324.7	8,746.5	7,596.9	378.3
Transactions											
2002	217.3	89.3	306.5	68.8	375.3	-	189.1	35.1	347.2	311.9	173.1
2003	258.1	114.6	372.7	34.8	407.5	-	238.6	132.3	446.1	373.0	93.5
2004 Q1	92.3	-13.2	79.1	-1.6	77.5	-	76.0	25.0	90.2	74.5	78.4
Q2	20.6	31.8	52.4	22.8	75.2	-	76.9	46.1	165.1	136.1	-16.7
Q3	80.6	40.7	121.3	9.0	130.3	-	94.7	16.1	129.8	133.9	55.8
2004 Oct.	14.0	23.0	36.9	4.2	41.1	-	26.1	1.2	56.3	53.0	12.5
Nov.	28.5	-2.5	26.0	-0.2	25.8	-	34.0	-10.0	73.7	58.7	4.5
Dec.	-11.4	35.0	23.6	18.3	41.9	-	30.4	-27.4	51.9	42.0	25.8
2005 Jan. ^(p)	61.3	-10.3	51.0	-14.3	36.7	-	17.4	31.4	58.8	47.6	-4.2
Growth rates											
2002 Dec.	9.8	3.7	6.6	8.8	7.0	7.1	4.9	1.7	4.7	4.8	173.1
2003 Dec.	10.6	4.7	7.6	4.1	7.1	7.0	6.0	6.3	5.8	5.5	93.5
2004 Mar.	11.4	2.1	6.7	3.2	6.2	5.9	7.0	6.6	5.7	5.3	93.1
June	9.5	1.7	5.6	3.5	5.3	5.2	7.7	7.4	6.1	6.0	0.7
Sep.	9.7	2.7	6.3	4.7	6.0	5.8	7.9	5.2	6.3	6.5	124.3
2004 Oct.	9.0	3.6	6.3	3.0	5.8	6.0	7.8	4.2	6.5	6.7	132.3
Nov.	9.8	3.2	6.5	3.1	6.0	6.1	7.7	3.3	6.7	6.9	125.9
Dec.	8.4	4.5	6.5	5.8	6.4	6.3	8.1	2.3	7.0	7.0	160.4
2005 Jan. ^(p)	9.2	4.4	6.9	4.8	6.6	.	8.1	3.7	7.3	7.3	111.9

C1 Monetary aggregates

(annual growth rates; seasonally adjusted)

C2 Counterparts

(annual growth rates; seasonally adjusted)



Source: ECB.

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

2.3 Monetary statistics

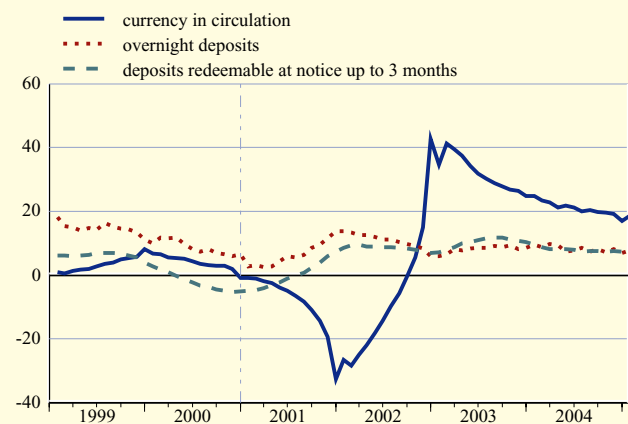
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

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

	Currency in circulation	Overnight deposits	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Repos	Money market fund shares/units	Debt securities up to 2 years	Debt securities over 2 years	Deposits redeemable at notice over 3 months	Deposits with agreed maturity over 2 years	Capital and reserves
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2002	332.3	2,109.4	1,077.0	1,399.0	240.5	484.5	128.5	1,694.0	103.8	1,186.6	1,004.8
2003	387.6	2,288.6	1,037.0	1,522.6	222.5	597.1	92.7	1,790.2	90.6	1,253.1	1,008.7
2004 Q1	406.2	2,363.1	1,003.9	1,548.3	214.3	597.1	94.5	1,855.8	90.1	1,268.3	1,026.6
Q2	420.5	2,369.8	995.2	1,586.7	220.2	611.5	100.1	1,899.0	89.1	1,298.6	1,020.6
Q3	439.9	2,429.0	1,002.6	1,618.5	225.3	615.6	100.4	1,947.2	88.4	1,318.7	1,040.8
2004 Oct.	446.3	2,435.2	1,020.2	1,622.4	224.5	622.7	99.0	1,953.5	89.4	1,327.8	1,045.3
Nov.	453.3	2,453.9	1,006.8	1,630.9	225.3	617.3	103.1	1,949.7	89.7	1,343.4	1,060.5
Dec.	453.3	2,439.0	1,037.4	1,634.9	243.2	619.4	101.2	1,964.7	89.5	1,357.6	1,047.5
2005 Jan. ^(p)	468.2	2,488.0	1,030.3	1,634.6	229.9	615.4	104.0	1,992.4	90.1	1,363.4	1,047.5
Transactions											
2002	99.3	118.0	-1.1	90.3	10.7	70.6	-12.5	118.7	-10.0	41.0	39.4
2003	77.8	180.3	-28.8	143.4	-8.8	58.6	-15.1	149.4	-13.2	62.7	39.7
2004 Q1	18.6	73.7	-38.8	25.5	-7.2	1.2	4.5	51.2	-0.5	14.4	10.9
Q2	14.4	6.2	-6.7	38.5	5.5	10.0	7.3	41.3	-1.0	30.7	5.9
Q3	19.3	61.3	8.7	32.0	5.1	5.3	-1.5	55.2	-0.7	21.4	18.7
2004 Oct.	6.5	7.5	19.0	3.9	-0.7	6.9	-2.0	11.8	1.0	9.4	4.0
Nov.	7.0	21.5	-11.1	8.6	0.9	-4.8	3.7	5.7	0.3	15.6	12.3
Dec.	0.0	-11.4	31.0	4.1	18.0	2.5	-2.2	23.3	-0.2	14.3	-6.9
2005 Jan. ^(p)	14.9	46.5	-9.8	-0.5	-13.5	-3.6	2.7	7.9	0.6	5.0	3.9
Growth rates											
2002 Dec.	42.6	5.9	-0.1	6.9	4.7	17.1	-9.0	7.4	-8.8	3.5	4.0
2003 Dec.	24.9	8.5	-2.7	10.4	-3.9	11.2	-14.9	8.9	-12.7	5.3	4.0
2004 Mar.	22.7	9.7	-6.1	8.2	-1.2	6.9	-7.3	10.5	-9.9	5.4	4.6
June	21.1	7.7	-6.9	8.0	2.0	4.7	0.5	10.4	-7.1	7.0	5.2
Sep.	19.9	8.1	-4.3	7.6	3.2	4.2	11.7	10.9	-3.0	7.2	4.5
2004 Oct.	19.6	7.2	-2.0	7.4	1.9	4.4	-3.0	10.5	-2.1	7.4	4.5
Nov.	19.2	8.2	-3.1	7.5	0.2	4.7	0.5	9.8	-1.4	7.9	4.6
Dec.	17.0	6.9	0.2	7.4	9.8	3.5	10.7	10.5	-1.2	8.4	4.4
2005 Jan. ^(p)	18.5	7.7	0.6	7.0	6.3	3.6	8.2	9.9	-0.3	8.6	5.0

C3 Components of monetary aggregates

(annual growth rates; seasonally adjusted)



C4 Components of longer-term financial liabilities

(annual growth rates; seasonally adjusted)



Source: ECB.

2.4 MFI loans, breakdown ¹⁾

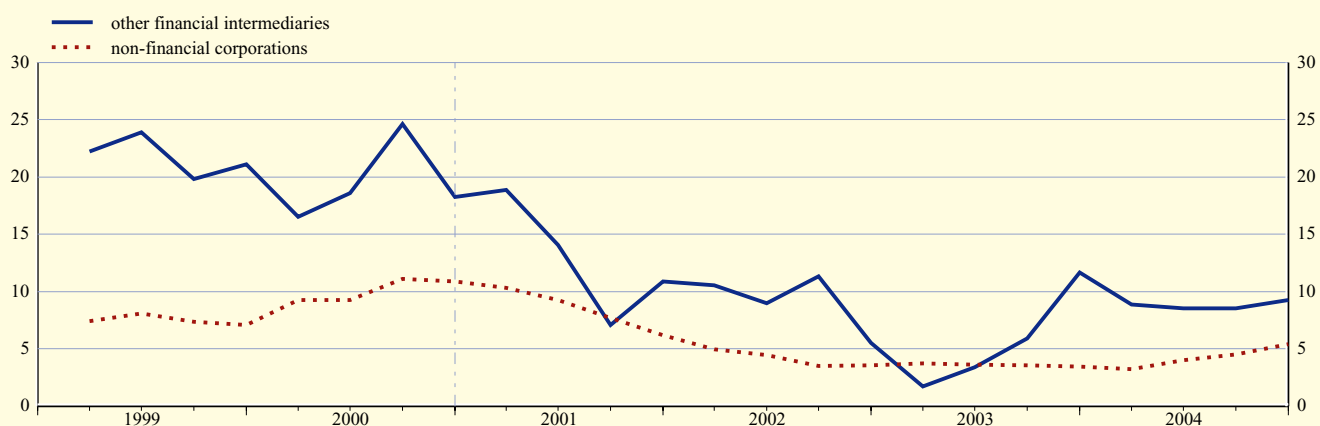
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

1. Loans to financial intermediaries and non-financial corporations

	Insurance corporations and pension funds		Other financial intermediaries ²⁾		Non-financial corporations			
	Total		Total		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	Up to 1 year 2	3	Up to 1 year 4	5	6	7	8
Outstanding amounts								
2002	32.9	19.6	455.5	289.3	2,965.1	980.2	514.8	1,470.1
2003	35.4	22.1	511.6	321.9	3,034.2	958.7	527.0	1,548.5
2004 Q1	46.3	32.2	503.8	303.8	3,055.3	955.1	526.2	1,574.0
Q2	53.7	39.8	509.7	305.7	3,093.4	966.4	537.3	1,589.7
Q3	52.5	37.6	508.3	301.2	3,104.2	952.5	545.9	1,605.8
2004 Oct.	54.8	39.1	511.9	305.2	3,123.1	961.1	546.8	1,615.2
Nov.	54.0	37.8	534.6	328.5	3,142.7	975.3	549.1	1,618.3
Dec.	48.7	30.8	541.6	332.3	3,154.8	974.4	548.6	1,631.8
2005 Jan. ^(p)	55.6	38.6	542.1	337.4	3,170.8	979.5	557.8	1,633.5
Transactions								
2002	-4.1	-8.0	23.9	14.2	103.7	-26.6	31.8	98.5
2003	4.2	2.2	53.8	26.1	102.4	-8.0	15.5	94.8
2004 Q1	10.8	10.0	-2.8	-11.6	22.5	-3.5	4.0	22.1
Q2	7.0	7.3	8.5	4.5	59.9	16.1	11.7	32.1
Q3	-1.1	-2.2	2.4	-0.8	16.4	-12.0	9.5	18.9
2004 Oct.	2.4	1.6	5.2	4.5	20.2	9.2	1.2	9.8
Nov.	-0.7	-1.3	23.9	24.4	23.3	15.3	2.8	5.1
Dec.	-5.2	-6.9	8.7	3.6	20.8	-1.5	3.3	19.0
2005 Jan. ^(p)	6.5	7.5	-1.5	3.9	16.1	5.1	9.1	1.8
Growth rates								
2002 Dec.	-10.3	-28.4	5.5	5.1	3.6	-2.6	6.5	7.1
2003 Dec.	11.8	11.6	11.7	8.8	3.5	-0.8	3.0	6.5
2004 June	18.8	25.6	8.5	3.0	4.0	-2.1	6.4	7.2
Sept.	17.5	31.5	8.5	5.6	4.5	-0.5	6.1	7.2
2004 Oct.	9.4	14.7	9.2	7.5	5.1	1.5	5.6	7.2
Nov.	10.0	14.0	10.1	8.5	5.2	2.6	5.5	6.7
Dec.	37.1	39.1	9.2	8.1	5.4	2.5	6.2	6.9
2005 Jan. ^(p)	16.4	11.9	9.5	10.6	5.7	2.8	7.6	6.8

C5 Loans to financial intermediaries and non-financial corporations

(annual growth rates)



Source: ECB.

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

2) This category includes investment funds.

2.4 MFI loans, breakdown ¹⁾

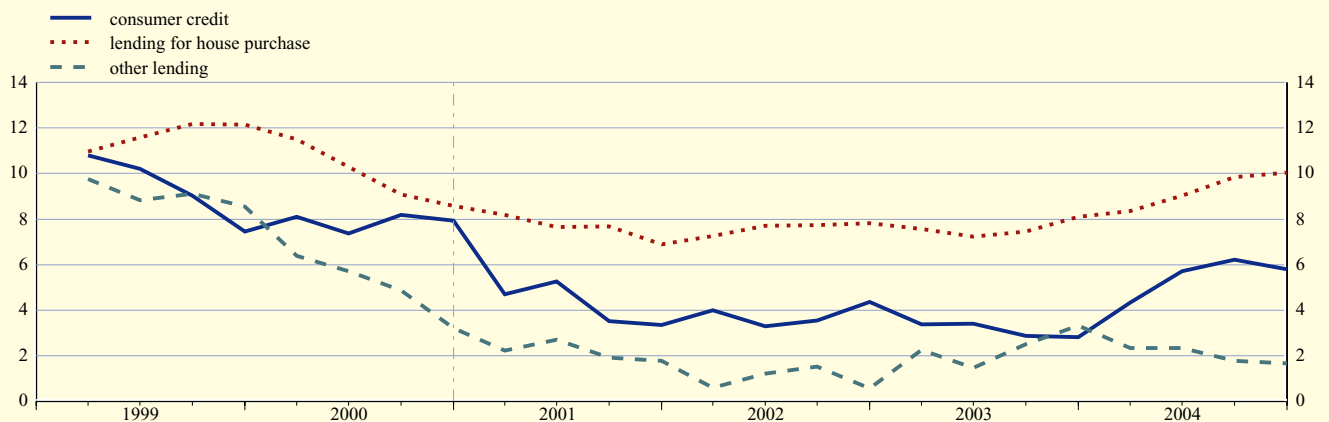
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Loans to households ²⁾

	2. Loans to households ²⁾													
	Total	Consumer credit				Lending for house purchase				Other lending				
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years		
	1	2	3	4	5	6	7	8	9	10	11	12	13	
Outstanding amounts														
2002	3,327.0	518.9	105.9	178.3	234.7	2,188.5	22.3	65.1	2,101.1	619.6	153.9	99.7	366.0	
2003	3,520.6	484.5	112.0	181.0	191.5	2,360.4	14.4	63.3	2,282.7	675.6	145.0	95.5	435.1	
2004 Q1	3,564.7	484.5	109.9	182.3	192.3	2,400.2	14.2	61.6	2,324.4	679.9	141.8	95.1	443.0	
Q2	3,663.2	502.2	115.1	187.1	199.9	2,463.7	15.2	64.7	2,383.8	697.2	147.5	99.2	450.5	
Q3	3,736.3	507.5	115.2	188.4	203.9	2,534.1	14.9	65.8	2,453.3	694.7	144.6	99.0	451.0	
2004 Oct.	3,757.6	509.4	114.9	189.5	205.0	2,553.5	15.5	66.5	2,471.5	694.8	143.6	99.7	451.5	
Nov.	3,779.4	509.9	114.8	189.7	205.4	2,571.9	15.3	65.7	2,491.0	697.6	146.5	99.4	451.7	
Dec.	3,804.5	513.8	117.3	191.0	205.5	2,592.3	15.5	65.8	2,511.0	698.4	144.5	99.7	454.3	
2005 Jan. ^(p)	3,821.5	515.3	118.6	190.7	205.9	2,607.2	15.0	65.5	2,526.7	699.1	144.1	98.8	456.2	
Transactions														
2002	183.2	21.9	7.1	5.3	9.4	157.9	-0.4	2.3	156.0	3.5	-3.1	2.2	4.4	
2003	211.8	13.3	8.4	6.3	-1.4	177.4	-5.9	1.7	181.5	21.1	-6.3	-4.9	32.3	
2004 Q1	48.2	2.1	-1.6	1.8	2.0	44.9	-0.1	-0.8	45.7	1.3	-2.3	0.4	3.2	
Q2	82.0	13.6	4.8	3.7	5.1	59.9	0.9	2.6	56.5	8.5	3.1	1.0	4.5	
Q3	75.6	5.4	0.2	1.3	3.9	71.4	-0.2	1.2	70.4	-1.1	-2.6	-0.4	2.0	
2004 Oct.	21.6	1.7	-0.3	0.7	1.2	19.9	0.5	0.3	19.1	0.0	-0.9	0.9	0.0	
Nov.	22.5	0.8	-0.1	0.3	0.7	18.7	-0.4	-0.6	19.7	3.0	3.2	-0.2	-0.1	
Dec.	25.9	4.5	2.8	1.5	0.2	21.7	0.3	0.2	21.2	-0.3	-1.2	0.4	0.5	
2005 Jan. ^(p)	18.7	1.7	0.8	0.0	0.9	15.0	-0.4	-0.3	15.7	1.9	0.0	-0.9	2.8	
Growth rates														
2002 Dec.	5.8	4.4	6.9	3.1	4.2	7.8	-1.8	3.7	8.1	0.6	-2.0	2.2	1.2	
2003 Dec.	6.4	2.8	8.1	3.6	-0.2	8.1	-26.2	2.6	8.7	3.3	-4.2	-5.0	8.5	
2004 Mar.	6.6	4.3	-0.1	6.1	5.3	8.4	4.6	-3.3	8.8	2.4	-1.0	-1.8	4.4	
June	7.3	5.7	3.3	5.8	7.0	9.0	9.1	1.0	9.3	2.3	-1.4	1.7	3.8	
Sep.	7.8	6.2	4.4	5.4	8.0	9.8	4.3	0.6	10.2	1.8	-0.1	-0.1	2.8	
2004 Oct.	7.8	5.9	3.7	5.2	7.9	9.8	9.1	-0.2	10.2	2.1	1.0	1.1	2.6	
Nov.	7.9	6.5	7.0	4.6	8.1	10.0	6.2	-0.9	10.3	1.9	1.2	1.2	2.3	
Dec.	7.8	5.8	5.2	5.1	6.8	10.0	6.6	4.6	10.2	1.7	-0.5	2.2	2.3	
2005 Jan. ^(p)	8.1	6.8	7.3	6.0	7.1	10.1	5.8	5.8	10.2	2.3	0.9	2.1	2.9	

C6 Loans to households

(annual growth rates)



Source: ECB.

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

2) Including non-profit institutions serving households.

2.4 MFI loans, breakdown ¹⁾

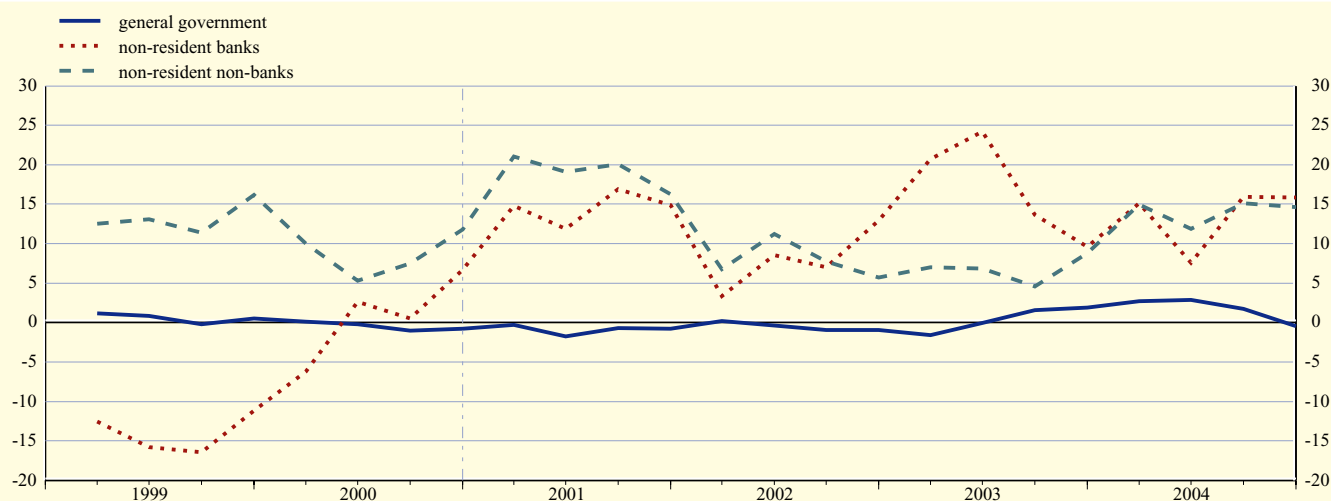
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Loans to government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ²⁾	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2002	813.0	132.7	277.7	382.8	19.7	1,730.1	1,146.2	583.9	64.6	519.3
2003	819.1	130.0	265.1	388.9	35.0	1,762.7	1,182.2	580.6	59.3	521.2
2004 Q1	823.3	134.6	261.3	388.5	38.9	1,955.5	1,308.6	646.9	61.1	585.8
Q2	818.3	129.7	253.4	391.4	43.7	1,965.3	1,322.7	642.6	60.8	581.8
Q3	812.2	126.5	252.3	394.6	38.8	1,965.9	1,317.3	648.6	60.9	587.7
Q4 ^(p)	814.9	129.5	252.4	395.7	37.3	1,978.4	1,336.6	641.8	61.5	580.4
Transactions										
2002	-7.9	-11.3	-21.1	19.9	4.6	169.1	135.2	34.5	-1.2	35.7
2003	15.3	-4.3	-12.2	16.6	15.3	159.6	109.2	50.3	-5.0	55.3
2004 Q1	5.8	5.7	-3.9	0.1	3.9	164.1	107.4	56.6	1.8	54.8
Q2	-6.7	-5.9	-8.5	2.9	4.8	6.2	11.4	-5.3	-0.5	-4.8
Q3	-5.7	-3.0	-1.0	3.2	-5.0	22.5	7.7	14.8	0.1	14.7
Q4 ^(p)	2.7	3.5	-0.5	1.2	-1.5	80.8	61.4	19.4	0.6	18.8
Growth rates										
2002 Dec.	-1.0	-7.8	-7.1	5.5	30.0	10.3	12.9	5.7	-1.9	6.7
2003 Dec.	1.9	-3.2	-4.4	4.4	77.5	9.3	9.6	8.8	-7.7	10.9
2004 Mar.	2.7	0.9	-2.2	3.0	63.2	15.1	15.1	15.0	4.0	16.3
June	2.9	2.0	-4.0	4.2	54.4	9.0	7.6	11.9	2.9	12.9
Sep.	1.8	-1.4	-4.1	4.9	26.9	15.7	16.0	15.1	1.9	16.6
Dec. ^(p)	-0.5	0.3	-5.2	1.9	6.4	15.5	15.8	14.7	3.3	16.0

C7 Loans to government and non-euro area residents

(annual growth rates)



Source: ECB.

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

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

2.5 Deposits held with MFIs, breakdown ¹⁾

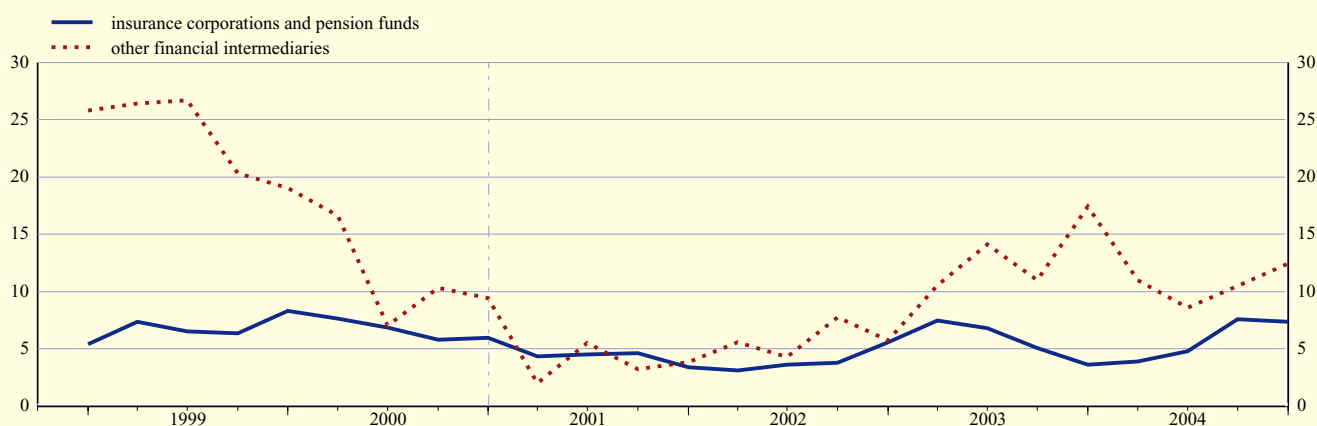
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

1. Deposits by financial intermediaries

	Insurance corporations and pension funds							Other financial intermediaries ²⁾						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
2002	523.1	55.8	-	-	-	-	17.8	493.6	152.7	-	-	-	-	97.1
2003	542.4	58.9	41.7	420.5	1.3	0.8	19.1	567.6	183.1	130.6	143.3	6.1	0.1	104.4
2004 Q1	557.3	64.7	42.2	426.2	1.3	1.0	22.0	586.4	197.0	119.7	145.7	7.8	0.1	116.1
Q2	565.4	59.9	42.1	439.8	1.3	1.0	21.2	595.9	194.3	122.3	153.7	8.3	0.1	117.2
Q3	573.6	61.5	47.3	442.5	1.2	1.0	20.0	598.0	189.9	120.2	164.9	8.1	0.1	114.8
2004 Oct.	579.1	58.6	49.1	446.1	1.3	1.3	22.8	620.8	187.3	133.6	166.9	8.4	0.1	124.5
Nov.	584.4	63.2	47.7	450.0	1.3	1.3	20.8	631.8	197.4	126.4	177.0	9.7	0.1	121.3
Dec.	583.1	59.0	51.4	449.5	1.2	1.3	20.8	635.1	180.7	138.8	186.9	10.1	0.1	118.6
2005 Jan. ^(p)	595.3	66.9	50.8	451.2	1.4	1.3	23.6	659.1	208.3	129.9	185.1	11.6	0.1	124.2
Transactions														
2002	27.6	7.8	-	-	-	-	1.4	26.6	-4.7	-	-	-	-	12.8
2003	19.0	1.6	-3.1	18.8	0.3	0.4	1.1	84.8	27.5	-0.7	38.8	3.2	0.0	16.0
2004 Q1	14.6	5.7	0.3	5.6	0.0	0.2	2.8	15.2	14.0	-14.7	1.5	1.6	0.0	12.7
Q2	7.2	-4.9	0.0	13.7	0.0	-0.6	-0.9	12.2	-1.3	3.9	8.3	0.6	0.0	0.8
Q3	8.2	1.6	5.3	2.6	-0.1	0.0	-1.1	2.5	-4.0	-2.3	11.4	-0.2	0.0	-2.4
2004 Oct.	5.4	-2.9	1.9	3.3	0.0	0.3	2.8	23.8	-2.2	13.6	2.2	0.4	0.0	9.8
Nov.	5.5	5.1	-1.2	3.5	0.1	0.0	-2.0	12.8	10.9	-6.7	10.5	1.3	0.0	-3.2
Dec.	-1.2	-4.1	3.7	-0.5	-0.1	0.0	-0.1	4.3	-15.2	11.9	9.7	0.5	0.0	-2.6
2005 Jan. ^(p)	11.9	7.8	-0.7	1.7	0.2	0.0	2.9	21.9	26.7	-9.5	-2.3	1.5	0.0	5.5
Growth rates														
2002 Dec.	5.6	16.3	-	-	-	-	8.5	5.7	-3.0	-	-	-	-	14.9
2003 Dec.	3.6	2.8	-6.7	4.7	40.9	60.8	6.0	17.4	17.8	-0.6	36.8	70.6	-	17.1
2004 Mar.	3.9	5.1	9.9	2.4	40.8	52.8	18.6	11.0	17.1	-13.2	22.3	47.6	-	17.8
June	4.8	-6.4	12.7	6.4	40.0	-44.0	-6.3	8.6	7.8	-10.2	18.6	44.5	-	20.5
Sep.	7.6	6.9	46.4	4.8	13.6	-52.5	6.9	10.5	7.4	-6.2	28.3	63.5	-	11.7
2004 Oct.	8.3	10.3	32.9	5.1	3.3	38.3	24.2	11.2	7.5	1.7	27.0	48.4	-	7.8
Nov.	9.4	22.7	33.3	5.9	3.8	-37.9	7.2	11.8	12.7	-4.2	29.3	73.6	-	4.9
Dec.	7.3	1.0	23.5	6.7	-8.2	-43.1	8.0	12.5	1.1	4.3	30.3	67.6	-	14.6
2005 Jan. ^(p)	7.2	2.9	17.8	6.7	6.6	37.1	8.3	16.1	16.7	-1.0	31.8	69.9	-	12.0

C8 Deposits by financial intermediaries

(annual growth rates)



Source: ECB.

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

2) This category includes investment funds.

2.5 Deposits held with MFIs, breakdown ¹⁾

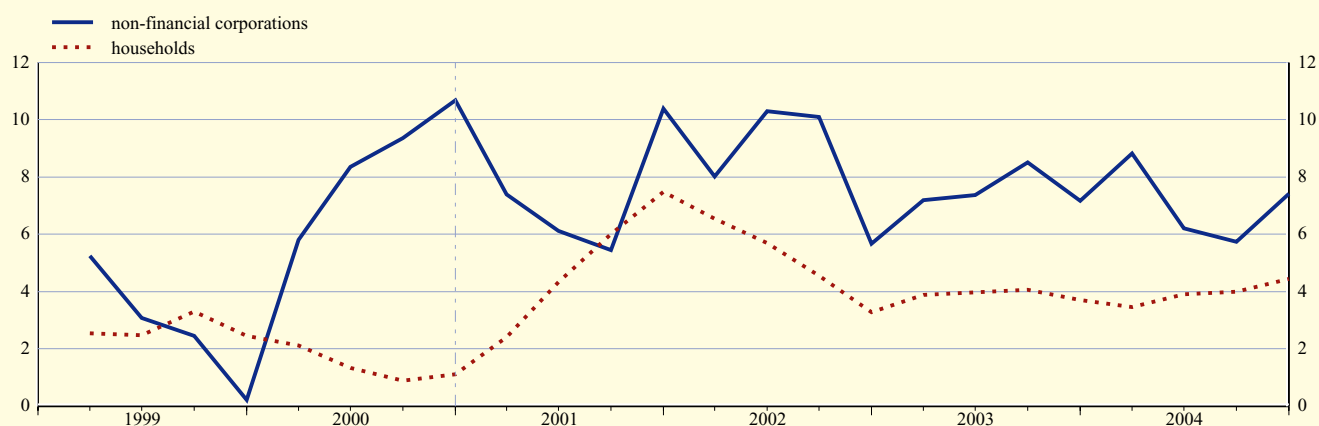
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Deposits by non-financial corporations and households

	Non-financial corporations							Households ²⁾						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
2002	990.0	595.6	-	-	-	-	34.7	3,806.3	1,173.0	-	-	-	-	74.7
2003	1,050.2	633.3	280.2	67.6	38.1	1.0	30.0	3,978.5	1,311.8	544.0	600.8	1,379.2	89.9	52.9
2004 Q1	1,036.7	624.2	275.9	69.9	39.9	1.0	25.8	3,997.9	1,320.7	527.4	608.6	1,401.2	88.2	51.9
Q2	1,054.0	650.6	265.6	70.3	41.0	1.0	25.5	4,055.5	1,367.5	517.0	612.4	1,422.3	85.8	50.4
Q3	1,067.1	657.6	269.7	70.6	42.6	1.1	25.6	4,060.8	1,363.2	511.4	615.0	1,431.9	85.5	53.7
2004 Oct.	1,071.7	648.6	283.9	69.6	42.5	1.1	25.9	4,078.5	1,376.9	509.1	617.6	1,434.4	86.0	54.4
Nov.	1,077.8	660.5	279.7	69.7	41.2	1.1	25.5	4,089.8	1,381.0	509.1	618.7	1,439.8	86.8	54.4
Dec.	1,115.6	674.1	295.0	72.0	43.7	1.1	29.8	4,160.0	1,402.7	514.3	632.9	1,466.5	88.0	55.6
2005 Jan. ^(p)	1,080.1	657.3	279.0	74.8	43.0	1.1	24.9	4,167.0	1,400.7	514.7	634.3	1,477.4	87.8	52.2
Transactions														
2002	54.3	28.9	-	-	-	-	-1.3	120.5	65.3	-	-	-	-	-1.9
2003	70.5	40.9	53.5	-29.8	10.2	0.0	-4.2	141.8	95.2	-71.2	35.9	117.4	-13.7	-21.8
2004 Q1	-14.5	-9.5	-5.3	2.6	1.9	0.0	-4.2	18.0	8.5	-17.4	7.7	21.9	-1.7	-1.0
Q2	21.1	27.8	-8.9	0.9	1.1	0.6	-0.3	53.5	43.8	-11.0	3.3	21.1	-2.4	-1.5
Q3	15.5	7.9	5.4	0.4	1.6	0.0	0.2	6.0	-3.7	-5.3	2.4	9.6	-0.3	3.3
2004 Oct.	6.0	-8.3	14.7	-0.7	0.0	0.0	0.3	18.4	13.9	-1.8	2.7	2.5	0.5	0.7
Nov.	10.8	13.1	-3.2	0.1	1.2	0.0	-0.4	9.9	4.4	0.7	1.1	3.0	0.8	0.0
Dec.	38.5	14.3	15.9	1.6	2.5	0.0	4.2	71.2	22.9	5.4	13.7	26.7	1.2	1.3
2005 Jan. ^(p)	-38.0	-17.9	-17.1	2.5	-0.7	0.0	-4.8	5.6	-2.4	-0.4	1.4	10.8	-0.2	-3.5
Growth rates														
2002 Dec.	5.7	5.1	-	-	-	-	-3.5	3.3	6.0	-	-	-	-	-2.5
2003 Dec.	7.2	6.7	23.1	-30.7	41.5	-3.5	-12.4	3.7	7.9	-11.5	6.4	9.3	-13.2	-29.2
2004 Mar.	8.8	11.9	3.1	13.2	23.1	-3.9	-19.1	3.5	7.7	-8.7	3.7	7.4	-10.5	-26.5
June	6.2	10.1	-3.5	14.8	17.1	52.2	-13.5	3.9	7.6	-8.0	4.5	7.0	-7.7	-18.6
Sep.	5.7	9.8	-2.7	7.1	18.8	64.7	-16.0	4.0	7.1	-7.7	4.8	6.4	-3.5	-4.5
2004 Oct.	5.6	8.7	-0.2	7.4	17.3	21.3	-17.6	4.4	7.9	-7.4	5.1	6.3	-3.0	-2.9
Nov.	5.1	8.1	-1.3	4.7	18.1	73.8	-12.8	4.0	6.3	-6.7	5.3	6.2	-2.4	-2.1
Dec.	7.4	7.2	6.7	7.3	21.8	72.2	-0.8	4.4	6.8	-5.4	5.2	6.2	-2.1	5.2
2005 Jan. ^(p)	7.9	8.3	6.0	10.0	16.8	17.0	-1.7	4.2	6.4	-4.5	4.7	5.9	-1.2	-3.5

C.9 Deposits by non-financial corporations and households

(annual growth rates)



Source: ECB.

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

2) Including non-profit institutions serving households.

2.5 Deposits held with MFIs, breakdown ¹⁾

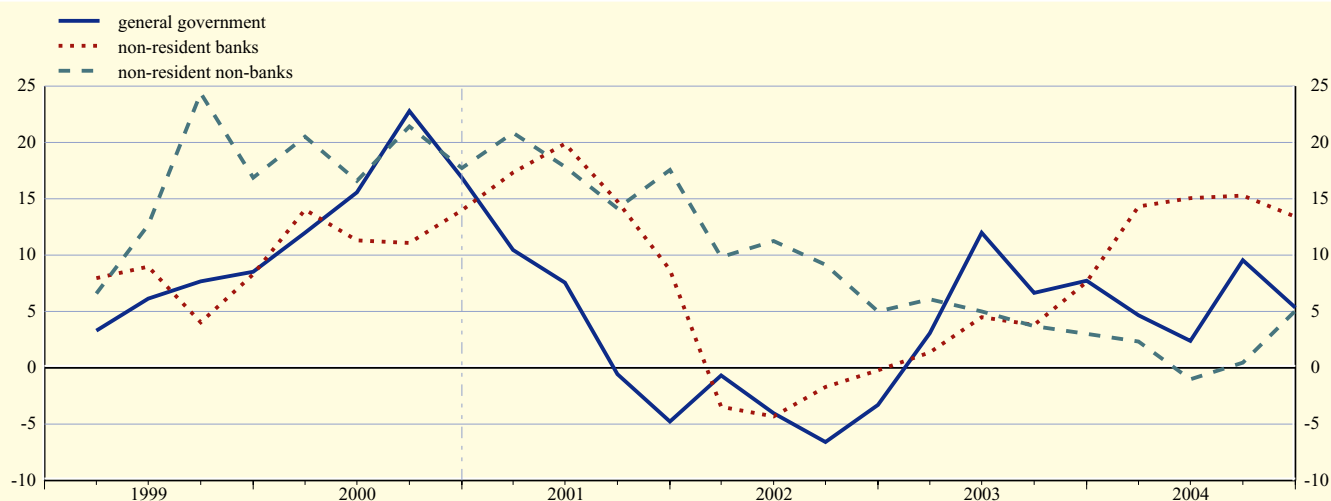
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Deposits by government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ²⁾	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2002	248.4	106.9	31.6	69.2	40.7	2,271.0	1,585.3	685.7	97.4	588.3
2003	271.2	132.3	31.1	66.9	40.9	2,245.1	1,580.9	664.3	96.1	568.2
2004 Q1	272.7	140.7	30.0	62.4	39.6	2,444.2	1,742.7	701.5	100.8	600.7
Q2	294.4	156.6	31.6	64.5	41.7	2,471.5	1,788.9	682.6	102.0	580.6
Q3	288.2	146.3	33.0	66.3	42.6	2,452.1	1,764.8	687.4	105.1	582.3
Q4 ^(p)	283.4	138.9	30.6	69.6	44.4	2,429.6	1,747.4	682.3	103.8	578.5
Transactions										
2002	-8.3	-0.2	1.8	0.4	-10.3	30.2	-4.9	35.2	3.6	31.6
2003	19.3	21.1	-0.5	-2.3	1.0	138.7	117.6	21.1	-1.3	22.4
2004 Q1	1.5	8.4	-1.1	-4.5	-1.3	155.3	129.6	25.8	4.8	21.0
Q2	21.2	15.4	1.6	2.1	2.1	21.3	41.3	-20.1	1.2	-21.3
Q3	-4.9	-10.3	2.3	1.9	1.2	6.9	-4.6	11.5	3.1	8.4
Q4 ^(p)	-3.4	-7.4	-1.0	3.2	1.8	63.0	46.4	16.4	-1.7	18.1
Growth rates										
2002 Dec.	-3.3	-0.2	5.9	0.5	-20.2	1.3	-0.2	5.0	3.9	5.1
2003 Dec.	7.7	19.3	-1.5	-3.4	2.6	6.2	7.6	3.0	-1.3	3.7
2004 Mar.	4.7	14.4	-6.2	-4.7	-1.4	10.6	14.3	2.3	3.1	2.2
June	2.4	7.9	-7.6	-0.1	-4.4	10.1	15.0	-1.0	7.9	-2.4
Sep.	9.5	13.2	5.1	3.3	11.4	10.7	15.3	0.4	12.5	-1.5
Dec. ^(p)	5.3	4.6	5.7	4.0	9.3	10.9	13.4	5.0	7.6	4.6

C10 Deposits by government and non-euro area residents

(annual growth rates)



Source: ECB.

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

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

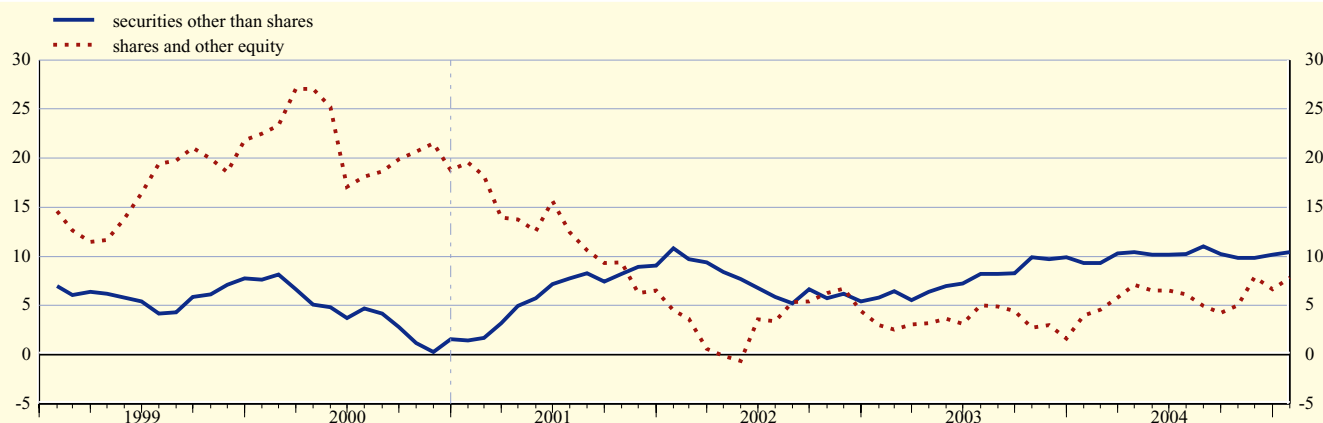
2.6 MFI holdings of securities, breakdown ¹⁾

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

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts												
2002	3,228.2	1,122.2	48.2	1,119.5	15.5	349.5	16.7	556.6	1,004.9	263.3	564.3	177.3
2003	3,576.3	1,216.2	57.4	1,227.1	15.6	409.1	18.6	632.3	1,068.7	279.7	615.4	173.7
2004 Q1	3,767.6	1,280.9	60.9	1,283.8	17.8	416.2	18.0	690.0	1,115.8	285.7	640.7	189.5
Q2	3,854.7	1,296.7	62.8	1,329.5	17.6	429.0	18.1	701.2	1,154.8	294.7	654.0	206.0
Q3	3,912.6	1,323.0	62.9	1,330.0	15.9	430.0	17.5	733.4	1,127.2	286.6	634.0	206.6
2004 Oct.	3,941.0	1,344.2	62.2	1,323.0	20.3	432.8	17.6	740.9	1,134.8	287.4	637.6	209.8
Nov.	3,970.1	1,353.6	61.3	1,327.6	18.4	438.9	17.2	753.0	1,176.2	294.2	650.5	231.5
Dec.	3,935.2	1,364.8	59.5	1,280.0	15.8	449.0	16.3	749.8	1,160.7	289.3	657.7	213.8
2005 Jan. ^(p)	4,029.7	1,363.1	65.2	1,317.6	18.9	452.2	16.3	796.3	1,193.3	293.3	669.4	230.6
Transactions												
2002	167.0	47.2	-0.5	38.6	-0.8	25.9	3.2	53.4	42.7	14.0	7.0	21.8
2003	324.7	90.9	4.1	78.9	0.8	52.3	1.7	95.9	16.1	7.2	19.5	-10.5
2004 Q1	156.7	61.3	1.3	45.1	1.4	4.8	-1.1	43.9	44.7	6.1	24.6	14.0
Q2	89.4	15.2	1.7	44.2	0.0	13.9	0.1	14.3	26.1	6.3	8.3	11.5
Q3	67.7	30.8	1.5	-1.0	-1.2	-1.9	-0.2	39.8	-26.3	-7.9	-19.7	1.4
2004 Oct.	35.7	20.9	0.2	-7.4	4.7	2.7	0.3	14.3	5.6	0.4	2.8	2.5
Nov.	41.6	9.1	0.4	4.3	-1.4	5.7	0.2	23.2	38.7	5.8	12.1	20.8
Dec.	-25.3	11.4	-0.6	-48.3	-2.2	10.8	-0.5	4.2	-17.8	-5.4	5.8	-18.2
2005 Jan. ^(p)	79.6	1.6	3.9	36.5	2.5	3.6	-0.6	32.1	31.4	3.5	12.4	15.5
Growth rates												
2002 Dec.	5.4	4.4	-1.8	3.7	-4.3	8.1	21.9	10.1	4.4	5.5	1.3	13.6
2003 Dec.	9.9	8.1	8.7	6.9	5.0	14.8	8.2	17.2	1.6	2.7	3.5	-5.7
2004 Mar.	10.3	9.6	5.3	7.2	5.1	10.8	3.8	18.8	5.8	6.3	7.5	-0.2
June	10.1	9.5	6.6	8.5	9.7	10.2	1.5	15.3	6.5	6.4	5.3	11.1
Sep.	10.3	10.7	12.5	6.1	-0.4	8.1	-4.2	19.6	4.2	2.7	3.2	9.8
2004 Oct.	9.9	11.4	11.1	4.1	33.2	6.7	-2.7	20.2	5.0	2.2	4.4	11.1
Nov.	9.9	11.5	9.9	3.5	21.5	6.8	-3.2	21.7	7.9	4.6	4.8	23.4
Dec.	10.2	12.2	7.6	3.0	8.0	8.7	-7.0	21.9	6.6	1.9	5.5	18.2
2005 Jan. ^(p)	10.4	11.1	10.2	4.7	24.0	9.6	-3.9	20.8	7.8	1.7	6.3	22.6

C11 MFI holdings of securities

(annual growth rates)



Source: ECB.

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

2.7 Revaluation of selected MFI balance sheet items ¹⁾
(EUR billions)

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

	Consumer credit				Lending for house purchase				Other lending			
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12
2002	-0.9	-	-	-	-1.0	-	-	-	-5.3	-	-	-
2003	-2.7	-1.1	-0.5	-1.1	-3.2	-0.3	-0.1	-2.8	-7.4	-2.8	-0.3	-4.3
2004 Q1	-1.3	-0.5	-0.2	-0.6	-1.3	-0.1	0.0	-1.1	-2.5	-1.0	-0.1	-1.4
Q2	-0.5	-0.2	-0.1	-0.2	-0.6	0.0	0.0	-0.5	-1.0	-0.4	0.0	-0.7
Q3	-0.4	-0.2	-0.1	-0.1	-0.4	0.0	0.0	-0.4	-0.8	-0.2	0.0	-0.6
2004 Oct.	-0.2	-0.1	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.4	-0.1	0.0	-0.3
Nov.	-0.2	0.0	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.4	-0.1	0.0	-0.3
Dec.	-0.6	-0.3	-0.1	-0.2	-0.8	-0.1	0.0	-0.7	-1.5	-0.6	-0.1	-0.8
2005 Jan. ^(p)	-0.6	-0.3	-0.1	-0.2	-0.6	-0.1	0.0	-0.5	-1.2	-0.5	-0.1	-0.7

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
2002	-9.7	-2.1	-2.7	-4.9	-7.2	-	-
2003	-17.7	-8.8	-1.3	-7.6	-1.1	-0.3	-0.7
2004 Q1	-6.2	-3.3	-0.6	-2.3	-1.0	-0.4	-0.6
Q2	-2.9	-2.0	0.2	-1.1	-0.1	0.0	-0.1
Q3	-1.7	-0.9	-0.2	-0.7	-0.1	-0.1	-0.1
2004 Oct.	-0.6	-0.3	0.0	-0.3	0.0	0.0	0.0
Nov.	-0.8	-0.4	-0.1	-0.3	-0.2	0.0	-0.2
Dec.	-3.8	-1.9	-0.2	-1.7	-0.2	0.0	-0.2
2005 Jan. ^(p)	-2.9	-1.3	-0.3	-1.2	-0.1	0.0	-0.1

3. Revaluation of securities held by MFIs

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
2002	39.6	9.9	0.6	13.2	-0.1	5.8	0.2	9.9	-12.3	-5.0	-1.5	-5.8
2003	-1.2	-0.9	-0.3	3.0	0.0	-1.2	-0.1	-1.8	19.4	8.0	5.0	6.4
2004 Q1	16.6	2.5	0.3	11.1	0.1	1.5	0.0	1.0	2.3	-0.3	1.0	1.7
Q2	-8.5	-0.8	0.0	-5.0	-0.1	-0.8	0.0	-2.0	0.1	-0.7	0.1	0.7
Q3	2.2	-0.6	-0.1	1.5	0.0	0.7	0.0	0.6	-1.5	-0.1	-0.5	-0.9
2004 Oct.	0.5	0.1	0.0	0.4	-0.1	0.1	0.0	0.0	2.2	0.7	0.8	0.7
Nov.	0.7	0.5	-0.1	0.5	-0.1	0.4	-0.1	-0.5	2.7	1.0	0.8	0.9
Dec.	0.3	0.0	-0.1	1.4	-0.1	-1.2	0.0	0.3	2.4	0.6	1.4	0.5
2005 Jan. ^(p)	2.5	0.3	0.1	1.1	0.1	-0.2	0.1	1.1	2.9	0.6	1.0	1.3

Source: ECB.

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

2) Including non-profit institutions serving households.

2.8 Currency breakdown of selected MFI balance sheet items ¹⁾

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

1. Deposits

	MFIs ²⁾							Non-MFIs						
	All currencies outstanding amount	Euro ³⁾	Non-euro currencies					All currencies outstanding amount	Euro ³⁾	Non-euro currencies				
			Total							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													
2002	4,136.6	90.2	9.8	6.1	0.8	1.5	0.7	6,061.2	97.1	2.9	1.8	0.3	0.2	0.3
2003	4,364.9	91.3	8.7	5.4	0.5	1.5	0.9	6,409.8	97.3	2.7	1.7	0.3	0.1	0.3
2004 Q1	4,412.5	90.4	9.6	5.7	0.5	1.5	1.2	6,451.0	97.1	2.9	1.7	0.3	0.1	0.4
Q2	4,522.8	90.3	9.7	5.7	0.5	1.5	1.3	6,565.2	97.1	2.9	1.7	0.3	0.1	0.4
Q3	4,586.6	90.5	9.5	5.7	0.5	1.5	1.3	6,587.6	97.1	2.9	1.8	0.3	0.1	0.4
Q4 ⁴⁾	4,702.3	91.4	8.6	5.1	0.4	1.4	1.1	6,777.3	97.3	2.7	1.7	0.3	0.1	0.4
	By non-euro area residents													
2002	1,585.3	43.7	56.3	39.2	2.1	4.3	7.8	685.7	48.3	51.7	35.0	2.3	1.9	9.8
2003	1,580.9	46.9	53.1	35.6	1.8	3.6	9.4	664.3	51.0	49.0	32.1	2.1	2.2	9.6
2004 Q1	1,742.7	46.3	53.7	35.1	2.0	3.3	10.4	701.5	53.2	46.8	30.0	2.1	1.8	9.7
Q2	1,788.9	45.1	54.9	36.8	1.7	3.3	10.4	682.6	52.5	47.5	30.5	1.9	2.0	9.9
Q3	1,764.8	46.7	53.3	35.5	1.8	3.1	9.7	687.4	53.1	46.9	29.8	1.8	2.0	9.8
Q4 ⁴⁾	1,747.4	46.8	53.2	35.3	2.0	3.3	9.8	682.3	55.1	44.9	29.1	1.5	2.1	9.4

2. Debt securities issued by euro area MFIs

	All currencies outstanding amount	Euro ³⁾	Non-euro currencies				
			Total				
			USD	JPY	CHF	GBP	
1	2	3	4	5	6	7	
2002	3,138.7	85.4	14.6	7.7	1.8	1.6	2.3
2003	3,304.0	85.4	14.6	7.9	1.5	1.7	2.3
2004 Q1	3,458.0	84.6	15.4	7.7	1.7	2.0	2.6
Q2	3,533.8	84.0	16.0	8.2	1.7	2.0	2.6
Q3	3,597.2	84.2	15.8	8.0	1.8	2.0	2.6
Q4 ⁴⁾	3,654.9	84.6	15.4	7.8	1.6	1.9	2.6

Source: ECB.

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

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

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

2.8 Currency breakdown of selected MFI balance sheet items ¹⁾

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

3. Loans

	MFIs ²⁾							Non-MFIs						
	All currencies outstanding amount	Euro ³⁾	Non-euro currencies				All currencies outstanding amount	Euro ³⁾	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
To euro area residents														
2002	4,017.8	-	-	-	-	-	7,593.6	96.2	3.8	1.8	0.5	1.1	0.3	
2003	4,193.8	-	-	-	-	-	7,920.9	96.5	3.5	1.6	0.3	1.2	0.3	
2004 Q1	4,224.6	-	-	-	-	-	7,993.4	96.4	3.6	1.6	0.3	1.2	0.4	
Q2	4,296.2	-	-	-	-	-	8,138.1	96.4	3.6	1.6	0.2	1.3	0.4	
Q3	4,356.4	-	-	-	-	-	8,213.5	96.5	3.5	1.5	0.2	1.3	0.4	
Q4 ^(p)	4,460.4	-	-	-	-	-	8,364.5	96.6	3.4	1.4	0.2	1.3	0.4	
To non-euro area residents														
2002	1,146.2	48.3	51.7	32.4	4.5	2.6	9.1	583.9	36.2	63.8	47.6	2.3	4.7	5.6
2003	1,182.2	50.2	49.8	29.3	4.7	2.5	9.2	580.6	38.7	61.3	43.9	2.4	4.6	7.0
2004 Q1	1,308.6	49.1	50.9	30.4	4.7	2.7	9.4	646.9	40.0	60.0	41.9	2.5	4.4	8.0
Q2	1,322.7	49.2	50.8	30.9	4.7	2.4	9.2	642.6	38.6	61.4	42.6	2.4	4.4	8.8
Q3	1,317.3	51.2	48.8	30.0	3.7	2.2	9.0	648.6	40.2	59.8	42.2	2.5	4.4	7.4
Q4 ^(p)	1,336.6	51.3	48.7	30.1	3.6	2.2	8.6	641.8	42.2	57.8	40.5	2.5	4.3	7.0

4. Holdings of securities other than shares

	Issued by MFIs ²⁾							Issued by non-MFIs						
	All currencies outstanding amount	Euro ³⁾	Non-euro currencies				All currencies outstanding amount	Euro ³⁾	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Issued by euro area residents														
2002	1,170.4	95.9	4.1	1.7	0.4	0.2	0.9	1,501.2	97.9	2.1	1.0	0.7	0.1	0.4
2003	1,273.6	95.5	4.5	1.7	0.3	0.9	1.3	1,670.3	98.0	2.0	1.0	0.5	0.3	0.2
2004 Q1	1,341.8	95.5	4.5	1.6	0.3	0.9	1.4	1,735.8	97.9	2.1	1.0	0.5	0.2	0.2
Q2	1,359.4	95.4	4.6	2.2	0.4	0.4	1.4	1,794.1	98.0	2.0	1.1	0.5	0.1	0.2
Q3	1,385.9	95.5	4.5	2.1	0.3	0.5	1.3	1,793.3	98.1	1.9	1.0	0.5	0.1	0.2
Q4 ^(p)	1,424.3	95.8	4.2	1.8	0.3	0.5	1.3	1,761.1	98.2	1.8	0.9	0.4	0.1	0.3
Issued by non-euro area residents														
2002	239.6	36.9	63.1	45.5	1.7	0.6	13.2	317.1	41.5	58.5	42.0	5.8	0.9	5.6
2003	276.9	45.1	54.9	30.6	1.2	4.9	15.4	355.5	45.8	54.2	31.1	5.8	5.8	6.4
2004 Q1	309.2	44.7	55.3	29.6	1.2	5.0	16.6	380.8	44.4	55.6	31.1	6.1	5.4	7.1
Q2	312.7	46.3	53.7	32.8	1.1	0.6	16.8	388.4	45.2	54.8	33.6	6.7	1.0	7.4
Q3	322.3	47.7	52.3	32.2	1.0	0.5	16.2	411.1	44.2	55.8	32.3	7.6	0.8	8.4
Q4 ^(p)	344.1	49.9	50.1	28.9	1.0	0.6	17.1	405.7	44.9	55.1	30.5	8.1	0.8	9.3

Source: ECB.

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

2.9 Aggregated balance sheet of euro area investment funds ¹⁾

(EUR billions; outstanding amounts at end of period)

1. Assets

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
2003 Q2	2,959.5	232.6	1,382.7	67.1	1,315.6	880.9	224.5	120.7	118.1
Q3	3,085.6	248.3	1,405.3	65.3	1,340.0	932.3	234.6	126.3	138.8
Q4	3,175.0	235.2	1,389.4	67.4	1,322.0	1,033.7	243.9	133.7	139.1
2004 Q1	3,353.6	266.5	1,433.9	70.3	1,363.6	1,102.8	262.6	136.7	151.2
Q2	3,366.1	244.8	1,429.4	69.2	1,360.2	1,117.1	277.1	139.7	157.9
Q3 ^(p)	3,385.2	246.4	1,471.6	71.7	1,399.8	1,090.6	280.4	143.5	152.7

2. Liabilities

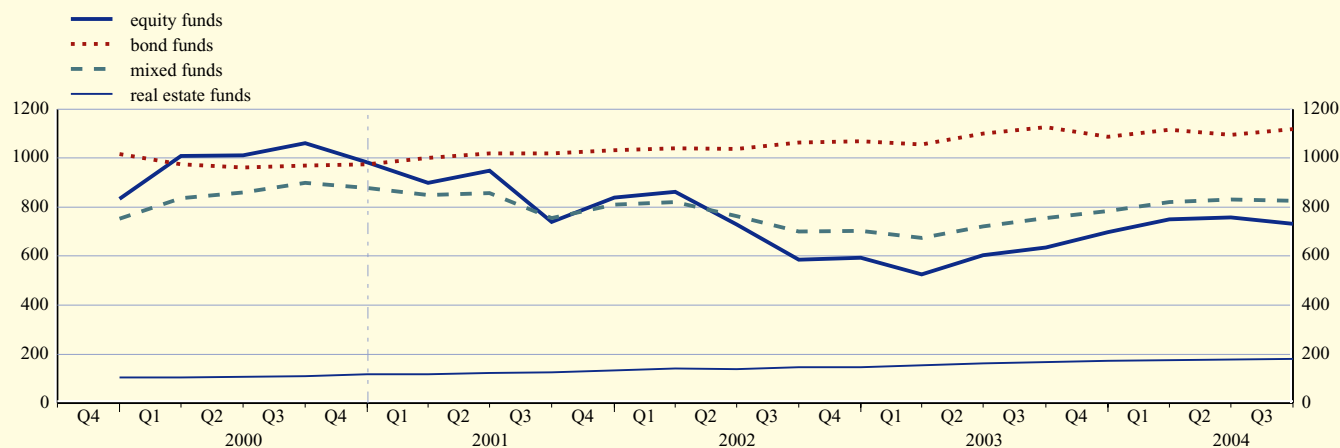
	Total 1	Deposits and loans taken 2	Investment fund shares 3	Other liabilities 4
Q3	3,085.6	43.2	2,917.7	124.8
Q4	3,175.0	44.2	3,011.7	119.1
2004 Q1	3,353.6	49.6	3,171.2	132.8
Q2	3,366.1	50.3	3,189.0	126.7
Q3 ^(p)	3,385.2	48.7	3,209.0	127.4

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
2003 Q2	2,959.5	603.3	1,099.6	720.8	161.4	374.4	2,140.5	819.0
Q3	3,085.6	635.4	1,127.0	754.2	167.7	401.4	2,249.1	836.5
Q4	3,175.0	697.8	1,086.6	783.4	171.7	435.6	2,318.4	856.6
2004 Q1	3,353.6	750.5	1,116.6	821.2	175.9	489.5	2,470.4	883.2
Q2	3,366.1	756.5	1,094.4	830.2	179.1	505.8	2,479.1	887.0
Q3 ^(p)	3,385.2	732.3	1,117.2	825.5	181.5	528.7	2,484.6	900.6

C12 Total assets of investment funds

(EUR billions)



Source: ECB.

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

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

(EUR billions; outstanding amounts at end of period)

1. Funds by investment policy

	Total	Deposits	Holdings of securities other than shares			Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
			Total	Up to 1 year	Over 1 year				
	1	2	3	4	5	6	7	8	9
Equity funds									
2003 Q2	603.3	27.9	31.6	2.9	28.7	506.5	18.5	-	18.8
Q3	635.4	29.5	27.8	2.4	25.4	536.4	19.5	-	22.1
Q4	697.8	29.3	31.3	2.9	28.4	593.6	21.1	-	22.5
2004 Q1	750.5	32.8	32.2	3.0	29.2	635.7	23.4	-	26.5
Q2	756.5	31.5	31.6	3.2	28.3	642.8	25.3	-	25.3
Q3 ^(p)	732.3	31.5	32.8	3.5	29.3	618.7	24.4	-	25.0
Bond funds									
2003 Q2	1,099.6	82.4	927.9	33.0	894.9	31.1	20.9	-	37.3
Q3	1,127.0	93.6	934.7	30.7	904.1	29.1	21.7	-	47.9
Q4	1,086.6	82.5	905.9	31.6	874.3	31.0	21.6	-	45.5
2004 Q1	1,116.6	97.3	918.4	35.3	883.1	32.9	21.4	-	46.6
Q2	1,094.4	79.1	910.0	36.3	873.7	33.0	21.8	-	50.5
Q3 ^(p)	1,117.2	80.5	930.9	38.6	892.3	31.9	23.4	-	50.4
Mixed funds									
2003 Q2	720.8	49.4	311.9	20.9	291.0	237.0	91.9	0.3	30.3
Q3	754.2	50.5	324.0	22.2	301.8	248.4	95.4	0.3	35.6
Q4	783.4	49.5	324.0	22.1	301.9	272.5	100.5	0.3	36.7
2004 Q1	821.2	52.9	333.9	21.2	312.6	287.0	107.2	0.3	39.9
Q2	830.2	52.2	340.1	22.3	317.8	279.0	114.9	0.3	43.6
Q3 ^(p)	825.5	52.3	347.7	21.8	325.8	270.6	115.3	0.3	39.4
Real estate funds									
2003 Q2	161.4	16.5	9.0	0.6	8.5	0.7	9.1	119.8	6.3
Q3	167.7	16.1	9.0	0.6	8.4	0.8	9.5	125.3	6.9
Q4	171.7	13.2	9.3	0.6	8.7	0.8	8.5	132.7	7.4
2004 Q1	175.9	14.7	9.1	0.6	8.5	0.8	7.7	135.6	8.0
Q2	179.1	15.0	8.5	0.6	7.9	0.7	7.7	138.6	8.7
Q3 ^(p)	181.5	14.4	8.5	0.6	7.9	0.7	7.5	142.3	8.0

2. Funds by type of investor

	Total	Deposits	Holdings of securities other than shares	Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
General public funds							
2003 Q2	2,140.5	181.6	912.4	691.7	168.3	104.2	82.2
Q3	2,249.1	199.0	927.7	736.5	176.6	108.9	100.4
Q4	2,318.4	191.7	913.6	815.8	183.8	115.5	98.0
2004 Q1	2,470.4	219.3	948.8	878.2	198.8	117.5	107.8
Q2	2,479.1	202.0	945.9	890.3	210.9	119.9	110.1
Q3 ^(p)	2,484.6	205.5	972.6	866.0	212.3	123.1	105.2
Special investors' funds							
2003 Q2	819.0	51.0	470.3	189.2	56.1	16.5	36.0
Q3	836.5	49.3	477.6	195.8	58.0	17.4	38.4
Q4	856.6	43.4	475.8	217.9	60.1	18.3	41.2
2004 Q1	883.2	47.2	485.1	224.6	63.8	19.1	43.3
Q2	887.0	42.7	483.6	226.9	66.2	19.8	47.8
Q3 ^(p)	900.6	40.9	499.0	224.6	68.2	20.4	47.5

Source: ECB.



FINANCIAL AND NON-FINANCIAL ACCOUNTS

3.1 Main financial assets of non-financial sectors

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

	Currency and deposits											Memo: deposits of non-banks with banks outside the euro area
	Total	Total	Currency	Deposits of non-financial sectors other than central government with euro area MFIs					Deposits of central government with euro area MFIs	Deposits with non-MFIs ¹⁾		
				Total	Overnight	With agreed maturity	Redeemable at notice	Repos				
	1	2	3	4	5	6	7	8	9	10	11	
Outstanding amounts												
2003 Q2	15,050.0	5,758.1	311.9	5,029.4	1,918.4	1,560.2	1,456.1	94.7	200.3	216.5	329.8	
Q3	15,150.6	5,762.9	322.7	5,070.8	1,956.6	1,555.8	1,469.0	89.3	183.9	185.5	345.4	
Q4	15,553.8	5,882.0	352.4	5,183.3	2,027.5	1,559.2	1,511.4	85.2	153.6	192.8	348.4	
2004 Q1	15,751.7	5,915.8	350.8	5,181.1	2,021.0	1,545.0	1,533.9	81.2	183.8	200.1	395.0	
Q2	16,025.4	6,053.0	372.0	5,264.5	2,101.6	1,529.7	1,553.9	79.4	223.7	192.7	396.3	
Q3	16,081.0	6,078.5	383.5	5,284.9	2,104.7	1,532.3	1,565.1	82.8	204.1	206.0	-	
Transactions												
2003 Q2	206.8	131.4	21.3	85.7	83.8	-8.8	22.2	-11.4	24.1	0.3	11.4	
Q3	129.7	12.4	11.4	12.0	6.8	-3.8	12.9	-3.9	-13.7	2.7	17.2	
Q4	150.5	124.7	29.7	118.0	79.0	7.9	36.3	-5.2	-30.3	7.3	10.9	
2004 Q1	133.1	31.3	-1.6	-4.6	-7.2	-15.8	22.4	-3.9	30.2	7.3	40.7	
Q2	285.9	136.4	21.2	83.1	78.8	-14.5	20.7	-1.9	39.4	-7.4	0.8	
Q3	108.5	30.0	11.5	24.8	4.7	5.4	11.3	3.4	-19.7	13.3	-	
Growth rates												
2003 Q2	4.5	6.4	27.6	4.5	7.6	-1.0	8.9	-19.0	22.3	13.6	22.6	
Q3	4.7	6.5	23.9	4.7	8.2	-0.7	9.1	-23.5	22.8	13.3	24.5	
Q4	4.4	5.5	21.2	4.3	7.6	-1.0	8.1	-23.4	9.5	9.0	24.5	
2004 Q1	4.3	5.3	20.9	4.3	8.8	-1.3	6.5	-23.0	5.9	7.7	24.8	
Q2	4.6	5.3	19.5	4.1	8.2	-1.7	6.3	-15.7	12.8	4.6	21.1	
Q3	4.5	5.6	18.8	4.4	7.9	-1.1	6.2	-8.5	10.7	11.1	-	
Securities other than shares												
			Shares ²⁾					Insurance technical reserves				
	Total	Short-term	Long-term	Total	Quoted shares	Mutual fund shares	Money market fund shares	Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims		
	12	13	14	15	16	17	18	19	20	21		
Outstanding amounts												
2003 Q2	1,936.3	165.6	1,770.7	3,587.9	1,751.5	1,836.4	404.6	3,767.7	3,399.5	368.1		
Q3	1,927.6	166.6	1,760.9	3,624.6	1,764.0	1,860.6	408.7	3,835.6	3,464.2	371.4		
Q4	1,900.4	178.6	1,721.8	3,887.2	2,006.9	1,880.2	406.5	3,884.2	3,509.4	374.8		
2004 Q1	1,915.2	179.7	1,735.5	3,976.2	2,047.5	1,928.7	420.8	3,944.5	3,562.0	382.5		
Q2	1,954.7	197.5	1,757.2	4,024.9	2,109.3	1,915.6	423.9	3,992.8	3,607.7	385.1		
Q3	1,958.7	191.9	1,766.8	3,995.0	2,087.6	1,907.4	424.3	4,048.8	3,660.8	388.0		
Transactions												
2003 Q2	-40.4	-18.3	-22.2	54.9	17.1	37.8	3.8	60.9	57.4	3.5		
Q3	10.1	0.0	10.1	47.7	29.9	17.8	2.7	59.4	57.1	2.3		
Q4	7.1	8.6	-1.5	-24.6	-24.2	-0.4	-10.2	43.3	41.5	1.8		
2004 Q1	11.3	0.7	10.7	22.0	-3.5	25.5	15.0	68.4	60.7	7.7		
Q2	43.8	16.3	27.5	54.6	56.2	-1.6	-0.5	51.1	48.5	2.7		
Q3	0.3	-5.8	6.1	19.1	17.7	1.4	-2.2	59.1	56.2	2.9		
Growth rates												
2003 Q2	-2.5	-15.7	-1.0	3.4	0.5	7.1	13.6	6.3	6.7	2.6		
Q3	-3.5	-25.3	-0.9	4.5	2.0	6.9	9.3	6.4	6.9	2.4		
Q4	-2.4	-16.1	-0.7	4.0	1.1	6.9	8.5	6.6	6.9	3.7		
2004 Q1	-0.6	-4.7	-0.2	3.1	1.3	4.6	2.8	6.3	6.5	4.2		
Q2	3.7	15.4	2.6	2.8	3.3	2.3	1.7	5.9	6.1	3.9		
Q3	3.2	11.9	2.4	2.0	2.6	1.3	0.5	5.8	6.0	4.1		

Source: ECB.

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

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

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

Main financial assets												
	Total	Deposits with euro area MFIs					Loans			Securities other than shares		
		Total	Overnight	With agreed maturity	Redeemable at notice	Repos	Total	Short-term	Long-term	Total	Short-term	Long-term
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts												
2003 Q2	3,460.3	538.1	63.8	450.5	1.6	22.3	337.5	65.1	272.4	1,398.3	55.8	1,342.4
Q3	3,513.8	533.3	57.5	455.3	1.8	18.7	339.5	65.8	273.6	1,419.8	58.7	1,361.2
Q4	3,623.6	542.4	58.9	462.3	2.1	19.1	328.2	66.7	261.5	1,447.7	59.9	1,387.8
2004 Q1	3,772.7	557.3	64.7	468.3	2.3	22.0	338.3	69.4	268.9	1,516.2	57.7	1,458.5
Q2	3,798.3	565.4	59.9	482.0	2.3	21.2	335.5	71.0	264.5	1,523.3	54.1	1,469.2
Q3	3,860.4	573.6	61.5	489.8	2.3	20.0	338.0	71.7	266.3	1,579.8	62.9	1,516.8
Transactions												
2003 Q2	43.2	2.3	2.2	-3.9	0.0	3.9	4.4	1.4	3.0	18.9	-2.2	21.1
Q3	34.1	-6.2	-6.4	3.8	0.3	-3.8	2.0	0.7	1.2	22.8	2.8	19.9
Q4	60.5	10.2	1.5	7.9	0.3	0.5	-11.3	0.9	-12.2	37.4	1.2	36.2
2004 Q1	95.5	14.6	5.7	5.9	0.2	2.8	10.0	2.7	7.3	44.0	-1.8	45.8
Q2	31.1	7.2	-4.9	13.7	-0.6	-0.9	-2.8	1.6	-4.4	25.1	-3.6	28.7
Q3	51.1	8.2	1.6	7.8	-0.1	-1.1	2.5	0.7	1.8	37.9	8.8	29.1
Growth rates												
2003 Q2	6.7	6.8	28.9	3.9	-1.6	17.4	-0.6	-11.9	2.6	11.7	40.3	10.8
Q3	6.5	5.0	11.7	3.6	-1.6	28.2	0.8	-11.6	4.4	10.0	21.3	9.6
Q4	6.2	3.6	2.9	3.5	-1.9	6.1	-4.0	-4.7	-3.8	10.0	17.4	9.7
2004 Q1	7.0	3.9	5.0	3.0	38.5	18.7	1.5	9.0	-0.2	9.0	0.1	9.4
Q2	6.4	4.8	-6.4	6.9	6.5	-6.3	-0.6	9.1	-3.0	9.2	-2.5	9.7
Q3	6.8	7.5	6.9	7.7	-12.8	6.7	-0.5	8.9	-2.7	10.2	7.8	10.3

Main financial assets						Main liabilities								
Shares ¹⁾				Prepayments of insurance premiums and reserves for outstanding claims	Total	Loans taken from euro area MFIs and other financial corporations		Securities other than shares	Quoted shares	Insurance technical reserves				
Total	Quoted shares	Mutual fund shares	Money market fund shares			Total	Taken from euro area MFIs			Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims		
													13	14	15	16	17	18	19	20	21	22	23	24	25
Outstanding amounts														
2003 Q2	1,072.7	472.9	599.7	64.4	113.8	3,734.3	60.6	44.8	18.4	163.7	3,491.6	2,970.8	520.8	
Q3	1,106.0	490.4	615.6	60.6	115.2	3,801.7	62.7	44.3	19.0	165.2	3,554.9	3,029.2	525.7	
Q4	1,188.8	542.0	646.8	64.1	116.5	3,863.2	51.9	35.4	20.9	190.5	3,600.0	3,069.7	530.3	
2004 Q1	1,241.1	558.7	682.4	63.5	119.8	3,930.9	61.6	46.3	21.7	191.5	3,656.1	3,115.0	541.1	
Q2	1,253.4	556.4	697.1	63.8	120.7	3,984.2	69.6	53.7	22.1	193.9	3,698.6	3,154.3	544.2	
Q3	1,246.5	547.3	699.2	63.4	122.6	4,025.9	69.5	52.5	20.5	186.4	3,749.5	3,200.9	548.6	
Transactions														
2003 Q2	15.6	3.9	11.6	4.6	2.1	62.1	-0.3	2.3	0.1	4.5	57.8	51.1	6.6	
Q3	14.1	4.9	9.2	-4.2	1.4	58.2	2.0	-0.5	0.5	0.0	55.7	50.9	4.8	
Q4	22.8	7.0	15.8	4.2	1.5	33.9	-10.8	-8.9	1.8	5.0	37.9	33.9	4.0	
2004 Q1	23.6	2.0	21.7	-0.6	3.2	76.8	9.6	10.8	0.4	0.8	66.0	54.1	11.9	
Q2	0.8	-8.5	9.2	0.1	0.9	54.8	7.6	7.0	0.5	0.1	46.6	42.4	4.2	
Q3	0.6	2.4	-1.7	-0.3	1.9	56.2	-0.1	-1.1	-1.2	2.1	55.4	50.0	5.4	
Growth rates														
2003 Q2	3.5	-0.5	7.1	23.0	5.8	5.9	0.8	4.5	-0.8	1.5	6.4	6.9	4.0	
Q3	4.9	0.1	8.7	18.1	4.6	6.3	6.7	9.4	2.8	2.8	6.5	7.0	3.6	
Q4	5.8	2.6	8.3	11.6	6.9	6.7	12.9	12.7	12.6	6.2	6.6	6.9	4.9	
2004 Q1	7.8	4.3	10.3	6.5	7.3	6.4	0.9	8.5	15.4	8.3	6.4	6.5	5.3	
Q2	5.7	1.1	9.3	-1.0	6.2	6.0	14.0	18.8	17.6	3.6	5.9	6.1	4.8	
Q3	4.3	0.6	7.3	5.4	6.5	5.8	10.2	17.5	8.1	4.8	5.8	6.0	4.8	

Source: ECB.

1) Excluding unquoted shares.

3.4 Annual saving, investment and financing

(EUR billions, unless otherwise indicated)

1. All sectors in the euro area

	Net acquisition of non-financial assets					Net acquisition of financial assets							
	Total	Gross fixed capital formation	Consumption of fixed capital (-)	Changes in inventories ¹⁾	Non-produced assets	Total	Monetary gold and SDRs	Currency and deposits	Securities other than shares ²⁾	Loans	Shares and other equity	Insurance technical reserves	Other investment (net) ³⁾
	1	2	3	4	5	6	7	8	9	10	11	12	13
1997	350.5	1,137.7	-797.1	9.9	0.0	1,938.9	-0.2	390.9	330.7	464.6	491.4	224.1	37.4
1998	411.5	1,201.7	-823.6	33.2	0.2	2,412.5	11.0	419.6	360.1	515.3	845.0	213.7	47.9
1999	448.6	1,290.5	-863.7	21.6	0.2	3,113.7	1.3	559.2	429.1	878.8	942.2	259.2	43.8
2000	485.7	1,389.6	-913.1	25.9	-16.7	2,911.6	1.3	350.9	264.6	829.9	1,189.1	251.3	24.4
2001	459.8	1,441.3	-973.6	-10.0	2.0	2,597.0	-0.5	579.0	449.1	731.2	602.3	248.8	-12.9
2002	389.0	1,428.1	-1,021.8	-18.3	1.1	2,311.9	0.9	656.6	279.7	632.8	468.4	220.8	52.6
2003	391.8	1,440.3	-1,054.5	5.6	0.5	2,420.4	1.7	678.6	426.8	578.8	456.6	240.7	37.1

	Changes in net worth ⁴⁾				Net incurrence of liabilities					
	Total	Gross saving	Consumption of fixed capital (-)	Net capital transfers receivable	Total	Currency and deposits	Securities other than shares ²⁾	Loans	Shares and other equity	Insurance technical reserves
	14	15	16	17	18	19	20	21	22	23
1997	455.7	1,241.8	-797.1	11.0	1,833.7	509.7	318.0	393.1	382.5	230.3
1998	486.5	1,299.1	-823.6	11.1	2,337.4	648.8	323.2	484.6	659.8	221.0
1999	498.0	1,352.0	-863.7	9.7	3,064.3	934.9	503.4	765.2	597.1	263.7
2000	515.1	1,419.4	-913.1	8.8	2,882.2	539.5	416.9	882.9	788.7	254.1
2001	486.0	1,449.4	-973.6	10.2	2,570.8	668.9	489.9	634.3	521.6	256.0
2002	467.2	1,479.1	-1,021.8	9.9	2,233.7	572.9	442.0	618.0	376.2	224.7
2003	419.5	1,469.0	-1,054.5	5.0	2,392.7	676.2	514.0	539.3	420.3	242.8

2. Non-financial corporations

	Net acquisition of non-financial assets			Net acquisition of financial assets					Changes in net worth ⁴⁾		Net incurrence of liabilities			
	Total	Gross fixed capital formation	Consumption of fixed capital (-)	Total	Currency and deposits	Securities other than shares ²⁾	Loans	Shares and other equity	Total	Gross saving	Total	Securities other than shares ²⁾	Loans	Shares and other equity
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997	150.3	591.9	-453.2	272.3	26.0	-12.1	65.8	100.8	104.8	521.3	317.8	12.1	175.9	120.1
1998	193.7	635.1	-470.6	439.8	45.7	-11.5	110.9	204.5	147.6	569.1	485.9	22.8	257.2	194.9
1999	212.0	683.1	-490.7	654.0	24.5	93.6	186.0	336.3	106.7	547.6	759.3	47.5	434.1	261.1
2000	306.1	751.6	-522.4	921.0	74.2	87.4	230.4	511.4	79.9	554.9	1,147.2	61.0	597.1	480.7
2001	215.7	778.9	-558.8	638.2	101.6	44.6	169.2	232.1	91.3	590.5	762.6	99.7	355.5	295.9
2002	172.0	757.6	-580.9	515.7	31.8	-55.7	174.2	253.1	108.7	633.2	579.0	21.0	352.0	190.8
2003	157.4	745.6	-597.4	354.6	69.3	-57.9	107.6	191.3	74.9	644.7	437.1	55.0	174.1	194.9

3. Households⁵⁾

	Net acquisition of non-financial assets			Net acquisition of financial assets					Changes in net worth ⁴⁾		Net incurrence of liabilities			Memo:	
	Total	Gross fixed capital formation	Consumption of fixed capital (-)	Total	Currency and deposits	Securities other than shares ²⁾	Shares and other equity	Insurance technical reserves	Total	Gross saving	Total	Loans	Disposable income	Gross saving ratio ⁶⁾	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
1997	164.9	376.0	-211.5	429.4	69.3	-20.8	192.5	217.6	424.6	615.6	169.7	168.3	3,818.3	16.1	
1998	176.8	388.0	-216.2	446.3	92.9	-119.0	287.4	209.3	408.4	593.5	214.6	213.3	3,924.7	15.1	
1999	188.1	417.6	-231.5	475.0	122.6	-28.5	195.8	245.2	394.7	580.0	268.4	266.9	4,086.0	14.2	
2000	197.9	438.1	-241.6	434.8	66.2	35.3	122.6	245.9	406.2	607.7	226.4	224.7	4,290.6	14.2	
2001	184.5	445.7	-259.0	415.6	180.7	82.7	45.4	229.1	423.9	649.7	176.2	174.3	4,576.4	14.2	
2002	161.1	454.2	-279.4	483.2	220.6	83.1	-1.0	211.3	431.2	672.3	213.2	211.1	4,712.8	14.3	
2003	166.1	462.2	-291.1	530.5	224.2	16.6	83.6	229.8	436.4	693.8	260.2	257.9	4,853.6	14.3	

Source: ECB.

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



FINANCIAL MARKETS

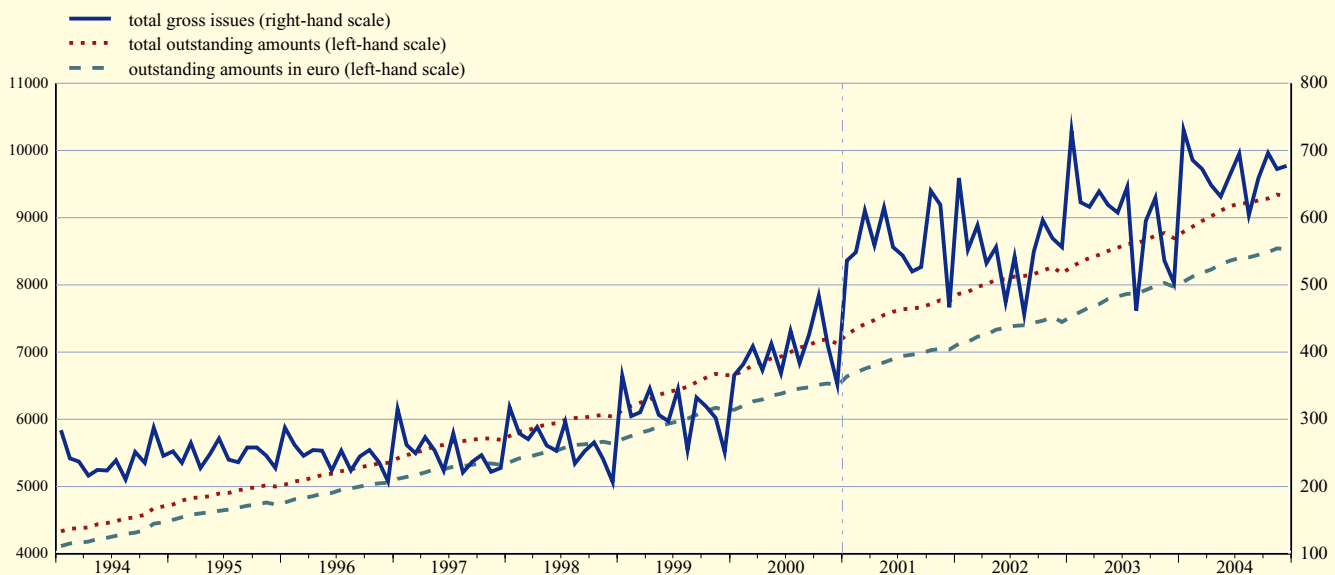
4.1 Securities, other than shares, by original maturity, residency of the issuer and currency

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

	Total in euro ¹⁾				By euro area residents							
	Outstanding amounts	Gross issues	Redemptions	Net issues	Total				Of which in euro			
					Outstanding amounts	Gross issues	Redemptions	Net issues	Outstanding amounts (%)	Gross issues (%)	Redemptions (%)	Net issues
	1	2	3	4	5	6	7	8	9	10	11	12
Total												
2003 Dec.	9,206.7	521.0	553.5	-32.5	8,698.3	503.0	557.4	-54.3	91.6	93.8	94.6	-55.4
2004 Jan.	9,277.5	738.5	665.4	73.2	8,789.7	730.8	644.7	86.1	91.5	94.2	94.8	77.7
Feb.	9,353.5	698.5	622.7	75.8	8,865.9	685.5	605.6	79.9	91.6	94.6	94.2	77.6
Mar.	9,462.1	717.6	608.8	108.8	8,951.5	672.8	597.1	75.8	91.3	92.7	95.3	54.9
Apr.	9,488.3	649.0	624.6	24.4	9,019.3	648.7	587.0	61.7	91.2	93.3	95.0	47.2
May	9,588.4	649.6	549.7	99.8	9,102.2	631.2	543.7	87.5	91.2	93.9	94.9	76.6
June	9,696.6	711.0	601.8	109.3	9,169.0	664.4	597.6	66.7	91.2	94.3	94.7	60.4
July	9,716.7	707.8	685.9	21.9	9,211.1	695.1	653.5	41.6	91.1	94.1	94.6	35.8
Aug.	9,747.6	619.7	588.7	30.9	9,223.6	603.6	588.4	15.1	91.2	94.7	94.7	14.4
Sep.	9,858.1	723.7	613.4	110.3	9,255.2	659.6	618.5	41.0	91.3	94.9	94.4	41.8
Oct.	9,880.4	711.7	690.6	21.0	9,289.5	696.2	656.6	39.6	91.3	93.7	94.9	29.6
Nov.	9,971.3	702.6	616.9	85.7	9,341.8	672.7	613.6	59.1	91.5	94.3	94.3	56.3
Dec.	9,985.2	704.2	691.3	12.9	9,321.1	677.6	692.1	-14.5	91.5	95.3	95.2	-13.3
Long-term												
2003 Dec.	8,348.3	119.3	120.5	-1.2	7,867.6	112.1	114.6	-2.5	91.7	90.4	93.1	-5.3
2004 Jan.	8,405.8	195.8	137.6	58.2	7,915.2	178.4	139.1	39.3	91.6	92.9	90.9	39.2
Feb.	8,491.2	193.5	109.1	84.3	7,997.9	182.7	98.8	84.0	91.7	92.2	88.0	81.6
Mar.	8,553.2	213.5	150.8	62.7	8,063.5	189.6	132.7	56.9	91.4	86.8	94.1	39.7
Apr.	8,594.6	163.8	124.1	39.6	8,114.3	155.5	110.2	45.3	91.3	88.5	94.7	33.3
May	8,696.6	175.0	72.3	102.7	8,198.5	156.7	67.9	88.8	91.3	89.3	90.9	78.2
June	8,782.8	204.2	120.0	84.1	8,270.9	181.0	112.3	68.7	91.3	92.9	92.2	64.6
July	8,818.8	190.3	152.7	37.6	8,306.7	173.4	138.6	34.8	91.2	91.8	93.7	29.3
Aug.	8,846.2	87.2	60.2	26.9	8,322.3	75.3	58.2	17.1	91.2	86.9	91.4	12.2
Sep.	8,939.1	191.1	99.5	91.6	8,370.1	156.4	102.2	54.2	91.3	91.6	88.8	52.5
Oct.	8,973.3	173.9	140.1	33.8	8,388.6	158.1	132.2	25.9	91.3	88.1	93.7	15.4
Nov.	9,048.2	167.8	96.7	71.1	8,441.2	154.2	93.9	60.3	91.4	89.1	92.1	50.9
Dec.	9,082.4	147.5	114.0	33.5	8,458.0	134.7	109.9	24.8	91.5	91.7	89.8	24.8

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

(EUR billions)



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

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

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

(EUR billions unless otherwise indicated; nominal values)

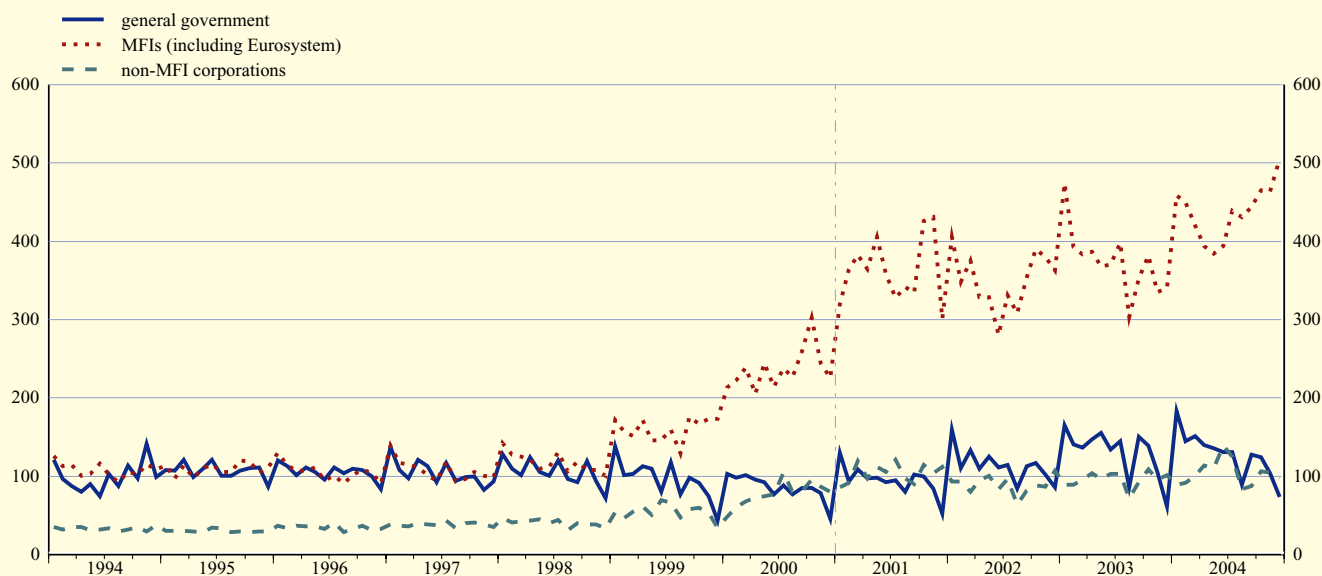
2. Gross issues

(transactions during the period)

	Total						Long-term ¹⁾					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
	Total						Long-term fixed rate					
2003	7,205.1	4,485.6	244.7	909.4	1,478.8	86.5	1,284.7	414.3	113.7	88.9	626.4	41.4
2004	8,038.1	5,248.3	226.4	1,026.1	1,457.1	80.2	1,194.7	407.8	78.0	59.4	614.0	35.4
2004 Q1	2,089.2	1,328.5	38.1	243.4	453.0	26.2	376.8	135.6	16.8	11.7	199.7	13.2
Q2	1,944.2	1,173.1	64.0	300.3	387.5	19.3	307.6	91.3	21.8	19.5	166.8	8.1
Q3	1,958.2	1,313.3	41.5	254.9	333.2	15.2	247.8	86.6	10.3	14.0	130.9	6.1
Q4	2,046.5	1,433.4	82.8	227.5	283.4	19.4	262.4	94.4	29.1	14.3	116.6	8.0
2004 Sep.	659.6	443.8	12.1	75.8	120.4	7.4	99.5	39.4	2.7	3.4	49.8	4.2
Oct.	696.2	464.8	20.9	85.9	119.1	5.6	93.8	28.4	6.4	8.2	49.0	1.8
Nov.	672.7	463.7	30.3	74.6	95.4	8.8	94.3	32.9	13.4	3.3	40.3	4.3
Dec.	677.6	504.9	31.6	67.1	68.9	5.1	74.3	33.1	9.2	2.8	27.3	1.9
	Of which short-term						Long-term variable rate					
2003	5,331.9	3,698.2	41.3	796.1	767.6	28.6	507.6	336.7	89.6	11.7	53.3	16.4
2004	6,142.0	4,381.9	42.9	930.3	755.6	31.3	611.2	401.0	105.3	31.6	59.7	13.5
2004 Q1	1,538.4	1,071.9	10.0	224.7	223.7	8.1	146.6	105.5	11.3	6.6	18.4	4.9
Q2	1,451.0	969.0	11.1	271.0	191.3	8.5	159.4	96.9	30.9	7.8	21.1	2.7
Q3	1,553.1	1,118.9	10.6	230.1	185.9	7.6	136.0	95.2	20.6	10.0	8.6	1.6
Q4	1,599.5	1,222.2	11.2	204.4	154.7	7.0	169.1	103.3	42.5	7.3	11.7	4.4
2004 Sep.	503.1	361.5	3.2	71.2	64.5	2.6	51.9	40.1	6.2	1.1	4.0	0.6
Oct.	538.1	393.6	4.2	75.1	63.1	2.1	59.4	38.7	10.3	1.9	7.0	1.6
Nov.	518.5	393.0	4.3	68.1	50.4	2.7	55.6	34.2	12.5	2.5	4.7	1.7
Dec.	542.9	435.6	2.7	61.3	41.2	2.2	54.1	30.5	19.7	2.9	0.0	1.0

C14 Gross issues of securities, other than shares, by sector

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



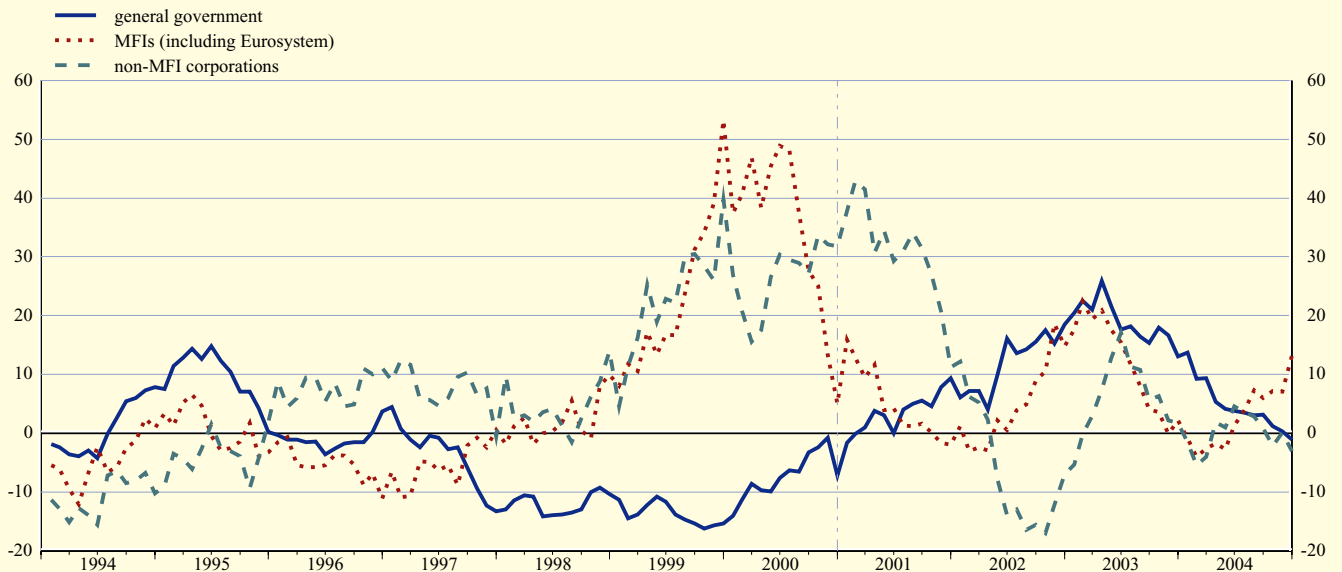
Source: ECB.

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.

4.3 Annual growth rates of securities, other than shares, issued by euro area residents ¹⁾
(percentage changes)

	Total						Short-term					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
In all currencies combined												
2003	6.8	5.1	26.2	9.0	4.6	26.0	14.1	12.1	1.1	5.7	19.2	-2.0
2004	7.1	8.0	15.1	4.3	4.9	17.5	3.2	2.2	-10.5	0.7	4.9	22.1
2004 Q1	7.0	6.3	20.7	6.9	4.8	21.4	3.5	-1.8	-17.9	-1.8	11.4	6.8
Q2	7.0	8.0	15.4	3.2	5.0	18.5	1.7	-1.7	-16.6	2.1	5.2	15.4
Q3	7.3	8.7	13.2	3.9	5.2	16.4	4.0	4.9	-11.1	3.9	3.1	27.2
Q4	6.9	9.0	11.8	3.3	4.6	14.3	3.6	8.0	5.7	-1.4	0.5	41.3
2004 July	7.2	8.4	13.4	4.5	5.2	16.0	3.7	4.0	-17.4	4.8	3.3	17.3
Aug.	7.4	8.9	12.9	3.7	5.4	16.8	4.8	7.3	-8.6	3.6	2.8	35.1
Sep.	7.1	9.1	11.0	3.8	4.9	15.3	4.1	6.0	3.4	0.7	2.8	41.7
Oct.	6.7	8.9	10.9	3.3	4.4	14.1	3.3	7.2	1.6	-2.4	0.9	38.6
Nov.	6.9	8.7	12.4	3.4	4.5	14.2	3.1	7.1	5.0	-0.2	-0.2	53.1
Dec.	7.3	9.6	13.2	2.4	4.9	14.0	4.8	13.2	16.9	-4.3	-1.3	22.8
In euro												
2003	6.5	3.9	32.0	10.0	4.4	24.9	15.7	15.8	0.9	4.8	19.3	-8.0
2004	6.7	6.7	18.7	3.6	5.0	17.2	3.0	1.7	-11.9	0.9	4.8	20.6
2004 Q1	6.8	5.3	24.7	7.0	4.9	20.6	4.3	-1.0	-17.9	-2.5	11.3	7.4
Q2	6.7	6.7	19.0	2.6	5.0	18.1	1.5	-2.5	-15.5	1.7	5.0	12.8
Q3	6.9	7.1	17.0	2.8	5.3	16.3	3.0	2.5	-13.7	4.4	3.0	22.6
Q4	6.6	7.7	15.3	2.2	4.6	14.4	3.4	7.9	0.7	-0.1	0.6	43.1
2004 July	6.8	6.9	17.4	3.4	5.3	15.9	2.7	1.7	-20.6	4.8	3.3	12.5
Aug.	7.0	7.2	16.9	2.5	5.5	16.8	3.3	3.9	-11.0	4.2	2.6	30.7
Sep.	6.8	7.8	14.5	2.7	5.0	15.4	3.4	4.3	-0.6	2.0	2.8	38.0
Oct.	6.4	7.6	14.2	2.3	4.4	14.3	3.0	6.7	-2.5	-1.2	1.1	38.6
Nov.	6.4	7.4	16.0	2.4	4.5	14.1	3.1	7.5	-0.2	1.2	-0.1	62.6
Dec.	7.0	8.5	16.5	1.5	4.8	14.3	4.9	14.9	9.7	-2.5	-1.4	18.9

C15 Annual growth rates of short-term debt securities, by sector of the issuer, in all currencies combined
(percentage changes)



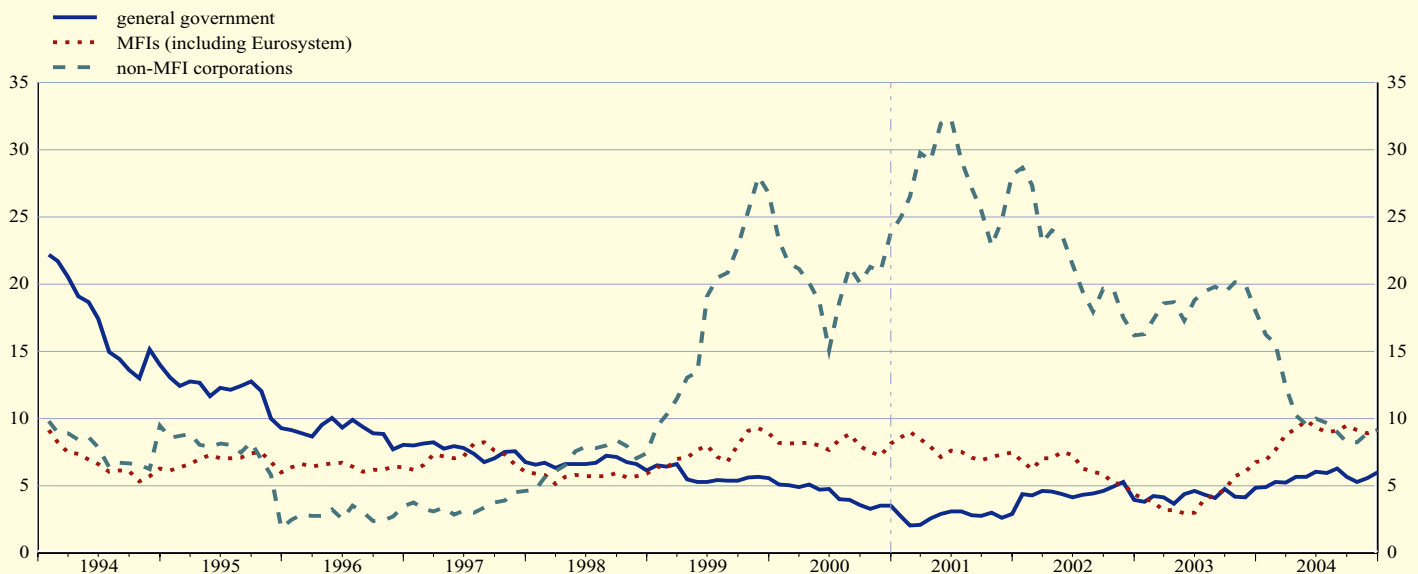
Source: ECB.

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

4.3 Annual growth rates of securities, other than shares, issued by euro area residents ¹⁾ (percentage changes)

	Long-term fixed rate						Long-term variable rate					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
13	14	15	16	17	18	19	20	21	22	23	24	
In all currencies combined												
2003	5.2	2.1	15.4	12.6	4.4	22.6	8.9	8.3	54.7	-13.4	-9.2	43.2
2004	5.1	3.0	7.6	3.8	5.7	14.8	16.6	18.3	29.4	10.1	0.4	26.5
2004 Q1	5.7	3.0	12.6	9.9	5.3	18.4	13.9	15.2	37.9	-8.5	-4.3	33.4
Q2	5.5	3.8	9.5	3.6	5.8	15.2	16.2	18.8	27.4	-0.1	0.9	30.1
Q3	4.9	3.0	4.8	1.3	6.1	13.6	17.9	19.0	28.9	20.7	3.0	25.2
Q4	4.3	2.3	4.1	0.8	5.6	12.5	18.1	20.0	24.8	32.0	2.1	18.8
2004 July	4.8	3.0	4.8	1.5	6.0	13.0	18.0	18.6	29.9	22.8	4.0	26.3
Aug.	4.8	2.7	3.9	0.7	6.3	14.4	18.5	19.4	30.1	22.7	4.3	23.7
Sep.	4.7	3.2	3.2	1.1	5.7	13.4	17.3	19.6	24.7	27.5	0.3	20.1
Oct.	4.2	2.2	3.3	1.6	5.4	12.3	17.7	20.4	24.0	29.3	0.1	18.7
Nov.	4.1	1.8	4.7	0.3	5.5	12.0	18.8	20.4	25.2	35.0	3.6	19.1
Dec.	4.6	2.6	5.2	-0.3	5.9	13.0	18.3	18.9	25.5	36.0	4.8	17.2
In euro												
2003	4.6	0.1	20.7	13.1	4.2	21.3	9.1	7.7	54.7	-8.9	-9.2	43.7
2004	4.8	1.3	11.9	2.6	5.8	14.8	16.1	17.6	29.5	10.6	0.3	25.4
2004 Q1	5.5	1.6	17.1	9.7	5.4	17.7	13.5	14.4	37.7	-5.7	-4.5	31.9
Q2	5.2	2.0	13.9	2.3	5.8	15.0	15.8	18.2	27.4	2.2	0.9	28.8
Q3	4.7	1.2	9.1	-0.2	6.2	13.9	17.2	18.1	29.2	18.6	3.0	24.1
Q4	4.0	0.3	8.2	-0.8	5.6	12.8	17.5	19.4	25.1	29.8	2.0	18.2
2004 July	4.7	1.3	9.3	0.3	6.2	13.3	17.3	17.5	30.2	19.8	4.0	25.2
Aug.	4.7	0.8	8.2	-0.8	6.4	14.8	17.8	18.4	30.3	19.7	4.4	22.6
Sep.	4.4	1.3	7.3	-0.6	5.9	13.9	16.8	19.2	24.9	25.1	0.2	19.0
Oct.	3.9	0.3	7.0	0.3	5.5	12.8	17.1	19.9	24.3	26.8	0.1	17.8
Nov.	3.7	-0.3	9.1	-1.2	5.4	12.1	18.2	19.7	25.6	32.6	3.6	18.2
Dec.	4.3	0.8	9.4	-1.9	5.9	13.1	17.7	18.0	25.8	34.9	4.9	18.0

C16 Annual growth rates of long-term debt securities, by sector of the issuer, in all currencies combined (percentage changes)



Source: ECB.

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

4.4 Quoted shares issued by euro area residents ¹⁾

(EUR billions, unless otherwise indicated; market values)

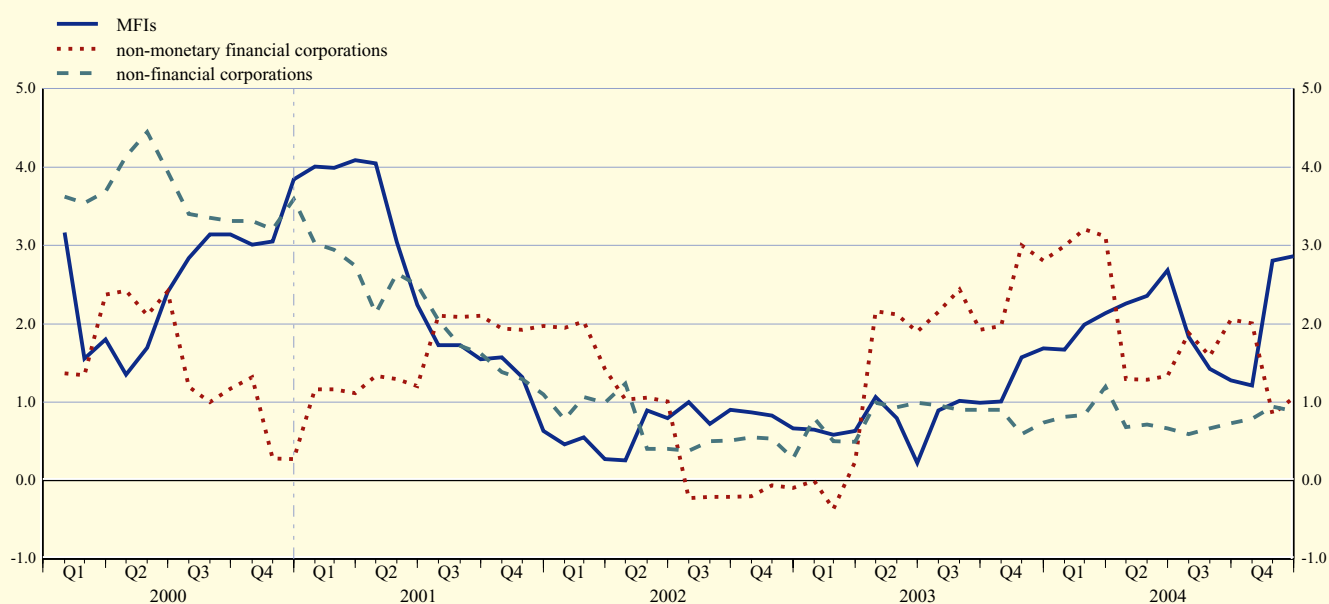
1. Outstanding amounts and annual growth rates

(outstanding amounts as end-of-period)

	Total			MFIs		Non-monetary financial corporations		Non-financial corporations	
	Total	Index Dec. 01 = 100 (%)	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)
	1	2	3	4	5	6	7	8	9
2002 Dec.	3,118.3	100.3	0.3	450.7	0.7	283.6	-0.1	2,384.0	0.3
2003 Jan.	2,978.4	100.3	0.7	425.8	0.6	261.1	0.0	2,291.5	0.8
Feb.	2,885.0	100.3	0.4	425.3	0.6	270.8	-0.4	2,189.0	0.5
Mar.	2,763.5	100.3	0.5	413.0	0.6	236.2	0.2	2,114.3	0.5
Apr.	3,113.0	100.9	1.1	471.4	1.1	291.8	2.2	2,349.8	1.0
May	3,145.7	100.9	1.0	476.7	0.8	291.3	2.1	2,377.7	0.9
June	3,256.2	100.9	0.9	504.2	0.2	300.6	1.9	2,451.4	1.0
July	3,366.5	101.1	1.1	528.0	0.9	330.9	2.1	2,507.6	1.0
Aug.	3,413.4	101.1	1.1	506.5	1.0	325.5	2.4	2,581.5	0.9
Sep.	3,276.7	101.1	1.0	494.8	1.0	307.1	1.9	2,474.7	0.9
Oct.	3,484.0	101.2	1.0	535.2	1.0	333.2	2.0	2,615.6	0.9
Nov.	3,546.9	101.3	1.0	549.5	1.6	337.9	3.0	2,659.6	0.6
Dec.	3,647.4	101.4	1.1	569.5	1.7	348.6	2.8	2,729.3	0.7
2004 Jan.	3,788.6	101.4	1.1	584.1	1.7	372.3	3.0	2,832.2	0.8
Feb.	3,852.1	101.5	1.2	587.9	2.0	374.3	3.2	2,889.9	0.8
Mar.	3,766.5	101.8	1.5	571.9	2.1	355.0	3.1	2,839.6	1.2
Apr.	3,748.5	101.9	1.0	579.4	2.3	361.1	1.3	2,808.0	0.7
May	3,687.9	101.9	1.0	568.1	2.4	350.6	1.3	2,769.2	0.7
June	3,790.1	102.0	1.0	582.5	2.7	362.0	1.3	2,845.7	0.7
July	3,679.8	102.0	0.9	562.3	1.8	354.0	1.9	2,763.5	0.6
Aug.	3,621.2	102.0	0.9	562.5	1.4	353.1	1.6	2,705.6	0.7
Sep.	3,707.9	102.1	0.9	579.6	1.3	362.3	2.1	2,766.1	0.7
Oct.	3,787.6	102.2	1.0	598.0	1.2	372.6	2.0	2,817.0	0.8
Nov.	3,906.5	102.5	1.2	623.9	2.8	386.5	0.8	2,896.2	0.9
Dec.	4,034.5	102.6	1.2	643.7	2.9	406.4	1.1	2,984.4	0.9

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

(annual percentage changes)



Source: ECB.

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

4.4 Quoted shares issued by euro area residents ¹⁾

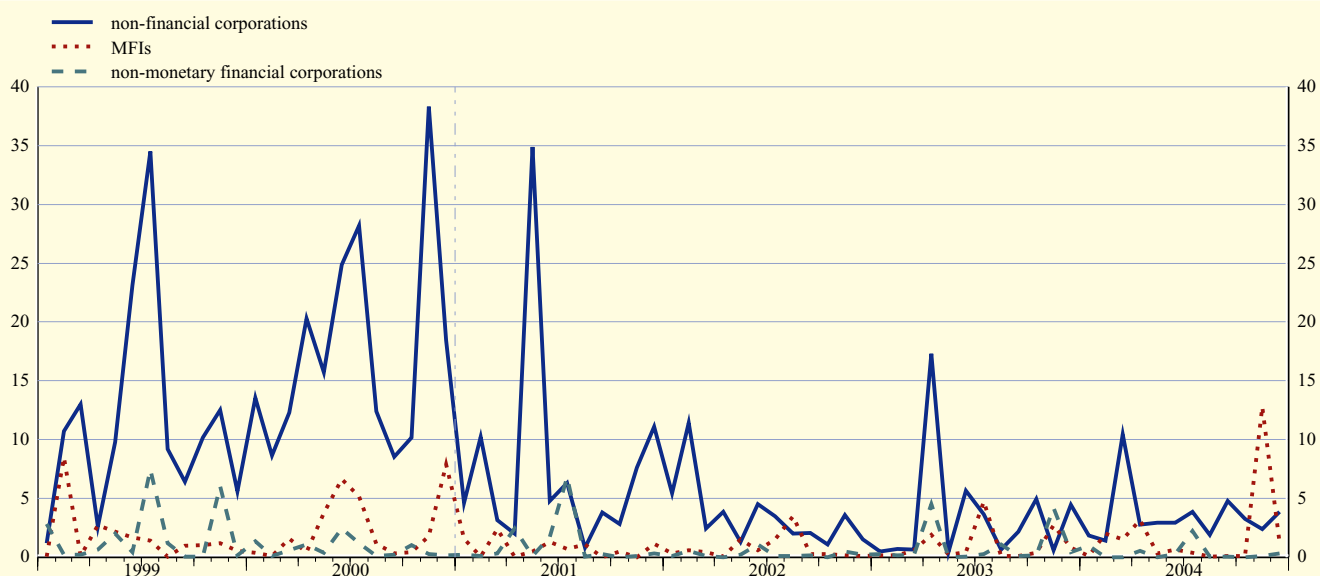
(EUR billions; market values)

2. Transactions during the month

	Total			MFIs			Non-monetary financial corporations			Non-financial corporations		
	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues
	1	2	3	4	5	6	7	8	9	10	11	12
2002 Dec.	1.8	1.6	0.2	0.1	0.0	0.1	0.2	0.1	0.1	1.5	1.6	-0.1
2003 Jan.	0.9	1.4	-0.5	0.1	0.0	0.1	0.3	0.0	0.3	0.5	1.4	-0.9
Feb.	1.0	1.3	-0.3	0.1	0.0	0.1	0.1	0.8	-0.7	0.7	0.5	0.2
Mar.	1.4	1.5	-0.1	0.6	0.1	0.5	0.2	0.0	0.1	0.6	1.3	-0.7
Apr.	23.7	4.9	18.8	1.9	0.1	1.7	4.5	0.0	4.5	17.3	4.8	12.5
May	0.7	2.2	-1.6	0.2	0.4	-0.2	0.0	0.0	0.0	0.5	1.8	-1.3
June	6.1	5.2	0.9	0.4	2.8	-2.3	0.0	0.0	0.0	5.7	2.4	3.2
July	8.6	2.0	6.6	4.7	0.2	4.5	0.2	0.0	0.2	3.6	1.8	1.8
Aug.	1.8	1.4	0.4	0.1	0.0	0.1	1.1	0.1	1.0	0.6	1.3	-0.7
Sep.	2.3	2.1	0.3	0.1	0.1	0.0	0.1	1.6	-1.5	2.2	0.4	1.8
Oct.	5.4	3.9	1.6	0.4	0.0	0.4	0.2	0.0	0.1	4.9	3.8	1.1
Nov.	7.5	5.5	2.1	2.7	0.0	2.7	4.2	0.3	3.9	0.6	5.1	-4.5
Dec.	5.7	1.6	4.0	0.8	0.1	0.8	0.4	0.9	-0.5	4.4	0.6	3.8
2004 Jan.	2.9	1.0	1.9	0.1	0.0	0.1	0.9	0.0	0.9	1.8	1.0	0.8
Feb.	3.5	0.7	2.8	2.0	0.0	2.0	0.0	0.2	-0.2	1.4	0.5	1.0
Mar.	12.0	1.3	10.7	1.5	0.0	1.5	0.0	0.1	-0.1	10.5	1.1	9.3
Apr.	6.4	0.6	5.8	3.1	0.1	3.1	0.5	0.1	0.4	2.8	0.5	2.3
May	3.3	3.6	-0.4	0.3	0.0	0.3	0.0	0.0	0.0	2.9	3.6	-0.6
June	3.8	2.2	1.6	0.7	1.6	-1.0	0.3	0.0	0.2	2.9	0.5	2.4
July	6.4	3.6	2.8	0.4	0.0	0.4	2.2	0.0	2.2	3.8	3.6	0.2
Aug.	2.0	2.9	-0.9	0.1	2.2	-2.2	0.0	0.0	0.0	1.9	0.7	1.2
Sep.	4.9	2.2	2.7	0.1	0.9	-0.8	0.0	0.0	0.0	4.8	1.3	3.5
Oct.	3.4	0.4	3.0	0.1	0.0	0.1	0.0	0.0	0.0	3.3	0.3	2.9
Nov.	15.2	3.3	11.9	12.8	0.3	12.4	0.1	0.0	0.1	2.4	3.0	-0.6
Dec.	5.4	1.6	3.9	1.2	0.0	1.2	0.3	0.1	0.2	3.9	1.4	2.4

C18 Gross issues of quoted shares by sector of the issuer

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



Source: ECB.

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

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

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

1. Interest rates on deposits (new business)

	Deposits from households						Deposits from non-financial corporations				Repos
	Overnight ¹⁾	With agreed maturity			Redeemable at notice ^{1,2)}		Overnight ¹⁾	With agreed maturity			
		Up to 1 year	Over 1 and up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 1 year	Over 1 and up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9	10	11
2004 Jan.	0.69	1.90	2.38	2.74	2.03	2.65	0.93	1.99	2.08	3.10	1.95
Feb.	0.69	1.89	2.16	2.45	2.02	2.63	0.86	1.98	2.22	3.60	1.98
Mar.	0.70	1.91	2.13	2.31	2.00	2.60	0.86	1.96	2.16	3.35	1.98
Apr.	0.70	1.96	2.13	2.41	2.02	2.57	0.85	1.97	2.04	3.46	1.95
May	0.70	1.86	2.15	2.43	2.00	2.56	0.86	1.96	2.06	3.74	1.95
June	0.70	1.87	2.21	2.42	2.00	2.55	0.87	1.98	2.27	3.76	1.98
July	0.70	1.90	2.21	2.54	1.99	2.55	0.86	1.99	2.59	4.00	1.99
Aug.	0.71	1.91	2.18	2.67	2.00	2.53	0.87	1.98	2.36	3.99	1.98
Sep.	0.72	1.90	2.20	2.48	2.00	2.52	0.90	2.00	2.31	3.68	1.99
Oct.	0.72	1.92	2.29	2.48	2.00	2.52	0.89	2.04	2.32	3.56	2.00
Nov.	0.73	1.94	2.20	2.50	2.01	2.51	0.90	2.04	2.22	3.39	2.02
Dec.	0.73	1.95	2.19	2.32	2.00	2.52	0.90	2.08	2.68	3.52	2.02

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

	Bank overdraft ¹⁾	Consumer credit				Lending for house purchase					Other lending by initial rate fixation		
		By initial rate fixation			Annual percentage rate of charge ³⁾	By initial rate fixation				Annual percentage rate of charge ³⁾	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 and up to 10 years	Over 10 years				
	1	2	3	4	5	6	7	8	9	10	11	12	13
2004 Jan.	9.87	7.63	7.22	8.56	8.35	3.61	4.30	5.02	4.85	4.47	4.08	5.10	5.18
Feb.	9.81	7.45	7.06	8.49	8.20	3.54	4.22	4.96	4.86	4.31	4.13	5.07	5.04
Mar.	9.71	7.38	6.90	8.37	8.05	3.47	4.14	4.87	4.71	4.28	3.96	5.06	4.96
Apr.	9.73	7.35	6.64	8.30	7.86	3.42	4.06	4.77	4.69	4.24	3.89	4.97	4.95
May	9.68	7.33	6.77	8.27	7.96	3.40	4.05	4.75	4.61	4.17	4.14	4.87	4.94
June	9.55	7.12	6.74	8.42	7.96	3.42	4.12	4.82	4.69	4.17	3.93	4.97	5.01
July	9.57	7.18	6.86	8.52	8.07	3.47	4.16	4.81	4.69	4.20	4.04	4.94	5.01
Aug.	9.62	7.67	6.89	8.58	8.26	3.50	4.19	4.87	4.65	4.29	3.91	5.07	5.02
Sep.	9.59	7.45	6.96	8.45	8.18	3.49	4.14	4.82	4.66	4.24	3.90	4.98	5.00
Oct.	9.53	7.37	6.87	8.34	7.98	3.50	4.12	4.77	4.64	4.18	4.08	4.87	4.92
Nov.	9.47	7.42	6.85	8.23	7.97	3.45	4.07	4.66	4.58	4.09	3.96	4.89	4.82
Dec.	9.51	7.24	6.60	7.67	7.71	3.43	3.95	4.49	4.41	4.07	3.82	4.59	4.66

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

	Bank overdraft ¹⁾	Other loans up to EUR 1 million by initial rate fixation			Other loans over EUR 1 million by initial rate fixation			
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	
								1	2	3	4	5	6	7
2004 Jan.		5.67	4.01	4.88	4.87	3.02	3.39	4.29
Feb.		5.63	4.00	4.93	4.78	3.00	3.19	4.30
Mar.		5.56	3.95	4.81	4.73	2.95	3.27	4.37
Apr.		5.51	3.88	4.75	4.69	3.00	3.28	4.21
May		5.46	4.00	4.62	4.59	3.00	3.30	4.21
June		5.46	3.97	4.81	4.71	2.99	3.26	4.08
July		5.36	4.02	4.85	4.65	3.02	3.28	4.27
Aug.		5.37	4.06	4.89	4.73	2.99	3.12	4.30
Sep.		5.37	4.00	4.85	4.68	2.99	3.37	4.45
Oct.		5.39	4.02	4.87	4.64	2.98	3.30	4.27
Nov.		5.37	4.02	4.79	4.55	2.95	3.35	4.31
Dec.		5.26	3.98	4.67	4.46	3.05	3.55	4.10

Source: ECB.

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

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

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

4. Interest rates on deposits (outstanding amounts)

	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight ¹⁾	With agreed maturity		Redeemable at notice ^{1),2)}		Overnight ¹⁾	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9
2004 Jan.	0.69	1.94	3.36	2.03	2.65	0.93	2.08	4.28	1.95
Feb.	0.69	1.93	3.42	2.02	2.63	0.86	2.08	4.22	1.97
Mar.	0.70	1.92	3.32	2.00	2.60	0.86	2.07	4.17	1.93
Apr.	0.70	1.90	3.35	2.02	2.57	0.85	2.08	4.17	1.92
May	0.70	1.89	3.28	2.00	2.56	0.86	2.07	4.15	1.93
June	0.70	1.88	3.27	2.00	2.55	0.87	2.08	4.12	1.94
July	0.70	1.89	3.25	1.99	2.55	0.86	2.09	4.11	1.96
Aug.	0.71	1.89	3.22	2.00	2.53	0.87	2.12	4.03	1.97
Sep.	0.72	1.90	3.22	2.00	2.52	0.90	2.12	3.97	1.97
Oct.	0.72	1.90	3.27	2.00	2.52	0.89	2.11	3.89	1.98
Nov.	0.73	1.90	3.26	2.01	2.51	0.90	2.12	3.86	2.00
Dec.	0.73	1.92	3.24	2.00	2.52	0.90	2.16	3.76	2.02

5. Interest rates on loans (outstanding amounts)

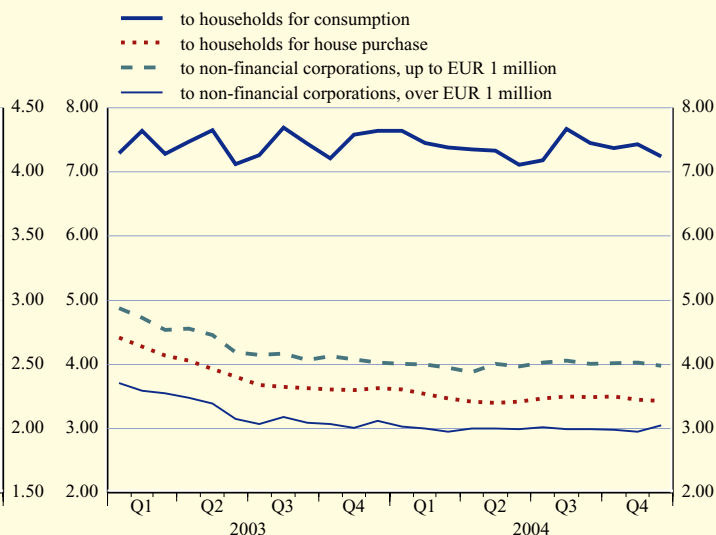
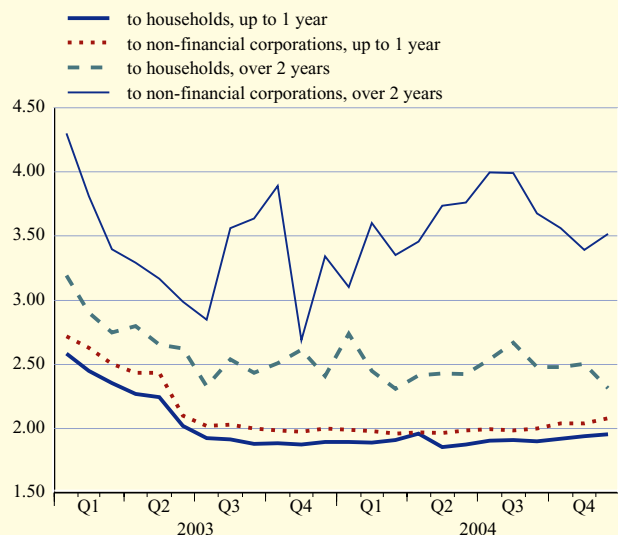
	Loans to households						Loans to non-financial corporations		
	Lending for house purchase, with maturity			Consumer credit and other loans, with maturity			With maturity		
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9
2004 Jan.	5.05	4.89	5.11	8.15	7.02	5.92	4.58	4.07	4.56
Feb.	5.01	4.91	5.11	8.13	7.16	5.95	4.62	4.06	4.58
Mar.	4.98	4.82	5.03	8.05	7.16	5.89	4.56	3.96	4.61
Apr.	4.90	4.75	5.01	8.03	7.08	5.85	4.51	3.91	4.59
May	4.89	4.72	4.99	7.99	7.04	5.82	4.50	3.87	4.55
June	4.87	4.69	4.97	7.93	6.99	5.80	4.47	3.89	4.53
July	4.91	4.63	4.94	7.93	6.98	5.76	4.48	3.88	4.50
Aug.	4.88	4.58	4.91	7.93	6.95	5.77	4.45	3.84	4.48
Sep.	4.82	4.58	4.90	8.06	7.14	5.85	4.46	3.99	4.52
Oct.	4.69	4.53	4.88	8.05	7.08	5.80	4.42	3.97	4.48
Nov.	4.67	4.52	4.86	7.93	6.99	5.82	4.41	3.96	4.48
Dec.	4.72	4.49	4.83	7.94	7.02	5.80	4.35	3.97	4.44

C19 New deposits with agreed maturity

(percentages per annum excluding charges; period averages)

C20 New loans at floating rate and up to 1 year initial rate fixation

(percentages per annum excluding charges; period averages)



Source: ECB.

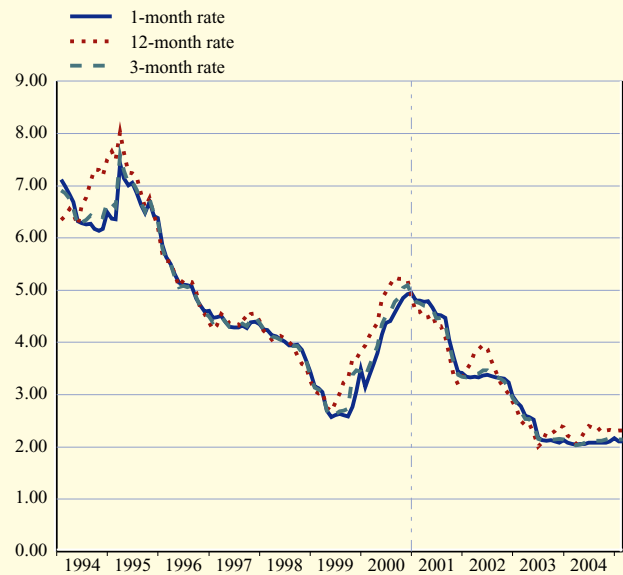
4.6 Money market interest rates

(percentages per annum; period averages)

	Euro area ¹⁾					United States	Japan
	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)	3-month deposits (LIBOR)	3-month deposits (LIBOR)
	1	2	3	4	5	6	7
2002	3.29	3.30	3.32	3.35	3.49	1.80	0.08
2003	2.32	2.35	2.33	2.31	2.34	1.22	0.06
2004	2.05	2.08	2.11	2.15	2.27	1.62	0.05
2003 Q4	2.02	2.11	2.15	2.20	2.36	1.17	0.06
2004 Q1	2.02	2.06	2.06	2.07	2.15	1.12	0.05
Q2	2.04	2.06	2.08	2.13	2.29	1.30	0.05
Q3	2.05	2.08	2.12	2.19	2.35	1.75	0.05
Q4	2.08	2.12	2.16	2.20	2.32	2.30	0.05
2004 Feb.	2.03	2.06	2.07	2.09	2.16	1.12	0.05
Mar.	2.01	2.04	2.03	2.02	2.06	1.11	0.05
Apr.	2.08	2.05	2.05	2.06	2.16	1.15	0.05
May	2.02	2.06	2.09	2.14	2.30	1.25	0.05
June	2.03	2.08	2.11	2.19	2.40	1.50	0.05
July	2.07	2.08	2.12	2.19	2.36	1.63	0.05
Aug.	2.04	2.08	2.11	2.17	2.30	1.73	0.05
Sep.	2.05	2.08	2.12	2.20	2.38	1.90	0.05
Oct.	2.11	2.09	2.15	2.19	2.32	2.08	0.05
Nov.	2.09	2.11	2.17	2.22	2.33	2.31	0.05
Dec.	2.05	2.17	2.17	2.21	2.30	2.50	0.05
2005 Jan.	2.08	2.11	2.15	2.19	2.31	2.66	0.05
Feb.	2.06	2.10	2.14	2.18	2.31	2.82	0.05

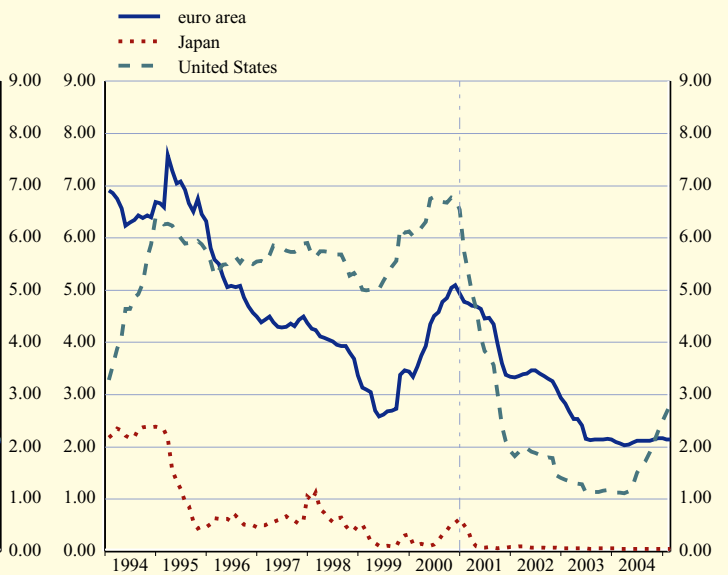
C21 Euro area money market rates

(monthly; percentages per annum)



C22 3-month money market rates

(monthly; percentages per annum)



Source: ECB.

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

4.7 Government bond yields

(percentages per annum; period averages)

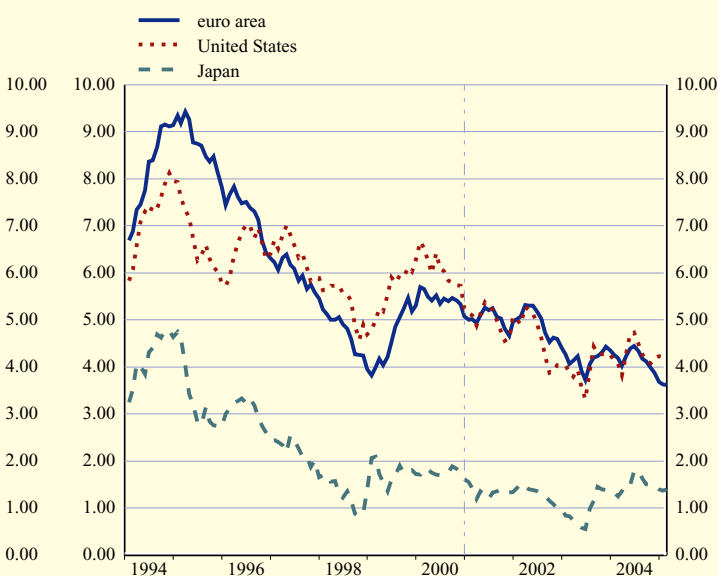
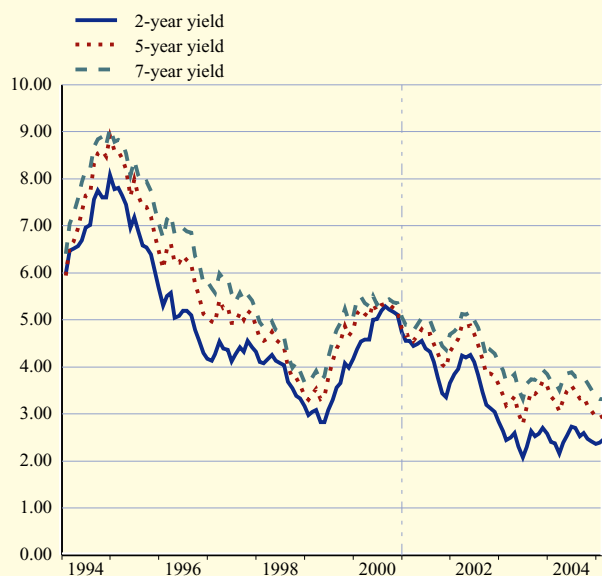
	Euro area ¹⁾					United States	Japan
	2 years	3 years	5 years	7 years	10 years	10 years	10 years
	1	2	3	4	5	6	7
2002	3.68	3.94	4.35	4.70	4.92	4.60	1.27
2003	2.49	2.74	3.32	3.74	4.16	4.00	0.99
2004	2.47	2.77	3.29	3.70	4.14	4.26	1.50
2003 Q4	2.62	2.91	3.59	3.88	4.36	4.27	1.38
2004 Q1	2.31	2.63	3.23	3.63	4.15	4.00	1.31
Q2	2.56	2.92	3.47	3.84	4.36	4.58	1.59
Q3	2.61	2.89	3.39	3.80	4.21	4.29	1.64
Q4	2.41	2.62	3.06	3.51	3.84	4.17	1.45
2004 Feb.	2.38	2.71	3.28	3.69	4.18	4.06	1.25
Mar.	2.16	2.48	3.06	3.51	4.02	3.81	1.35
Apr.	2.39	2.75	3.31	3.75	4.24	4.32	1.51
May	2.55	2.94	3.50	3.87	4.39	4.70	1.49
June	2.74	3.06	3.60	3.89	4.44	4.73	1.77
July	2.70	2.97	3.49	3.80	4.34	4.48	1.79
Aug.	2.53	2.83	3.33	3.82	4.17	4.27	1.63
Sep.	2.60	2.87	3.35	3.79	4.11	4.13	1.50
Oct.	2.47	2.71	3.18	3.66	3.98	4.08	1.49
Nov.	2.41	2.62	3.08	3.53	3.87	4.19	1.46
Dec.	2.36	2.53	2.93	3.35	3.69	4.23	1.40
2005 Jan.	2.39	2.57	2.92	3.31	3.63	4.21	1.37
Feb.	2.45	2.67	2.97	3.32	3.62	4.16	1.40

C23 Euro area government bond yields

(monthly; percentages per annum)

C24 10-year government bond yields

(monthly; percentages per annum)



Source: ECB.

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

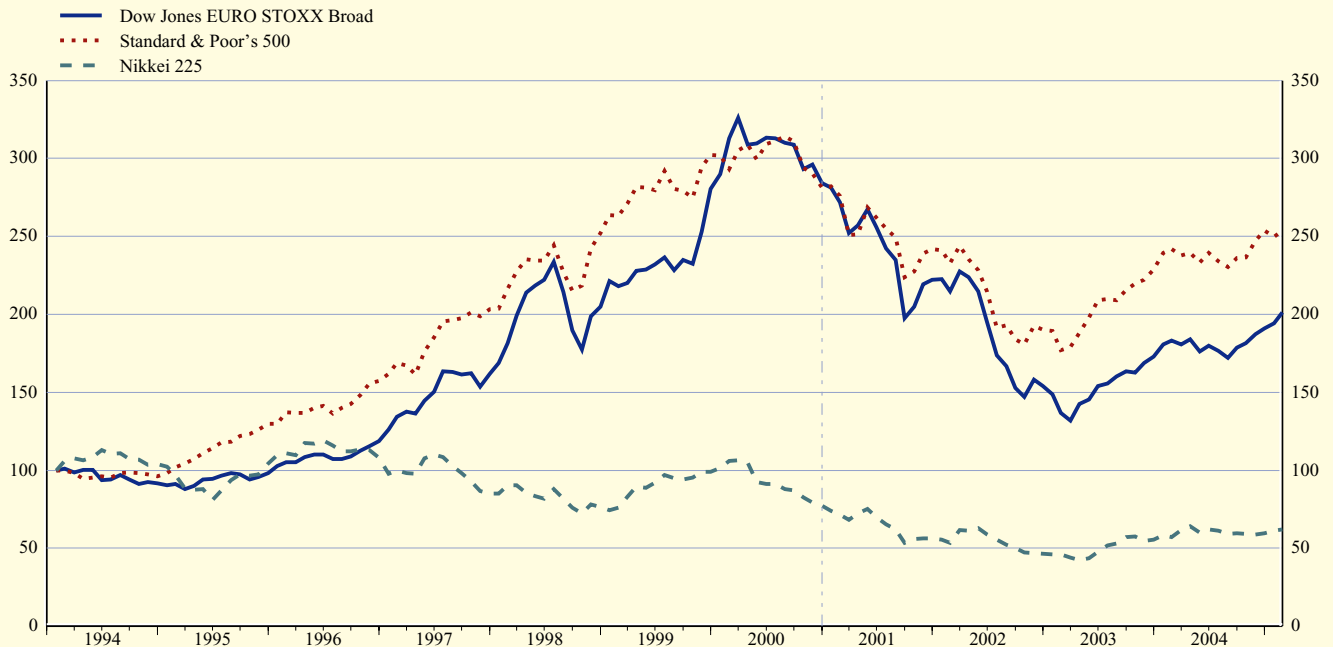
4.8 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX indices												United States	Japan
	Benchmark		Main industry indices										Standard & Poor's 500	Nikkei 225
	Broad	50	Basic materials	Consumer services	Consumer goods	Oil & gas	Financials	Industrials	Technology	Utilities	Telecom.	Health care		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
2002	260.0	3,052.5	267.5	194.8	239.0	309.0	243.4	252.4	345.2	255.5	349.2	411.9	995.3	10,119.3
2003	213.3	2,422.7	212.5	144.9	193.8	259.5	199.3	213.5	275.2	210.7	337.5	304.5	964.9	9,312.9
2004	251.1	2,804.8	251.4	163.4	219.9	300.5	238.2	258.6	298.3	266.3	399.2	395.9	1,131.1	11,180.9
2003 Q4	233.0	2,614.3	233.7	160.2	211.2	266.7	221.9	240.2	317.5	219.7	360.6	320.2	1,057.1	10,423.3
2004 Q1	251.6	2,846.5	245.0	166.9	222.1	279.9	240.5	257.1	353.0	248.7	405.3	366.6	1,132.7	10,996.9
Q2	249.8	2,794.7	244.7	164.7	226.3	300.9	234.6	256.1	299.4	262.1	388.3	394.9	1,123.6	11,550.0
Q3	244.0	2,708.7	246.8	159.3	216.4	305.0	228.7	253.1	259.9	266.8	379.8	402.6	1,104.4	11,152.3
Q4	259.2	2,869.7	268.9	162.7	215.0	315.7	249.1	268.0	281.8	287.3	423.5	419.1	1,163.7	11,027.1
2004 Feb.	253.9	2,874.8	244.7	168.4	224.1	275.6	243.7	260.1	359.0	252.1	412.3	370.0	1,143.5	10,618.6
Mar.	250.5	2,829.0	240.3	166.7	220.9	286.3	236.1	254.1	351.4	254.5	399.3	379.3	1,124.0	11,441.1
Apr.	255.0	2,860.9	247.6	168.3	227.8	300.2	241.0	262.6	321.3	264.7	402.0	389.3	1,133.4	11,962.8
May	244.4	2,728.0	240.2	160.8	223.0	297.7	228.7	250.9	284.8	256.6	378.0	395.3	1,103.6	11,141.0
June	249.8	2,792.2	246.1	164.9	227.9	304.7	233.9	254.5	291.4	264.9	384.3	400.0	1,132.9	11,527.7
July	245.2	2,730.4	245.5	162.1	221.6	302.8	227.8	251.4	272.3	267.5	382.1	397.7	1,106.7	11,390.8
Aug.	238.9	2,646.9	243.7	155.7	212.5	300.2	223.9	248.1	245.3	262.6	372.8	396.4	1,088.9	10,989.3
Sep.	248.0	2,748.6	251.1	160.0	215.1	311.8	234.6	259.9	261.9	270.1	384.4	413.7	1,117.5	11,076.8
Oct.	252.1	2,794.4	259.1	157.4	211.5	315.5	240.4	262.5	273.3	278.8	401.2	415.1	1,118.1	11,028.9
Nov.	260.0	2,882.7	269.5	163.8	215.6	317.3	249.4	267.7	290.3	287.4	421.1	422.3	1,169.5	10,963.5
Dec.	264.8	2,926.0	277.2	166.5	217.7	314.4	256.8	273.2	281.3	295.0	446.2	419.6	1,199.7	11,086.3
2005 Jan.	269.4	2,957.0	277.0	172.0	221.6	318.1	262.8	284.2	270.4	302.9	450.6	423.8	1,181.6	11,401.2
Feb.	279.0	3,050.4	294.2	179.5	230.0	338.5	270.1	295.1	277.4	317.5	453.8	428.7	1,199.7	11,545.7

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

(January 1994 = 100; monthly averages)



Source: ECB.



PRICES, OUTPUT, DEMAND AND LABOUR MARKETS

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

1. Harmonised Index of Consumer Prices

	Total				Total (s.a., percentage change on previous period)					
	Index 1996 = 100	Total	Goods	Services	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy (n.s.a.)	Services
% of total ¹⁾	100.0	100.0	59.0	41.0	100.0	12.0	7.6	30.8	8.5	41.0
	1	2	3	4	5	6	7	8	9	10
2001	108.5	2.3	2.3	2.5	-	-	-	-	-	-
2002	110.9	2.3	1.7	3.1	-	-	-	-	-	-
2003	113.2	2.1	1.8	2.5	-	-	-	-	-	-
2004	115.7	2.1	1.8	2.6	-	-	-	-	-	-
2003 Q4	114.0	2.0	1.8	2.4	0.5	1.1	0.6	0.2	-0.2	0.6
2004 Q1	114.4	1.7	1.1	2.6	0.5	0.9	-0.5	0.2	1.2	0.7
Q2	115.8	2.3	2.1	2.6	0.8	1.1	-0.1	0.4	3.3	0.6
Q3	115.9	2.2	2.0	2.6	0.5	0.4	-0.3	0.1	1.9	0.7
Q4	116.6	2.3	2.1	2.7	0.5	0.3	0.2	0.2	1.8	0.6
2004 Sep.	116.1	2.1	1.8	2.6	0.0	-0.1	-0.1	0.0	-0.1	0.1
Oct.	116.5	2.4	2.2	2.6	0.3	0.0	-0.1	0.1	2.9	0.2
Nov.	116.4	2.2	2.0	2.7	0.0	-0.1	0.3	0.1	-1.2	0.2
Dec.	116.9	2.4	2.0	2.7	0.1	1.1	0.7	0.0	-1.8	0.3
2005 Jan.	116.2	1.9	1.6	2.4	-0.2	-0.2	-0.7	-0.2	0.3	-0.1
Feb. ²⁾	.	2.0	.	.	.	.	.	.	.	.

	Goods						Services					
	Food (incl. alcoholic beverages and tobacco)			Industrial goods			Housing		Transport	Communication	Recreation and personal	Miscellaneous
	Total	Processed food	Unprocessed food	Total	Non-energy industrial goods	Energy	Rents					
% of total ¹⁾	19.6	12.0	7.6	39.4	30.8	8.5	10.4	6.4	6.4	2.8	14.8	6.6
	11	12	13	14	15	16	17	18	19	20	21	22
2001	4.5	2.9	7.0	1.2	0.9	2.2	1.8	1.4	3.6	-4.1	3.6	2.7
2002	3.1	3.1	3.1	1.0	1.5	-0.6	2.4	2.0	3.2	-0.3	4.2	3.4
2003	2.8	3.3	2.1	1.2	0.8	3.0	2.3	2.0	2.9	-0.6	2.7	3.4
2004	2.3	3.4	0.6	1.6	0.8	4.5	2.4	1.9	2.8	-2.0	2.4	5.1
2003 Q4	3.7	3.8	3.6	0.9	0.8	1.6	2.3	1.9	2.8	-0.7	2.5	3.3
2004 Q1	3.0	3.5	2.2	0.2	0.7	-1.5	2.3	1.9	2.5	-1.0	2.4	4.9
Q2	2.9	3.9	1.5	1.7	0.9	4.8	2.3	1.8	3.0	-1.9	2.4	4.9
Q3	2.0	3.6	-0.3	2.0	0.8	6.3	2.5	2.0	2.8	-2.6	2.5	5.3
Q4	1.4	2.8	-0.7	2.4	0.8	8.5	2.6	2.1	3.0	-2.6	2.4	5.3
2004 Sep.	1.4	3.3	-1.5	2.0	0.8	6.4	2.5	1.9	2.7	-2.8	2.5	5.2
Oct.	1.2	2.8	-1.2	2.7	0.8	9.8	2.6	2.1	2.7	-2.5	2.4	5.2
Nov.	1.0	2.3	-1.0	2.5	0.8	8.7	2.6	2.1	2.8	-2.6	2.4	5.4
Dec.	2.0	3.2	0.0	2.0	0.8	6.9	2.7	2.1	3.3	-2.6	2.4	5.4
2005 Jan.	1.5	2.8	-0.6	1.7	0.5	6.2	2.6	2.1	3.2	-2.4	2.3	3.5

Sources: Eurostat and ECB calculations.

1) Referring to the index period 2005.

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

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

2. Industry and commodity prices

	Industrial producer prices											World market prices of raw materials ¹⁾	Oil prices ²⁾ (EUR per barrel)	
	Industry excluding construction									Construction ³⁾	Manufacturing			
	Total (index 2000 = 100)	Total	Industry excluding construction and energy						Energy			Total	Total excluding energy	
			Total	Intermediate goods	Capital goods	Consumer goods								
						Total	Durable	Non-durable						
% of total ⁴⁾	100.0	100.0	82.5	31.6	21.3	29.5	4.0	25.5	17.5	89.5	100.0	32.8		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2001	102.0	2.0	1.7	1.1	0.9	3.0	1.9	3.1	2.6	2.4	1.2	-8.3	-8.1	27.8
2002	101.9	-0.1	0.5	-0.3	0.9	1.0	1.3	1.0	-2.3	2.8	0.3	-4.1	-0.9	26.5
2003	103.4	1.4	0.8	0.8	0.3	1.1	0.6	1.2	3.8	2.2	0.9	-4.0	-4.5	25.1
2004	105.7	2.3	1.9	3.5	0.7	1.3	0.7	1.4	3.7	.	2.5	18.4	10.8	30.5
2003 Q4	103.4	1.0	0.6	0.3	0.3	1.2	0.5	1.3	2.0	1.7	0.5	-4.2	-1.2	24.5
2004 Q1	103.9	0.2	0.9	1.0	0.3	1.1	0.4	1.3	-2.6	1.8	0.2	-2.5	9.8	25.0
Q2	105.3	2.0	1.7	2.8	0.6	1.5	0.6	1.6	3.7	2.1	2.5	28.8	20.9	29.3
Q3	106.4	3.1	2.4	4.7	0.9	1.3	0.8	1.4	5.9	2.8	3.5	26.9	11.9	33.3
Q4	107.2	3.8	2.7	5.5	1.1	1.2	1.1	1.2	8.1	.	4.0	22.9	1.3	34.5
2004 Sep.	106.7	3.3	2.5	5.0	0.9	1.1	0.8	1.1	7.0	-	3.8	30.5	6.9	35.0
Oct.	107.5	4.1	2.7	5.5	1.1	1.1	1.0	1.1	9.7	-	4.3	35.1	3.7	39.4
Nov.	107.3	3.7	2.7	5.5	1.1	0.9	1.1	0.9	8.0	-	3.9	21.0	0.4	34.5
Dec.	107.0	3.5	2.9	5.5	1.2	1.5	1.1	1.5	6.6	-	3.8	12.8	-0.2	30.0
2005 Jan.	107.6	3.9	2.9	5.5	1.5	1.3	1.3	1.3	8.0	-	3.7	18.9	-1.9	33.6
Feb.	.	.	.	.	.	.	.	.	.	-	.	22.0	-1.8	35.2

3. Hourly labour costs⁵⁾

	Total (s.a. index 2000 = 100)	Total	By component		By selected economic activity			Memo item: indicator of negotiated wages
			Wages and salaries	Employers' social contributions	Mining, manufacturing and energy	Construction	Services	
	1	2	3	4	5	6	7	8
2001	103.5	3.6	3.7	2.9	3.4	4.0	3.2	2.6
2002	107.4	3.7	3.6	4.2	3.8	4.0	3.5	2.7
2003	110.5	2.8	2.7	3.2	2.9	3.4	2.7	2.4
2004	.	.	.	.	.	.	.	2.2
2003 Q4	111.4	2.3	2.2	2.5	2.2	2.8	2.4	2.2
2004 Q1	112.2	2.8	2.9	2.7	3.2	3.2	2.8	2.3
Q2	112.7	2.2	2.3	2.0	2.4	2.2	2.2	2.3
Q3	113.2	1.9	2.0	1.8	1.9	2.4	1.9	2.0
Q4	.	.	.	.	.	.	.	2.2

Sources: Eurostat, HWWA (columns 12 and 13), Thomson Financial Datastream (column 14), 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 8 in Table 3 in Section 5.1).

- 1) Refers to the prices expressed in euro.
- 2) Brent Blend (for one-month forward delivery).
- 3) Residential buildings, based on non-harmonised data.
- 4) In 2000.
- 5) Hourly labour costs for the whole economy, excluding agriculture, public administration, education, health and services not elsewhere classified. Owing to differences in coverage, components are not consistent with the total.

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated; seasonally adjusted)

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

	Total (index 2000 = 100)	Total	By economic activity					
			Agriculture, hunting, forestry and fishing	Mining, manufacturing, and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	
	1	2	3	4	5	6	7	8
Unit labour costs ¹⁾								
2000	100.0	1.2	1.3	-0.7	1.1	0.0	3.0	1.8
2001	102.5	2.5	3.9	2.4	3.5	0.9	3.6	3.0
2002	104.8	2.2	0.2	0.7	2.4	1.8	3.8	2.4
2003	106.9	2.0	4.2	1.0	4.7	2.2	1.6	2.9
2003 Q3	107.3	2.3	6.2	1.6	5.0	1.7	0.9	3.8
Q4	107.1	1.5	3.2	0.1	4.4	2.1	1.6	2.0
2004 Q1	107.2	1.0	-3.8	0.1	1.8	0.8	1.9	2.0
Q2	107.5	0.4	-4.5	-2.4	1.3	-0.7	1.3	2.4
Q3	107.4	0.1	-3.1	-1.8	2.7	0.0	2.1	0.3
Compensation per employee								
2000	100.0	2.7	2.1	3.4	2.6	1.7	2.4	2.8
2001	102.9	2.9	2.1	2.7	3.0	2.7	2.5	3.1
2002	105.5	2.5	2.9	2.4	3.0	2.6	2.1	2.8
2003	108.0	2.4	3.1	3.3	3.3	2.0	1.6	2.3
2003 Q3	108.5	2.5	2.7	3.3	3.5	1.5	1.2	3.2
Q4	108.7	2.2	2.8	3.3	3.3	1.6	1.5	2.1
2004 Q1	109.5	2.3	-0.2	3.9	2.8	1.5	1.0	2.5
Q2	110.1	2.2	0.7	3.0	1.8	1.1	1.2	3.3
Q3	110.1	1.5	4.2	2.2	2.5	1.4	1.3	0.9
Labour productivity ²⁾								
2000	100.0	1.5	0.8	4.1	1.5	1.7	-0.6	1.0
2001	100.3	0.3	-1.7	0.3	-0.5	1.8	-1.1	0.2
2002	100.6	0.3	2.7	1.7	0.6	0.8	-1.6	0.4
2003	101.0	0.4	-1.0	2.3	-1.4	-0.1	0.0	-0.5
2003 Q3	101.1	0.2	-3.3	1.7	-1.4	-0.2	0.2	-0.5
Q4	101.5	0.7	-0.4	3.2	-1.1	-0.5	-0.1	0.1
2004 Q1	102.1	1.3	3.7	3.8	1.0	0.8	-0.9	0.5
Q2	102.4	1.9	5.4	5.6	0.6	1.8	-0.1	0.9
Q3	102.5	1.4	7.5	4.1	-0.2	1.4	-0.8	0.6

5. Gross Domestic Product deflators

	Total (index 2000 = 100)	Total	Domestic demand			Exports ³⁾	Imports ³⁾	
			Total	Private consumption	Government consumption			Gross fixed capital formation
	1	2	3	4	5	6	7	8
2001	102.4	2.4	2.2	2.3	2.4	2.0	1.4	0.8
2002	105.0	2.5	2.2	2.2	2.1	1.8	-0.4	-1.6
2003	107.2	2.1	1.9	2.0	2.2	1.4	-0.6	-1.3
2004	109.2	1.8	2.0	1.8	1.6	2.6	0.8	1.1
2003 Q4	107.9	2.0	1.6	1.9	1.7	1.2	-0.8	-2.0
2004 Q1	108.5	1.9	1.6	1.5	1.7	1.8	-1.1	-2.2
Q2	109.2	2.1	2.2	1.9	2.0	2.5	0.9	1.1
Q3	109.4	1.7	1.9	2.0	0.8	3.0	1.9	2.5
Q4	109.8	1.7	2.2	1.8	2.1	3.1	1.6	3.0

Sources: ECB calculations based on Eurostat data.

1) Compensation (at current prices) per employee divided by value added (at constant prices) per person employed.

2) Value added (at constant prices) per person employed.

3) Deflators for exports and imports refer to goods and services and include cross-border trade within the euro area.

5.2 Output and demand

1. GDP and expenditure components

	GDP								
	Total	Domestic demand					External balance ¹⁾		
		Total	Private consumption	Government consumption	Gross fixed capital formation	Changes in inventories ²⁾	Total	Exports ¹⁾	Imports ¹⁾
1	2	3	4	5	6	7	8	9	
	Current prices (EUR billions, seasonally adjusted)								
2001	6,850.3	6,728.0	3,927.3	1,373.4	1,442.1	-14.8	122.4	2,559.5	2,437.1
2002	7,085.5	6,897.8	4,041.7	1,445.1	1,430.9	-20.0	187.6	2,598.0	2,410.3
2003	7,271.6	7,111.1	4,165.3	1,500.4	1,442.1	3.2	160.5	2,588.4	2,427.8
2004	7,542.8	7,387.3	4,288.4	1,549.0	1,504.4	45.6	155.5	2,756.6	2,601.1
2003 Q4	1,840.6	1,798.1	1,049.9	378.9	365.8	3.4	42.5	654.3	611.8
2004 Q1	1,863.4	1,817.2	1,061.9	382.5	368.6	4.3	46.2	662.8	616.6
Q2	1,883.8	1,839.2	1,067.9	387.4	373.8	10.0	44.6	687.4	642.8
Q3	1,893.1	1,858.5	1,075.2	387.6	378.9	16.8	34.5	701.5	667.0
Q4	1,902.6	1,872.4	1,083.3	391.5	383.1	14.5	30.2	704.9	674.7
	<i>percentage of GDP</i>								
2004	100.0	97.9	56.9	20.5	19.9	0.6	2.1	-	-
	Constant prices (ECU billions at 1995 prices, seasonally adjusted)								
	<i>quarter-on-quarter percentage changes</i>								
2003 Q4	0.4	1.0	0.0	0.5	1.1	-	-	0.1	1.7
2004 Q1	0.7	0.3	0.8	0.2	-0.1	-	-	1.4	0.4
Q2	0.5	0.3	0.0	0.4	0.5	-	-	2.7	2.4
Q3	0.2	0.9	0.1	0.4	0.6	-	-	1.3	3.1
Q4	0.2	0.3	0.5	0.2	0.6	-	-	0.5	1.0
	<i>annual percentage changes</i>								
2001	1.6	1.0	1.9	2.4	-0.2	-	-	3.5	1.8
2002	0.9	0.4	0.7	3.1	-2.5	-	-	1.9	0.5
2003	0.5	1.2	1.0	1.6	-0.6	-	-	0.2	2.0
2004	1.8	1.9	1.1	1.6	1.7	-	-	5.6	5.9
2003 Q4	0.8	1.5	0.6	1.4	0.2	-	-	0.2	2.0
2004 Q1	1.6	1.2	1.2	1.9	1.2	-	-	3.6	2.8
Q2	2.2	1.7	1.2	1.8	1.9	-	-	7.2	6.0
Q3	1.9	2.6	0.9	1.5	2.1	-	-	5.6	7.8
Q4	1.6	1.9	1.3	1.2	1.6	-	-	6.0	7.1
	<i>contributions to annual percentage changes of GDP in percentage points</i>								
2001	1.6	0.9	1.1	0.5	0.0	-0.6	0.7	-	-
2002	0.9	0.4	0.4	0.6	-0.5	-0.1	0.5	-	-
2003	0.5	1.2	0.6	0.3	-0.1	0.4	-0.6	-	-
2004	1.8	1.8	0.6	0.3	0.3	0.5	0.0	-	-
2003 Q4	0.8	1.5	0.3	0.3	0.0	0.8	-0.6	-	-
2004 Q1	1.6	1.2	0.7	0.4	0.2	-0.1	0.4	-	-
Q2	2.2	1.6	0.7	0.4	0.4	0.2	0.6	-	-
Q3	1.9	2.5	0.5	0.3	0.4	1.3	-0.6	-	-
Q4	1.6	1.9	0.8	0.2	0.3	0.5	-0.3	-	-

Source: Eurostat.

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

2) Including acquisitions less disposals of valuables.

5.2 Output and demand

2. Value added by economic activity

	Gross value added (basic prices)							Intermediate consumption of FISIM ¹⁾	Taxes less subsidies on products
	Total	Agriculture, hunting, forestry and fishing activities	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business activities	Public administration, education, health and other services		
	1	2	3	4	5	6	7	8	9
<i>Current prices (EUR billions, seasonally adjusted)</i>									
2001	6,345.3	150.4	1,407.3	351.5	1,349.9	1,721.2	1,365.0	212.2	717.2
2002	6,569.3	147.5	1,432.4	365.5	1,393.4	1,796.4	1,434.1	222.7	739.0
2003	6,734.1	151.1	1,440.1	373.0	1,419.3	1,866.6	1,484.0	231.3	768.8
2004	6,983.1	153.4	1,491.2	394.5	1,464.7	1,950.9	1,528.5	240.9	800.6
2003 Q4	1,703.3	38.7	363.5	94.8	357.9	473.6	374.7	57.9	195.2
2004 Q1	1,724.4	38.7	366.9	96.4	362.9	480.4	379.2	59.2	198.2
Q2	1,746.5	38.7	373.9	98.5	365.8	486.7	383.0	61.0	198.2
Q3	1,751.4	38.0	375.2	98.9	368.1	490.1	381.1	59.9	201.5
Q4	1,760.8	38.0	375.3	100.6	367.9	493.8	385.2	60.8	202.6
<i>percentage of value added</i>									
2004	100.0	2.2	21.4	5.6	21.0	27.9	21.9	-	-
<i>Constant prices (ECU billions at 1995 prices, seasonally adjusted)</i>									
<i>quarter-on-quarter percentage changes</i>									
2003 Q4	0.4	1.5	0.8	0.1	0.0	0.2	0.5	-0.7	0.4
2004 Q1	0.7	4.1	0.8	0.6	1.2	0.4	0.1	0.8	0.9
Q2	0.7	0.4	1.1	0.5	0.8	0.8	0.3	1.3	-1.7
Q3	0.1	0.9	-0.1	-0.7	0.5	-0.1	0.2	-0.6	1.6
Q4	0.2	0.5	-0.6	0.3	0.2	0.4	0.6	0.9	0.3
<i>annual percentage changes</i>									
2001	1.8	-2.4	0.6	-0.1	3.2	2.7	1.5	4.7	1.3
2002	1.0	0.5	0.4	-0.2	1.2	0.8	2.2	0.7	-0.5
2003	0.5	-3.5	0.2	-1.5	0.4	1.3	0.7	1.5	1.6
2004	1.8	5.0	2.2	0.8	2.4	1.5	1.1	1.6	1.5
2003 Q4	0.7	-2.0	0.9	-1.0	0.4	1.2	0.8	0.2	2.0
2004 Q1	1.4	2.5	1.3	0.8	1.8	1.3	0.9	0.9	3.3
Q2	2.4	4.8	3.6	1.1	2.8	2.0	1.2	2.1	0.3
Q3	1.9	7.0	2.6	0.6	2.5	1.3	1.1	0.9	1.2
Q4	1.7	5.9	1.2	0.8	2.6	1.5	1.2	2.5	1.1
<i>contributions to annual percentage changes of value added in percentage points</i>									
2001	1.9	-0.1	0.1	0.0	0.7	0.7	0.3	-	-
2002	1.0	0.0	0.1	0.0	0.3	0.2	0.5	-	-
2003	0.5	-0.1	0.0	-0.1	0.1	0.4	0.1	-	-
2004	2.1	0.1	0.5	0.0	0.5	0.4	0.2	-	-
2003 Q4	0.7	-0.1	0.2	-0.1	0.1	0.3	0.2	-	-
2004 Q1	1.4	0.1	0.3	0.0	0.4	0.4	0.2	-	-
Q2	2.4	0.1	0.8	0.1	0.6	0.5	0.2	-	-
Q3	1.9	0.2	0.6	0.0	0.6	0.4	0.2	-	-
Q4	1.7	0.1	0.3	0.0	0.6	0.4	0.3	-	-

Source: Eurostat.

1) The use of financial intermediation services indirectly measured (FISIM) is treated as intermediate consumption which is not allocated among branches.

5.2 Output and demand

(annual percentage changes, unless otherwise indicated)

3. Industrial production

	Total	Industry excluding construction								Construction	Manufacturing	
	Total (s.a. index 2000 = 100)	Total	Industry excluding construction and energy						Energy			
			Total	Intermediate goods	Capital goods	Consumer goods						
						Total	Durable	Non-durable				
% of total ¹⁾	100.0	82.9	82.9	74.0	30.0	22.4	21.5	3.6	17.9	8.9	17.1	75.0
	1	2	3	4	5	6	7	8	9	10	11	12
2002	-0.3	99.9	-0.5	-0.7	-0.1	-1.7	-0.3	-5.5	0.7	1.2	0.7	-0.8
2003	0.2	100.2	0.3	-0.1	0.2	-0.1	-0.5	-4.6	0.2	3.0	0.0	0.0
2004	.	102.1	1.9	1.9	1.9	3.0	0.5	-0.3	0.6	2.2	.	2.0
2004 Q1	1.4	101.3	1.0	1.0	0.8	0.8	0.5	1.0	0.4	2.0	1.3	1.0
Q2	3.3	102.3	3.1	3.2	2.7	4.9	1.6	3.0	1.3	2.8	-0.1	3.3
Q3	2.9	102.6	2.9	3.0	3.1	5.2	0.5	-0.6	0.7	2.4	-0.3	3.1
Q4	.	102.1	0.8	0.4	1.2	1.3	-0.5	-4.1	0.2	1.7	.	0.6
2004 July	2.6	102.7	2.6	2.8	3.5	3.9	0.2	0.5	0.1	1.6	0.2	2.8
Aug.	3.2	102.1	2.1	2.4	2.3	5.0	0.5	-1.2	0.7	1.4	0.7	2.6
Sep.	3.1	102.9	3.7	3.6	3.3	6.4	0.8	-1.4	1.2	4.2	-1.6	3.7
Oct.	.	102.2	1.0	1.0	1.2	4.2	-1.1	-2.9	-0.8	-1.4	.	1.1
Nov.	.	101.8	0.4	-0.3	0.8	0.3	-0.8	-4.6	-0.1	2.7	.	-0.1
Dec.	.	102.3	1.0	0.5	1.7	-0.7	0.7	-5.1	1.7	3.6	.	0.7
		month-on-month percentage changes (s.a.)										
2004 July	0.4	-	0.3	0.4	0.9	0.1	0.3	0.9	0.2	-0.1	0.4	0.4
Aug.	-0.1	-	-0.6	-0.6	-0.6	-0.2	-0.6	-3.0	-0.1	0.6	-1.4	-0.6
Sep.	-0.1	-	0.7	0.6	0.2	1.0	0.2	0.5	0.1	0.1	-0.9	0.6
Oct.	.	-	-0.7	-0.7	-0.4	-0.3	-0.6	-0.7	-0.6	-1.6	.	-0.8
Nov.	.	-	-0.3	-0.6	0.0	-1.7	-0.2	-1.3	0.0	0.1	.	-0.6
Dec.	.	-	0.5	0.5	0.8	-0.4	1.0	-0.5	1.2	1.7	.	0.7

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

	Industrial new orders		Industrial turnover		Retail sales							New passenger car registrations	
	Manufacturing ²⁾ (current prices)		Manufacturing (current prices)		Current prices	Constant prices						Total (s.a.) thousands ³⁾	Total
	Total (s.a. index 2000 = 100)	Total	Total (s.a. index 2000 = 100)	Total	Total	Total (s.a. index 2000 = 100)	Total	Food, beverages, tobacco	Non-food				
									Textiles, clothing, footwear	Household equipment			
% of total ¹⁾	100.0	100.0	100.0	100.0	100.0	100.0	100.0	43.7	56.3	10.6	14.8		
	1	2	3	4	5	6	7	8	9	10	11	12	13
2002	98.0	-0.5	101.4	-0.6	1.9	102.3	0.5	0.9	-0.6	-1.0	-2.0	925	-4.4
2003	98.3	0.5	101.0	-0.3	1.8	102.6	0.3	1.1	-0.3	-2.7	0.2	911	-1.5
2004	106.7	8.8	105.8	4.9	1.0	102.7	0.1	-0.2	0.2	-0.2	1.7	922	1.1
2004 Q1	100.9	4.6	103.8	2.5	1.0	102.9	0.4	0.4	0.3	-1.9	2.1	911	0.8
Q2	108.0	12.6	105.9	6.3	1.1	102.8	0.0	-0.4	0.3	-0.3	2.4	928	3.1
Q3	106.1	7.9	106.5	5.7	0.9	102.6	0.0	-0.8	0.6	0.8	1.8	903	-3.5
Q4	111.8	10.1	107.0	5.0	0.9	102.7	0.1	0.0	-0.1	0.4	0.6	944	3.6
2004 Aug.	105.3	10.8	105.4	9.5	1.6	102.4	0.0	-1.8	1.3	2.1	2.1	873	-9.4
Sep.	107.1	8.1	108.2	6.1	0.5	102.3	-0.4	-0.9	0.1	-0.7	1.2	927	-0.6
Oct.	107.3	0.5	104.6	1.6	0.1	102.7	-0.6	-1.0	-0.4	-1.8	0.7	948	3.9
Nov.	109.2	12.8	108.3	8.4	1.2	102.7	0.5	0.3	0.4	2.6	0.8	954	4.8
Dec.	118.8	17.4	108.1	5.1	1.0	102.6	0.4	0.6	0.0	0.8	1.0	928	1.9
2005 Jan.	.	.	.	.	.	.	.	.	.	.	.	924	1.6
		month-on-month percentage changes (s.a.)											
2004 Aug.	-	-0.5	-	-0.7	0.0	-	-0.6	-1.3	-0.4	-1.8	-0.5	-	-4.2
Sep.	-	1.8	-	2.7	-0.3	-	-0.1	0.2	-0.1	-1.3	0.1	-	6.3
Oct.	-	0.2	-	-3.3	0.2	-	0.3	0.3	0.2	1.3	-0.1	-	2.3
Nov.	-	1.8	-	3.6	0.5	-	0.0	0.4	-0.3	-0.2	-0.6	-	0.6
Dec.	-	8.8	-	-0.2	-0.2	-	-0.1	-0.1	0.1	-0.2	0.4	-	-2.7
2005 Jan.	-	.	-	.	.	-	.	.	.	.	.	-	-0.5

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

1) In 2000.

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

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

5.2 Output and demand

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

5. Business and Consumer Surveys

	Economic sentiment indicator ²⁾ (long-term average = 100)	Manufacturing industry					Consumer confidence indicator ³⁾				
		Industrial confidence indicator				Capacity utilisation ⁴⁾	Total ⁵⁾	Financial situation over next 12 months	Economic situation over next 12 months	Unemployment situation over next 12 months	Savings over next 12 months
		Total ⁵⁾	Order books	Stocks of finished products	Production expectations						
	1	2	3	4	5	6	7	8	9	10	11
2001	100.9	-9	-15	13	1	82.8	-5	2	-9	14	2
2002	94.4	-11	-25	11	3	81.3	-11	-1	-12	26	-3
2003	93.5	-10	-25	10	3	81.1	-18	-5	-21	38	-9
2004	100.0	-5	-15	8	10	81.7	-14	-4	-14	30	-8
2003 Q4	97.6	-8	-22	9	8	81.3	-16	-5	-17	34	-9
2004 Q1	98.6	-7	-21	10	10	81.1	-14	-4	-13	30	-9
Q2	99.9	-5	-17	8	10	81.6	-14	-3	-15	32	-8
Q3	100.6	-4	-12	7	9	82.1	-14	-4	-14	29	-8
Q4	100.9	-3	-12	8	10	82.1	-13	-3	-13	29	-6
2004 Sep.	100.9	-3	-12	8	11	-	-13	-3	-12	28	-7
Oct.	101.5	-3	-11	7	11	82.1	-13	-4	-13	29	-8
Nov.	100.9	-3	-12	8	10	-	-13	-4	-14	29	-5
Dec.	100.2	-4	-12	9	9	-	-13	-3	-13	29	-6
2005 Jan.	100.8	-5	-11	9	7	82.0	-13	-3	-13	28	-7
Feb.	98.8	-7	-15	10	6	-	-13	-2	-13	30	-8

	Construction confidence indicator			Retail trade confidence indicator				Services confidence indicator			
	Total ⁵⁾	Order books	Employment expectations	Total ⁵⁾	Present business situation	Volume of stocks	Expected business situation	Total ⁵⁾	Business climate	Demand in recent months	Demand in the months ahead
	12	13	14	15	16	17	18	19	20	21	22
2001	-10	-16	-4	-8	-5	17	-1	15	16	8	20
2002	-19	-26	-11	-16	-20	18	-12	1	-4	-6	13
2003	-20	-27	-13	-11	-15	17	-2	2	-6	1	12
2004	-16	-24	-8	-8	-12	14	2	12	7	10	18
2003 Q4	-19	-27	-11	-8	-12	15	3	11	6	11	15
2004 Q1	-19	-28	-9	-8	-12	15	1	11	8	6	20
Q2	-16	-23	-9	-8	-10	15	2	11	6	12	17
Q3	-15	-24	-7	-8	-10	14	0	12	8	11	17
Q4	-14	-21	-6	-8	-14	13	3	11	8	9	16
2004 Sep.	-15	-22	-9	-9	-11	16	0	11	6	9	20
Oct.	-14	-23	-5	-7	-13	14	7	12	9	12	17
Nov.	-14	-20	-7	-10	-17	12	-1	11	8	8	17
Dec.	-13	-21	-6	-7	-12	12	2	10	8	8	14
2005 Jan.	-13	-19	-7	-6	-8	11	1	13	12	9	18
Feb.	-14	-18	-10	-8	-14	12	2	10	6	6	18

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

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

5.3 Labour markets ¹⁾

(annual percentage changes, unless otherwise indicated)

1. Employment

	Whole economy		By employment status		By economic activity					
	Millions (s.a.)		Employees	Self-employed	Agriculture, hunting, forestry and fishing	Mining, manufacturing, and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other services
% of total ²⁾	100.0	100.0	84.3	15.7	4.4	18.8	7.1	25.1	14.7	30.0
	1	2	3	4	5	6	7	8	9	10
2000	131.417	2.2	2.5	0.5	-1.5	0.6	1.9	3.0	5.9	1.5
2001	133.184	1.3	1.6	0.2	-0.5	0.3	0.5	1.4	3.8	1.3
2002	133.960	0.6	0.7	-0.1	-2.0	-1.3	-0.6	0.4	2.4	1.8
2003	134.212	0.2	0.2	0.1	-2.3	-2.0	0.0	0.5	1.3	1.2
2003 Q3	134.148	0.2	0.2	0.2	-2.0	-2.0	0.0	0.8	1.2	1.1
Q4	134.100	0.1	0.1	0.4	-1.6	-2.2	0.0	1.0	1.1	0.7
2004 Q1	134.258	0.2	0.0	1.2	-1.2	-2.4	-0.3	1.1	2.3	0.4
Q2	134.529	0.3	0.1	1.2	-0.4	-1.8	0.7	0.9	2.2	0.2
Q3	134.785	0.4	0.2	1.5	-0.3	-1.5	0.9	0.9	2.1	0.4
	<i>quarter-on-quarter changes (s.a.)</i>									
2003 Q3	0.050	0.0	-0.1	0.7	-0.1	-0.5	-0.4	0.4	0.7	-0.1
Q4	-0.048	0.0	0.0	-0.1	-0.1	-0.7	0.0	0.1	0.4	0.1
2004 Q1	0.158	0.1	0.1	0.1	-0.4	-0.6	-0.2	0.3	1.0	0.1
Q2	0.271	0.2	0.2	0.4	0.1	0.0	1.2	0.3	0.0	0.2
Q3	0.256	0.2	0.1	0.9	-0.1	-0.2	-0.1	0.5	0.6	0.1

2. Unemployment

(seasonally adjusted)

	Total		By age ³⁾				By gender ⁴⁾			
	Millions	% of labour force	Adult		Youth		Male		Female	
			Millions	% of labour force	Millions	% of labour force	Millions	% of labour force	Millions	% of labour force
% of total ²⁾	100.0		78.6		21.4		50.0		50.0	
	1	2	3	4	5	6	7	8	9	10
2001	11.126	8.0	8.570	7.0	2.557	15.8	5.358	6.8	5.768	9.7
2002	11.851	8.4	9.215	7.4	2.636	16.4	5.860	7.3	5.991	9.9
2003	12.589	8.9	9.847	7.8	2.742	17.2	6.310	7.9	6.279	10.2
2004	12.701	8.9	9.985	7.9	2.716	17.1	6.354	7.9	6.347	10.2
2003 Q4	12.673	8.9	9.959	7.9	2.714	17.2	6.340	7.9	6.333	10.2
2004 Q1	12.748	9.0	10.051	8.0	2.697	17.0	6.341	7.9	6.407	10.3
Q2	12.609	8.8	9.877	7.8	2.733	17.2	6.335	7.9	6.274	10.1
Q3	12.644	8.9	9.910	7.8	2.734	17.2	6.347	7.9	6.297	10.1
Q4	12.641	8.8	9.900	7.8	2.741	17.3	6.345	7.9	6.296	10.1
2004 July	12.624	8.8	9.900	7.8	2.724	17.2	6.337	7.9	6.288	10.1
Aug.	12.653	8.9	9.914	7.8	2.739	17.2	6.351	7.9	6.302	10.1
Sep.	12.656	8.9	9.916	7.8	2.740	17.2	6.354	7.9	6.302	10.1
Oct.	12.622	8.8	9.888	7.8	2.734	17.2	6.340	7.9	6.282	10.1
Nov.	12.636	8.8	9.897	7.8	2.739	17.2	6.341	7.9	6.295	10.1
Dec.	12.664	8.9	9.916	7.8	2.748	17.3	6.354	7.9	6.310	10.1

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

- 1) Data for employment refer to persons and are based on the ESA 95. Data for unemployment refer to persons and follow ILO recommendations.
- 2) Employment in 2003; unemployment 2004.
- 3) Adult: 25 years of age and over; youth: below 25 years of age; rates are expressed as a percentage of the labour force for the relevant age group.
- 4) Rates are expressed as a percentage of the labour force for the relevant gender.

6

GOVERNMENT FINANCE

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

1. Euro area – revenue

	Total		Current revenue								Capital revenue		Memo: fiscal burden ²⁾	
	1	2	Direct taxes			Indirect taxes	Received by EU institutions	Social contributions		Sales	Capital taxes	13		
			Households	Corporations	3			4	5					6	7	8	9	10
1995	46.9	46.4	11.5	9.1	2.0	13.3	0.9	17.3	8.4	5.5	2.4	0.4	0.3	42.4
1996	47.6	47.3	11.9	9.2	2.3	13.4	0.8	17.5	8.7	5.6	2.4	0.4	0.3	43.1
1997	47.9	47.4	12.1	9.2	2.6	13.6	0.7	17.5	8.7	5.5	2.4	0.5	0.4	43.6
1998	47.3	47.0	12.4	9.7	2.3	14.2	0.7	16.4	8.5	4.9	2.4	0.3	0.3	43.3
1999	47.8	47.5	12.8	9.8	2.6	14.4	0.6	16.4	8.4	5.0	2.3	0.3	0.3	43.8
2000	47.5	47.2	13.0	10.0	2.7	14.2	0.6	16.2	8.4	4.9	2.3	0.3	0.3	43.6
2001	46.8	46.6	12.6	9.8	2.5	13.9	0.6	16.0	8.4	4.8	2.2	0.3	0.3	42.8
2002	46.3	45.9	12.2	9.6	2.3	13.8	0.4	16.0	8.4	4.7	2.3	0.3	0.3	42.3
2003	46.3	45.7	11.8	9.3	2.2	13.9	0.4	16.2	8.5	4.8	2.3	0.7	0.5	42.4

2. Euro area – expenditure

	Total		Current expenditure						Capital expenditure				Memo: primary expenditure ³⁾	
	1	2	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social payments		Subsidies	Paid by EU institutions	Investment	Capital transfers		Paid by EU institutions
							7	8							9
1995	52.0	47.6	11.2	4.8	5.8	25.9	22.7	2.3	0.6	4.4	2.7	1.7	0.1	46.2
1996	52.0	48.1	11.2	4.8	5.8	26.3	23.2	2.3	0.6	3.9	2.6	1.3	0.0	46.2
1997	50.6	46.9	11.1	4.7	5.2	26.0	23.1	2.1	0.6	3.6	2.4	1.2	0.1	45.4
1998	49.6	45.8	10.7	4.6	4.8	25.7	22.6	2.1	0.6	3.8	2.5	1.3	0.1	44.8
1999	49.1	45.2	10.7	4.7	4.3	25.6	22.5	2.1	0.5	3.9	2.5	1.4	0.1	44.8
2000	48.5	44.6	10.6	4.7	4.1	25.3	22.2	1.9	0.5	3.9	2.5	1.3	0.1	44.4
2001	48.6	44.6	10.5	4.8	4.0	25.3	22.3	1.9	0.5	4.0	2.6	1.4	0.0	44.6
2002	48.7	44.9	10.6	4.9	3.7	25.6	22.8	1.9	0.5	3.8	2.5	1.3	0.0	45.0
2003	49.1	45.2	10.7	4.9	3.5	26.0	23.1	1.8	0.5	3.9	2.6	1.3	0.1	45.6

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

	Deficit (-)/surplus (+)					Primary deficit (-)/surplus (+)	Government consumption ⁴⁾							
	Total	Central gov.	State gov.	Local gov.	Social security funds		Total	Compensation of employees	Intermediate consumption	Transfers in kind via market producers	Consumption of fixed capital	Sales (minus)	Collective consumption	Individual consumption
1995	-5.2	-4.4	-0.5	-0.1	-0.2	0.6	20.4	11.2	4.8	5.0	1.9	2.4	8.6	11.8
1996	-4.3	-3.8	-0.4	0.0	-0.1	1.4	20.5	11.2	4.8	5.1	1.9	2.4	8.6	11.9
1997	-2.7	-2.4	-0.4	0.1	0.1	2.5	20.2	11.1	4.7	5.0	1.8	2.4	8.4	11.8
1998	-2.3	-2.2	-0.2	0.1	0.1	2.5	19.9	10.7	4.6	5.0	1.8	2.4	8.2	11.7
1999	-1.3	-1.7	-0.1	0.1	0.4	2.9	19.9	10.7	4.7	5.0	1.8	2.3	8.2	11.6
2000	-1.0	-1.4	-0.1	0.1	0.5	3.1	19.9	10.6	4.7	5.1	1.8	2.3	8.2	11.7
2001	-1.7	-1.6	-0.4	0.0	0.3	2.3	20.1	10.5	4.8	5.2	1.8	2.2	8.2	11.8
2002	-2.4	-2.0	-0.5	-0.2	0.2	1.3	20.4	10.6	4.9	5.3	1.8	2.3	8.3	12.1
2003	-2.7	-2.2	-0.4	-0.1	0.0	0.7	20.7	10.7	4.9	5.4	1.8	2.3	8.4	12.3

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

	BE ¹⁾	DE ²⁾	GR ³⁾	ES ⁴⁾	FR ⁵⁾	IE ⁶⁾	IT ⁷⁾	LU ⁸⁾	NL ⁹⁾	AT ¹⁰⁾	PT ¹¹⁾	FI ¹²⁾
2000	0.2	1.3	-4.1	-0.9	-1.4	4.4	-0.6	6.0	2.2	-1.5	-2.8	7.1
2001	0.6	-2.8	-3.7	-0.4	-1.5	0.9	-2.6	6.4	-0.1	0.3	-4.4	5.2
2002	0.1	-3.7	-3.7	-0.1	-3.2	-0.2	-2.3	2.8	-1.9	-0.2	-2.7	4.3
2003	0.4	-3.8	-4.6	0.4	-4.1	0.1	-2.4	0.8	-3.2	-1.1	-2.8	2.3

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

- Revenue, expenditure and deficit/surplus are based on the ESA 95, but the figures exclude proceeds from the sale of UMTS licences in 2000 (the euro area deficit/surplus including those proceeds is equal to 0.1% of GDP). Transactions involving the EU budget are included and consolidated. Transactions among Member States' governments are not consolidated.
- The fiscal burden comprises taxes and social contributions.
- Comprises total expenditure minus interest expenditure.
- Corresponds to final consumption expenditure (P.3) of general government in the ESA 95.
- Including proceeds from the sale of UMTS licences.

6.2 Debt ¹⁾

(as a percentage of GDP)

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

	Total	Financial instruments				Holders				Other creditors ³⁾
		Coins and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors ²⁾			Other sectors	
						Total	MFIs	Other financial corporations		
1	2	3	4	5	6	7	8	9	10	
1994	70.7	2.8	16.2	10.7	41.0	56.3	30.2	9.6	16.5	14.4
1995	74.9	2.8	17.9	10.1	44.1	58.6	32.8	8.7	17.1	16.2
1996	76.1	2.8	17.3	10.2	45.8	59.0	32.7	10.2	16.2	17.1
1997	75.5	2.7	16.3	9.0	47.4	56.7	31.0	11.8	13.9	18.7
1998	73.8	2.7	15.1	7.9	48.1	53.1	28.8	12.7	11.6	20.7
1999	72.8	2.9	14.3	6.8	48.9	48.5	27.1	9.7	11.7	24.4
2000	70.4	2.7	13.2	6.1	48.4	44.2	23.4	9.1	11.7	26.2
2001	69.4	2.7	12.5	6.3	48.0	42.2	22.1	8.3	11.7	27.3
2002	69.4	2.7	11.8	6.6	48.3	39.0	20.5	6.9	11.6	30.4
2003	70.7	2.1	11.8	8.2	48.5	38.8	20.6	7.3	10.8	31.9

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

	Total	Issued by ⁴⁾				Original maturity			Residual maturity			Currencies	
		Central gov.	State gov.	Local gov.	Social security funds	Up to 1 year	Over 1 year	Variable interest rate	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Euro or participating currencies ⁵⁾	Other currencies
1994	70.7	58.9	5.3	5.9	0.6	12.3	58.3	7.2	17.8	27.1	25.7	68.3	2.3
1995	74.9	62.6	5.6	5.9	0.8	12.9	62.0	5.6	18.9	26.8	29.2	72.7	2.2
1996	76.1	63.8	6.0	5.7	0.5	12.2	63.9	5.3	20.5	25.8	29.7	74.1	2.0
1997	75.5	63.2	6.2	5.5	0.6	11.1	64.3	4.6	19.8	25.9	29.8	73.5	2.0
1998	73.8	62.0	6.2	5.3	0.4	9.4	64.4	4.8	17.1	26.9	29.8	72.0	1.8
1999	72.8	61.2	6.1	5.2	0.3	9.2	63.6	3.2	15.5	27.7	29.7	70.9	2.0
2000	70.4	59.1	6.0	5.0	0.3	8.2	62.2	2.9	15.3	28.3	26.8	68.6	1.8
2001	69.4	58.1	6.2	4.9	0.3	8.7	60.7	1.6	15.9	26.4	27.1	67.9	1.6
2002	69.4	57.8	6.4	4.8	0.3	9.1	60.3	1.6	16.8	25.3	27.3	68.0	1.4
2003	70.7	58.3	6.7	5.2	0.6	9.2	61.5	1.5	15.6	26.4	28.8	69.7	1.0

3. Euro area countries

	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI
	1	2	3	4	5	6	7	8	9	10	11	12
2000	109.1	60.2	114.0	61.1	56.8	38.3	111.2	5.5	55.9	65.8	53.3	44.6
2001	108.0	59.4	114.7	57.5	56.5	35.9	110.6	5.5	52.9	66.1	55.8	43.8
2002	105.4	60.9	112.5	54.4	58.8	32.7	107.9	5.7	52.6	65.7	58.4	42.6
2003	100.0	64.2	109.9	50.7	63.7	32.1	106.2	5.3	54.1	64.5	60.3	45.6

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

- 1) Gross general government debt at nominal value and consolidated between sub-sectors of government. Holdings by non-resident governments are not consolidated. Data are partially estimated.
- 2) Holders resident in the country whose government has issued the debt.
- 3) Includes residents of euro area countries other than the country whose government has issued the debt.
- 4) Excludes debt held by general government in the country whose government has issued it.
- 5) Before 1999, this comprises debt in ECU, in domestic currency and in the currencies of other Member States which have adopted the euro.

6.3 Change in debt ¹⁾

(as a percentage of GDP)

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

	Total	Source of change				Financial instruments				Holders			
		Borrowing requirement ²⁾	Valuation effects ³⁾	Other changes in volume ⁴⁾	Aggregation effect ⁵⁾	Coins and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors ⁶⁾	MFIs	Other financial corporations	Other creditors ⁷⁾
1995	7.7	5.2	0.4	2.4	-0.3	0.1	2.5	0.0	5.1	5.1	4.1	-0.4	2.6
1996	3.9	4.4	-0.2	0.1	-0.4	0.1	0.1	0.4	3.3	2.4	1.0	1.7	1.4
1997	2.3	2.3	0.5	-0.4	-0.1	0.0	-0.3	-0.8	3.4	0.0	-0.4	2.0	2.3
1998	1.7	1.9	-0.2	0.0	-0.1	0.1	-0.5	-0.7	2.8	-1.1	-0.9	1.4	2.8
1999	1.9	1.5	0.3	0.0	-0.1	0.2	-0.3	-0.8	2.7	-2.6	-0.5	-2.6	4.5
2000	1.0	1.0	0.2	-0.1	0.0	0.0	-0.4	-0.4	1.8	-2.0	-2.4	-0.1	3.0
2001	1.8	1.7	0.1	0.0	0.0	0.1	-0.2	0.4	1.4	-0.3	-0.4	-0.5	2.1
2002	2.2	2.4	-0.4	0.2	0.0	0.1	-0.3	0.6	1.9	-1.8	-0.9	-1.1	4.0
2003	3.1	2.9	0.3	-0.1	0.0	-0.5	0.3	1.8	1.4	0.8	0.7	0.5	2.3

2. Euro area – deficit-debt adjustment

	Change in debt	Deficit (-) / surplus (+) ⁸⁾	Deficit-debt adjustment ⁹⁾											
			Total	Transactions in main financial assets held by general government							Valuation effects	Exchange rate effects	Other changes in volume	Other ¹⁰⁾
				Total	Currency and deposits	Securities ¹¹⁾	Loans	Shares and other equity	Privatisations	Equity injections				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
1995	7.7	-5.2	2.5	0.3	0.2	-0.1	0.4	-0.1	-0.4	0.2	0.4	-0.1	2.4	-0.6
1996	3.9	-4.3	-0.5	-0.1	0.0	0.0	-0.1	-0.1	-0.2	0.2	-0.2	-0.2	0.1	-0.2
1997	2.3	-2.7	-0.4	-0.4	0.1	0.0	0.0	-0.5	-0.7	0.2	0.5	0.2	-0.4	-0.1
1998	1.7	-2.3	-0.6	-0.5	0.1	0.0	-0.1	-0.5	-0.8	0.2	-0.2	0.0	0.0	0.0
1999	1.9	-1.3	0.6	-0.2	0.5	0.1	0.0	-0.7	-0.8	0.1	0.3	0.3	0.0	0.4
2000	1.0	0.1	1.1	0.6	0.7	0.1	0.2	-0.5	-0.4	0.2	0.2	0.1	-0.1	0.4
2001	1.8	-1.7	0.1	-0.5	-0.6	0.0	0.2	0.0	-0.3	0.2	0.1	0.0	0.0	0.4
2002	2.2	-2.4	-0.2	-0.4	0.0	0.1	0.1	-0.5	-0.4	0.2	-0.4	0.0	0.2	0.4
2003	3.1	-2.7	0.3	-0.3	-0.1	0.0	0.0	-0.2	-0.4	0.1	0.3	-0.2	-0.1	0.4

Source: ECB.

- 1) Data are partially estimated. Annual change in gross nominal consolidated debt is expressed as a percentage of GDP, i.e. $[\text{debt}(t) - \text{debt}(t-1)] \div \text{GDP}(t)$.
- 2) The borrowing requirement is by definition equal to transactions in debt.
- 3) Includes, in addition to the impact of foreign exchange movements, effects arising from measurement at nominal value (e.g. premia or discounts on securities issued).
- 4) Includes, in particular, the impact of the reclassification of units and certain types of debt assumption.
- 5) The difference between the changes in the aggregated debt, resulting from the aggregation of countries' debt, and the aggregation of countries' change in debt is due to variations in the exchange rates used for aggregation before 1999.
- 6) Holders resident in the country whose government has issued the debt.
- 7) Includes residents of euro area countries other than the country whose government has issued the debt.
- 8) Including proceeds from sales of UMTS licences.
- 9) The difference between the annual change in gross nominal consolidated debt and the deficit as a percentage of GDP.
- 10) Mainly composed of transactions in other assets and liabilities (trade credits, other receivables/payables and financial derivatives).
- 11) Excluding financial derivatives.

6.4 Quarterly revenue, expenditure and deficit/surplus¹⁾
(as a percentage of GDP)

1. Euro area – quarterly revenue

	Total		Current revenue					Capital revenue		Memo: fiscal burden ²⁾
	1	2	Direct taxes	Indirect taxes	Social contributions	Sales	Property income	8	Capital taxes	
1999 Q1	44.1	43.6	10.8	13.3	16.0	2.0	0.7	0.5	0.3	40.3
Q2	48.3	47.8	13.7	13.6	16.2	2.2	1.3	0.5	0.3	43.7
Q3	45.2	44.7	11.9	13.1	16.1	2.1	0.7	0.5	0.3	41.3
Q4	52.0	51.4	14.5	14.9	17.1	3.1	0.8	0.7	0.3	46.8
2000 Q1	44.0	43.5	11.2	13.2	15.7	1.9	0.7	0.5	0.3	40.4
Q2	48.3	47.7	14.1	13.6	16.0	2.1	1.1	0.6	0.3	44.0
Q3	44.9	44.4	12.1	12.8	16.0	2.0	0.8	0.4	0.3	41.1
Q4	51.3	50.7	14.3	14.5	17.0	3.1	0.9	0.5	0.3	46.1
2001 Q1	43.0	42.5	10.7	12.9	15.5	1.8	0.8	0.4	0.2	39.4
Q2	47.7	47.2	13.8	13.2	15.9	2.0	1.5	0.4	0.2	43.0
Q3	44.4	44.0	11.9	12.5	15.8	1.9	0.8	0.4	0.3	40.6
Q4	50.7	50.1	13.9	14.3	16.8	3.2	0.9	0.5	0.3	45.3
2002 Q1	42.7	42.2	10.4	13.0	15.7	1.7	0.7	0.4	0.2	39.3
Q2	46.4	45.8	12.9	12.9	15.8	2.1	1.4	0.6	0.4	41.9
Q3	44.5	44.0	11.5	13.0	15.8	2.0	0.7	0.4	0.3	40.5
Q4	50.6	50.0	13.8	14.6	16.7	3.2	0.8	0.6	0.3	45.4
2003 Q1	42.7	42.2	10.0	13.1	15.9	1.7	0.7	0.5	0.2	39.2
Q2	47.2	45.5	12.4	12.9	16.1	2.1	1.2	1.7	1.4	42.8
Q3	43.9	43.4	11.1	12.9	15.9	1.9	0.7	0.5	0.3	40.2
Q4	51.0	50.0	13.5	14.8	16.8	3.2	0.8	1.1	0.3	45.3
2004 Q1	42.2	41.7	9.8	13.0	15.7	1.7	0.6	0.5	0.3	38.8
Q2	45.6	45.0	12.4	13.1	15.7	2.1	0.9	0.6	0.4	41.7
Q3	43.5	43.1	11.0	12.8	15.7	2.0	0.7	0.4	0.3	39.9

2. Euro area – quarterly expenditure and deficit/surplus

	Total		Current expenditure						Capital expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
	Total	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social benefits	Subsidies	Investment	Capital transfers				
1999 Q1	47.7	44.5	10.5	4.3	4.7	25.0	21.8	1.3	3.3	1.9	1.3	-3.6	1.0
Q2	47.9	44.3	10.6	4.5	4.3	24.8	21.6	1.5	3.6	2.4	1.2	0.4	4.7
Q3	47.7	44.1	10.3	4.5	4.2	25.1	21.6	1.6	3.7	2.5	1.1	-2.5	1.6
Q4	51.7	46.9	11.2	5.3	3.9	26.5	22.9	1.7	4.8	3.1	1.7	0.3	4.2
2000 Q1	46.6	43.3	10.3	4.4	4.3	24.2	21.2	1.2	3.3	2.0	1.4	-2.6	1.7
Q2	47.1	43.6	10.5	4.6	4.0	24.5	21.3	1.4	3.4	2.4	1.1	1.2	5.2
Q3	43.7	43.4	10.2	4.5	4.1	24.5	21.4	1.5	0.3	2.5	1.1	1.2	5.3
Q4	50.8	46.9	11.2	5.3	3.9	26.5	22.7	1.6	3.9	3.2	1.5	0.4	4.3
2001 Q1	45.9	42.5	10.2	4.1	4.1	24.1	21.2	1.2	3.3	2.0	1.4	-2.9	1.2
Q2	47.1	43.6	10.5	4.7	4.0	24.5	21.3	1.4	3.4	2.4	1.1	0.6	4.6
Q3	47.1	43.3	10.2	4.6	4.0	24.6	21.5	1.5	3.7	2.5	1.2	-2.7	1.3
Q4	52.5	47.4	11.3	5.6	3.8	26.7	23.0	1.6	5.1	3.2	1.8	-1.8	1.9
2002 Q1	46.5	43.0	10.5	4.2	3.8	24.6	21.6	1.2	3.4	2.0	1.4	-3.8	0.0
Q2	47.6	44.1	10.5	4.9	3.7	24.9	21.7	1.3	3.5	2.4	1.1	-1.1	2.6
Q3	47.7	44.0	10.2	4.7	3.7	25.4	21.9	1.4	3.7	2.6	1.1	-3.2	0.5
Q4	52.2	47.7	11.3	5.7	3.5	27.2	23.5	1.5	4.5	2.8	1.6	-1.5	2.0
2003 Q1	47.1	43.6	10.5	4.3	3.7	25.1	22.0	1.1	3.5	2.0	1.5	-4.5	-0.8
Q2	48.3	44.8	10.7	4.8	3.5	25.8	22.4	1.4	3.5	2.4	1.1	-1.1	2.4
Q3	47.9	44.3	10.4	4.8	3.4	25.6	22.2	1.4	3.6	2.6	1.0	-4.0	-0.5
Q4	52.5	47.7	11.3	5.8	3.3	27.4	23.8	1.5	4.8	3.3	1.5	-1.5	1.8
2004 Q1	46.6	43.3	10.4	4.3	3.4	25.2	21.9	1.1	3.3	2.1	1.3	-4.4	-1.1
Q2	47.4	44.0	10.6	4.8	3.3	25.4	22.1	1.3	3.4	2.4	0.9	-1.8	1.5
Q3	47.0	43.6	10.1	4.6	3.4	25.5	22.1	1.3	3.4	2.5	0.9	-3.4	-0.1

Source: ECB calculations based on Eurostat and national data.

- 1) Revenue, expenditure and deficit/surplus are based on the ESA 95. Transactions involving the EU budget are not included. Including these transactions would increase both revenue and expenditure by, on average, about 0.2% of GDP. Otherwise, and except for different data transmission deadlines, the quarterly data are consistent with the annual data. The data are not seasonally adjusted.

- 2) The fiscal burden comprises taxes and social contributions.



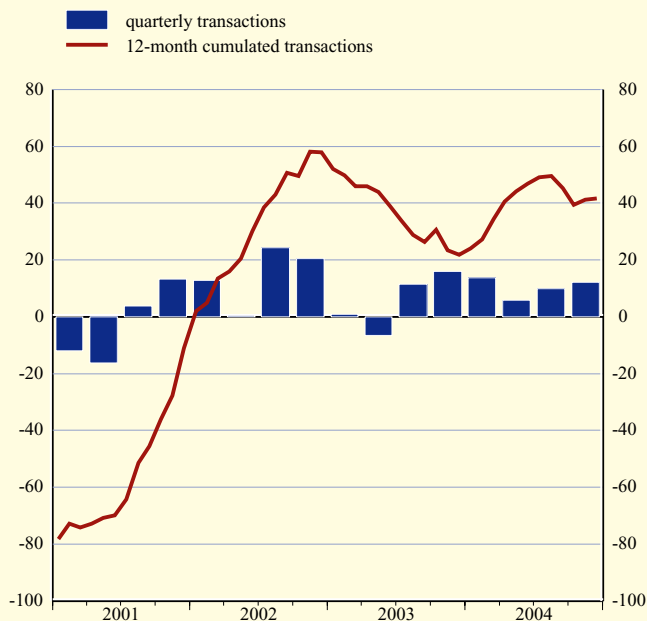
EXTERNAL TRANSACTIONS AND POSITIONS

7.1 Balance of payments (EUR billions; net transactions)

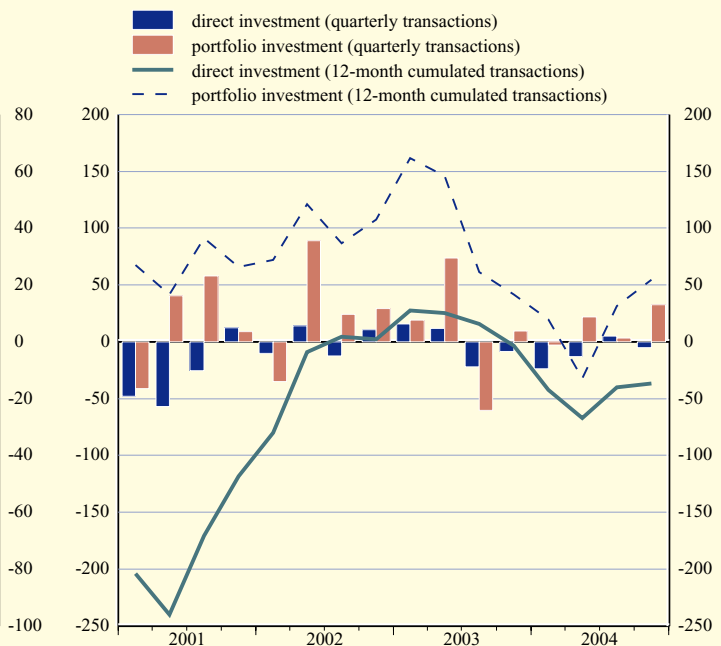
1. Summary balance of payments

	Current account					Capital account	Net lending/borrowing to/from rest of the world (columns 1+6)	Financial account						Errors and omissions
	Total	Goods	Services	Income	Current transfers			Total	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2002	57.8	128.9	16.0	-38.5	-48.6	10.2	68.0	-62.1	2.1	107.3	-10.9	-158.3	-2.3	-5.9
2003	21.8	105.3	17.9	-44.8	-56.5	13.2	35.0	-17.9	-3.4	41.7	-12.4	-73.7	29.9	-17.1
2004	41.6	105.7	21.6	-32.2	-53.6	15.7	57.3	-4.2	-36.4	54.7	-2.8	-32.1	12.4	-53.1
2003 Q4	15.9	29.9	5.0	-6.3	-12.7	7.5	23.4	-7.5	-8.7	9.3	-3.8	-18.0	13.6	-15.9
2004 Q1	13.6	28.6	0.1	-8.0	-7.0	3.6	17.2	-12.2	-23.6	-3.1	6.6	-1.5	9.4	-5.0
Q2	5.8	31.5	9.6	-18.9	-16.4	4.0	9.9	-0.2	-12.9	21.7	-0.4	-5.7	-2.8	-9.7
Q3	9.9	24.6	8.1	-5.1	-17.6	4.1	14.0	-4.1	5.3	3.6	-4.4	-11.9	3.4	-9.9
Q4	12.2	21.0	3.8	-0.1	-12.5	4.0	16.2	12.3	-5.2	32.5	-4.5	-13.0	2.4	-28.5
2003 Dec.	6.1	8.4	2.4	-1.9	-2.8	5.1	11.2	-22.6	-8.9	-27.4	-6.2	12.6	7.3	11.4
2004 Jan.	-2.7	5.3	-1.0	-8.6	1.7	0.3	-2.4	-18.7	-7.2	-9.1	1.8	-1.1	-3.0	21.1
Feb.	5.4	9.8	0.4	-0.1	-4.7	2.1	7.5	18.2	9.1	13.3	1.3	-14.1	8.6	-25.7
Mar.	11.0	13.6	0.7	0.7	-4.0	1.2	12.2	-11.7	-25.5	-7.2	3.5	13.8	3.7	-0.4
Apr.	-0.2	9.8	1.8	-7.8	-4.0	0.8	0.6	-17.5	-1.9	-7.6	-1.1	-4.3	-2.7	17.0
May	1.6	10.2	4.0	-6.6	-5.8	2.3	4.0	11.4	0.0	-0.5	-0.8	12.1	0.7	-15.4
June	4.4	11.6	3.8	-4.4	-6.5	0.9	5.3	6.0	-11.0	29.8	1.5	-13.5	-0.8	-11.3
July	4.6	13.8	3.0	-6.0	-6.2	1.4	6.0	-18.1	-4.5	-41.4	-0.8	28.5	0.2	12.1
Aug.	3.8	5.8	2.2	1.0	-5.2	1.6	5.4	5.1	7.3	1.1	-6.4	-0.6	3.7	-10.5
Sep.	1.5	5.0	2.9	-0.2	-6.2	1.1	2.6	8.9	2.5	43.9	2.8	-39.8	-0.5	-11.5
Oct.	1.2	7.7	2.4	-3.3	-5.6	0.6	1.8	-21.5	-11.6	6.2	-3.3	-13.8	0.9	19.7
Nov.	4.4	5.9	1.0	2.0	-4.5	1.0	5.4	29.3	-0.8	-10.8	1.9	39.2	-0.1	-34.7
Dec.	6.6	7.5	0.5	1.1	-2.5	2.4	9.0	4.5	7.3	37.1	-3.0	-38.5	1.6	-13.5
	<i>12-month cumulated transactions</i>													
2004 Dec.	41.6	105.7	21.6	-32.2	-53.6	15.7	57.3	-4.2	-36.4	54.7	-2.8	-32.1	12.4	-53.1

C26 B.o.p. current account balance (EUR billions)



C27 B.o.p. net direct and portfolio investment (EUR billions)



Source: ECB.

7.1 Balance of payments

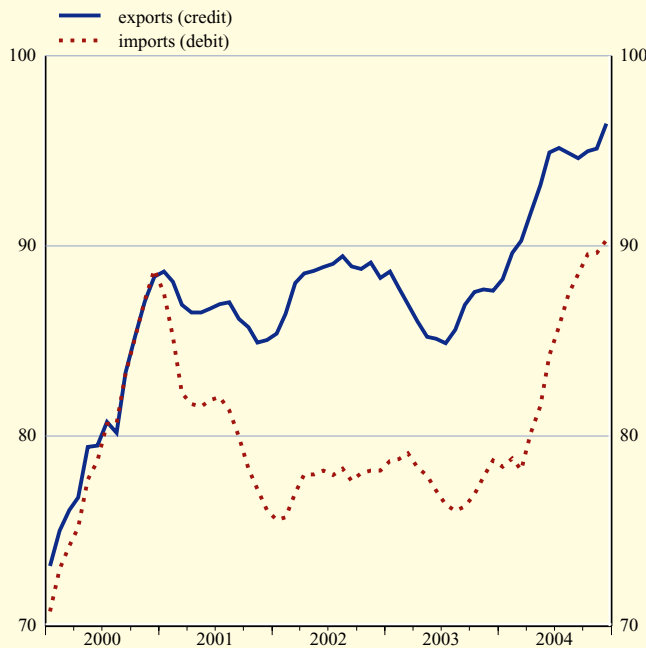
(EUR billions; transactions)

2. Current and capital accounts

	Current account										Capital account		
	Total			Goods		Services		Income		Current transfers		Credit	Debit
	Credit	Debit	Net	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	
2002	1,721.5	1,663.6	57.8	1,062.9	934.0	333.5	317.5	239.6	278.1	85.4	133.9	19.2	9.0
2003	1,677.5	1,655.7	21.8	1,040.2	934.9	328.8	311.0	227.6	272.5	80.8	137.3	23.3	10.1
2004	1,800.0	1,758.5	41.6	1,131.1	1,025.3	344.9	323.4	243.1	275.3	80.9	134.5	21.6	5.9
2003 Q4	434.3	418.4	15.9	272.1	242.2	85.0	79.9	57.9	64.2	19.3	32.0	9.3	1.9
2004 Q1	430.2	416.5	13.6	265.9	237.3	76.0	75.9	56.6	64.7	31.7	38.7	5.1	1.6
Q2	454.2	448.4	5.8	285.7	254.2	88.8	79.2	64.2	83.1	15.5	31.9	5.3	1.3
Q3	448.8	438.9	9.9	280.5	255.9	94.6	86.5	57.9	63.0	15.9	33.5	5.6	1.5
Q4	466.8	454.6	12.2	299.0	278.0	85.5	81.7	64.4	64.5	17.9	30.4	5.6	1.6
2004 Oct.	152.1	150.9	1.2	100.1	92.4	29.1	26.7	18.8	22.0	4.2	9.8	1.0	0.4
Nov.	152.3	147.9	4.4	101.0	95.1	26.6	25.6	19.3	17.3	5.5	10.0	1.4	0.4
Dec.	162.3	155.7	6.6	97.9	90.4	29.9	29.4	26.3	25.2	8.2	10.7	3.2	0.8
	Seasonally adjusted												
2003 Q4	423.7	413.8	9.8	263.0	236.2	83.6	78.5	55.8	66.4	21.3	32.8	.	.
2004 Q1	434.8	419.3	15.5	270.8	234.7	84.4	79.8	59.4	68.8	20.2	36.0	.	.
Q2	453.2	438.0	15.3	284.8	252.7	88.1	81.7	59.8	71.4	20.5	32.1	.	.
Q3	452.1	448.5	3.6	283.8	265.5	87.8	81.4	60.7	66.9	19.8	34.7	.	.
Q4	455.4	449.7	5.8	289.2	270.9	84.1	80.1	62.3	67.3	19.8	31.3	.	.
2004 Apr.	150.5	142.3	8.2	93.9	82.4	28.9	27.0	21.0	24.0	6.6	8.9	.	.
May	151.3	146.5	4.7	95.9	84.5	29.9	27.3	18.7	23.1	6.8	11.7	.	.
June	151.5	149.1	2.4	94.9	85.8	29.3	27.4	20.1	24.3	7.2	11.6	.	.
July	149.6	147.3	2.3	94.6	86.9	28.6	27.0	20.2	21.9	6.1	11.5	.	.
Aug.	151.7	149.8	1.9	95.1	89.7	29.4	26.8	20.1	21.6	7.1	11.8	.	.
Sep.	150.8	151.4	-0.5	94.1	88.9	29.7	27.7	20.3	23.4	6.7	11.4	.	.
Oct.	151.6	150.3	1.4	95.8	90.1	28.6	26.5	20.8	23.0	6.5	10.6	.	.
Nov.	150.5	148.8	1.7	95.5	89.9	27.8	26.5	20.8	22.0	6.4	10.4	.	.
Dec.	153.3	150.6	2.7	98.0	91.0	27.8	27.1	20.6	22.3	7.0	10.3	.	.

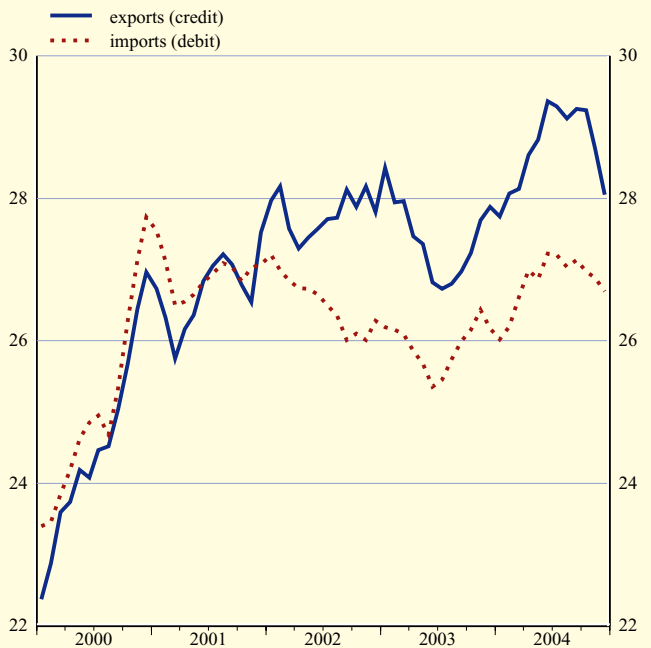
C28 B.o.p. goods

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



C29 B.o.p. services

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



Source: ECB.

7.1 Balance of payments

(EUR billions)

3. Income account

(transactions)

	Compensation of employees		Investment income											
	Credit	Debit	Total		Direct investment				Portfolio investment				Other investment	
			Credit	Debit	Equity		Debt		Equity		Debt		Credit	Debit
					Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
2001	14.7	6.0	256.0	297.3	43.4	38.8	10.4	10.1	18.0	45.1	67.1	72.0	117.1	131.5
2002	14.8	6.2	224.8	271.9	47.2	48.7	8.2	7.1	19.8	52.3	66.2	70.4	83.4	93.4
2003	14.7	6.2	212.9	266.2	48.9	53.4	10.6	9.7	19.0	49.8	64.7	77.4	69.8	76.0
2003 Q3	3.7	1.7	51.6	63.6	11.7	14.4	2.4	1.8	4.6	10.3	16.7	20.5	16.1	16.6
2003 Q4	3.9	1.6	54.1	62.6	13.7	13.0	3.1	3.2	4.7	9.7	16.8	17.2	15.8	19.6
2004 Q1	3.7	1.3	53.0	63.3	12.0	12.6	3.1	2.4	4.7	9.4	16.9	21.4	16.2	17.6
2004 Q2	3.7	1.6	60.5	81.5	18.0	17.4	3.0	2.5	8.5	26.5	15.9	17.7	15.1	17.3
2004 Q3	3.8	1.8	54.1	61.3	14.1	13.1	2.6	2.3	6.8	12.8	16.0	17.0	14.5	16.1

4. Direct investment

(net transactions)

	By resident units abroad							By non-resident units in the euro area						
	Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs
2002	-175.1	-173.7	-19.8	-153.9	-1.5	0.0	-1.5	177.2	122.1	2.4	119.7	55.1	0.5	54.7
2003	-130.3	-106.9	2.2	-109.1	-23.4	-0.2	-23.2	126.9	109.6	2.8	106.8	17.3	0.1	17.2
2004	-103.5	-101.2	-17.7	-83.5	-2.3	0.0	-2.3	67.0	57.5	2.0	55.6	9.5	1.3	8.2
2003 Q4	-31.6	-19.3	1.6	-20.9	-12.3	0.2	-12.4	22.9	34.1	0.6	33.5	-11.2	0.5	-11.7
2004 Q1	-27.8	-21.3	-5.8	-15.5	-6.5	-0.1	-6.4	4.2	13.7	-0.6	14.3	-9.5	-0.3	-9.2
2004 Q2	-28.6	-24.9	-3.6	-21.3	-3.7	0.0	-3.7	15.6	11.1	0.6	10.5	4.5	0.8	3.8
2004 Q3	-12.2	-22.4	-1.1	-21.3	10.1	0.0	10.1	17.5	15.8	1.5	14.3	1.7	0.4	1.3
2004 Q4	-34.9	-32.6	-7.2	-25.4	-2.2	0.1	-2.3	29.7	17.0	0.5	16.4	12.7	0.4	12.3
2003 Dec.	-20.8	-16.9	1.1	-18.0	-3.8	0.1	-3.9	11.8	17.9	-0.1	18.0	-6.1	0.1	-6.2
2004 Jan.	-9.4	-4.3	0.3	-4.6	-5.1	0.0	-5.1	2.2	7.8	0.2	7.5	-5.6	-0.1	-5.5
Feb.	-5.8	-3.2	-1.2	-2.0	-2.6	0.0	-2.6	14.9	4.7	0.3	4.4	10.3	-0.1	10.3
Mar.	-12.6	-13.8	-4.9	-8.9	1.2	-0.1	1.3	-12.9	1.2	-1.2	2.4	-14.2	-0.1	-14.1
Apr.	-15.1	-7.3	-0.4	-6.9	-7.8	0.1	-7.9	13.2	8.3	0.2	8.1	4.9	0.0	4.8
May	-2.3	-5.7	0.0	-5.7	3.5	0.0	3.5	2.2	3.4	0.3	3.1	-1.2	0.3	-1.5
June	-11.2	-11.9	-3.2	-8.7	0.7	0.0	0.7	0.2	-0.7	0.0	-0.7	0.8	0.4	0.5
July	-17.5	-14.7	0.1	-14.8	-2.8	0.0	-2.8	13.0	11.2	0.2	11.1	1.7	-0.1	1.8
Aug.	10.4	-5.9	0.2	-6.1	16.3	0.0	16.2	-3.0	-2.2	0.4	-2.5	-0.9	0.0	-0.9
Sep.	-5.1	-1.8	-1.3	-0.5	-3.3	0.0	-3.3	7.5	6.7	1.0	5.7	0.9	0.5	0.4
Oct.	-25.5	-15.6	0.2	-15.7	-9.9	0.0	-9.9	13.9	4.9	0.2	4.7	9.0	0.0	9.0
Nov.	-15.8	-13.6	-13.0	-0.6	-2.2	0.1	-2.3	15.0	5.8	0.1	5.7	9.2	0.4	8.8
Dec.	6.4	-3.5	5.6	-9.1	9.9	0.0	9.9	0.8	6.4	0.3	6.1	-5.5	0.0	-5.6

Source: ECB.

7.1 Balance of payments

(EUR billions; transactions)

7. Other investment by sector and instrument

	Eurosystem				General government							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
1	2	3	4	5	6	7	8	9	10	11	12	
2001	0.2	0.0	4.5	0.0	-0.1	4.4	-	-	-1.3	0.0	-0.5	0.1
2002	-0.9	0.0	19.3	0.0	1.5	-0.4	-	-	-1.0	0.0	-7.9	-0.3
2003	-0.8	0.0	10.2	0.0	-0.1	0.6	-	-	-0.9	0.0	-4.1	0.3
2003 Q3	0.3	0.0	5.8	0.0	0.0	-0.1	-	-	-0.2	0.0	4.8	0.5
Q4	-0.7	0.0	-0.6	0.0	0.0	3.1	-	-	0.1	0.0	-4.1	-0.4
2004 Q1	-0.6	0.0	-1.3	0.0	0.0	0.2	0.7	-0.5	-0.8	0.0	-6.1	-0.3
Q2	0.9	0.0	1.5	0.1	0.0	-4.4	0.4	-4.7	-0.5	0.0	2.8	0.2
Q3	-1.5	0.0	3.3	-0.1	0.0	0.5	0.7	-0.2	-0.1	0.0	2.1	0.1

	MFIs (excluding Eurosystem)				Other sectors							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
13	14	15	16	17	18	19	20	21	22	23	24	
2001	-215.2	-14.0	222.8	10.2	-3.3	-30.2	-	-	-8.9	1.2	14.7	5.2
2002	-163.0	-5.0	27.9	-2.1	-2.1	-50.1	-	-	-3.6	-3.6	26.3	6.6
2003	-154.1	-0.5	137.7	-0.1	0.2	-83.6	-	-	-2.5	3.3	21.4	-0.7
2003 Q3	88.4	-0.2	-6.9	-1.0	-0.1	-1.3	-	-	3.8	-1.5	-15.1	-4.8
Q4	-70.7	-0.6	53.6	0.2	-1.0	-8.6	-	-	-0.5	2.5	11.0	-1.1
2004 Q1	-153.6	-2.6	157.0	1.6	-2.5	-20.6	-0.6	-20.0	-1.7	4.8	24.6	0.3
Q2	-4.8	-0.6	22.3	0.0	-3.2	-10.3	-14.7	4.5	-0.9	1.6	-8.4	-2.0
Q3	-22.4	-1.7	5.1	1.5	1.8	4.4	14.7	-10.3	-0.8	0.0	-6.6	2.5

8. Reserve assets

	Total	Monetary gold	Special drawing rights	Reserve position in the IMF	Foreign exchange						Other claims	
					Total	Currency and deposits		Securities				Financial derivatives
						With monetary authorities and the BIS	With banks	Equity	Bonds and notes	Money market instruments		
1	2	3	4	5	6	7	8	9	10	11	12	
2001	17.8	0.6	-1.0	-4.2	22.5	10.0	-5.3	-1.1	20.4	-1.6	0.0	0.0
2002	-2.3	0.7	0.2	-2.0	-1.2	-2.3	-15.3	0.0	8.1	8.5	-0.2	0.0
2003	29.9	1.7	0.0	-1.6	29.8	-1.8	1.6	0.0	23.1	6.9	0.1	0.0
2003 Q3	2.0	0.1	0.0	-0.7	2.6	-1.1	4.1	0.0	-4.5	4.1	0.0	0.0
Q4	13.6	0.6	0.0	1.8	11.2	-1.0	-1.9	0.0	13.0	1.1	0.0	0.0
2004 Q1	9.4	-0.1	-0.1	0.7	8.7	0.8	1.8	0.5	8.1	-2.4	0.0	0.0
Q2	-2.8	0.5	0.1	0.6	-4.0	-3.3	2.2	0.0	5.4	-8.4	0.1	0.0
Q3	3.4	0.0	-0.1	1.5	2.0	2.6	-3.6	0.0	1.0	2.1	0.0	0.0

Source: ECB.

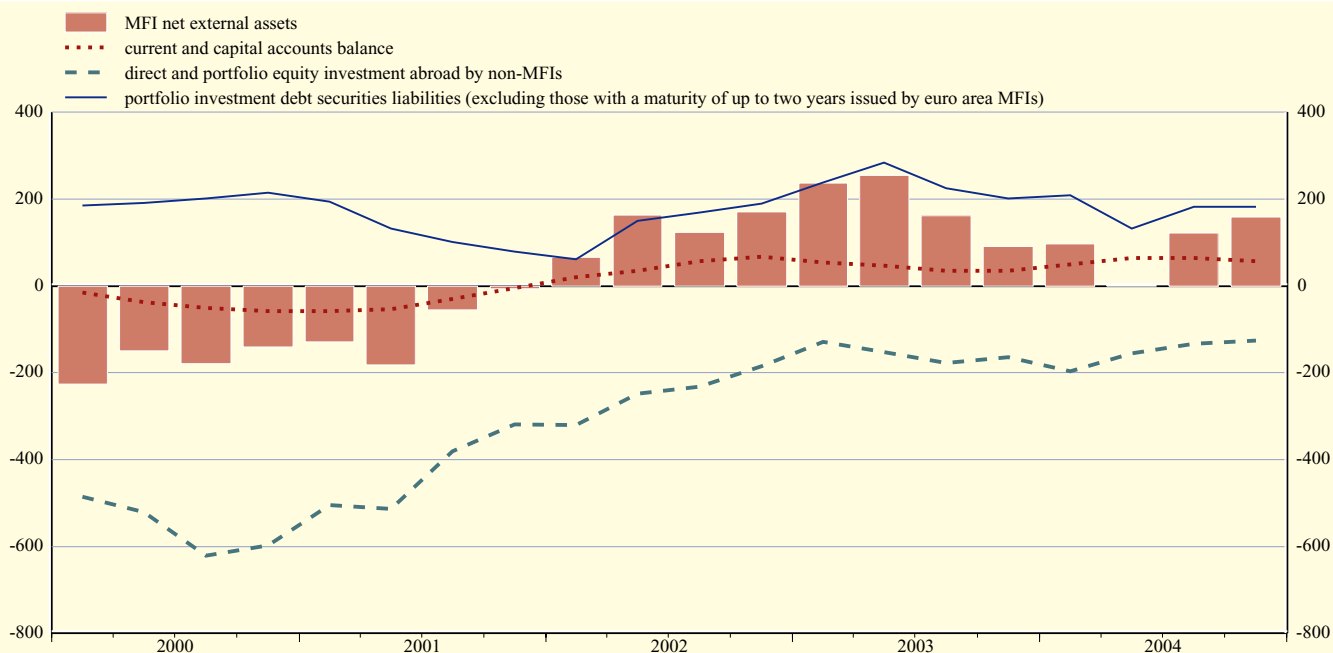
7.2 Monetary presentation of the balance of payments

(EUR billions; transactions)

	B.o.p. items balancing transactions in the external counterpart of M3											Memo: Transactions in the external counterpart of M3
	Current and capital accounts balance	Direct investment		Portfolio investment			Other investment		Financial derivatives	Errors and omissions	Total of columns 1 to 10	
		By resident units abroad (non-MFIs)	By non- resident units in the euro area	Assets	Liabilities		Assets	Liabilities				
					Non-MFIs	Equity ¹⁾						
1	2	3	4	5	6	7	8	9	10	11	12	
2002	68.0	-155.4	176.8	-121.5	48.7	189.4	-55.7	21.1	-10.9	-5.9	154.6	170.1
2003	35.0	-132.4	126.8	-175.2	122.3	201.4	-86.3	20.2	-12.4	-17.1	82.4	91.7
2004	57.3	-85.8	65.7	-125.7	117.3	182.4	-38.5	15.1	-2.8	-53.1	132.0	158.3
2003 Q4	23.4	-33.3	22.4	-39.5	41.9	19.2	-7.0	7.8	-3.8	-15.9	15.2	17.6
2004 Q1	17.2	-21.9	4.5	-48.8	8.2	57.6	-25.3	23.3	6.6	-5.0	16.4	39.7
Q2	9.9	-25.0	14.9	-24.8	-5.0	68.2	-19.3	-5.8	-0.4	-9.7	2.9	0.8
Q3	14.0	-11.2	17.1	-21.8	37.9	37.6	5.8	-1.9	-4.4	-9.9	63.2	64.5
Q4	16.2	-27.7	29.3	-30.2	76.2	19.0	0.2	-0.5	-4.5	-28.5	49.5	53.2
2003 Dec.	11.2	-21.9	11.7	-6.3	13.3	-30.6	7.4	0.6	-6.2	11.4	-9.4	-11.5
2004 Jan.	-2.4	-9.7	2.3	-15.4	-6.5	33.7	-5.8	-11.3	1.8	21.1	7.8	23.5
Feb.	7.5	-4.6	15.0	-8.5	20.5	7.5	-4.6	2.4	1.3	-25.7	10.7	9.0
Mar.	12.2	-7.6	-12.8	-25.0	-5.8	16.4	-14.8	32.2	3.5	-0.4	-2.2	7.2
Apr.	0.6	-14.7	13.1	-7.0	-22.9	31.3	-2.6	-6.7	-1.1	17.0	6.9	7.0
May	4.0	-2.2	1.9	-6.2	4.1	8.7	-7.2	-8.4	-0.8	-15.4	-21.5	-20.7
June	5.3	-8.0	-0.2	-11.6	13.8	28.2	-9.4	9.2	1.5	-11.3	17.6	14.5
July	6.0	-17.6	13.1	2.9	6.3	-12.7	10.0	-16.1	-0.8	12.1	3.1	-0.7
Aug.	5.4	10.2	-3.0	-8.5	15.5	14.7	-0.6	12.5	-6.4	-10.5	29.2	30.3
Sep.	2.6	-3.8	7.0	-16.2	16.2	35.7	-3.7	1.7	2.8	-11.5	30.9	34.9
Oct.	1.8	-25.6	13.9	-12.4	14.9	14.7	-5.4	1.1	-3.3	19.7	19.4	20.4
Nov.	5.4	-2.9	14.6	-11.5	27.6	7.7	-8.9	9.0	1.9	-34.7	8.3	10.1
Dec.	9.0	0.8	0.8	-6.4	33.6	-3.4	14.5	-10.6	-3.0	-13.5	21.9	22.8
	<i>12-month cumulated transactions</i>											
2004 Dec.	57.3	-85.8	65.7	-125.7	117.3	182.4	-38.5	15.1	-2.8	-53.1	132.0	158.3

C30 Main b.o.p. transactions underlying the developments in MFI net external assets

(EUR billions; 12-month cumulated transactions)



Source: ECB.

1) Excluding money market fund shares/units.

2) Excluding debt securities with a maturity of up to two years issued by euro area MFIs.

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

(EUR billions)

1. Balance of payments: current and capital accounts

(Cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions					
2003 Q4 to 2004 Q3	1	2	3	4	5	6	7	8	9	10	11	12
Credits												
Current account	1,767.5	654.5	35.3	57.3	354.5	148.9	58.5	23.2	46.9	121.0	298.9	623.1
Goods	1,104.1	383.6	24.3	39.7	197.2	122.2	0.2	14.1	32.5	62.1	167.3	444.5
Services	344.4	126.3	6.9	9.8	89.7	15.7	4.3	4.2	9.9	34.4	69.7	99.8
Income	236.7	83.9	3.8	7.3	58.2	9.8	4.8	4.4	4.1	18.9	54.8	70.5
of which: investment income	221.6	79.3	3.7	7.2	56.9	9.7	1.8	4.3	4.1	12.7	53.0	68.3
Current transfers	82.3	60.6	0.4	0.5	9.4	1.2	49.2	0.4	0.3	5.6	7.1	8.3
Capital account	25.3	22.8	0.0	0.0	0.6	0.1	22.1	0.0	0.0	0.4	1.2	0.9
Debits												
Current account	1,722.3	584.2	33.3	54.4	287.9	126.8	81.7	18.2	81.2	115.6	255.0	668.1
Goods	989.6	301.4	23.5	37.3	137.9	102.7	0.0	8.5	50.3	50.2	107.2	472.0
Services	321.6	99.4	6.1	7.7	66.9	18.5	0.2	4.6	7.0	28.3	74.0	108.4
Income	275.0	94.9	3.4	8.7	75.2	4.0	3.6	3.6	23.6	32.2	64.2	56.5
of which: investment income	268.7	91.7	3.4	8.6	74.3	2.0	3.6	3.5	23.5	31.7	63.4	55.0
Current transfers	136.1	88.5	0.3	0.7	7.9	1.5	78.0	1.5	0.3	5.0	9.6	31.2
Capital account	6.2	1.0	0.0	0.0	0.3	0.2	0.4	0.1	0.0	0.2	0.4	4.5
Net												
Current account	45.3	70.3	2.0	2.9	66.5	22.2	-23.2	5.0	-34.4	5.4	43.9	-45.0
Goods	114.6	82.2	0.8	2.4	59.3	19.5	0.2	5.7	-17.8	11.8	60.1	-27.4
Services	22.8	26.9	0.8	2.0	22.8	-2.8	4.1	-0.4	2.9	6.1	-4.2	-8.6
Income	-38.3	-10.9	0.4	-1.3	-17.0	5.8	1.2	0.8	-19.5	-13.3	-9.4	13.9
of which: investment income	-47.1	-12.5	0.3	-1.4	-17.4	7.7	-1.7	0.9	-19.4	-19.0	-10.3	13.3
Current transfers	-53.8	-27.9	0.0	-0.2	1.4	-0.3	-28.8	-1.1	-0.1	0.6	-2.5	-22.8
Capital account	19.2	21.8	0.0	0.0	0.3	-0.1	21.7	0.0	0.0	0.2	0.8	-3.6

2. Balance of payments: direct investment

(Cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2003 Q4 to 2004 Q3	1	2	3	4	5	6	7	8	9	10	11	12	13
Direct investment	-39.9	-31.4	0.9	-1.9	-29.0	-1.5	0.1	4.7	-6.4	14.8	10.4	-5.7	-26.3
Abroad	-100.2	-48.3	-0.7	-5.8	-38.8	-3.1	0.0	1.2	-9.1	4.0	-0.5	-19.6	-28.0
Equity/reinvested earnings	-87.8	-38.2	-2.1	-6.2	-22.6	-7.3	0.0	0.8	-5.2	3.1	-18.7	-12.9	-16.7
Other capital	-12.3	-10.1	1.5	0.4	-16.2	4.2	0.0	0.4	-3.8	1.0	18.2	-6.7	-11.3
In the euro area	60.2	16.9	1.6	3.9	9.8	1.6	0.1	3.4	2.7	10.8	10.9	13.9	1.7
Equity/reinvested earnings	74.6	37.0	1.5	1.9	33.2	0.3	0.1	2.8	1.9	9.6	13.1	10.6	-0.4
Other capital	-14.4	-20.0	0.1	2.0	-23.4	1.3	0.0	0.6	0.7	1.2	-2.2	3.3	2.1

Source: ECB.

7.4 International investment position (including international reserves)

(EUR billions, unless otherwise indicated; end-of-period outstanding amounts)

1. Summary international investment position

	Total	Total as a % of GDP	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
	1	2	3	4	5	6	7
Net international investment position							
2000	-506.9	-7.7	369.9	-832.7	2.0	-437.3	391.2
2001	-398.8	-5.8	410.2	-820.8	2.5	-383.4	392.7
2002	-618.0	-8.7	204.2	-879.0	-12.0	-297.2	366.1
2003	-759.6	-10.5	79.7	-823.5	-7.5	-314.8	306.5
Outstanding assets							
2000	6,763.5	102.8	1,632.4	2,327.7	105.8	2,306.4	391.2
2001	7,628.1	111.4	1,951.4	2,515.0	129.9	2,639.2	392.7
2002	7,260.6	102.5	1,877.4	2,302.6	135.9	2,578.6	366.1
2003	7,768.2	106.9	2,110.4	2,607.4	156.6	2,587.3	306.5
% share of total assets							
2003	100.0	-	27.2	33.6	2.0	33.3	3.9
Outstanding liabilities							
2000	7,270.3	110.5	1,262.5	3,160.4	103.8	2,743.7	-
2001	8,026.9	117.2	1,541.2	3,335.8	127.4	3,022.6	-
2002	7,878.6	111.3	1,673.2	3,181.6	147.9	2,875.9	-
2003	8,527.8	117.4	2,030.7	3,430.9	164.1	2,902.1	-
% share of total liabilities							
2003	100.0	-	23.8	40.2	1.9	34.0	-

2. Direct investment

	By resident units abroad						By non-resident units in the euro area					
	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
	Total	MFIs excluding Eurosystem	Non- MFIs	Total	MFIs excluding Eurosystem	Non- MFIs	Total	MFIs excluding Eurosystem	Non- MFIs	Total	MFIs excluding Eurosystem	Non- MFIs
1	2	3	4	5	6	7	8	9	10	11	12	
2000	1,284.7	115.2	1,169.5	347.7	1.7	346.0	976.6	32.1	944.4	285.9	1.8	284.2
2001	1,555.8	124.6	1,431.2	395.6	0.8	394.8	1,175.1	32.5	1,142.6	366.1	2.8	363.3
2002	1,544.1	127.7	1,416.4	333.3	0.3	333.0	1,264.6	37.1	1,227.5	408.6	2.9	405.7
2003	1,647.3	114.8	1,532.5	463.1	0.4	462.7	1,474.4	47.6	1,426.8	556.4	2.9	553.5

3. Portfolio investment assets by instrument and sector of holder

	Equity					Debt instruments									
	Assets				Liabilities	Bonds and notes				Money market instruments					
	Assets			Liabilities		Assets			Liabilities	Assets				Liabilities	
	Eurosystem	MFIs excluding Eurosystem	Non-MFIs			Eurosystem	MFIs excluding Eurosystem	Non-MFIs		Eurosystem	MFIs excluding Eurosystem	Non-MFIs			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2000	0.5	43.6	5.7	1,105.2	1,620.1	3.1	335.3	5.7	704.4	1,372.7	0.5	87.5	0.1	36.2	167.5
2001	0.6	38.5	6.7	1,070.9	1,640.5	2.0	424.8	8.2	783.6	1,514.8	2.8	135.1	0.2	41.6	180.5
2002	0.7	43.8	8.3	800.5	1,366.1	6.4	404.8	8.0	787.2	1,628.8	1.2	193.8	1.3	46.7	186.7
2003	1.8	52.6	11.5	988.8	1,516.2	8.3	463.7	8.0	837.1	1,701.3	1.1	184.8	0.6	49.2	213.4

Source: ECB.

7.4 International investment position (including international reserves)

(EUR billions, unless stated otherwise; end-of-period outstanding amounts)

4. Other investment by instrument

	Eurosystem					General government							
	Assets		Liabilities			Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities	
						Total	Loans	Currency and deposits					
1	2	3	4	5	6	7	8	9	10	11	12		
2000	2.9	0.1	41.8	0.3	2.8	77.5	-	-	53.5	0.2	47.2	12.1	
2001	3.0	0.1	40.5	0.2	3.1	68.6	-	-	55.8	0.2	44.8	12.3	
2002	3.4	0.1	57.2	0.2	1.3	58.7	-	-	54.4	0.1	42.8	13.5	
2003	4.2	0.6	65.3	0.2	1.4	53.2	49.1	4.1	38.1	0.0	39.7	3.8	

	MFIs (excluding Eurosystem)					Other sectors							
	Assets		Liabilities			Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities	
						Total	Loans	Currency and deposits					
13	14	15	16	17	18	19	20	21	22	23	24		
2000	1,422.4	37.1	2,128.1	42.2	173.5	435.7	-	-	100.9	109.2	322.8	39.8	
2001	1,666.6	48.8	2,364.6	49.3	176.3	515.8	-	-	101.2	109.6	360.2	40.9	
2002	1,631.3	55.3	2,197.7	42.9	183.6	496.7	-	-	93.9	102.6	369.3	49.6	
2003	1,731.1	32.3	2,238.8	28.8	176.4	470.4	148.7	321.6	79.6	103.0	377.6	44.9	

5. International reserves

	Reserve assets													Memo		
	Total	Monetary gold		Special drawing rights	Reserve position in the IMF	Foreign exchange							Other claims	Claims on euro area residents in foreign currency	Predetermined short-term net drains in foreign currency	
		In EUR billions	In fine troy ounces (millions)			Total	Currency and deposits		Securities			Financial derivatives				
							With monetary authorities and the BIS	With banks	Total	Equity	Bonds and notes					Money market instruments
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Eurosystem																
2002	366.1	130.4	399.022	4.8	25.0	205.8	10.3	35.3	159.8	1.0	120.2	38.5	0.4	0.0	22.4	-26.3
2003	306.5	130.0	393.543	4.4	23.3	148.9	10.0	30.4	107.8	0.9	80.5	26.5	0.7	0.0	20.3	-16.3
2004 Q2	301.4	127.8	392.324	4.6	22.4	146.7	11.4	27.6	107.1	-	-	-	0.6	0.0	18.3	-10.2
2004 Q3	298.2	131.4	392.200	4.6	20.5	141.8	8.0	31.2	102.5	-	-	-	0.1	0.0	19.1	-8.5
2004 Nov.	291.6	133.4	391.219	4.1	19.4	134.7	9.8	28.0	96.8	-	-	-	0.1	0.0	18.8	-11.5
2004 Dec.	279.6	125.4	389.998	3.9	18.6	131.6	11.5	25.5	94.6	-	-	-	0.1	0.0	19.1	-12.8
2005 Jan.	289.0	126.1	389.435	4.0	18.8	140.1	10.2	30.1	99.8	-	-	-	0.0	0.0	19.9	-14.4
of which held by the European Central Bank																
2002	45.5	8.1	24.656	0.2	0.0	37.3	1.2	9.9	26.1	0.0	19.5	6.7	0.0	0.0	3.0	-5.2
2003	36.9	8.1	24.656	0.2	0.0	28.6	1.4	5.0	22.2	0.0	14.9	7.3	0.0	0.0	2.8	-1.5
2004 Q2	37.4	8.0	24.656	0.2	0.0	29.2	1.5	3.7	24.0	-	-	-	0.0	0.0	2.4	-0.5
2004 Q3	38.0	8.3	24.656	0.2	0.0	29.6	0.9	6.8	21.9	-	-	-	0.0	0.0	2.0	-1.0
2004 Nov.	36.5	8.4	24.656	0.2	0.0	27.9	2.2	5.5	20.2	-	-	-	0.0	0.0	1.8	-0.8
2004 Dec.	35.1	7.9	24.656	0.2	0.0	27.0	2.7	3.3	21.1	-	-	-	0.0	0.0	2.6	-1.3
2005 Jan.	36.3	8.0	24.656	0.2	0.0	28.2	2.0	4.8	21.5	-	-	-	0.0	0.0	2.7	-1.3

Source: ECB.



EXCHANGE RATES

8.1 Effective exchange rates ¹⁾

(period averages; index 1999 Q1=100)

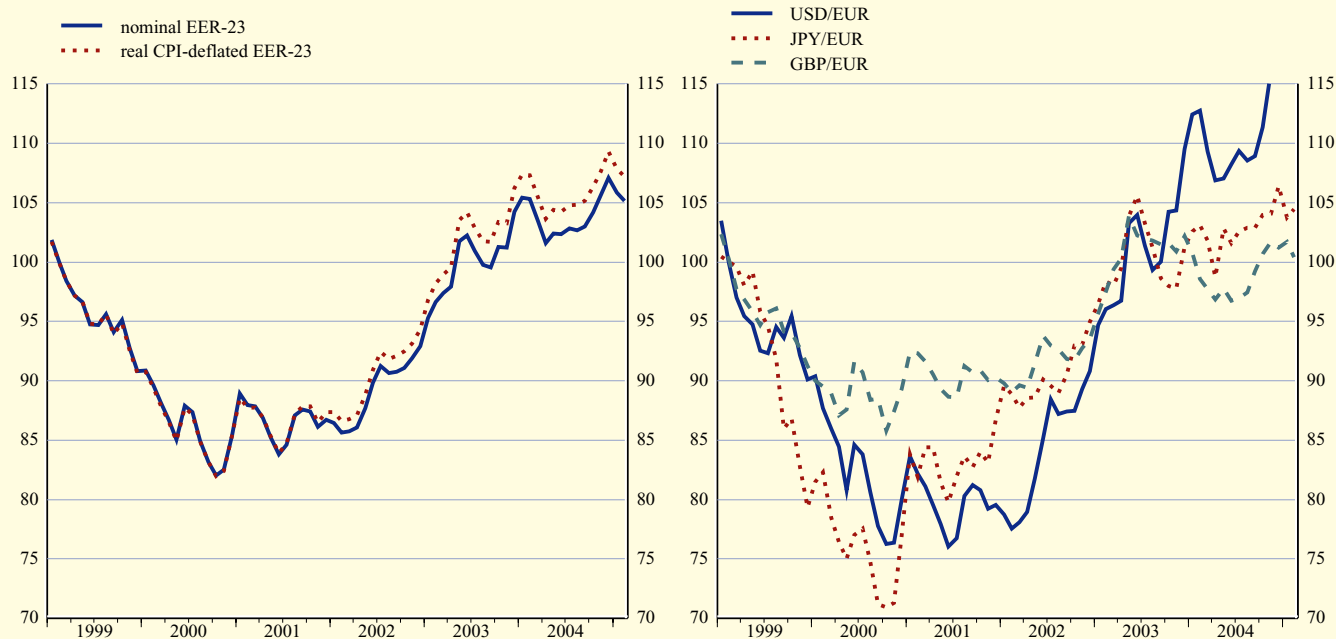
	EER-23						EER-42	
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI
	1	2	3	4	5	6	7	8
2002	89.2	90.4	91.9	90.4	88.1	88.5	94.8	90.9
2003	99.9	101.7	102.2	101.7	99.5	99.5	106.6	101.6
2004	103.8	105.9	105.3	.	.	.	111.0	105.3
2003 Q4	102.2	104.3	104.1	104.5	102.2	101.5	109.1	103.9
2004 Q1	104.7	106.7	106.4	106.9	104.6	104.2	111.6	106.1
Q2	102.1	104.1	103.6	104.7	101.7	101.1	109.2	103.7
Q3	102.8	104.9	104.5	105.3	101.4	101.7	110.1	104.5
Q4	105.7	107.7	106.9	.	.	.	113.0	107.1
2004 Feb.	105.3	107.3	106.9	-	-	-	112.3	106.8
Mar.	103.4	105.4	105.2	-	-	-	110.2	104.7
Apr.	101.6	103.7	103.2	-	-	-	108.3	103.0
May	102.4	104.4	103.9	-	-	-	109.5	104.1
June	102.3	104.2	103.7	-	-	-	109.6	104.0
July	102.8	104.8	104.4	-	-	-	110.1	104.4
Aug.	102.7	104.8	104.3	-	-	-	109.9	104.4
Sep.	103.0	105.2	104.6	-	-	-	110.3	104.7
Oct.	104.2	106.3	105.5	-	-	-	111.5	105.8
Nov.	105.6	107.6	106.7	-	-	-	113.1	107.0
Dec.	107.1	109.3	108.4	-	-	-	114.4	108.4
2005 Jan.	105.8	107.9	107.2	-	-	-	112.9	106.8
Feb.	105.1	107.2	106.6	-	-	-	111.9	105.8
	<i>% change versus previous month</i>							
2005 Feb.	-0.7	-0.6	-0.6	-	-	-	-0.9	-0.9
	<i>% change versus previous year</i>							
2005 Feb.	-0.1	-0.1	-0.3	-	-	-	-0.3	-0.9

C31 Effective exchange rates

(monthly averages; index 1999 Q1=100)

C32 Bilateral exchange rates

(monthly averages; index 1999 Q1=100)



Source: ECB.

1) For the definition of the trading partner groups and other information, please refer to the General notes.

9.2 In the United States and Japan

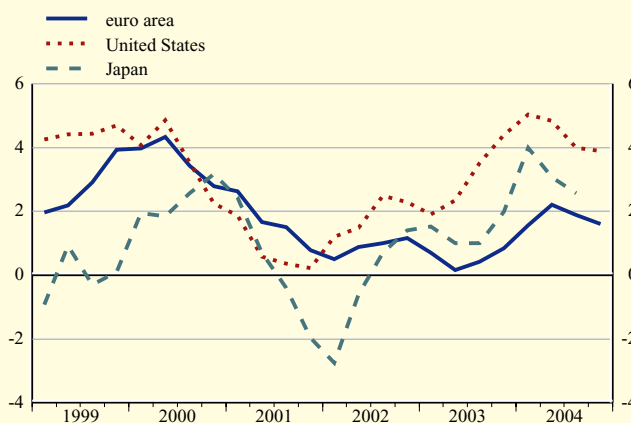
(annual percentage changes, unless otherwise indicated)

1. Economic and financial developments

	Consumer price index	Unit labour costs ¹⁾ (manufacturing)	Real GDP	Industrial production index (manufacturing)	Unemployment rate as a % of labour force (s.a.)	Broad money ²⁾	3-month interbank deposit rate ³⁾ as a % per annum	10-year government bond yield ³⁾ as a % per annum	Exchange rate ⁴⁾ as national currency per euro	Fiscal deficit (-)/surplus (+) as a % of GDP	Gross public debt ⁵⁾ as a % of GDP
	1	2	3	4	5	6	7	8	9	10	11
United States											
2001	2.8	0.2	0.8	-4.1	4.8	11.4	3.78	5.01	0.8956	-0.4	42.9
2002	1.6	-0.8	1.9	-0.1	5.8	8.0	1.80	4.60	0.9456	-3.8	45.2
2003	2.3	3.3	3.0	0.0	6.0	6.3	1.22	4.00	1.1312	-4.6	47.7
2004	2.7	-1.3	4.4	4.8	5.5	5.2	1.62	4.26	1.2439	.	.
2003 Q4	1.9	3.6	4.4	1.6	5.9	4.7	1.17	4.27	1.1890	-4.3	47.7
2004 Q1	1.8	-0.7	5.0	3.2	5.7	4.5	1.12	4.00	1.2497	-4.5	48.3
Q2	2.9	-1.7	4.8	5.6	5.6	5.7	1.30	4.58	1.2046	-4.4	48.0
Q3	2.7	-1.2	4.0	5.5	5.4	4.8	1.75	4.29	1.2220	-4.4	48.3
Q4	3.3	-1.5	3.9	5.0	5.4	5.8	2.30	4.17	1.2977	.	.
2004 Oct.	3.2	-	-	5.6	5.5	5.3	2.08	4.08	1.2490	-	-
Nov.	3.5	-	-	4.5	5.4	5.8	2.31	4.19	1.2991	-	-
Dec.	3.3	-	-	4.9	5.4	6.2	2.50	4.23	1.3408	-	-
2005 Jan.	3.0	-	-	5.0	5.2	6.0	2.66	4.21	1.3119	-	-
Feb.	.	-	-	.	.	.	2.82	4.16	1.3014	-	-
Japan											
2001	-0.7	4.4	0.2	-6.8	5.0	2.8	0.15	1.34	108.68	-6.1	134.7
2002	-0.9	-3.2	-0.3	-1.2	5.4	3.3	0.08	1.27	118.06	-7.9	141.3
2003	-0.3	-3.8	1.4	3.2	5.2	1.7	0.06	0.99	130.97	.	.
2004	0.0	.	2.6	5.6	4.7	1.9	0.05	1.50	134.44	.	.
2003 Q4	-0.3	-4.3	2.1	4.2	5.1	1.5	0.06	1.38	129.45	.	.
2004 Q1	-0.1	-6.5	4.0	6.8	4.9	1.7	0.05	1.31	133.97	.	.
Q2	-0.3	-6.7	3.1	7.4	4.6	1.9	0.05	1.59	132.20	.	.
Q3	-0.1	-5.9	2.3	6.4	4.8	1.8	0.05	1.64	134.38	.	.
Q4	0.5	.	0.8	1.8	4.6	2.0	0.05	1.45	137.11	.	.
2004 Oct.	0.5	0.7	-	-0.8	4.7	2.0	0.05	1.49	135.97	-	-
Nov.	0.8	.	-	4.5	4.5	2.0	0.05	1.46	136.09	-	-
Dec.	0.2	.	-	1.8	4.4	2.0	0.05	1.40	139.14	-	-
2005 Jan.	-0.1	.	-	1.0	.	2.1	0.05	1.37	135.63	-	-
Feb.	.	.	-	.	.	.	0.05	1.40	136.55	-	-

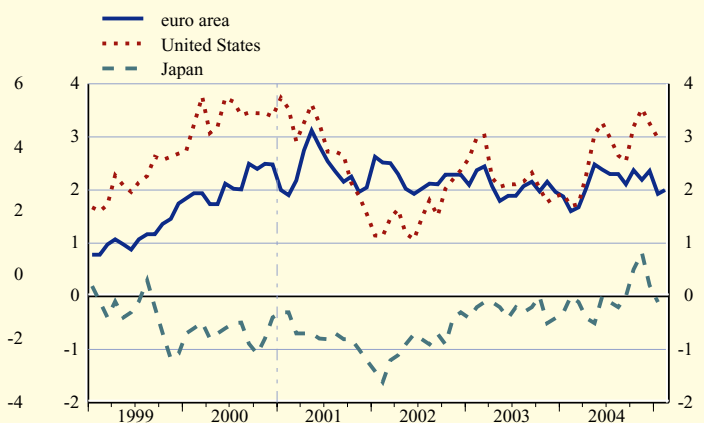
C33 Real gross domestic product

(annual percentage changes; quarterly)



C34 Consumer price indices

(annual percentage changes; monthly)



Sources: National data (columns 1, 2 (United States), 3, 4, 5 (United States), 6, 9 and 10); OECD (column 2 (Japan)); Eurostat (column 5 (Japan), euro area chart data); Reuters (columns 7 and 8); ECB calculations (column 11).

- 1) Data for the United States are seasonally adjusted.
- 2) Average-of-period values; M3 for US, M2+CDs for Japan.
- 3) For more information, see Sections 4.6 and 4.7.
- 4) For more information, see Section 8.2.
- 5) Gross consolidated general government debt (end of period).

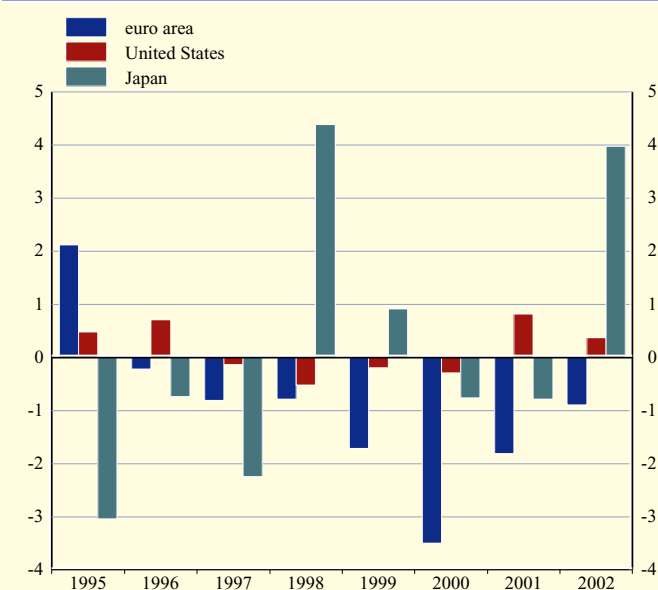
9.2 In the United States and Japan

(as a percentage of GDP)

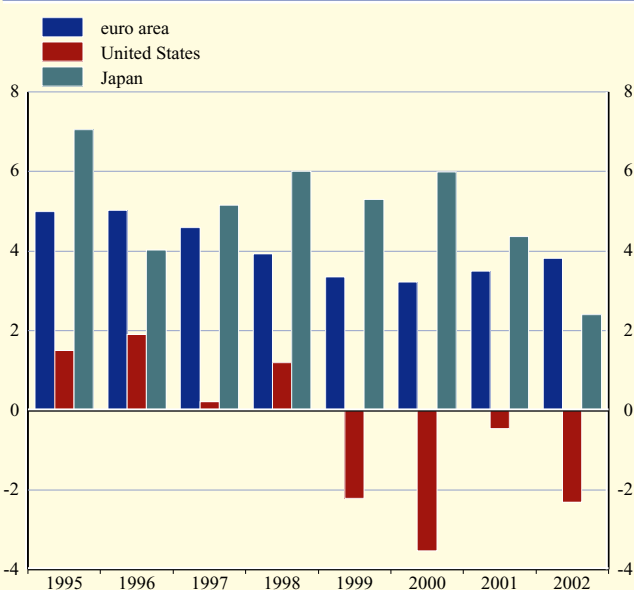
2. Saving, investment and financing

	National saving and investment			Investment and financing of non-financial corporations						Investment and financing of households ¹⁾			
	Gross saving 1	Gross capital formation 2	Net lending to the rest of the world 3	Gross capital formation 4	Gross fixed capital formation 5	Net acquisition of financial assets 6	Gross saving 7	Net incurrence of liabilities 8	Securities and shares 9	Capital expenditures ²⁾ 10	Net acquisition of financial assets 11	Gross saving ³⁾ 12	Net incurrence of liabilities 13
United States													
2000	18.0	20.8	-4.0	9.5	9.0	12.3	7.5	12.6	2.4	12.6	2.3	11.1	5.8
2001	16.4	19.1	-3.7	8.0	8.4	1.8	7.6	0.9	1.8	12.7	5.3	10.7	5.7
2002	14.2	18.4	-4.4	7.3	7.2	1.4	8.0	1.1	-0.1	12.8	4.3	11.1	6.6
2003	13.5	18.4	-4.7	7.0	7.1	4.3	8.6	2.4	0.8	13.1	7.2	10.7	8.0
2002 Q4	13.3	18.3	-4.7	7.1	7.0	5.4	8.3	4.3	0.7	12.9	3.4	10.5	8.1
2003 Q1	12.8	18.2	-5.0	6.9	6.9	3.6	7.8	2.4	0.9	12.8	6.7	10.2	9.1
Q2	13.2	18.1	-4.8	6.8	7.0	5.3	8.5	3.3	2.0	13.1	10.0	10.5	12.4
Q3	13.7	18.6	-4.6	7.0	7.1	3.2	8.7	1.1	0.2	13.3	9.3	11.2	6.8
Q4	14.4	18.8	-4.3	7.2	7.2	5.0	9.2	2.7	0.0	13.2	3.0	10.7	4.0
2004 Q1	13.7	19.1	-4.9	7.4	7.1	5.9	8.9	4.0	1.0	13.1	5.8	10.3	9.9
Q2	13.9	19.8	-5.4	7.7	7.3	4.0	8.8	2.3	-0.6	13.3	6.5	10.3	7.6
Q3	13.9	19.7	-5.4	7.6	7.4	4.4	9.1	2.0	-0.1	13.5	5.1	10.2	7.3
Japan													
2000	27.8	26.3	2.3	15.4	15.5	0.9	14.5	-1.0	0.2	5.2	3.9	10.5	-0.1
2001	26.4	25.8	2.0	15.3	15.3	-2.8	14.3	-6.3	0.2	4.9	2.8	8.6	0.2
2002	25.6	24.0	2.8	13.8	14.0	-1.7	15.3	-7.4	-0.8	4.8	-0.2	9.0	-2.1
2003	26.3	23.9	.	.	.	3.2	16.0	-5.2	-0.2	.	-1.2	9.2	-0.8
2002 Q4	24.0	25.2	2.2	.	.	5.5	.	9.8	0.7	.	10.2	.	-1.7
2003 Q1	28.0	23.4	2.9	.	.	17.5	.	-1.8	1.7	.	-13.2	.	2.9
Q2	23.6	23.3	.	.	.	-26.1	.	-20.6	-0.9	.	4.2	.	-5.7
Q3	25.7	24.0	.	.	.	9.8	.	-5.5	-2.9	.	-5.5	.	1.1
Q4	27.8	24.8	.	.	.	11.5	.	6.5	1.2	.	8.7	.	-1.2
2004 Q1	30.7	24.0	.	.	.	11.3	.	0.6	-0.4	.	-7.5	.	2.6
Q2	.	23.0	.	.	.	-13.4	.	-12.7	-0.8	.	5.6	.	-6.0
Q3	.	23.8	.	.	.	5.0	.	-2.0	-1.8	.	-4.3	.	1.6

C35 Net lending of non-financial corporations
(as a percentage of GDP)



C36 Net lending of households¹⁾
(as a percentage of GDP)



Sources: ECB, Federal Reserve Board, Bank of Japan and Economic and Social Research Institute.

1) Including non-profit institutions serving households.

2) Gross capital formation in Japan. Capital expenditures in the United States include purchases of consumer durable goods.

3) Gross saving in the United States is increased by expenditures on consumer durable goods.



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TECHNICAL NOTES

RELATING TO THE EURO AREA OVERVIEW

CALCULATION OF GROWTH RATES FOR MONETARY DEVELOPMENTS

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

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

where I_t is the index of adjusted outstanding amounts as at month t (see also below). Likewise, for the year ending in month t , the average growth rate is calculated as:

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

RELATING TO SECTIONS 2.1 TO 2.6

CALCULATION OF TRANSACTIONS

Monthly transactions are calculated from monthly differences in outstanding amounts adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

If L_t represents the outstanding amount at the end of month t , C_t^M the reclassification adjustment in month t , E_t^M the exchange rate adjustment and V_t^M the other revaluation adjustments, the transactions F_t^M in month t are defined as:

$$c) F_t^M = (L_t - L_{t-1}) - C_t^M - E_t^M - V_t^M$$

Similarly, the quarterly transactions F_t^Q for the quarter ending in month t are defined as:

$$d) F_t^Q = (L_t - L_{t-3}) - C_t^Q - E_t^Q - V_t^Q$$

where L_{t-3} is the amount outstanding at the end of month $t-3$ (the end of the previous quarter)

and, for example, C_t^Q is the reclassification adjustment in the quarter ending in month t .

For those quarterly series for which monthly observations are now available (see below), the quarterly transactions can be derived as the sum of the three monthly transactions in the quarter.

CALCULATION OF GROWTH RATES FOR MONTHLY SERIES

Growth rates may be calculated from transactions or from the index of adjusted outstanding amounts. If F_t^M and L_t are defined as above, the index I_t of adjusted outstanding amounts in month t is defined as:

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

The base of the index (of the non-seasonally adjusted series) is currently set as December 2001 = 100. Time series of the index of adjusted outstanding amounts are available on the ECB's website (www.ecb.int) under the "Money, banking and financial markets" sub-section of the "Statistics" section.

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

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

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

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

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

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

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

CALCULATION OF GROWTH RATES FOR QUARTERLY SERIES

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

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

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

SEASONAL ADJUSTMENT OF THE EURO AREA MONETARY STATISTICS¹

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

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

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

RELATING TO SECTIONS 3.1 TO 3.3

CALCULATION OF GROWTH RATES

Growth rates are calculated on the basis of financial transactions and therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions.

If T_t represents the transactions in quarter t and L_t represents the outstanding amount at the end of quarter t , then the growth rate for the quarter t is calculated as:

$$j) \frac{\sum_{i=0}^3 T_{t-i}}{L_{t-4}} \times 100$$

RELATING TO SECTION 4.3 AND 4.4

CALCULATION OF GROWTH RATES FOR DEBT SECURITIES AND QUOTED SHARES

Growth rates are calculated on the basis of financial transactions and therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. They may be calculated from transactions or from the index of adjusted outstanding amounts. If N_t^M represents the

¹ For details, see "Seasonal adjustment of monetary aggregates and HICP for the euro area", ECB (August 2000) and the "Statistics" section of the ECB's website (www.ecb.int), under the "Money, banking and financial markets" sub-section.

² For details, see Findley, D., Monsell, B., Bell, W., Otto, M., and Chen, B. C. (1998), "New Capabilities and Methods of the X-12-ARIMA Seasonal Adjustment Program", *Journal of Business and Economic Statistics*, 16, 2, pp.127-152, or "X-12-ARIMA Reference Manual", Time Series Staff, Bureau of the Census, Washington, D.C.

For internal purposes, the model-based approach of TRAMO-SEATS is also used. For details on TRAMO-SEATS, see Gomez, V. and Maravall, A. (1996), "Programs TRAMO and SEATS: Instructions for the User", Banco de España, Working Paper No. 9628, Madrid.

³ It follows that for the seasonally adjusted series, the level of the index for the base period, i.e. December 2001, generally differs from 100, reflecting the seasonality of that month.

transactions (net issues) in month t and L_t the level outstanding at the end of the month t , the index I_t of adjusted outstanding amounts in month t is defined as:

$$k) \quad I_t = I_{t-1} \times \left(1 + \frac{N_t}{L_{t-1}} \right)$$

As a base, the index is set equal to 100 on December 2001. The growth rate a_t for month t corresponding to the change in the 12 months ending in month t , may be calculated using either of the following two formulae:

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

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

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

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

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

where I_t is the index of adjusted outstanding amounts as at month t . Likewise, for the year ending in month t , the average growth rate is calculated as:

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

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.

RELATING TO TABLE I IN SECTION 5.1

SEASONAL ADJUSTMENT OF THE HICP⁴

The approach used relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S74). The seasonal adjustment of the overall HICP for the euro area is carried out indirectly by aggregating the seasonally adjusted euro area series for processed food, unprocessed food, industrial goods excluding energy, and services. Energy is added without adjustment since there is no statistical evidence of seasonality. Seasonal factors are revised at annual intervals or as required.

RELATING TO TABLE 2 IN SECTION 7.1

SEASONAL ADJUSTMENT OF THE BALANCE OF PAYMENTS CURRENT ACCOUNT

The approach relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S74). The raw data for goods and services are pre-adjusted to take “working day” and “Easter” effects into account. Data on income and current transfers credits are subject to a “working day” pre-adjustment. The seasonal adjustment for these

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

items is carried out using these pre-adjusted series. Current transfers debits are not pre-adjusted. The seasonal adjustment of the total current account is carried out by aggregating the seasonally adjusted euro area series for goods, services, income and current transfers. Seasonal factors are revised at semi-annual intervals or as required.



GENERAL NOTES

The “Euro area statistics” section of the Monthly Bulletin focuses on statistics for the euro area as a whole. More detailed and longer runs of data, with further explanatory notes, are available in the “Statistics” section of the ECB’s website (www.ecb.int). Services available under the “Data services” sub-section include a browser interface with search facilities, subscription to different datasets and a facility for downloading data directly as compressed Comma Separated Value (CSV) files. For further information, please contact us at: statistics@ecb.int.

In general, the cut-off date for the statistics included in the Monthly Bulletin is the day preceding the first meeting in the month of the Governing Council. For this issue, the cut-off date was 2 March 2005.

All data relate to the Euro 12, unless otherwise indicated. For the monetary data, the Harmonised Index of Consumer Prices (HICP), investment fund and financial market statistics, the statistical series relating to the euro area cover the EU Member States that had adopted the euro at the time to which the statistics relate. Where applicable, this is shown in the tables by means of a footnote; in the charts, the break is indicated by a dotted line. In these cases, where underlying data are available, absolute and percentage changes for 2001, calculated from a base in 2000, use a series which takes into account the impact of Greece’s entry into the euro area.

Given that the composition of the ECU does not coincide with the former currencies of the countries which have adopted the single currency, pre-1999 amounts converted from the participating currencies into ECU at current ECU exchange rates are affected by movements in the currencies of EU Member States which have not adopted the euro. To avoid this effect on the monetary statistics, the pre-1999 data in Sections 2.1 to 2.8 are expressed in units converted from national currencies at the irrevocable euro exchange rates established on 31 December 1998. Unless otherwise indicated,

price and cost statistics before 1999 are based on data expressed in national currency terms.

Methods of aggregation and/or consolidation (including cross-country consolidation) have been used where appropriate.

Recent data are often provisional and may be revised. Discrepancies between totals and their components may arise from rounding.

The group “Other EU Member States” comprises the Czech Republic, Denmark, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia, Sweden and United Kingdom.

In most cases, the terminology used within the tables follows international standards, such as those contained in the European System of Accounts 1995 (ESA 95) and the IMF Balance of Payments Manual. Transactions refer to voluntary exchanges (measured directly or derived), while flows also encompass changes in outstanding amounts owing to price and exchange rate changes, write-offs, and other changes.

In the tables, the term “up to (x) years” means “up to *and including* (x) years”.

OVERVIEW

Developments in key indicators for the euro area are summarised in an overview table.

MONETARY POLICY STATISTICS

Section 1.4 shows statistics on minimum reserve and liquidity factors. Annual and quarterly observations refer to averages of the last reserve maintenance period of the year/quarter. Until December 2003, the maintenance periods started on the 24th calendar day of a month and ran to the 23rd of the following month. On 23 January 2003 the ECB announced changes to the operational

framework, which were implemented on 10 March 2004. As a result of these changes, maintenance periods start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is scheduled. A transitional maintenance period was defined to cover the period from 24 January to 9 March 2004.

Table 1 in Section 1.4 shows the components of the reserve base of credit institutions subject to reserve requirements. The liabilities vis-à-vis other credit institutions subject to the ESCB's minimum reserve system, the ECB and participating national central banks are excluded from the reserve base. When a credit institution cannot provide evidence of the amount of its issues of debt securities with a maturity of up to two years held by the institutions mentioned above, it may deduct a certain percentage of these liabilities from its reserve base. The percentage for calculating the reserve base was 10% until November 1999 and 30% thereafter.

Table 2 in Section 1.4 contains average data for completed maintenance periods. The amount of the reserve requirement of each individual credit institution is first calculated by applying the reserve ratio for the corresponding categories of liabilities to the eligible liabilities, using the balance sheet data from the end of each calendar month. Subsequently, each credit institution deducts from this figure a lump-sum allowance of €100,000. The resulting required reserves are then aggregated at the euro area level (column 1). The current account holdings (column 2) are the aggregate average daily current account holdings of credit institutions, including those that serve the fulfilment of reserve requirements. The excess reserves (column 3) are the average current account holdings over the maintenance period in excess of the required reserves. The deficiencies (column 4) are defined as the average shortfalls of current account holdings from required reserves over the maintenance period, computed

on the basis of those credit institutions that have not fulfilled their reserve requirement. The interest rate on minimum reserves (column 5) is equal to the average, over the maintenance period, of the ECB's rate (weighted according to the number of calendar days) on the Eurosystem's main refinancing operations (see Section 1.3).

Table 3 in Section 1.4 shows the banking system's liquidity position, which is defined as the current account holdings in euro of credit institutions in the euro area with the Eurosystem. All amounts are derived from the consolidated financial statement of the Eurosystem. The other liquidity-absorbing operations (column 7) exclude the issuance of debt certificates initiated by national central banks in Stage Two of EMU. The net other factors (column 10) represent the netted remaining items in the consolidated financial statement of the Eurosystem. The credit institutions' current accounts (column 11) are equal to the difference between the sum of liquidity-providing factors (columns 1 to 5) and the sum of liquidity-absorbing factors (columns 6 to 10). The base money (column 12) is calculated as the sum of the deposit facility (column 6), the banknotes in circulation (column 8) and the credit institutions' current account holdings (column 11).

MONEY, BANKING AND INVESTMENT FUNDS

Section 2.1 shows the aggregated balance sheet of the monetary financial institution (MFI) sector, i.e. the sum of the harmonised balance sheets of all MFIs resident in the euro area. MFIs are central banks, credit institutions as defined under Community law, money market funds and other institutions whose business it is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. A complete list of MFIs is published on the ECB's website.

Section 2.2 shows the consolidated balance sheet of the MFI sector, which is obtained by netting the aggregated balance sheet positions between MFIs in the euro area. Due to limited heterogeneity in recording practices, the sum of the inter-MFI positions is not necessarily zero; the balance is shown in column 10 of the liabilities side of Section 2.2. Section 2.3 sets out the euro area monetary aggregates and counterparts. These are derived from the consolidated MFI balance sheet; they also take account of some monetary assets/liabilities of central government. Statistics on monetary aggregates and counterparts are adjusted for seasonal and trading-day effects. The external liabilities item of Sections 2.1 and 2.2 shows the holdings by non-euro area residents of i) shares/units issued by money market funds located in the euro area and ii) debt securities issued with a maturity of up to two years by MFIs located in the euro area. In Section 2.3, however, these holdings are excluded from the monetary aggregates and contribute to the item “net external assets”.

Section 2.4 provides an analysis by sector, type and original maturity of loans granted by MFIs other than the Eurosystem (the banking system) resident in the euro area. Section 2.5 shows a sectoral and instrument analysis of deposits held with the euro area banking system. Section 2.6 shows the securities held by the euro area banking system, by type of issuer.

Sections 2.2 to 2.6 include transactions, which are derived as differences in outstanding amounts adjusted for reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. Section 2.7 shows selected revaluations which are used in the derivation of transactions. Sections 2.2 to 2.6 also provide growth rates in terms of annual percentage changes based on the transactions. Section 2.8 shows a quarterly currency breakdown of selected MFI balance sheet items.

Details of the sector definitions are set out in the “Money and Banking Statistics Sector

Manual – Guidance for the statistical classification of customers” (ECB, November 1999). The “Guidance Notes to the Regulation ECB/2001/13 on the MFI Balance Sheet Statistics” (ECB, November 2002) explains practices recommended to be followed by the NCBs. Since 1 January 1999 the statistical information has been collected and compiled on the basis of Regulation ECB/1998/16 of 1 December 1998 concerning the consolidated balance sheet of the Monetary Financial Institutions sector¹, as last amended by Regulation ECB/2003/10².

In line with this Regulation, the balance sheet item “money market paper” has been merged with the item “debt securities” on both the assets and liabilities side of the MFI balance sheet.

Section 2.9 shows end-of-quarter outstanding amounts for the balance sheet of the euro area investment funds (other than money market funds). The balance sheet is aggregated and therefore includes, among the liabilities, holdings by investment funds of shares/units issued by other investment funds. Total assets/liabilities are also broken down by investment policy (equity funds, bond funds, mixed funds, real estate funds and other funds) and by type of investor (general public funds and special investors’ funds). Section 2.10 shows the aggregated balance sheet for each investment fund sector as identified by investment policy and type of investor.

FINANCIAL AND NON-FINANCIAL ACCOUNTS

Sections 3.1 and 3.2 show quarterly data on financial accounts for non-financial sectors in the euro area, comprising general government (S.13 in the ESA 95), non-financial corporations (S.11 in the ESA 95), and households (S.14 in the ESA 95) including non-

1 OJL 356, 30.12.1998, p. 7.

2 OJL 250, 2.10.2003, p. 19.

profit institutions serving households (S.15 in the ESA 95). The data cover non-seasonally adjusted amounts outstanding and financial transactions classified according to the ESA 95 and show the main financial investment and financing activities of the non-financial sectors. On the financing side (liabilities), the data are presented by ESA 95 sector and original maturity (“short-term” refers to an original maturity of up to one year; “long-term” refers to an original maturity of over one year). Whenever possible, the financing taken from MFIs is presented separately. The information on financial investment (assets) is currently less detailed than that on financing, especially since a breakdown by sector is not possible.

Section 3.3 shows quarterly data on financial accounts for insurance corporations and pension funds (S.125 in the ESA 95) in the euro area. As in Sections 3.1 and 3.2, the data cover non-seasonally adjusted amounts outstanding and financial transactions, and show the main financial investment and financing activities of this sector.

The quarterly data in these three sections are based on quarterly national financial accounts data and MFI balance sheet and securities issues statistics. Sections 3.1 and 3.2 also refer to data taken from the BIS international banking statistics. Although all euro area countries contribute to the MFI balance sheet and securities issues statistics, Ireland and Luxembourg do not yet provide quarterly national financial accounts data.

Section 3.4 shows annual data on saving, investment (financial and non-financial) and financing for the euro area as a whole, and separately for non-financial corporations and households. These annual data provide, in particular, fuller sectoral information on the acquisition of financial assets and are consistent with the quarterly data in the two previous sections.

FINANCIAL MARKETS

The series on financial market statistics for the euro area cover the EU Member States that had adopted the euro at the time to which the statistics relate.

Statistics on securities other than shares and quoted shares (Sections 4.1 to 4.4) are produced by the ECB using data from the ESCB and the BIS. Section 4.5 presents MFI interest rates on euro-denominated deposits and loans by euro area residents. Statistics on money market interest rates, long-term government bond yields and stock market indices (Sections 4.6 to 4.8) are produced by the ECB using data from wire services.

Statistics on securities issues cover securities other than shares (debt securities), which are presented in Sections 4.1, 4.2 and 4.3, and quoted shares, which are presented in Section 4.4. Debt securities are broken down into short-term and long-term securities. “Short-term” means securities with an original maturity of one year or less (in exceptional cases two years or less). Securities with a longer maturity, or with optional maturity dates, the latest of which is more than one year away, or with indefinite maturity dates, are classified as “long-term”. Long-term debt securities issued by euro area residents are further broken down into fixed and variable rate issues. Fixed rate issues consist of issues where the coupon rate does not change during the life of the issues. Variable rate issues include all issues where the coupon is periodically refixed by reference to an independent interest rate or index. The statistics on debt securities are estimated to cover approximately 95% of total issues by euro area residents. Euro-denominated securities indicated in Sections 4.1, 4.2 and 4.3 also include items expressed in national denominations of the euro.

Section 4.1 shows securities issued, redemptions, net issues and outstanding amounts for all maturities, with an additional breakdown of long-term maturities. Net issues

differ from the changes in outstanding amounts owing to valuation changes, reclassifications and other adjustments.

Columns 1 to 4 show the outstanding amounts, gross issues, redemptions and net issues for all euro-denominated issues. Columns 5 to 8 show the outstanding amounts, gross issues, redemptions and net issues for all securities other than shares (i.e. debt securities) issued by euro area residents. Columns 9 to 11 show the percentage share of the outstanding amounts, gross issues and redemptions of securities that have been issued in euro by euro area residents. Column 12 shows euro-denominated net issues by euro area residents.

Section 4.2 contains a sectoral breakdown of outstanding amounts and gross issues for issuers resident in the euro area which is in line with the ESA 95³. 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 correspond to the data on outstanding amounts for total and long-term debt securities issued by euro area residents in Section 4.1, column 5. The outstanding amounts for total and long-term debt securities issued by MFIs in Table 4.2.1, column 2, are broadly comparable with data for debt securities issued as shown on the liabilities side of the aggregated MFI balance sheet in Table 2 of Section 2.1, column 8.

The total gross issues for total debt securities in column 1 of Table 2 in Section 4.2 correspond to the data on total gross issues by euro area residents in Section 4.1, column 6. The residual difference between long-term debt securities in Section 4.1, column 6, and total fixed and variable rate long-term debt securities in Table 2 of Section 4.2, column 7 consists of zero coupon bonds and revaluation effects.

Section 4.3 shows annual 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 annual growth rates therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. Annual percentage changes for monthly data refer to the end of the month, whereas for quarterly and yearly data, those percentage changes refer to the annual change in the period average. See the technical notes for details.

Section 4.4, columns 1, 4, 6 and 8, show the outstanding amounts of quoted shares issued by euro area residents broken down by issuing sector. The monthly data for quoted shares issued by non-financial corporations correspond to the quarterly series shown in Section 3.2 (main liabilities, column 21).

Section 4.4, columns 3, 5, 7 and 9, show annual growth rates for quoted shares issued by euro area residents (broken down by the sector of the issuer), which are based on financial transactions that occur when an issuer sells or redeems shares for cash excluding investments in the issuers' own shares. Transactions include the quotation of an issuer on a stock exchange for the first time and the creation or deletion of new instruments. The calculation of annual growth rates excludes reclassifications, revaluations and any other changes which do not arise from transactions.

Section 4.5 presents statistics on all the interest rates that MFIs resident in the euro area apply to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area. Euro area MFI interest

3 The code numbers in the ESA 95 for the sectors shown in tables in the Monthly Bulletin are: MFIs (including the Eurosystem), which comprises the ECB, the NCBs of the euro area countries (S.121) and other monetary financial institutions (S.122); non-monetary financial corporations, which comprises other financial intermediaries (S.123), financial auxiliaries (S.124) and insurance corporations and pension funds (S.125); non-financial corporations (S.11); central government (S.1311); and other general government, which comprises state government (S.1312), local government (S.1313) and social security funds (S.1314).

rates are calculated as a weighted average (by corresponding business volume) of the euro area countries' interest rates for each category.

MFI interest rate statistics are broken down by type of business coverage, sector, instrument category and maturity, period of notice or initial period of interest rate fixation. The new MFI interest rate statistics replace the ten transitional statistical series on euro area retail interest rates that have been published in the ECB's Monthly Bulletin since January 1999.

Section 4.6 presents money market interest rates for the euro area, the United States and Japan. For the euro area, a broad spectrum of money market interest rates is covered spanning from interest rates on overnight deposits to those on twelve-month deposits. Before January 1999 synthetic euro area interest rates were calculated on the basis of national rates weighted by GDP. With the exception of the overnight rate to December 1998, monthly, quarterly and yearly values are period averages. Overnight deposits are represented by interbank deposit bid rates up to December 1998. From January 1999 column 1 of Section 4.6 shows the euro overnight index average (EONIA). These are end-of-period rates up to December 1998 and period averages thereafter. From January 1999 interest rates on one-, three-, six- and twelve-month deposits are euro interbank offered rates (EURIBOR); until December 1998, London interbank offered rates (LIBOR) where available. For the United States and Japan, interest rates on three-month deposits are represented by LIBOR.

Section 4.7 presents government bond yields for the euro area, the United States and Japan. Until December 1998, two-, three-, five- and seven-year euro area yields were end-of-period values and ten-year yields period averages. Thereafter, all yields are period averages. Until December 1998, euro area yields were calculated on the basis of harmonised national government bond yields weighted by GDP; thereafter, the weights are the nominal outstanding amounts of government bonds in

each maturity band. For the United States and Japan, ten-year yields are period averages.

Section 4.8 shows stock market indices for the euro area, the United States and Japan.

PRICES, OUTPUT, DEMAND AND LABOUR MARKETS

Most of the data described in this section are produced by the European Commission (mainly Eurostat) and national statistical authorities. Euro area results are obtained by aggregating data for individual countries. As far as possible, the data are harmonised and comparable. Statistics on GDP and expenditure components, value added by economic activity, industrial production, retail sales and passenger car registrations are adjusted for the variations in the number of working days.

The Harmonised Index of Consumer Prices (HICP) for the euro area (Section 5.1) is available from 1995 onwards. It is based on national HICPs, which follow the same methodology in all euro area countries. The breakdown by goods and services components is derived from the Classification of individual consumption by purpose (Coicop/HICP). The HICP covers monetary expenditure on final consumption by households on the economic territory of the euro area. The table includes seasonally adjusted HICP data which are compiled by the ECB.

Industrial producer prices (Table 2 in Section 5.1), industrial production, industrial new orders, industrial turnover and retail sales (Section 5.2) are covered by Council Regulation (EC) No 1165/98 of 19 May 1998 concerning short-term statistics⁴. 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

4 OJL 162, 5.6.1998, p. 1.

Groupings (MIGs) as defined by Commission Regulation (EC) No 586/2001 of 26 March 2001⁵. 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 average labour cost per hour worked. They do not, however, cover agriculture, fishing, public administration, education, health and services not elsewhere classified. The ECB calculates the indicator of negotiated wages (memo item in Table 3 of Section 5.1) on the basis of non-harmonised national definition data.

Unit labour cost components (Table 4 in Section 5.1), GDP and its components (Tables 1 and 2 in Section 5.2), GDP deflators (Table 5 in Section 5.1) and employment statistics (Table 1 in Section 5.3) are results of the ESA 95 quarterly national accounts.

Industrial new orders (Table 4 in Section 5.2) measure the orders received during the reference period and cover industries working mainly on the basis of orders – in particular textile, pulp and paper, chemical, metal, capital goods and durable consumer goods industries. The data are calculated on the basis of current prices.

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

Qualitative business and consumer survey data (Table 5 in Section 5.2) draw on the European Commission Business and Consumer Surveys.

Unemployment rates (Table 2 in Section 5.3) conform to International Labour Organisation (ILO) guidelines. They refer to persons actively seeking work as a share of the labour force, using harmonised criteria and definitions. The labour force estimates underlying the unemployment rate are different from the sum of the employment and unemployment levels published in Section 5.3.

GOVERNMENT FINANCE

Sections 6.1 to 6.4 show the general government fiscal position in the euro area. The data are mainly consolidated and are based on the ESA 95 methodology. The annual euro area aggregates in Sections 6.1 to 6.3 are compiled by the ECB from harmonised data provided by the NCBS, which are regularly updated. The deficit and debt data for the euro area countries may therefore differ from those used by the European Commission within the excessive deficit procedure. The quarterly euro area aggregates in Section 6.4 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 2000⁶ 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. Section 6.3 presents changes in general

5 OJ L 86, 27.3.2001, p. 11.

6 OJ L 172, 12.7.2000, p. 3.

government debt. The difference between the change in the government debt and the government deficit – the deficit-debt adjustment – is mainly explained by government transactions in financial assets and by foreign exchange valuation effects. Section 6.4 presents quarterly figures on general government revenue and expenditure on the basis of definitions laid down in the Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002⁷ on quarterly non-financial accounts for general government.

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)⁸, and Eurostat documents. Additional references about the methodologies and sources used in the euro area b.o.p. and i.i.p. statistics can be found in the ECB publication entitled “European Union balance of payments/international investment position statistical methods” (November 2004), and in the following task force reports: “Portfolio investment collection systems” (June 2002), “Portfolio investment income” (August 2003) and “Foreign direct investment” (March 2004), which can be downloaded from the ECB’s website. In addition, the report of the ECB/Commission (Eurostat) Task Force on Quality of balance of payments and international investment position statistics (June 2004) is available on the website of the Committee on Monetary, Financial and Balance of Payments Statistics (www.cmfb.org).

The presentation of net transactions in the financial account follows the sign convention of the IMF Balance of Payments Manual: an increase of assets appears with a minus sign, while an increase of liabilities appears with a plus sign. In the current account and capital

account, both credit and debit transactions are presented with a plus sign.

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

In Section 7.1, Table 2 contains seasonally adjusted data for the current account. Where appropriate, the adjustment covers also working-day, leap year and/or Easter effects. Table 5 provides a sectoral breakdown of euro area purchasers of securities issued by non-residents of the euro area. It is not yet possible to show a sectoral breakdown of euro area issuers of securities acquired by non-residents. In Tables 6 and 7 the breakdown between “loans” and “currency and deposits” is based on the sector of the non-resident counterpart, i.e. assets vis-à-vis non-resident banks are classified as deposits, whereas assets vis-à-vis other non-resident sectors are classified as loans. This breakdown follows the distinction made in other statistics, such as the MFI consolidated balance sheet, and conforms to the IMF Balance of Payments Manual.

Section 7.2 contains a monetary presentation of the b.o.p.: the b.o.p. transactions mirroring the transactions in the external counterpart of M3. The data follow the sign conventions of the b.o.p., except for the transactions in the external counterpart of M3 taken from money and banking statistics (column 12), where a positive sign denotes an increase of assets or a decrease of liabilities. In portfolio investment liabilities (columns 5 and 6), the b.o.p. transactions include sales and purchases of equity and debt securities issued by MFIs in the euro area, apart from shares of money market funds and debt

⁷ OJ L 179, 9.7.2002, p. 1.

⁸ OJ L 354, 30.11.2004, p. 34.

securities with a maturity of up to two years. A methodological note on the monetary presentation of the euro area b.o.p. is available in the “Statistics” section of the ECB’s website. See also Box 1 in the June 2003 issue of the Monthly Bulletin.

Section 7.3 presents a geographical breakdown of the euro area b.o.p. (Tables 1 to 4) and i.i.p. (Table 5) vis-à-vis main partner countries individually or as a group, distinguishing between EU Member States outside the euro area and countries or areas outside the European Union. The breakdown also shows transactions and positions vis-à-vis EU institutions (which, apart from the ECB, are treated statistically as outside the euro area, regardless of their physical location) and for some purposes also offshore centres and international organisations. Tables 1 to 4 show cumulative b.o.p. transactions in the latest four quarters; Table 5 shows a geographical breakdown of the i.i.p. for the latest end-year. The breakdown does not cover transactions or positions in portfolio investment liabilities, financial derivatives and international reserves. The geographical breakdown is described in the article entitled “Euro area balance of payments and international investment position vis-à-vis main counterparts” in the February 2005 issue of the Monthly Bulletin.

The data on the euro area i.i.p. in Section 7.4 are based on positions vis-à-vis non-residents of the euro area, considering the euro area as a single economic entity (see also Box 9 in the December 2002 issue of the Monthly Bulletin). The i.i.p. is valued at current market prices, with the exception of direct investment, where book values are used to a large extent.

The outstanding amounts of the Eurosystem’s international reserves and related assets and liabilities are shown in Section 7.4, Table 5, together with the part held by the ECB. These figures are not fully comparable with those of the Eurosystem’s weekly financial statement owing to differences in coverage and valuation. The data in Table 5 are in line with the

recommendations for the IMF/BIS template on international reserves and foreign currency liquidity. Changes in the gold holdings of the Eurosystem (column 3) are due to transactions in gold within the terms of the Central Bank Gold Agreement of 26 September 1999, updated on 8 March 2004. More information on the statistical treatment of the Eurosystem’s international reserves can be found in a publication entitled “Statistical treatment of the Eurosystem’s international reserves” (October 2000), which can be downloaded from the ECB’s website. The website also contains more comprehensive data in accordance with the template on international reserves and foreign currency liquidity.

Section 7.5 shows data on euro area external trade in goods. The main source is Eurostat. The ECB derives volume indices from Eurostat value and unit value indices, and performs seasonal adjustment of unit value indices, while value data are seasonally and working-day adjusted by Eurostat.

The breakdown by product group in columns 4 to 6 and 9 to 11 of Table 1 in Section 7.5 is in line with the classification by Broad Economic Categories. Manufactured goods (columns 7 and 12) and oil (column 13) are in line with the SITC Rev. 3 definition. The geographical breakdown (Table 2 in Section 7.5) shows main trading partners individually or in regional groups.

Owing to differences in definitions, classification, coverage and time of recording, external trade data, in particular for imports, are not fully comparable with the goods item in the balance of payments statistics (Sections 7.1 to 7.3). The difference for imports has been around 5% in recent years (ECB estimate), a significant part of which relates to the inclusion of insurance and freight services in the external trade data (c.i.f. basis).

EXCHANGE RATES

Section 8.1 shows nominal and real effective exchange rate (EER) indices for the euro calculated by the ECB on the basis of weighted averages of bilateral exchange rates of the euro against the currencies of the euro area's trading partners. A positive change denotes an appreciation of the euro. Weights are based on trade in manufactured goods with the trading partners in the periods 1995-1997 and 1999-2001, and are calculated to account for third-market effects. The EER indices result from the linking at the beginning of 1999 of the indices based on 1995-1997 weights to those based on 1999-2001 weights. The EER-23 group of trading partners is composed of the 13 non-euro area EU Member States, Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland and the United States. The EER-42 group includes, in addition to the EER-23, the following countries: Algeria, Argentina, Brazil, Bulgaria, Croatia, India, Indonesia, Israel, Malaysia, Mexico, Morocco, New Zealand, the Philippines, Romania, Russia, South Africa, Taiwan, Thailand and Turkey. Real EERs are calculated using consumer price indices, producer price indices, gross domestic product deflators, unit labour costs in manufacturing and unit labour costs in the total economy.

For more detailed information on the calculation of the EERs, see Box 10 entitled "Update of the overall trade weights for the effective exchange rates of the euro and computation of a new set of euro indicators" in the September 2004 issue of the Monthly Bulletin and the ECB's Occasional Paper No 2 ("The effective exchange rates of the euro" by Luca Buldorini, Stelios Makrydakis and Christian Thimann, February 2002), which can be downloaded from the ECB's website.

The bilateral rates shown in Section 8.2 are monthly averages of those published daily as reference rates for these currencies.

DEVELOPMENTS OUTSIDE THE EURO AREA

Statistics on other EU Member States (Section 9.1) follow the same principles as those for data relating to the euro area. Data for the United States and Japan contained in Section 9.2 are obtained from national sources.

CHRONOLOGY OF MONETARY POLICY MEASURES OF THE EUROSYSTEM¹



9 JANUARY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.75%, 3.75% and 1.75% respectively.

23 JANUARY 2003

The Governing Council of the ECB decides to implement the following two measures to improve the operational framework for monetary policy:

First, the timing of the reserve maintenance period will be changed so that it will always start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled. Furthermore, as a rule, the implementation of changes to the standing facility rates will be aligned with the start of the new reserve maintenance period.

Second, the maturity of the MROs will be shortened from two weeks to one week.

These measures are scheduled to come into effect during the first quarter of 2004.

Further to the press release of 10 July 2002, the Governing Council also decides to maintain at €15 billion the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2003. This amount takes into consideration the expected liquidity needs of the euro area banking system in 2003 and reflects the desire of the Eurosystem to continue to provide the bulk of liquidity through its main refinancing operations.

6 FEBRUARY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.75%, 3.75% and 1.75% respectively.

6 MARCH 2003

The Governing Council of the ECB decides to lower the minimum bid rate on the main refinancing operations by 0.25 percentage point to 2.50%, starting from the operation to be settled on 12 March 2003. It also decides to lower the interest rates on both the marginal lending facility and the deposit facility by 0.25 percentage point, to 3.50% and 1.50% respectively, both with effect from 7 March 2003.

3 APRIL 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.50%, 3.50% and 1.50% respectively.

8 MAY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.50%, 3.50% and 1.50% respectively.

¹ The chronology of monetary policy measures of the Eurosystem taken between 1999 and 2002 can be found on pages 176 to 180 of the ECB's Annual Report 1999, on pages 205 to 208 of the ECB's Annual Report 2000, on pages 219 to 220 of the ECB's Annual Report 2001 and on pages 234 to 235 of the ECB's Annual Report 2002 respectively.

It also announces the results of its evaluation of the ECB's monetary policy strategy. This strategy, which was announced on 13 October 1998, consists of three main elements: a quantitative definition of price stability, a prominent role for money in the assessment of risks to price stability, and a broadly based assessment of the outlook for price developments.

The Governing Council confirms the definition of price stability formulated in October 1998, namely that "price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability is to be maintained over the medium term". At the same time, the Governing Council agrees that in the pursuit of price stability it will aim to maintain inflation rates close to 2% over the medium term.

The Governing Council confirms that its monetary policy decisions will continue to be based on a comprehensive analysis of the risks to price stability. At the same time, the Governing Council decides to clarify in its communication the respective roles played by economic and monetary analysis in the process of coming to the Council's overall assessment of risks to price stability.

To underscore the longer-term nature of the reference value for monetary growth as a benchmark for the assessment of monetary developments, the Governing Council also decides that it will no longer conduct a review of the reference value on an annual basis. However, it will continue to assess the underlying conditions and assumptions.

5 JUNE 2003

The Governing Council of the ECB decides to lower the minimum bid rate on the main refinancing operations by 0.50 percentage

point to 2.0%, starting from the operation to be settled on 9 June 2003. It also decides to lower the interest rates on both the marginal lending facility and the deposit facility by 0.50 percentage point, to 3.0% and 1.0% respectively, both with effect from 6 June 2003.

10 JULY, 31 JULY, 4 SEPTEMBER, 2 OCTOBER, 6 NOVEMBER, 4 DECEMBER 2003 AND 8 JANUARY 2004

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

12 JANUARY 2004

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2004 from €15 billion to €25 billion. This increased amount takes into consideration the higher liquidity needs of the euro area banking system anticipated for the year 2004. The Eurosystem will, however, continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2005.

5 FEBRUARY, 4 MARCH 2004

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

10 MARCH 2004

In accordance with the Governing Council's decision of 23 January 2003, the maturity of the Eurosystem's main refinancing operations is reduced from two weeks to one week and the maintenance period for the Eurosystem's required reserve system is redefined to start on the settlement day of the main refinancing operation following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled, rather than on the 24th day of the month.

1 APRIL, 6 MAY, 3 JUNE, 1 JULY, 5 AUGUST, 2 SEPTEMBER, 7 OCTOBER, 4 NOVEMBER, 2 DECEMBER 2004 AND 13 JANUARY 2005

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

14 JANUARY 2005

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2005 from €25 billion to €30 billion. This increased amount takes into consideration the higher liquidity needs of the euro area banking system anticipated in 2005. The Eurosystem will however continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2006.

3 FEBRUARY AND 3 MARCH 2005

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.



THE TARGET (TRANS-EUROPEAN AUTOMATED REAL-TIME GROSS SETTLEMENT EXPRESS TRANSFER) SYSTEM



PAYMENT FLOWS IN TARGET

In the fourth quarter of 2004 TARGET processed a daily average of 273,232 payments with a total value of €1,763 billion. Compared with the previous quarter, this represented an increase of 7% in terms of volume and 8% in terms of value. All segments analysed saw an increase in both volume and value terms. This is a reversal of the seasonal pattern of the third quarter and brings the figures in line with the yearly average. TARGET's overall market share remained at 88% in value terms and 57% in volume terms.

INTRA-MEMBER STATE PAYMENTS

TARGET processed on average 207,232 intra-Member State payments with a total value of €1,184 billion per business day in the fourth quarter of 2004. This represented an increase of 7% in volume and 8% in value as compared with the previous quarter. Compared with the corresponding period in 2003, the volume decreased by 1%, whereas the value increased by 11%. Intra-Member State traffic accounted for 76.1% of the total volume and 67.2% of the total value of TARGET. The average value of an intra-Member State payment increased from €5.6 million to €5.7 million in the fourth quarter of 2004 compared with the previous quarter. The highest intra-Member State volume on a single day was on 20 December 2004, when 288,415 payments were processed. The peak in total value, at €1,571 billion, was recorded on 15 December. At intra-Member State level 66% of payments were below €50,000, while 11% were above €1 million. On average there were 127 intra-Member State payments per day with a value above €1 billion.

INTER-MEMBER STATE PAYMENTS

At the inter-Member State level, TARGET processed a daily average of 65,240 payments with a total value of €579 billion in the fourth quarter of 2004. Compared with the third

quarter of 2004, this represented an increase of 6% in terms of volume and an increase of 8% in terms of value. Compared with the fourth quarter of 2003, the inter-Member State figures increased by 4% in volume terms and 9% in value terms.

Interbank payments increased by 6% in volume and 8% in value as compared with the previous quarter. For customer payments an increase of 6% in terms of volume and 14% in terms of value was observed. The proportion of interbank payments in the average daily inter-Member State traffic was 48.4% in volume and 94.9% in value. The average value of an interbank payment increased from €17.1 million to €17.4 million and that of a customer payment grew from €799,000 to €875,000 as compared with the third quarter of 2004. During the fourth quarter the highest inter-Member State traffic was recorded on 20 December 2004 (i.e. the Monday of the week before Christmas, a phenomenon also observed in previous years), when 92,427 inter-Member State payments were processed in TARGET. 63% of inter-Member State payments had a value below €50,000. 15% had a value above €1 million. On average there were 40 inter-Member State payments per day with a value above €1 billion.

Table 1 TARGET availability for each national component and the ECB payment mechanism (EPM)

National TARGET component	Availability Q4 2004
Belgium	100.00%
Denmark	100.00%
Germany	99.23%
Greece	99.69%
Spain	99.89%
France	99.92%
Ireland	99.54%
Italy	100.00%
Luxembourg	99.89%
The Netherlands	100.00%
Austria	99.94%
Portugal	99.73%
Finland	99.82%
Sweden	99.79%
United Kingdom	99.80%
ECB payment mechanism	99.15%
Overall TARGET availability	99.77%

TARGET AVAILABILITY AND BUSINESS PERFORMANCE

In the fourth quarter of 2004 TARGET achieved an overall availability of 99.77%, compared with 99.79% in the third quarter of 2004. The number of incidents with an effect on TARGET's availability was 26, i.e. six fewer than in the previous quarter. Table 1 shows the availability figures for each national TARGET component and the ECB payment mechanism (EPM).

In the fourth quarter 96.37% of inter-Member State payments were processed in less than 5 minutes; 2.90% needed between 5 minutes and 15 minutes; and 0.33% required between 15 minutes and 30 minutes. On average the processing time exceeded 30 minutes for 517 payments per day, which should be seen in the context of the 65,240 inter-Member State payments processed on average every day.

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

(number of payments)

	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
TARGET					
All TARGET payments					
Total volume	17,404,115	17,071,290	17,264,247	16,871,971	18,033,316
Daily average	271,939	266,739	274,036	255,636	273,232
Inter-Member State TARGET payments					
Total volume	4,023,122	4,184,179	4,286,846	4,068,531	4,305,815
Daily average	62,861	65,378	68,045	61,644	65,240
Intra-Member State TARGET payments					
Total volume	13,380,993	12,887,111	12,977,401	12,803,440	13,727,501
Daily average	209,078	201,361	205,990	193,992	207,992
Other systems					
EURO 1 (EBA)					
Total volume	10,088,174	9,669,240	9,840,955	10,831,383	11,382,418
Daily average	157,628	151,082	156,206	164,112	172,420
Paris Net Settlement (PNS)					
Total volume	1,833,104	1,772,742	1,767,244	1,700,070	1,766,831
Daily average	28,642	27,669	28,051	25,759	26,770
Servicio Español de Pagos Interbancarios (SPI)					
Total volume	423,513	365,097	316,448	237,482	139,269
Daily average	6,617	5,705	5,023	3,598	2,360
Pankkien On-line Pikasiirrot ja Sekit-järjestelmä (POPS)					
Total volume	134,620	131,082	184,269	128,745	119,693
Daily average	2,103	2,048	2,925	1,951	1,813

Table 3 Payment instructions processed by TARGET and other selected interbank funds transfer systems: value of transactions

(EUR billions)

	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
TARGET					
All TARGET payments					
Total value	102,686	109,062	111,025	107,592	116,389
Daily average	1,604	1,704	1,762	1,630	1,763
Inter-Member State TARGET payments					
Total value	34,128	36,487	36,046	35,378	38,226
Daily average	533	570	572	536	579
Intra-Member State TARGET payments					
Total value	68,558	72,575	74,979	72,214	78,163
Daily average	1,071	1,134	1,190	1,094	1,184
Other systems					
EURO 1 (EBA)					
Total value	10,898	11,647	10,987	10,487	11,005
Daily average	170	182	174	159	167
Paris Net Settlement (PNS)					
Total value	4,180	4,276	4,765	4,217	4,215
Daily average	65	67	76	64	64
Servicio Español de Pagos Interbancarios (SPI)					
Total value	74	60	60	110	37
Daily average	1	1	1	2	1
Pankkien On-line Pikasiirrot ja Sekit-järjestelmä (POPS)					
Total value	104	120	117	117	113
Daily average	2	2	2	2	2

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GLOSSARY

This glossary contains selected items that are frequently used in the Monthly Bulletin. A more comprehensive and detailed glossary can be found on the ECB's website (www.ecb.int/home/glossary/html/index.en.html).

Autonomous liquidity factors: liquidity factors that do not normally stem from the use of monetary policy instruments. Such factors are, for example, banknotes in circulation, government deposits with the central bank and the net foreign assets of the central bank.

Bank lending survey: a quarterly survey on lending policies that has been conducted by the Eurosystem since January 2003. It addresses qualitative questions on developments in credit standards, terms and conditions of loans and loan demand for both enterprises and households to a predefined sample group of banks in the euro area.

Central parity: the exchange rate of each ERM II member currency vis-à-vis the euro, around which the ERM II fluctuation margins are defined.

Compensation per employee: the total remuneration, in cash or in kind, that is payable by employers to employees, i.e. gross wages and salaries, as well as bonuses, overtime payments and employers' social security contributions, divided by the total number of employees.

Consolidated balance sheet of the MFI sector: a balance sheet obtained by netting out inter-MFI positions (e.g. inter-MFI loans and deposits) in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. general government and other euro area residents) and vis-à-vis non-euro area residents. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3.

Debt (financial accounts): loans, deposit liabilities, debt securities issued and pension fund reserves of non-financial corporations (resulting from employers' direct pension commitments on behalf of their employees), valued at market value at the end of the period. However, due to data limitations, the debt given in the quarterly financial accounts does not include loans granted by non-financial sectors (e.g. inter-company loans) or by banks outside the euro area, whereas these components are included in the annual financial accounts.

Debt (general government): the total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.

Debt security: a promise on the part of the issuer (i.e. the borrower) to make one or more payment(s) to the holder (the lender) at a specified future date or dates. Such securities usually carry a specific rate of interest (the coupon) and/or are sold at a discount to the amount that will be repaid at maturity. Debt securities issued with an original maturity of more than one year are classified as long-term.

Debt-to-GDP ratio (general government): the ratio of general government debt to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104 (2) of the Treaty establishing the European Community to define the existence of an excessive deficit.

Deficit (general government): the general government's net borrowing, i.e. the difference between total government revenue and total government expenditure.

Deficit ratio (general government): the ratio of the general government deficit to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104 (2) of the Treaty establishing the European Community to define the existence of an excessive deficit. It is also referred to as the budget deficit ratio or the fiscal deficit ratio.

Deposit facility: a standing facility of the Eurosystem which counterparties may use to make overnight deposits, remunerated at a pre-specified interest rate, at a national central bank.

Direct investment: cross-border investment for the purpose of obtaining a lasting interest in an enterprise resident in another economy (assumed, in practice, for ownership of at least 10% of the ordinary shares or voting power). Included are equity capital, reinvested earnings and other capital associated with inter-company operations. The direct investment account records net transactions/positions in assets abroad by euro area residents (as "direct investment abroad") and net transactions/positions in euro area assets by non-residents (as "direct investment in the euro area").

Effective exchange rates (EERs) of the euro (nominal/real): weighted averages of bilateral euro exchange rates against the currencies of the euro area's main trading partners. The ECB publishes nominal EER indices for the euro against two groups of trading partners: the EER-23 (comprising the 13 non-euro area EU Member States and the 10 main trading partners outside the EU) and the EER-42 (composed of the EER-23 and 19 additional countries). The weights used reflect the share of each partner country in euro area trade and account for competition in third markets. Real EERs are nominal EERs deflated by a weighted average of foreign, relative to domestic, prices or costs. They are thus measures of price and cost competitiveness.

EONIA (euro overnight index average): a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.

Equities: securities representing ownership of a stake in a corporation. They comprise shares traded on stock exchanges (quoted shares), unquoted shares and other forms of equity. Equities usually produce income in the form of dividends.

ERM II (exchange rate mechanism II): the exchange rate arrangement that provides the framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in Stage Three of EMU.

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in euro to another prime bank, computed daily for interbank deposits with different maturities of up to 12 months.

European Commission surveys: harmonised surveys of business and/or consumer sentiment conducted on behalf of the European Commission in each of the EU Member States. Such questionnaire-based surveys are addressed to managers in the manufacturing, construction,

retail and services sectors, as well as to consumers. From each monthly survey, composite indicators are calculated that summarise the replies to a number of different questions in a single indicator (confidence indicators).

Eurozone Purchasing Managers' Surveys: surveys of business conditions in manufacturing and in services industries conducted for a number of countries in the euro area and used to compile indices. The Eurozone Manufacturing Purchasing Managers' Index (PMI) is a weighted indicator calculated from indices of output, new orders, employment, suppliers' delivery times and stocks of purchases. The services sector survey asks questions on business activity, expectations of future business activity, the amount of business outstanding, incoming new business, employment, input prices and prices charged. The Eurozone Composite Index is calculated by combining the results from the manufacturing and services sector surveys.

External trade in goods: exports and imports of goods with countries outside the euro area, measured in terms of value and as indices of volume and unit value. External trade statistics are not comparable with the exports and imports recorded in the national accounts, as the latter include both intra-euro area and extra-euro area transactions, and also combine goods and services. Nor are they fully comparable with the goods item in b.o.p. statistics. Besides methodological adjustments, the main difference is to be found in the fact that imports in external trade statistics are recorded including insurance and freight services, whereas they are recorded free on board in the goods item in the b.o.p. statistics.

Fixed rate tender: a tender procedure in which the interest rate is specified in advance by the central bank and in which participating counterparties bid the amount of money they wish to transact at the fixed interest rate.

General government: a sector defined in the ESA 95 as comprising resident entities that are engaged primarily in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds. Excluded are government-owned entities that conduct commercial operations, such as public enterprises.

Gross domestic product (GDP): the value of an economy's total output of goods and services less intermediate consumption, plus net taxes on products and imports. GDP can be broken down by output, expenditure or income components. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services (including intra-euro area trade).

Gross monthly earnings: gross monthly wages and salaries of employees, including employees' social security contributions.

Harmonised Index of Consumer Prices (HICP): a measure of consumer prices that is compiled by Eurostat and harmonised for all EU Member States.

Hourly labour cost index: a measure of labour costs, including gross wages and salaries (as well as bonuses of all kinds), employers' social security contributions and other labour costs (such as vocational training costs, recruitment costs and employment-related taxes), net of subsidies, per hour actually worked. Hourly costs are obtained by dividing the sum total of these costs for all employees by the sum total of all hours worked by them (including overtime).

Implied volatility: a measure of expected volatility (standard deviation in terms of annualised percentage changes) in the prices of, for example, bonds and stocks (or of corresponding futures contracts), which can be extracted from option prices.

Index of negotiated wages: a measure of the direct outcome of collective bargaining in terms of basic pay (i.e. excluding bonuses) at the euro area level. It refers to the implied average change in monthly wages and salaries.

Industrial producer prices: factory-gate prices (transportation costs are not included) of all products sold by industry excluding construction on the domestic markets of the euro area countries, excluding imports.

Industrial production: the gross value added created by industry at constant prices.

Inflation-indexed government bonds: debt securities issued by the general government, the coupon payments and principal of which are linked to a specific consumer price index.

International investment position (i.i.p.): the value and composition of an economy's outstanding net financial claims on (or financial liabilities to) the rest of the world.

Job vacancies: a collective term covering newly created jobs, unoccupied jobs or jobs about to become vacant in the near future, for which the employer has taken recent active steps to find a suitable candidate.

Key ECB interest rates: the interest rates, set by the Governing Council, which reflect the monetary policy stance of the ECB. They are the minimum bid rate on the main refinancing operations, the interest rate on the marginal lending facility and the interest rate on the deposit facility.

Labour force: the sum total of persons in employment and the number of unemployed.

Labour productivity: the output that can be produced with a given input of labour. It can be measured in several ways, but is commonly measured as GDP at constant prices divided by either total employment or total hours worked.

Longer-term refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a monthly standard tender and normally have a maturity of three months.

M1: a narrow monetary aggregate that comprises currency in circulation plus overnight deposits held with MFIs and central government (e.g. at the post office or treasury).

M2: an intermediate monetary aggregate that comprises M1 plus deposits redeemable at a period of notice of up to and including three months (i.e. short-term savings deposits) and deposits with an agreed maturity of up to and including two years (i.e. short-term time deposits) held with MFIs and central government.

M3: a broad monetary aggregate that comprises M2 plus marketable instruments, in particular repurchase agreements, money market fund shares and units, and debt securities with a maturity of up to and including two years issued by MFIs.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Marginal lending facility: a standing facility of the Eurosystem which counterparties may use to receive overnight credit from a national central bank at a pre-specified interest rate against eligible assets.

MFI credit to euro area residents: MFI loans granted to non-MFI euro area residents (including the general government and the private sector) and MFI holdings of securities (shares, other equity and debt securities) issued by non-MFI euro area residents.

MFI interest rates: the interest rates that are applied by resident credit institutions and other MFIs, excluding central banks and money market funds, to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area.

MFI longer-term financial liabilities: deposits with an agreed maturity of over two years, deposits redeemable at a period of notice of over three months, debt securities issued by euro area MFIs with an original maturity of more than two years and the capital and reserves of the euro area MFI sector.

MFI net external assets: the external assets of the euro area MFI sector (such as gold, foreign currency banknotes and coins, securities issued by non-euro area residents and loans granted to non-euro area residents) minus the external liabilities of the euro area MFI sector (such as non-euro area residents' deposits and repurchase agreements, as well as their holdings of money market fund shares/units and debt securities issued by MFIs with a maturity of up to and including two years).

MFIs (monetary financial institutions): financial institutions which together form the money-issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined in Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.

Portfolio investment: euro area residents' net transactions and/or positions in securities issued by non-residents of the euro area ("assets") and non-residents' net transactions and/or positions in securities issued by euro area residents ("liabilities"). Included are equity securities and debt securities (bonds and notes, and money market instruments). Transactions are recorded at the effective price paid or received, less commissions and expenses. To be regarded as a portfolio asset, ownership in an enterprise must be equivalent to less than 10% of the ordinary shares or voting power.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

Reference value for M3 growth: the annual growth rate of M3 over the medium term that is consistent with the maintenance of price stability. At present, the reference value for annual M3 growth is 4½%.

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with the Eurosystem. Compliance is determined on the basis of the average of the daily balances over a maintenance period of around one month.

Survey of Professional Forecasters (SPF): a quarterly survey that has been conducted by the ECB since 1999 to collect macroeconomic forecasts on euro area inflation, real GDP growth and unemployment from a panel of experts affiliated to financial and non-financial organisations based in the EU.

Unit labour costs: a measure of total labour costs per unit of output calculated for the euro area as the ratio of total compensation per employee to GDP at constant prices per person employed.

Variable rate tender: a tender procedure where the counterparties bid both the amount of money they wish to transact with the central bank and the interest rate at which they wish to enter into the transaction.

Yield curve: a curve describing the relationship between the interest rate or yield and the maturity at a given point in time for debt securities with the same credit risk but different maturity dates. The slope of the yield curve can be measured as the difference between the interest rates at two selected maturities.

