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ABBREVIATIONS

COUNTRIES

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

OTHERS

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

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



EDITORIAL

At its meeting on 2 August 2007, the Governing Council decided, on the basis of its regular economic and monetary analyses, to leave the key ECB interest rates unchanged. The information that has become available since the Governing Council's meeting on 5 July has further underpinned its previous diagnosis of the situation. Recent economic developments and survey indicators confirm that sustained economic growth continued in the euro area through the second quarter. Rising oil prices, emerging capacity constraints and the potential for stronger wage and cost dynamics, among other factors, support the Governing Council's previous assessment that upside risks to price stability over the medium term exist. The existence of upside risks to price stability at medium to longer-term horizons is confirmed by the strength of the underlying rate of monetary expansion. Strong vigilance is therefore of the essence to ensure that risks to price stability over the medium term do not materialise. This in turn will contribute to ensuring that medium to longer-term inflation expectations in the euro area remain solidly anchored at levels consistent with price stability. As emphasised in the past, such anchoring is a prerequisite for monetary policy to make an ongoing contribution towards sustainable economic growth and job creation in the euro area. Given the current positive economic environment in the euro area, the ECB's monetary policy is still on the accommodative side. Overall financing conditions remain favourable, money and credit growth vigorous, and liquidity ample. Therefore, looking ahead, acting in a firm and timely manner to ensure price stability in the medium term remains warranted.

Turning first to the economic analysis, Eurostat recently revised upwards its estimate of real GDP growth in the first quarter of 2007 to 0.7%, confirming the continued strength of the euro area economy. Moreover, the latest data and survey releases suggest that economic activity continued to expand at sustained rates through the second quarter, thereby confirming the Governing Council's baseline scenario.

Looking ahead, the medium-term outlook for economic growth remains favourable. Conditions are in place for economic activity in the euro area to continue to expand at a sustained rate. As regards the external environment, global economic growth has become more balanced across regions and remains robust. External conditions thus continue to provide support for euro area exports. Domestic demand in the euro area is also expected to maintain its relatively strong momentum. Investment should remain dynamic, benefiting from favourable overall financing conditions, accumulated and ongoing strong corporate earnings, balance sheet restructuring as well as business efficiency gains achieved over an extended period. Consumption will be supported by developments in real disposable income, in a context of continued strong growth in employment.

The risks surrounding this favourable outlook for economic growth are broadly balanced over the shorter term. At medium to longer horizons, the balance of risks remains on the downside, owing mainly to external factors. These relate in particular to the possibility of potential abrupt shifts in global financial market sentiment leading to a repricing of risks, further increases in oil prices, concerns about possible disorderly developments owing to global imbalances and fears of a rise in protectionist pressures.

As regards price developments, as reflected in Eurostat's flash estimate, annual HICP inflation was 1.8% in July 2007, compared with 1.9% in June. Looking ahead, the short-term profile of annual inflation rates continues to be determined largely by energy price developments, with last year's volatility in energy prices leading to significant base effects. On the basis of the current level of oil prices and oil price futures, annual inflation rates are likely to remain broadly around current levels in the next few months, before rising significantly towards the end of the year, largely due to these base effects.

At the policy-relevant medium-term horizon, risks to the outlook for price stability remain on the upside. Recent oil price developments are a timely reminder of the potential risks to price stability stemming from commodity price dynamics. Overall, however, upside risks derive largely from domestic factors. In particular, as resource utilisation in the euro area economy is high and employment is growing strongly, capacity constraints are emerging which could lead in particular to stronger than expected wage and cost dynamics. In addition, pricing power in market segments with low competition may increase profit margins in such an environment. Such developments would pose significant upward risks to price stability. It is therefore crucial that all parties concerned meet their responsibilities. Wage agreements in particular should be sufficiently differentiated to take into account price competitiveness positions, the still high level of unemployment in many economies and sector-specific productivity developments. The Governing Council stresses the importance of avoiding wage developments that would eventually lead to inflationary pressures and thereby harm the purchasing power of all euro area citizens. In addition, upside risks to price stability arise from increases in administered prices and indirect taxes beyond those anticipated thus far, and the potentially pro-cyclical stance of fiscal policy in some countries.

With the underlying rate of money and credit growth remaining strong in a context of already ample liquidity, the monetary analysis confirms the existence of upside risks to price stability at medium to longer horizons. The ongoing strength of monetary expansion is reflected in the continued robust growth of M3, which increased at an annual rate of 10.9% in June 2007, as well as the still high level of credit growth. The continued strength of monetary and credit expansion reflects, in part, favourable financing conditions and solid economic growth.

When identifying and assessing the policy-relevant underlying trends in monetary and

credit expansion, it is important to look through shorter-term volatility, the effects of changes in the slope of the yield curve and other factors that are likely to prove temporary. Taking this more medium-term perspective, there are several indications that higher short-term interest rates are now influencing monetary dynamics, although they have not, as yet, significantly dampened the overall strength of the underlying rate of monetary and credit expansion. For example, increases in short-term rates have contributed to a more moderate expansion of the narrow aggregate, M1, in recent quarters. Equally, the annual growth rate of loans to the private sector has shown some signs of stabilising since mid-2006, albeit at double-digit levels. The stabilisation of loan growth is particularly apparent in borrowing by households, reflecting some moderation in house price dynamics, although house price growth nonetheless remains at high levels on average in the euro area.

Given the continued vigour of money and credit expansion, there are clear indications of upside risks to price stability at medium to longer-term horizons. Following several years of robust monetary growth, liquidity in the euro area remains ample. In this environment, monetary developments continue to require very careful monitoring, particularly against the background of the expansion in economic activity and still strong property market developments.

To sum up, in assessing price trends it is important to look beyond any short-term volatility in inflation rates. The relevant horizon for monetary policy is the medium term. Risks to the medium-term outlook for price stability remain on the upside, stemming from oil prices and, in particular, domestic factors. As resource utilisation is high and labour markets continue to improve, capacity constraints are emerging which could lead in particular to stronger than expected wage and cost dynamics, as well as to increases in profit margins as firms gain pricing power. A cross-check of the outcome of the economic analysis with that of the monetary analysis underpins the assessment that upside

risks to price stability exist over the medium to longer term. Accordingly, the Governing Council will be strongly vigilant in order to ensure that such risks do not materialise and that medium to longer-term inflation expectations in the euro area remain solidly anchored at levels consistent with price stability. Therefore, looking ahead, acting in a firm and timely manner to ensure price stability in the medium term remains warranted.

As regards fiscal policy, it is of crucial importance in the current positive economic environment that euro area governments avoid pro-cyclical policies and step up the pace of fiscal consolidation. Budgetary targets, which in some countries are not ambitious, should not be lowered, and revenue windfalls should be used for deficit reduction. Budget plans for 2008 should reflect the ongoing need for consolidation by providing concrete deficit reduction measures, preferably on the expenditure side. Countries reducing their plans for fiscal consolidation in view of unexpectedly positive fiscal outcomes risk repeating the experience of 2000 and 2001 when insufficient preparation for an economic downswing led to excessive deficit ratios within a short period of time.

As emphasised on previous occasions, it is also crucial that national governments implement their structural reforms in a determined manner in order to improve the functioning and flexibility of markets and to increase competition. Living up to the principle of “an open market economy with free competition” is pivotal to fostering long-term economic growth and job creation. Further market liberalisation, in particular in the agricultural and services sectors, increased market competition and a reduction of cross-border barriers would be beneficial for consumers, since they would lead to lower prices, higher real wages and a greater choice of products. They would also be beneficial for firms, since they would lead to higher efficiency, greater dynamism and an enhanced capacity to cope with economic shocks and the challenges and opportunities

posed by globalisation. The completion of the Single Market must therefore be a priority, in particular as regards further financial market integration, the pursuit of effective competition in network industries and the implementation of the Services Directive.

Financial markets are presently experiencing a period of nervousness marked by increased volatility and a reassessment of risks. This evolution displays aspects of a normalisation of risk pricing. Shifts in market sentiment deserve close monitoring. The Governing Council will continue to pay great attention to market developments over the period to come.

This issue of the Monthly Bulletin contains three articles. The first article analyses the main factors behind global imbalances and reviews possible adjustment mechanisms and policy implications in a financially integrating world. The second article examines differences between the financing of small and medium-sized enterprises and that of large firms as well as the existence of financing constraints for small and medium-sized enterprises in the euro area. The third article provides an overview of the activity in the leveraged buyout market in the EU and associated risks for the banking sector and the financial market as a whole.

ECONOMIC AND MONETARY DEVELOPMENTS

I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

The momentum of global economic growth continues to be robust, supported particularly by buoyant economic activity in emerging markets. Consumer price inflation has remained stable in industrialised countries, but indications of rising inflationary pressures prevail in view of emerging capacity constraints and rising global commodity prices. Risks to the global economic outlook stem from the possibility of potential abrupt shifts in global financial market sentiment leading to a repricing of risks, from further increases in oil prices, from concerns about possible disorderly developments owing to global imbalances and from fears of rising protectionist pressures.

I.1 DEVELOPMENTS IN THE WORLD ECONOMY

The buoyant economic activity in emerging markets remains, overall, a key driving factor for the continued robust momentum of world economic growth. Notwithstanding some deceleration, industrial production in the OECD countries continued to expand at a relatively robust pace in the first four months of 2007. Moreover, the most recent survey evidence suggests renewed strength in the global economy in the second quarter, emanating from both the manufacturing and the services sectors.

Global price developments continue to be strongly influenced by changes in commodity prices. The annual rate of increase in headline consumer price inflation and in inflation measures excluding food and energy remained unchanged in the OECD countries in May 2007, at 2.2% and 2.1% respectively (see Chart 1). However, the continued acceleration of input prices in June suggests that global cost inflationary pressures continue to build up in view of emerging capacity constraints and rising global commodity prices.

UNITED STATES

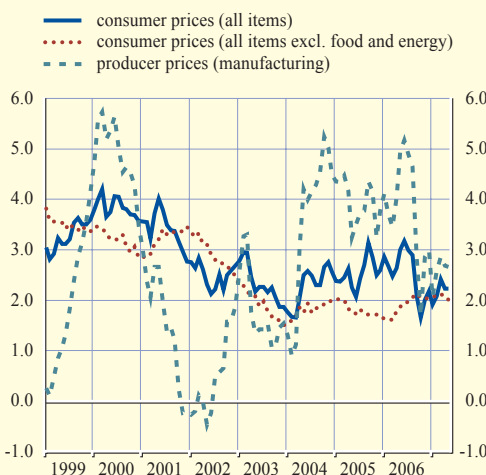
In the United States, economic activity recovered sharply during the second quarter of 2007, and inflation remained somewhat elevated. According to advance estimates, real GDP growth increased to 3.4% on a quarterly annualised basis, from 0.6% in the first quarter of 2007. This mainly reflected a rebound in net exports and investment, while the contribution from private consumption was lower.

Inflationary pressures have remained somewhat elevated in recent months, with CPI annual inflation standing at 2.7% in June – as it did in May – and CPI inflation excluding food and energy also unchanged – at 2.2% (see Chart 2).

On 28 June the US Federal Open Market Committee decided to keep its target for the federal funds rate unchanged at 5.25%.

Chart 1 Price developments in OECD countries

(annual percentage changes; monthly data)



Source: OECD.

JAPAN

In Japan, economic activity continued to recover steadily in the second quarter of 2007, while inflation remained subdued. The results of the Bank of Japan's Tankan survey for June 2007 showed that business conditions had remained firm, despite a slight deterioration among small and medium-sized enterprises in the second quarter. The diffusion indices of business conditions for large manufacturers and non-manufacturers were unchanged from March, remaining at relatively high levels.

With regard to price developments, inflation has remained subdued (see Chart 2). In June the general CPI declined by 0.2% on an annual basis (after 0.0% in May), whereas the annual change in the CPI excluding fresh food was -0.1%, the same rate as in the previous month. Negative contributions from numerous items, most notably food, as well as reading and recreation, continued to dampen inflation in June.

At its meeting on 12 July 2007, the Bank of Japan decided to leave its target for the uncollateralised overnight call rate unchanged at 0.50%.

UNITED KINGDOM

In the United Kingdom, economic growth remained robust in the second quarter of 2007 (see Chart 2). According to a preliminary release, the quarterly growth rate of real GDP in the second quarter was 0.8%, marginally higher than in the previous quarter. At the same time, retail sales data for the period April-June suggest firm growth in household consumption.

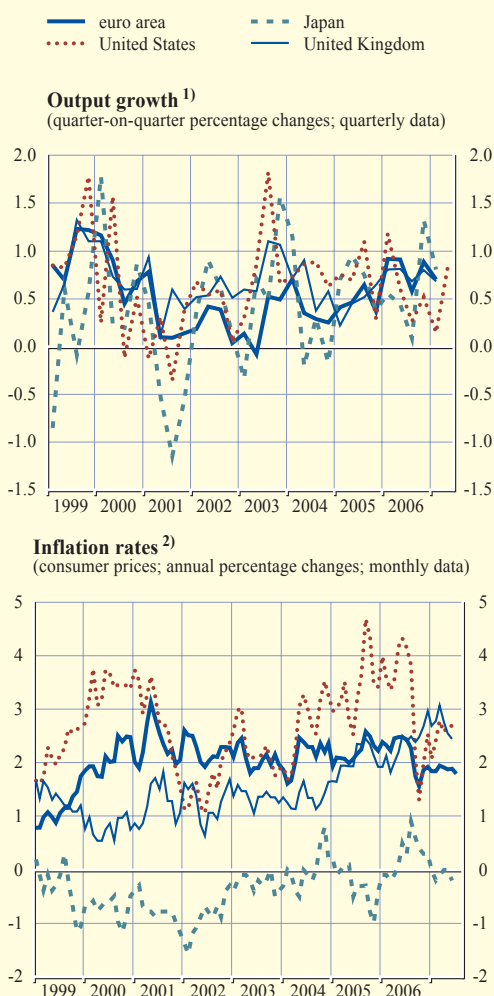
Turning to price developments, the annual rate of HICP inflation declined further to 2.4% in June, from 2.5% in May. Lower utility prices continued to be the main factor behind the decline.

On 2 August the Bank of England's Monetary Policy Committee decided to leave its main policy rate unchanged at 5.75%.

OTHER EUROPEAN COUNTRIES

In most other EU countries outside the euro area, output growth remained robust, mainly as a result of sustained domestic demand. Inflation developments were mixed across countries in June 2007.

Chart 2 Main developments in major industrialised economies



Sources: National data, BIS, Eurostat and ECB calculations.

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

2) HICP for the euro area and the United Kingdom; CPI for the United States and Japan.

In Denmark, real GDP grew by 0.5% on a quarterly basis in the first quarter of 2007, while real GDP growth in Sweden slowed to 0.6%. In both cases, economic activity was driven mainly by domestic demand. HICP inflation remained contained in the two countries. In June annual HICP inflation in Denmark decreased to 1.3%, whereas it increased to 1.3% in Sweden.

In the four largest central and eastern European economies (namely the Czech Republic, Hungary, Poland and Romania), output growth remained generally robust in the first quarter of 2007, although it continued to decelerate somewhat in Hungary. In the Czech Republic, Poland and Romania, real GDP growth was driven by domestic demand, while in Hungary it was driven mainly by net exports. Regarding price developments, in June there continued to be significant differences in the level of inflation across the four countries. In the Czech Republic and Poland, HICP inflation rose to 2.6%, while it was higher in Romania, namely 3.9%. The highest inflation rate was recorded in Hungary (8.5%), mainly reflecting a large increase in indirect taxes that is part of the country's fiscal consolidation package. On 26 July 2007, the Czech National Bank increased its main policy rate by 25 basis points to 3% to curb inflationary pressures.

EMERGING ASIA

In emerging Asia, economic activity continued to expand at a robust pace, particularly in China. Inflationary pressures picked up further in China, but continued to moderate in other large economies in the region, most notably India.

In China, real GDP grew by 11.9% on an annual basis in the second quarter of 2007, compared with 11.1% in the previous quarter. The trade surplus continued to widen, bringing the cumulated surplus from January to June 2007 to USD 113 billion, up by 84% compared with the same period a year earlier. In June annual consumer price inflation rose to 4.4%, from 3.4% in May, with higher food prices largely behind the increase. On 20 July, the People's Bank of China raised the benchmark deposit and lending rates by 27 basis points to 3.3% and 6.8% respectively.

LATIN AMERICA

In Latin America, economic activity remained robust, albeit with some heterogeneity in the growth and inflation performances of major economies. In Brazil, activity continued to be solid, with industrial production growth reaching 4.9%, year on year, in May. In June consumer price inflation reached 3.7% on an annual basis, compared with 3.2% in May. On 19 July the Banco Central do Brasil cut its key interest rate by 50 basis points to 11.5%. Activity in Argentina also remained robust in June, with industrial production expanding by 5.0% on an annual basis. Consumer price inflation remained high, at an annual rate of 8.8% in June. Activity remained weak in Mexico, with industrial production growth falling to an annual rate of 1.1% in May, while annual consumer price inflation remained unchanged at 4.0% in June.

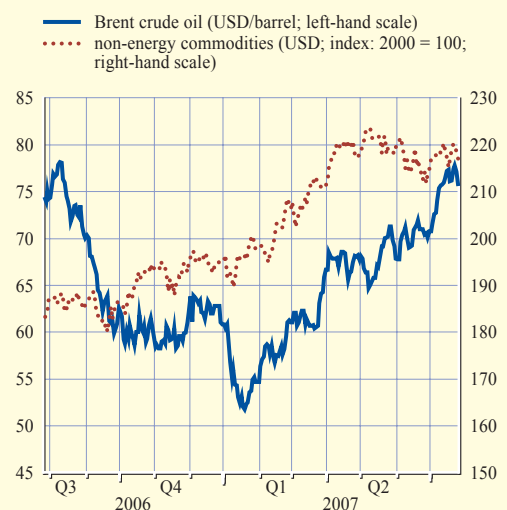
1.2 COMMODITY MARKETS

Oil prices surged at the beginning of July, approaching last year's all-time highs (see Chart 3). Prices have remained firm since, with the price of Brent crude oil standing at USD 76.5 per barrel on 1 August – about USD 2 below the historical high reached in August 2006. Prices were mainly supported by tighter oil-market balances and lingering geopolitical tensions. OPEC output restraint and near-term tightness on North Sea crude supplies coincided with strong summer demand, exerting upward pressure on prices. The extent of the near-term tightness in oil markets is demonstrated in the Brent term structure, with spot prices rising above forward prices. Oil prices

were also supported by recent reports by the International Energy Agency (IEA) that point to increasing market tightness beyond 2010. The IEA also projects OPEC's spare capacity, which has recovered steadily from minimal levels at the end of 2004, to remain relatively constrained up to 2009, declining sharply thereafter. Against this background, oil prices are likely to remain at high levels and sensitive to small changes in the external environment.

The prices of non-energy commodities also rose at the beginning of July, supported mainly by an increase in agricultural prices (see Chart 3). This overall increase came to a halt, however, in mid-July, mainly as a consequence of a decline in food prices, particularly oilseeds and oils. The overall price index for non-energy commodities (denominated in US dollars) has since remained fairly volatile and was, on average, approximately 17% higher towards the end of July than a year earlier.

Chart 3 Main developments in commodity markets



Sources: Bloomberg and HWWI.

1.3 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

The outlook for the external environment, and therefore for foreign demand for euro area goods and services, remains favourable. In May the six-month rate of change in the composite leading indicator (CLI) for the OECD countries improved, following several months of moderation. In more detail, the CLI signalled a better economic outlook for the United Kingdom, Canada and the United States. The latest CLI for major non-OECD economies pointed to continued steady expansion in China, India and Brazil.

Risks to the global economic outlook stem from the possibility of potential abrupt shifts in global market sentiment leading to a repricing of risks, from further increases in oil prices, from concerns about possible disorderly developments owing to global imbalances and from fears of rising protectionist pressures.

2 MONETARY AND FINANCIAL DEVELOPMENTS

2.1 MONEY AND MFI CREDIT

The underlying rate of monetary and credit expansion remained strong in June, supported by favourable financing conditions and sustained economic growth in the euro area. This was reflected in ongoing robust annual M3 growth, which increased to 10.9% in June, as well as in continued double-digit annual growth in MFI credit to the private sector. However, annual M1 growth remained considerably below that of the other main components of M3, as the gradual removal of monetary policy accommodation has dampened the demand for the most liquid monetary assets. At the same time, annual M3 growth has been stimulated by the still relatively flat yield curve in the euro area and by strong investment of non-residents in euro area financial assets. Since such effects may be transitory, the annual growth of M3 currently needs to be assessed with caution. Nonetheless, even after looking through these short to medium-term effects, underlying monetary dynamics remain strong and point to upside risks to price stability over the medium to longer term.

THE BROAD MONETARY AGGREGATE M3

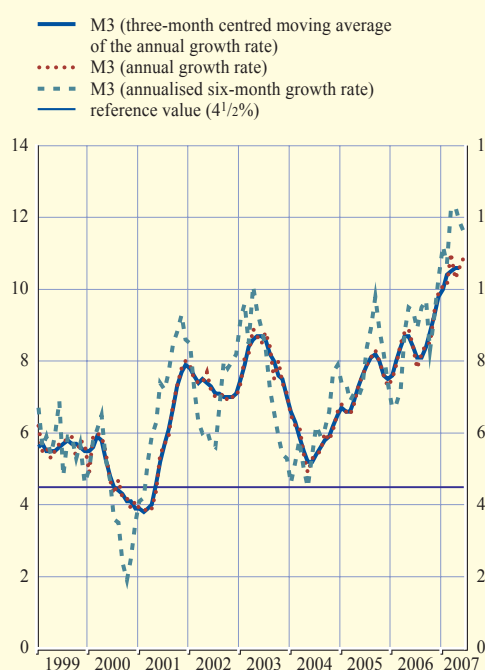
The annual growth rate of the broad monetary aggregate M3 strengthened to 10.9% in June 2007, from 10.6% in the previous month. The month-on-month growth rate was 0.8%, in line with the average monthly increases seen since late 2006. The recent strength of monetary expansion is also clearly visible in the short-term dynamics of M3, as measured by the annualised six-month rate of growth, which remained well above the annual rate of growth (see Chart 4).

The latest data on monetary and credit aggregates confirm the assessment, made in previous months, that the progressive withdrawal of monetary policy accommodation since December 2005 has influenced monetary developments. On the components side, higher interest rates have increased the opportunity cost of holding overnight deposits, thereby dampening the dynamics of M1. As a result, the annual growth rate of M1 is well below the growth rates of the other main components of M3. On the counterparts side, the impact of higher interest rates is visible in the stabilisation of the annual rate of growth of credit to the private sector since autumn 2006, which is attributable, in particular, to a moderation in household borrowing. Nonetheless, MFI loans to the private sector continued to grow very strongly at an annual rate of 10.8% in June.

Higher short-term interest rates have at the same time stimulated demand for monetary assets outside the narrow monetary aggregate M1 (i.e. for M3-M1), in particular short-term time deposits and marketable instruments. As a result of the still relatively flat yield curve the

Chart 4 M3 growth and the reference value

(percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.

remuneration offered on these monetary instruments is currently broadly similar to that offered on assets with longer maturities not included in M3, while their liquidity and risk characteristics are more attractive. The steepening of the yield curve since April has not reversed this heightened demand for M3-M1, as investors are likely to favour monetary assets while the adjustment of prices of longer-term securities is ongoing.

Taking the medium to longer-term perspective appropriate for assessing trends in money and credit growth and thus looking through short-term volatility and the impact of changes in the yield structure, the latest data continue to point to strong underlying monetary dynamics. This implies upside risks to price stability over the medium to longer term, particularly in a context of already ample liquidity and robust economic activity.

MAIN COMPONENTS OF M3

The annual growth rate of M1 increased slightly to 6.1% in June, from 5.9% in May. The growth rate of currency in circulation declined, whereas that of overnight deposits increased (see Table 1). In recent months, it appears that the dampening impact on M1 from rising opportunity costs might have been offset by counteracting forces, in particular the increasing contribution of strong economic activity to the transactions demand for M1.

The annual growth rate of short-term deposits other than overnight deposits increased to 13.9% in June, from 13.6% in May. This reflected a further pick-up in the rate of increase in short-term time deposits (i.e. deposits with a maturity of up to two years), while the annual rate of decline in short-term savings deposits (i.e. deposits redeemable at notice of up to three months) increased further. Short-term time deposits continue to be attractive given that their remuneration has risen over recent quarters, broadly in line with the rise in short-term interest rates, thereby widening the spread between the remuneration of these instruments and that of overnight deposits and short-term savings deposits.

Table 1 Summary table of monetary variables

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

	Outstanding amount as a percentage of M3 ¹⁾	Annual growth rates					
		2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 May	2007 June
M1	46.2	7.6	6.8	7.0	6.2	5.9	6.1
Currency in circulation	7.3	11.4	11.1	10.5	10.0	9.6	9.2
Overnight deposits	38.9	7.0	6.0	6.3	5.5	5.3	5.5
M2 - M1 (= other short-term deposits)	38.7	9.5	11.1	11.9	13.1	13.6	13.9
Deposits with an agreed maturity of up to two years	20.1	19.7	25.2	29.5	33.2	34.7	35.0
Deposits redeemable at notice of up to three months	18.6	2.4	1.1	-0.8	-2.1	-2.3	-2.5
M2	85.0	8.4	8.7	9.1	9.2	9.3	9.5
M3 - M2 (= marketable instruments)	15.0	6.4	11.3	16.9	19.4	18.6	19.9
M3	100.0	8.1	9.0	10.2	10.6	10.6	10.9
Credit to euro area residents		9.2	8.8	8.0	8.1	8.3	8.7
Credit to general government		-0.9	-3.1	-4.5	-4.3	-3.1	-3.6
Loans to general government		-0.6	-0.4	-1.3	-1.2	-0.9	-1.3
Credit to the private sector		11.9	11.9	11.1	11.0	11.1	11.5
Loans to the private sector		11.2	11.2	10.6	10.5	10.4	10.8
Longer-term financial liabilities (excluding capital and reserves)		8.5	9.0	9.9	10.0	9.9	10.3

Source: ECB.

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

More generally, the current strength of the demand for instruments included in M3, but not in M1, reflects their attractiveness as compared with longer-term financial assets outside M3. In particular, given the still relatively flat yield curve in the euro area at present, they offer greater liquidity and less risk, at little opportunity cost in terms of return. In addition, money market fund shares/units may currently be particularly attractive for institutional investors, as the funds with the highest returns are outperforming their money market interest rate benchmark, and the high annual growth rates for short-term debt securities may reflect the fact that most of these securities are issued at floating rates and thus allow investors to benefit from interest rate rises that occur before the maturity of the security.

The annual growth rate of short-term deposits and repurchase agreements with MFIs (M3 deposits, which represent the broadest aggregation of M3 components for which information is available by holding sector) rose in June. This increase was largely attributable to a strengthening of the annual growth rates of holdings by both households and other non-monetary financial intermediaries (except insurance corporations and pension funds). In the former case, the increase in June continues the moderate but steady upward trend observed in the growth of households' M3 deposits since 2004, whereas in the case of other non-monetary financial intermediaries the increased demand for M3 deposits mainly reflected a strong monthly demand for repurchase agreements. In the past such developments appeared to be relatively short-lived, as reflected in the volatility of this series.

MAIN COUNTERPARTS OF M3

On the counterparts side, the rise in annual M3 growth in June reflects stronger growth in total credit to euro area residents. However, this conceals an increased annual rate of decline in credit to general government. In June MFIs resumed the shedding of government debt, both in terms of debt securities and loans; this followed the net acquisition of such debt in May, which, in turn, had interrupted a series of 13 consecutive months during which MFIs had been reducing their exposure to government debt.

Table 2 MFI loans to the private sector

(quarterly figures are averages; not adjusted for seasonal and calendar effects)

	Outstanding amount as a percentage of the total ¹⁾	Annual growth rates					
		2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 May	2007 June
Non-financial corporations	42.3	12.0	13.0	13.0	12.7	12.8	13.3
Up to one year	29.9	9.2	10.5	9.9	10.1	10.3	11.3
Over one and up to five years	18.9	19.0	20.5	19.9	19.3	19.6	20.0
Over five years	51.2	11.3	12.0	12.4	12.0	12.0	12.1
Households ²⁾	48.3	9.3	8.6	8.1	7.5	7.4	7.2
Consumer credit ³⁾	12.8	8.5	8.0	7.1	6.5	6.0	5.7
Lending for house purchase ³⁾	71.1	11.2	10.2	9.4	8.6	8.6	8.3
Other lending	16.1	2.3	2.7	3.2	3.7	3.6	3.7
Insurance corporations and pension funds	1.1	36.8	29.1	27.6	23.7	25.5	30.6
Other non-monetary financial intermediaries	8.3	17.3	16.4	12.3	15.9	14.3	17.9

Source: ECB.

Notes: MFI sector including the Eurosystem; sectoral classification based on the ESA 95. For further details, see the relevant technical notes.

1) As at the end of the last month available. Sector loans as a percentage of total MFI loans to the private sector; maturity breakdown and breakdown by purpose as a percentage of MFI loans to the respective sector. Figures may not add up due to rounding.

2) As defined in the ESA 95.

3) The definitions of consumer credit and lending for house purchase are not fully consistent across the euro area.

Growth in loans to the private sector continued to account for the high rate of annual M3 growth. Reflecting the impact of higher interest rates, the annual growth rates of these loans have stabilised in recent months, bringing to a halt the upward trend observed between the spring of 2004 and mid-2006. This notwithstanding, in June the annual growth rate of loans to the private sector edged up to 10.8%, thus also driving the rise in M3 growth in that month.

The increased rate of growth in MFI loans to the private sector in June conceals different developments in the household and non-financial corporation sectors.

In the case of households, the annual growth rate of loans continued to moderate, reaching 7.2% in June, from 7.4% in May, mainly reflecting a moderation in the annual growth rate of lending for house purchase, to 8.3% in June, from 8.6% in the previous two months (see Table 2). The gradual downward trend observed in household borrowing dynamics since the spring of 2006 is in line with the moderation in house price growth and housing market activity, but also with the gradual upward trend in lending rates. The annual growth rate of consumer credit decreased to 5.7% in June, from 6.0% in May.

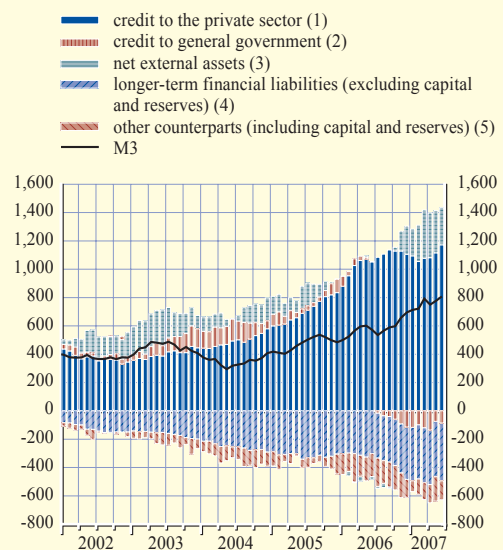
At the same time, the annual growth rate of loans to non-financial corporations increased to 13.3% in June, from 12.8% in May. The continued strong demand for loans by non-financial corporations should be seen in the context both of the current strength of economic activity and favourable financing conditions, and of the funding of financial transactions such as mergers and acquisitions (M&A) and leveraged buyouts. The latter were of particular relevance to the dynamics in June, given that the increase in the growth rate of loans to non-financial corporations was mainly driven by stronger growth in short-term lending, which is often used as bridge financing in the context of such transactions. The relevance of M&A transactions in driving recent developments in the demand for loans to non-financial corporations is also confirmed by the results of the July 2007 bank lending survey for the euro area (for details see Box 1).

Among the other counterparts of M3, the annual growth rate of MFIs' longer-term financial liabilities (excluding capital and reserves) increased in June, reaching 10.3%, after 9.9% in the previous two months. This mainly reflected stronger demand for longer-term deposits by other financial intermediaries, while the non-financial sectors continued to draw down their holdings of such instruments, potentially switching to shorter-term assets.

Developments in the net external asset position of MFIs accounted for most of the strengthening in monetary dynamics in late 2006 and early 2007. In March 2007 the annual flow of net external assets reached €341 billion, an unprecedented level in the period since the start of Stage Three of

Chart 5 Counterparts of M3

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



Source: ECB.

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

EMU in 1999. Since April, however, these strong annual flows in net external assets have moderated somewhat, reflecting monthly net outflows of capital, a pattern which continued in June (see Chart 5). Nevertheless, the recently moderate monthly net outflows do not alter the picture that a generally positive sentiment among investors towards financial investment in the euro area, linked to the favourable economic outlook, prevails.

Overall, rises in key ECB interest rates since December 2005 have influenced monetary developments. This is visible in the relatively subdued contribution of M1 to M3 growth and in the stabilisation of growth in loans to the private sector. At the same time, underlying monetary dynamics remain strong. This is reflected in the strong growth of M3 and the continued very strong rate of credit expansion to the private sector. Given the still relatively flat yield curve in the euro area and developments in global financial markets, the robust annual growth of M3 needs to be assessed with caution. Nonetheless, underlying monetary dynamics remain strong and point to upside risks to price stability over the medium to longer term.

Box I**THE RESULTS OF THE JULY 2007 BANK LENDING SURVEY FOR THE EURO AREA**

This box describes the main results of the July 2007 bank lending survey for the euro area conducted by the Eurosystem.¹ Respondent banks reported that for the second quarter of 2007 credit standards for loans to enterprises eased somewhat.² This follows a period of some volatility over the past few quarters when standards remained basically unchanged or were slightly eased. Banks also reported that the net demand for loans to enterprises remained significantly positive.³ This was related to both financial and non-financial factors, in particular fixed investment, inventories and working capital as well as M&A activity and corporate restructuring. For the third quarter of 2007, banks expect a slight net tightening of credit standards applied on loans to enterprises, while net demand for loans by enterprises is expected to remain buoyant.

As regards housing loans to households, banks reported broadly unchanged credit standards in the second quarter of 2007, following a slight net easing in the previous quarter. While the main factor behind the net easing continued to be competition, in particular from other banks, housing market prospects contributed more towards a tightening relative to the previous quarter. Net demand for loans to households for house purchase continued to be significantly negative in the second quarter of 2007 as a result of a considerable deterioration in housing market prospects as perceived by borrowers. Banks expect net demand for loans to households for house purchase to remain significantly negative in the third quarter.

With regard to credit standards for consumer credit and other lending to households, banks reported basically unchanged credit standards compared with a net easing in the previous quarter. Competition from other banks and favourable expectations about the general economic

1 A comprehensive assessment of the results of the July 2007 bank lending survey for the euro area was published on 3 August 2007 on the ECB's website.

2 The reported net percentage was -3%. The net percentage refers to the difference between the proportion of banks reporting that credit standards have been tightened and the proportion of banks reporting that they have been eased. A positive net percentage would indicate that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage would indicate that banks have tended to ease credit standards ("net easing").

3 The term "net demand" refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.

outlook remained the main factors contributing towards a net easing, while consumers' creditworthiness and risk on collateral demanded contributed towards a net tightening. Net demand for consumer credit and other lending remained positive, although at a substantially lower level than in the previous quarter. Expectations for net demand in the third quarter of 2007 remain positive.

Loans or credit lines to enterprises

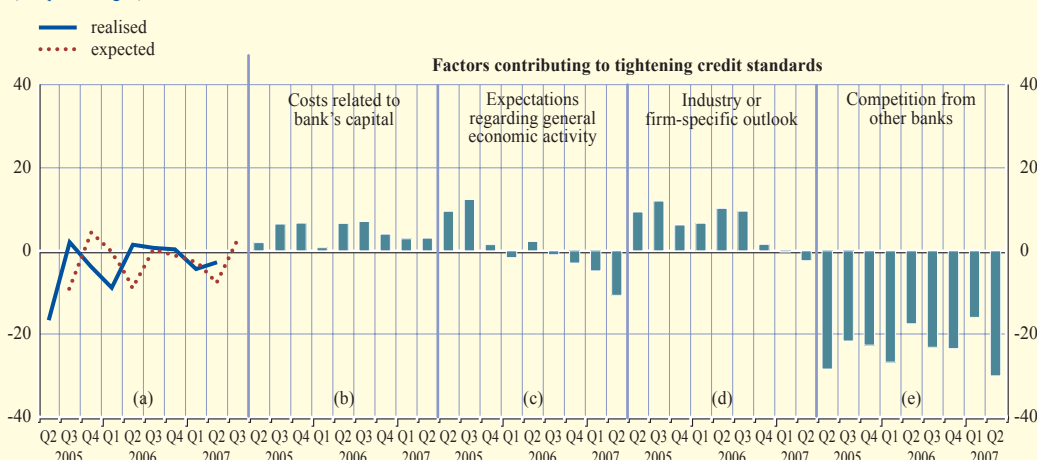
Credit standards: Credit standards for loans or credit lines to enterprises eased somewhat in net terms in the second quarter of 2007 (see Chart A, panel a). This follows a period of some volatility over the previous few quarters when standards remained basically unchanged or slightly eased. Expectations for the third quarter of 2007 point to a change of credit standards applied on loans to enterprises towards a slight net tightening, which could reflect to some extent concerns related to the recent turmoil in global credit markets.

Competition from other banks continued to be an important factor contributing to a net easing of credit standards (see Chart A, panel e). Also, more favourable expectations regarding general economic activity contributed increasingly towards a net easing (see Chart A, panel c). Moreover, the industry or firm-specific outlook contributed to a net easing for the first time since the launch of the survey (see Chart A, panel d).

The net easing of credit standards was mainly seen for small and medium-sized enterprises, while the credit standards applied to large enterprises eased only slightly in the second quarter of 2007. As regards loan maturities, the net easing was somewhat more pronounced for long-term loans than for short-term loans. Banks eased credit standards not only through narrower

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

(net percentages)

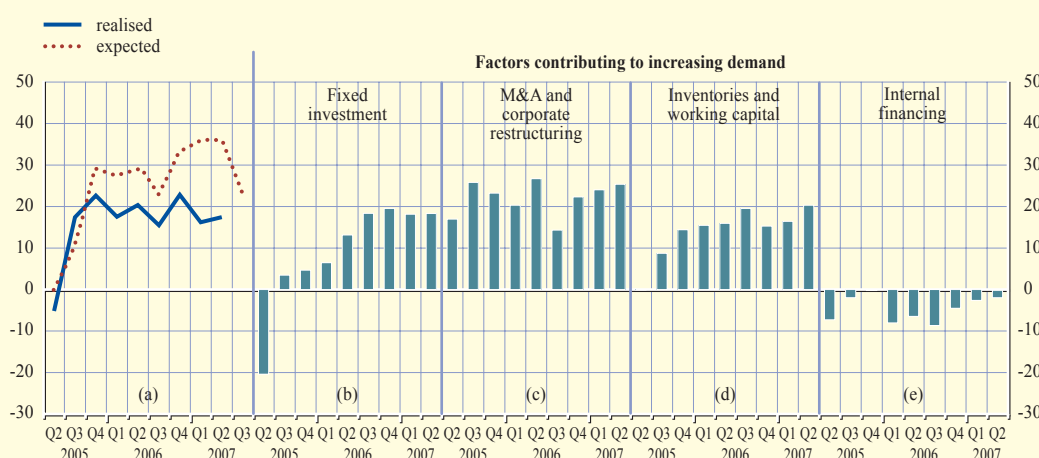


Notes: In panel a, the net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2007 were reported by banks in the July 2007 survey.

Loan demand: In line with the seven previous quarters, net demand for loans by enterprises was significantly positive in the second quarter of 2007, at more or less the same level as in the previous survey round (17% compared with 16% in the previous round; see Chart B, panel a). Demand for loans by enterprises is expected to remain strong, although somewhat less so than in recent quarters. In terms of borrower size, net loan demand from small and medium-sized enterprises continued to be stronger than from large enterprises (13% and 10% respectively), although the difference was less pronounced than during previous quarters. Net demand was positive across the maturity spectrum, with demand for long-term loans being somewhat stronger than for short-term loans, although the difference has narrowed in recent quarters.

According to responding banks, the factors behind the persistent high positive net demand continued to be of both a non-financial and financial nature, and included in particular fixed investment, inventories and working capital, as well as mergers and acquisitions and corporate restructuring (see Chart B, panels b to d). The use of alternative financing (e.g. internal financing from higher profits) contributed to the moderation of net loan demand (see Chart B, panel e), as did loans from other banks.

(net percentages)



Notes: In panel a, the net percentages refer to the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2007 were reported by banks in the July 2007 survey.

Loans to households for house purchase

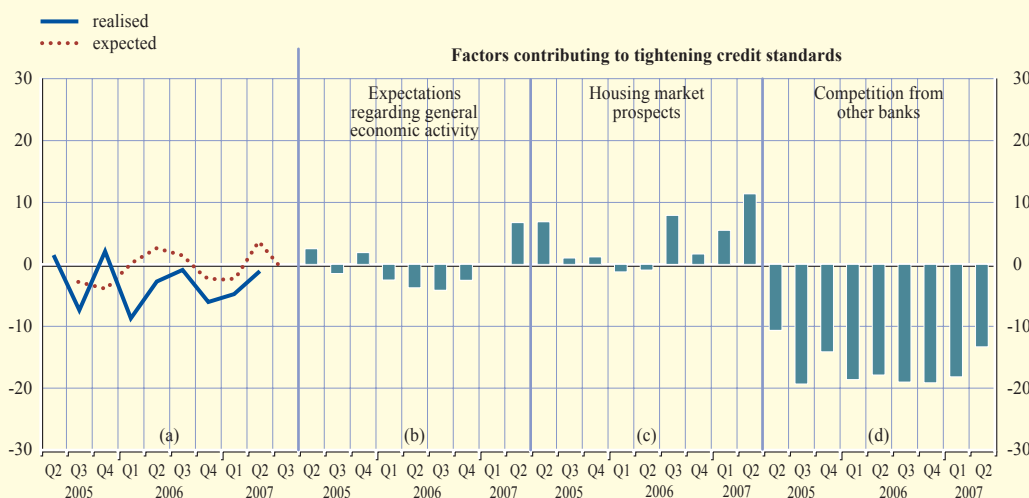
Credit standards: In the second quarter of 2007, banks reported broadly unchanged credit standards for housing loans to households, following a slight net easing in the previous quarter (see Chart C, panel a). This however masks cross-country differences. For the third quarter of 2007, banks expect credit standards to remain broadly unchanged. While the main factor behind the net easing continued to be competition, in particular from other banks (see Chart C, panel d), housing market prospects contributed more towards a tightening relative to the previous quarter (see Chart C, panel c).

The net easing for loans for house purchase was mainly implemented by reducing the margins on average loans, lengthening the loan maturity and reducing non-interest-rate charges. At the same time, margins on riskier loans continued to contribute to a net tightening, but slightly less than in previous quarters.

Loan demand: The net demand for housing loans to households continued to be significantly negative in the second quarter of 2007, at -22% compared with -28% in the previous quarter (see Chart D, panel a). This essentially reflected a less favourable assessment of housing market prospects. Consumer confidence also contributed towards a negative net loan demand, as in the previous survey round. Banks expect net demand to remain significantly negative in the third quarter of 2007.

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

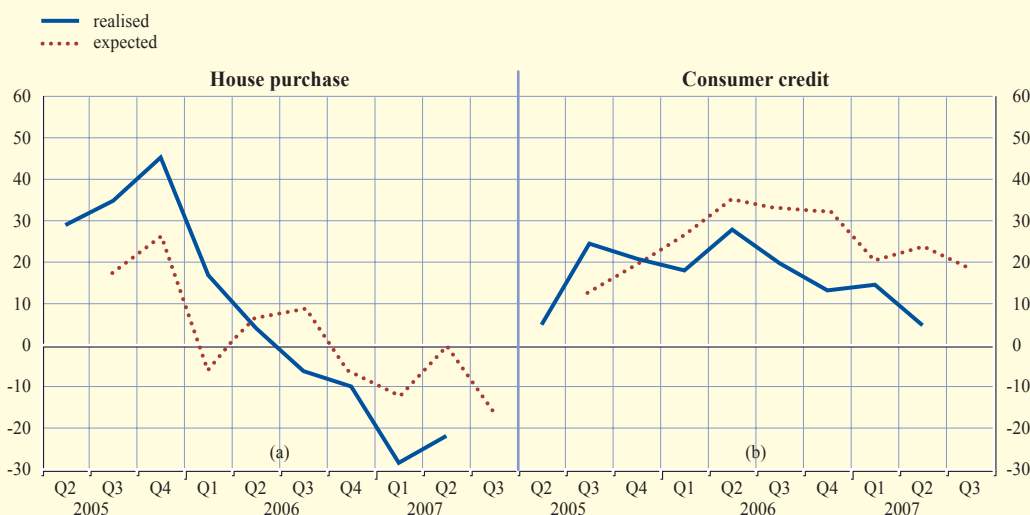
(net percentages)



Notes: In panel a, the net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2007 were reported by banks in the July 2007 survey.

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

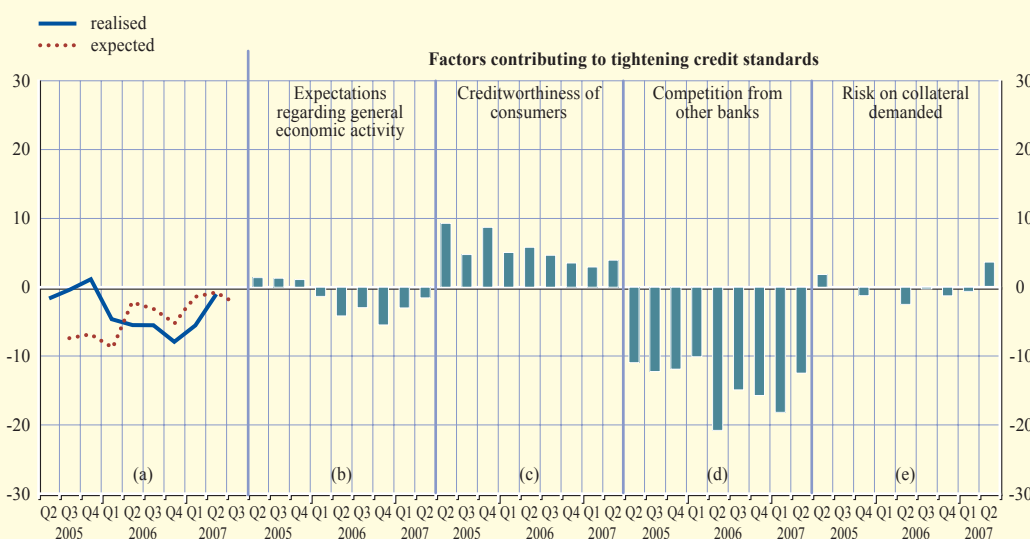
(net percentages)



Notes: In panel a, the net percentages refer to the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2007 were reported by banks in the July 2007 survey.

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

(net percentages)



Notes: In panel a, the net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2007 were reported by banks in the July 2007 survey.

Loans for consumer credit and other lending to households

Credit standards: In the second quarter of 2007, banks reported basically unchanged credit standards applied to the approval of loans to households for consumer credit and other lending, compared with a net easing in the previous quarter (see Chart E, panel a). For the third quarter of 2007, banks expect credit standards to remain basically unchanged.

Competition from other banks remained the main driver behind such a development, which also reflected favourable expectations about the general economic outlook (see Chart E, panels b and d). Consumers' creditworthiness and risk on collateral demanded contributed slightly towards a net tightening (see Chart E, panels c and e).

Price changes, in particular via margins on average loans (although by slightly less than in the previous survey round), and the lengthening of loan maturity contributed to an easing of credit standards. At the same time, margins on riskier loans contributed to a tightening to the same degree as in the previous quarter (9%).

Loan demand: Banks reported that net demand for consumer credit and other lending to households remained positive in the second quarter of 2007, although at a substantially lower level than in the previous quarter (5% compared with 15%; see Chart D, panel b). For the third quarter of 2007, banks expect net demand to remain significantly positive. Positive net demand appears to be related to spending on durable goods as well as to lower household savings.

2.2 SECURITIES ISSUANCE

In May 2007 debt securities issued by euro area residents continued to grow at a robust rate, which was slightly higher than in the previous month. This outcome reflected an increase in the annual growth rates of debt securities issued by the non-monetary financial corporations and general government sectors, while the debt issuance activity in the MFI and non-financial corporations sectors slightly moderated. Issuance of quoted shares continued to be relatively subdued compared with debt issuance.

DEBT SECURITIES

The annual growth rate of debt securities issued by euro area residents was 8.9% in May 2007, up from 8.6% in April (see Table 3). Concerning the maturity structure of debt securities issuance, the annual growth rate of short-term securities issuance slightly moderated to 8.3% in May, from 8.5% in the previous month, while that of long-term securities issuance increased from 8.6% to 9.0% in the same period. Regarding the long-term securities, the annual rate of growth of floating rate securities was again significantly higher, at 16.2%, than the rate of growth of fixed rate securities, which stood at 5.7% in May. This might still reflect a continued relatively high demand for floating rate securities in an environment characterised by a relatively flat yield curve.

The annual growth rate of debt securities issued by non-financial corporations slightly moderated to 6.6% in May (see Chart 6) and continued to lag behind the rates of growth observed for debt

Table 3 Securities issued by euro area residents

Issuing sector	Amount outstanding (EUR billions) 2007 May	Annual growth rates ¹⁾					
		2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Apr.	2007 May
Debt securities:	11,712	7.3	7.0	7.9	8.0	8.6	8.9
MFIs	4,873	9.2	8.4	9.8	10.5	10.6	10.5
Non-monetary financial corporations	1,278	26.1	26.0	28.2	26.4	27.9	28.5
Non-financial corporations	678	3.3	4.2	4.8	5.7	6.8	6.6
General government	4,883	3.0	2.8	2.8	2.4	2.9	3.6
of which:							
Central government	4,575	2.5	2.3	2.4	2.1	2.6	3.5
Other general government	308	11.5	11.8	9.1	6.8	7.3	5.1
Quoted shares:	6,940	1.1	1.2	1.1	1.1	1.2	1.2
MFIs	1,161	1.5	1.8	2.0	2.3	1.9	1.7
Non-monetary financial corporations	686	2.2	1.5	1.1	1.0	1.5	1.5
Non-financial corporations	5,093	0.9	1.1	0.8	0.8	1.0	1.0

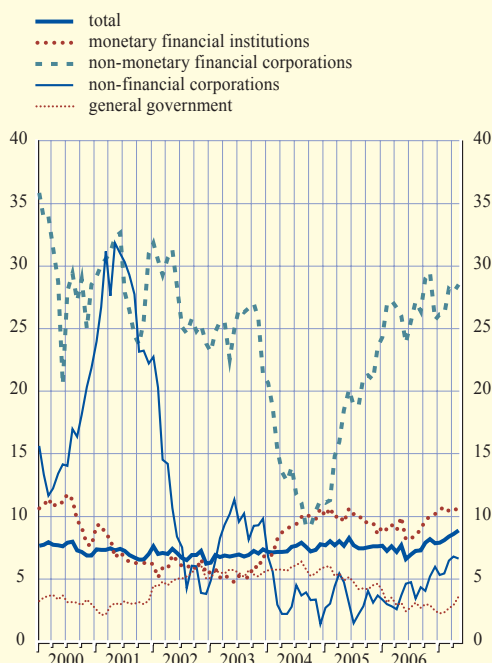
Source: ECB.

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

securities issued by MFIs and non-monetary financial institutions. However, the annual growth rate of debt securities issued by non-financial corporations remained relatively high in May compared with the issuance activity of this sector in the previous three years. This may possibly

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

(annual growth rates)



Source: ECB.

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

be linked to the favourable financing conditions still prevailing in this market segment over the review period, characterised by a broadly benign overall credit risk assessment of euro area non-financial corporations and by historical standards very low corporate bond spreads. More recently, however, and possibly reflecting concerns related to the strains in the US credit markets, some euro-denominated corporate bond issues were delayed, as riskier issues came under closer scrutiny, according to anecdotal evidence. This contrasts with the shift in the composition of euro area issuers towards more risky segments of the corporate bond market observed since 2001. In terms of the maturity structure, the annual growth rate of debt securities issued by non-financial corporations in May 2007 moderated to 4.9% in the case of long-term securities, slightly down from 5.7% in the previous month, while the annual growth rate of short-term securities recorded a further sharp increase to 15.3% from 12.6% in April.

In May 2007 the annual growth rate of debt securities issued by MFIs, despite moderating slightly, remained robust at 10.5%, signalling

that banks are continuing to raise funds to meet the considerable demand arising from the strong growth of loans to non-financial corporations. Issuance of long-term debt securities continued to expand in May, mainly on account of robust growth in the issuance of floating rate securities, while the growth rate of MFIs' issuance of short-term securities decreased further from 10.3% in April to 8.0% in May.

The annual growth rate of debt securities issued by non-monetary financial corporations increased further to 28.5% in May, i.e. a significantly higher level than for the other sectors. Most of the issuance activity of this sector was likely related to the issuance of securities backed by loans originated by banks (asset-backed securities), but issued via a third entity (special-purpose vehicle).

The annual growth rate of debt securities issued by the general government sector increased to 3.6% in May, from 2.9% in April. The growth rate of debt securities issued by the central government sector rose to 3.5% in May from 2.6% in April, while the annual growth rate in the issuance activity of the other general government sector declined somewhat from 7.3% in April to 5.1% in May.

QUOTED SHARES

The annual growth rate of quoted shares issued by euro area residents stood at 1.2% in May, the same rate as in April (see Table 3). The annual growth rate of quoted shares issued by MFIs slightly moderated to 1.7%, but was still the strongest across sectors (see Chart 7). The annual growth rates of quoted shares issued by non-monetary financial corporations and non-financial corporations stood unchanged at 1.5% and 1.0% respectively in May compared with the previous month. The continued subdued growth of equity issuance in the latter sector was probably still related to the high level of share buyback activities, the robustness of corporate profitability and the large number of firms taken private – via leveraged buyouts in particular – in connection with the boom in private equity activity.

2.3 MONEY MARKET INTEREST RATES

In July the one and twelve-month money market interest rates remained broadly unchanged, while the three and six-month rates rose slightly.

Between the beginning of July and 1 August 2007 interest rates at three and six-month maturities rose by 9 and 5 basis points respectively, to stand at 4.26% and 4.37% on 1 August 2007. By contrast, the one-month and the twelve-month interest rate remained broadly stable over this

Chart 7 Sectoral breakdown of quoted shares issued by euro area residents

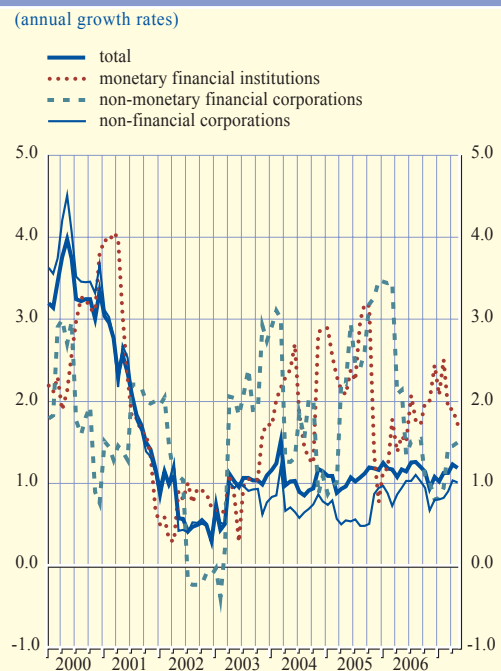
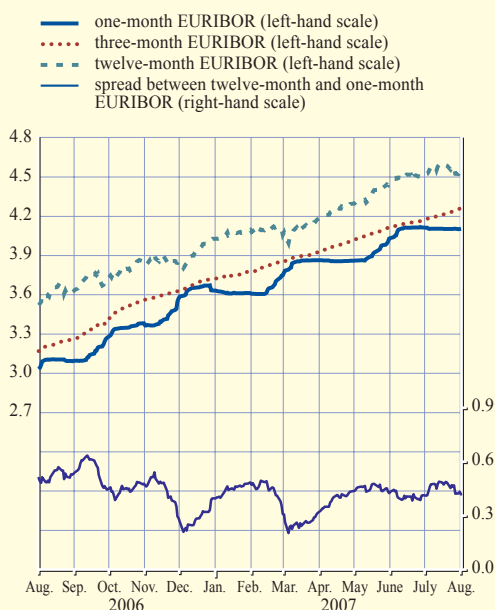


Chart 8 Money market interest rates

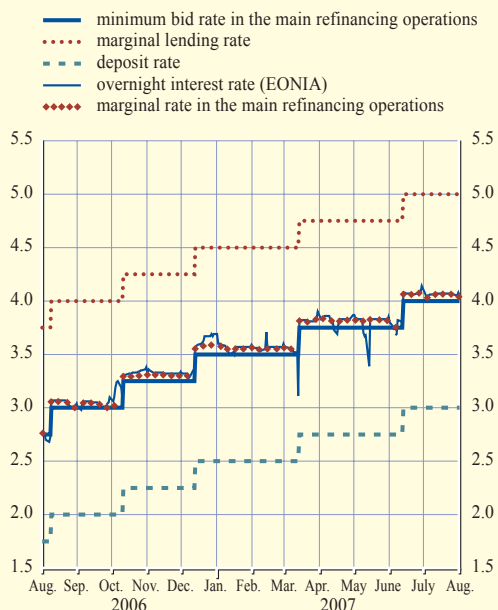
(percentages per annum; daily data)



Sources: ECB and Reuters.

Chart 9 ECB interest rates and the overnight interest rate

(percentages per annum; daily data)



Sources: ECB and Reuters.

period. As a consequence, the slope of the money market yield curve remained broadly unchanged over the period under review, with the spread between the twelve-month and the one-month EURIBOR rising slightly from 41 basis points at the beginning of July to 42 basis points on 1 August 2007 (see Chart 8).

The interest rates implied by the prices of three-month EURIBOR futures maturing in September 2007, December 2007 and March 2008 stood at 4.36%, 4.49% and 4.54% respectively on 1 August. Compared with the levels observed at the beginning of July, the interest rate implied by the September 2007 contract remained unchanged, while the rates implied by the December 2007 and March 2008 contract decreased by 7 and 9 basis points respectively.

In early July the EONIA drifted slightly lower, reaching its lowest level of 4.01% on 4 July, as market participants perceived prevailing liquidity conditions to be relatively loose. On 5 July the Governing Council decided to keep the key ECB interest rates unchanged, with the minimum bid rate in the Eurosystem's main refinancing operations remaining at 4.00%. Thereafter the EONIA reversed its downward trend, to reach 4.07% on 10 July (see Chart 9), the last day of the maintenance period. Given the liquidity situation foreseen by the ECB for the end of the maintenance period, a liquidity-providing fine-tuning operation was launched on 10 July. In that operation, market participants submitted bids for €17.4 billion, of which the ECB accepted €2.5 billion. In the first weeks of the new maintenance period ending on 7 August, the EONIA was stable at 4.07%, i.e. 7 basis points higher than the minimum bid rate. On 31 July the EONIA rose to 4.08% on account of the usual end-of-month effect. Thereafter the EONIA dropped to 4.05% on 1 August owing to loose liquidity conditions.

In the Eurosystem's first three main refinancing operations of the reserve maintenance period starting on 11 July the marginal rate remained stable at 4.06%. In the last operation on 31 July the marginal rate declined to 4.04% amid expectations that the reserve maintenance period would end with abundant liquidity.

In the Eurosystem's longer-term refinancing operation conducted on 25 July 2007, the marginal rate and weighted average rates both stood at 4.20%. These tender rates were 4 basis points lower than the three-month EURIBOR prevailing on that date.

Box 2 briefly reviews recent developments in the volatility of the overnight interest rate and its transmission along the money market yield curve.

Box 2

VOLATILITY OF THE OVERNIGHT INTEREST RATE AND ITS TRANSMISSION ALONG THE MONEY MARKET YIELD CURVE

A box in the August 2005 issue of the Monthly Bulletin addressed the question of the extent to which volatility in the overnight interest rate is transmitted to longer-term money market interest rates in the euro area.¹ A specific measure of volatility (namely "realised volatility") was employed, constructed on the basis of high-frequency intraday data (known as "tick data").² Among other things, the box showed that there was "no evidence of a transmission of volatility along the money market yield curve" and thus that "episodes of a more marked volatility of the overnight interest rate – especially at the end of the reserve maintenance period – have not had any significant impact on longer-maturity rates". On the basis of this and other evidence, the box concluded that the Eurosystem's operational framework has functioned well from a monetary policy perspective and that the changes made to the framework in March 2004 had not impaired its performance.

As documented in the Monthly Bulletin, over the past two years the ECB's implementation of monetary policy has evolved.³ In particular, two elements stand out: first, the almost systematic conduct of fine-tuning operations (FTOs) at the end of reserve maintenance periods from October 2004;⁴ second, the implementation, since October 2005, of a policy of allotting slightly more liquidity than the benchmark amount in the Eurosystem's regular main refinancing operations.⁵ Against this background, this box updates previous analysis using data up to July 2007.

The new results confirm previous findings and lead to the conclusion that the further evolution of the ECB's implementation of monetary policy has not altered the correct and efficient functioning of the operational framework.

1 See Box 3 entitled "The transmission of overnight interest rate volatility to longer-term interest rates in the euro area money market" in the August 2005 issue of the Monthly Bulletin.

2 This measure was chosen in line with previous results presented in the ECB Monthly Bulletin. For a detailed definition of realised volatility together with relevant literature, see Box 2 in the March 2005 issue of the Monthly Bulletin.

3 For a comprehensive review of the changes to the Eurosystem's operational framework, see the article entitled "Initial experience with the changes to the Eurosystem's operational framework for monetary policy implementation" in the February 2005 issue of the Monthly Bulletin.

4 On the increased frequency of FTOs, see the article entitled "The Eurosystem's experience with fine-tuning operations at the end of the reserve maintenance period" in the November 2006 issue of the Monthly Bulletin.

5 For more details on how the benchmark amount is calculated, see the annex to the article entitled "The liquidity management of the ECB" in the May 2002 issue of the Monthly Bulletin and Box 1, entitled "Publication of the benchmark allotment in the main refinancing operations", in the April 2004 issue of the Monthly Bulletin.

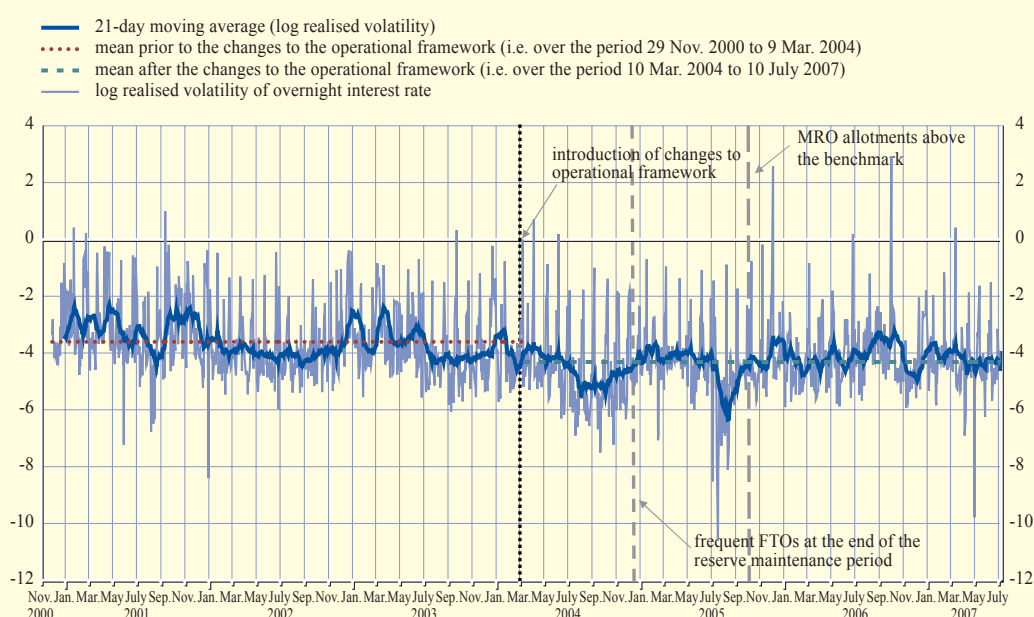
The historical evolution of realised volatility

Chart A displays a measure of the realised volatility calculated for the overnight interest rate between 29 November 2000 and 10 July 2007.⁶ This measure is derived by summing the (logarithm of) squared changes in the overnight interest rate for each five-minute interval between 9 a.m. and 6 p.m. over each trading day. To have a clearer picture of the dynamics of this series, a 21-day moving average of the daily measure is also shown in the chart.

As shown in Chart A, the volatility in the overnight interest rate has shown pronounced fluctuations over time. However, some general facts emerge. First, since the changes in the Eurosystem's operational framework were introduced in March 2004 the level of (log) realised volatility has on average been lower than was the case for the period prior to the changes. Second, despite some occasional peaks, (log) realised volatility since March 2004 has generally remained below the average level observed prior to the changes, with exceptions on only very few occasions. Third, the evolution of realised volatility since March 2004 appears to have been reasonably stable, with the occasional drops showing only little persistence. Finally, the two measures referred to in the introduction to this box do not appear to be associated with any change in the regular dynamics of realised volatility; by contrast, they both appear to have stabilised, at least temporarily, the volatility of the overnight interest rate.

6 High-frequency data have been available since 29 November 2000. The sample was cut on 10 July 2007 in order to cover a full maintenance period.

Chart A Realised volatility of the overnight interest rate (in logarithms)



Source: ECB.

An assessment of volatility transmission

Analysing historical developments in the overnight segment of the money market is only one of the relevant dimensions when assessing the performance of the operational framework from a monetary policy perspective. Another important dimension is to check whether data show any evidence of volatility transmission from the overnight interest rate to longer maturities.

From a monetary policy perspective, it is desirable that any volatility in the overnight interest rate – i.e. the rate most sensitive to liquidity conditions – should reflect only operational factors (i.e. technical factors related, on the one hand, to the design of refinancing mechanisms and reserve requirements and, on the other hand, to the ordinary functioning of banks) and have no impact on longer-term interest rates, which should only react to macroeconomic fundamentals.

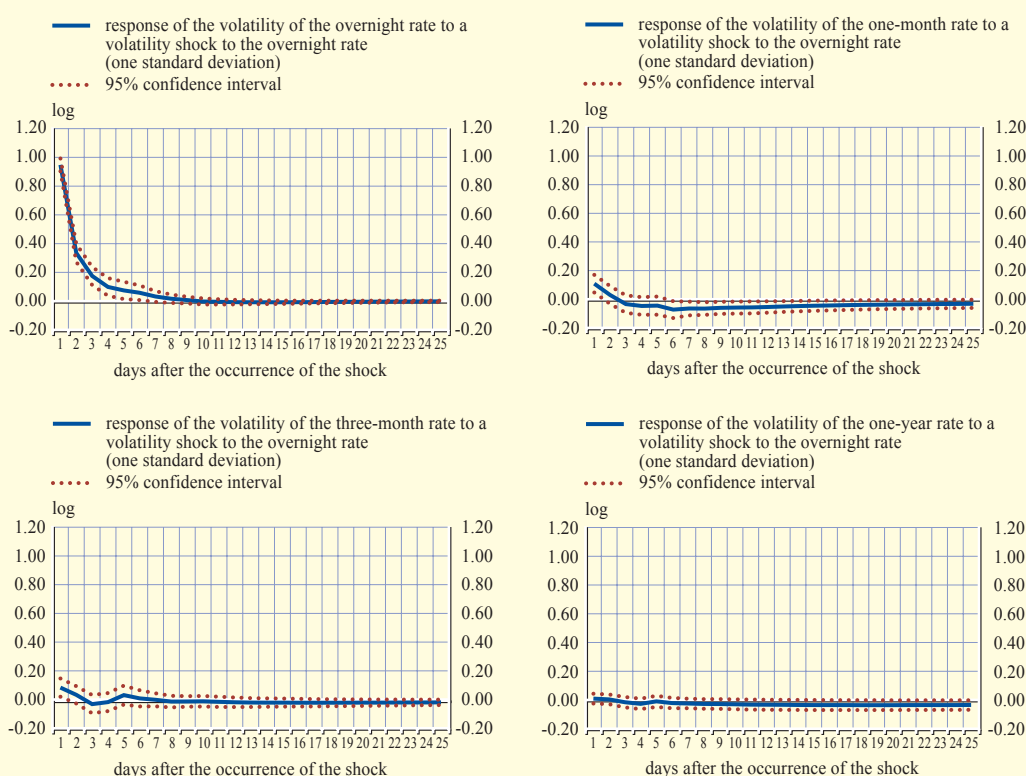
In order to check this, an update of the exercise performed in Box 3 of the August 2005 Monthly Bulletin was carried out. More specifically, realised volatility measures were calculated not only for the overnight maturity, but also for one, three and twelve-month interest rates. Using these measures within a vector autoregression (VAR) model with five lags, the dynamic relationships between interest rate volatilities at various maturities were analysed in a simple way.⁷

Consistent with the results presented in the August 2005 Box, the transmission of volatility along the yield curve is assessed on the basis of impulse response functions derived from the estimated VAR. These functions illustrate the dynamic effects of an unanticipated movement in (or “shock” to) one variable at a specific point in time on that variable itself and on the other variables in the model in subsequent periods. In order to focus on the question of interest, only the response of the volatility in interest rates with maturities ranging from overnight to one year to shocks to the volatility of the overnight interest rate is reported in Chart B. For each maturity, impulse response functions are computed over a period of 25 days – i.e. slightly longer than one business month – and are displayed together with a confidence interval of 95%.

Chart B shows the results obtained using the extended sample. The response to a one standard-deviation shock to the volatility of the overnight interest rate is statistically significant for the overnight maturity, but this response is limited to a relatively short period of time (approximately five days) following the incidence of the shock. The impact on the volatility of longer-maturity interest rates is extremely modest in size and, at best, of questionable statistical significance compared with the response of the overnight interest rate volatility to its own shock.

It can be thus concluded that episodes of a more marked volatility of the overnight interest rate have had no noticeable impact on longer-maturity rates. Moreover, as this result confirms previous findings on the absence of a transmission of volatility along the money market yield curve, it can be concluded that the recent evolution of the ECB’s monetary policy implementation has not altered the efficient functioning of the Eurosystem’s operational framework.

⁷ More details on the specification of the VAR models are provided in Box 3 of the August 2005 issue of the Monthly Bulletin.

Chart B Impulse response functions of the overnight, one-month, three-month and one-year interest rates with respect to the overnight interest rate over 25 days

Source: ECB.

2.4 BOND MARKETS

Long-term government bond yields in the euro area and the United States decreased in the course of July and early August. For the most part, these declines were probably induced by investors' concerns about the fallout from the US subprime mortgage market turmoil. In the euro area, the decline in long-term rates was mainly driven by a fall in long-term real bond yields. Accordingly, inflation expectations and related risk premia, as reflected in break-even inflation rates, changed only little in the euro area between end-June and early August. As yield changes over the review period probably mainly reflect flight-to-safety flows, the current level of bond yields is likely to still reflect the prospect of ongoing robust growth in the euro area.

Long-term government bond yields in the euro area and in the United States decreased in the course of July and early August, thus discontinuing their ascending trend since end-March (see Chart 10). The recent yield declines can partly be attributed to the fallout from the US subprime mortgage market turmoil, the associated repricing of risks and the decrease in value of certain mortgage-backed securities. In the face of increasing market concerns about the wider impact of this turmoil on other asset classes and the potential adverse macroeconomic ramifications, euro area and US government bonds acted as a safe haven for investors. Overall, however, the current

levels of bond yields on both sides of the Atlantic are likely to still reflect investors' expectations of ongoing robust growth in these economies. In the euro area, ten-year government bond yields decreased by around 15 basis points between end-June and 1 August, to stand at 4.5% on the latter date. In the United States, ten-year government bond yields ended the review period at a level of 4.8%, which is about 25 basis points lower than at the end of June. As a consequence, the differential between ten-year government bond yields in the United States and the euro area narrowed further, reaching about 35 basis points on 1 August, which is close to its lowest level over the past two and a half years. In Japan, the ten-year government bond yield decreased by about 10 basis points, to stand at 1.8% at the end of the review period.

Measures of implied bond market volatility rose strongly in both the euro area and the United States and approached two-year highs in the review period. This indicates increased uncertainty among investors about whether and to what extent bond prices might be further affected by a reassessment of risk for other asset classes over the near term. Nonetheless, even after the recent increases, implied bond market volatility is not yet particularly high but close to historical averages on both sides of the Atlantic.

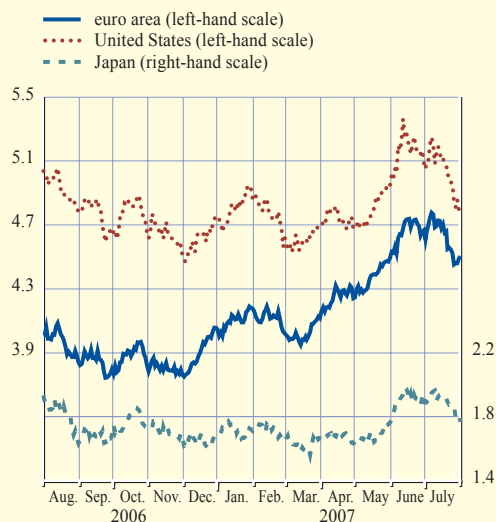
Ten-year government bond yields in the United States showed a moderate rise in early July. However, this rise was more than offset by declines in the following weeks – often triggered by developments in the US market for subprime mortgages – which led to the overall decline in the review period. The fall in US yields was attributable for the most part to a decline in index-linked government bond yields, but also to a slight decrease in break-even inflation rates. By 1 August the index-linked bond yield and the break-even inflation rate calculated from 2015-maturity bonds stood at levels of about 2.5% and 2.3% respectively.

In the euro area, the fall in long-term nominal interest rates was almost totally driven by a decrease in long-term real yields. The yield on index-linked bonds maturing in 2015 decreased by about 15 basis points to reach a level of about 2.3% on 1 August. Rather than reflecting a downward revision of investors' outlook for economic activity, this decrease probably stems from a decline in the corresponding risk premium related to flight-to-safety flows.

Long-term break-even inflation rates in the euro area, by contrast, hardly changed overall compared with end-June. The five-year forward break-even inflation rate five years ahead – a measure of purely long-term inflation expectations and related risk premia – stood at a level of nearly 2.3% on 1 August (see Chart 11). Moreover, zero coupon break-even inflation rates at five and ten-year maturities were recorded at similar levels in early August, suggesting similar inflation expectations and inflation risk premia over these different horizons.

Chart 10 Long-term government bond yields

(percentages per annum; daily data)

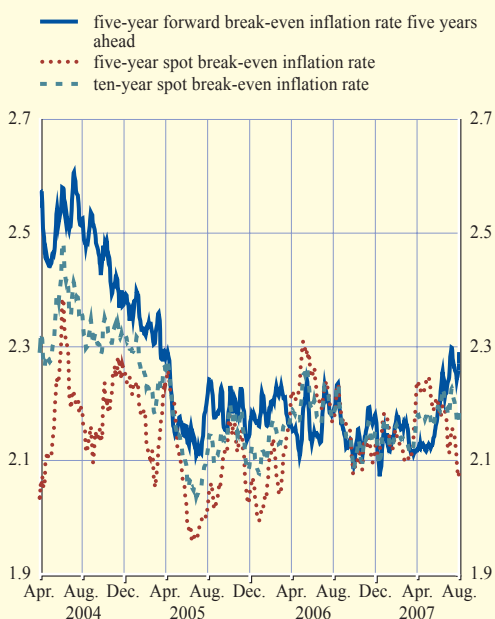


Sources: Bloomberg and Reuters.

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

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

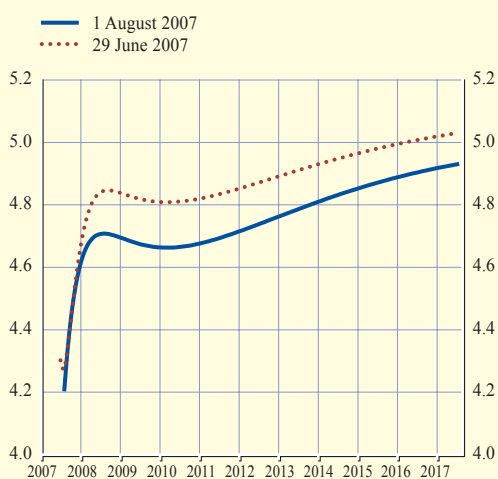
(percentages per annum; five-day moving averages of daily data)



Sources: Reuters and ECB calculations.

Chart 12 Implied forward euro area overnight interest rates

(percentages per annum; daily data)



Sources: ECB estimates and Reuters.

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

The implied forward overnight interest rate curve in the euro area experienced a downward shift over the review period across all but very short-term horizons (see Chart 12). The Governing Council's decision on 5 July to keep the key ECB interest rates unchanged was well anticipated by markets and thus left the short end of the curve basically unaffected. The near-parallel downward shift of the implied forward overnight interest rate curve beyond very short-term horizons tends to support the view that developments in long-term bond yields in July were mainly driven down by declines in bond market risk premia as mentioned above.

2.5 INTEREST RATES ON LOANS AND DEPOSITS

In May 2007 most MFI interest rates continued their upward trend. Interest rates on long-term deposits from both households and non-financial corporations remained unchanged or very slightly increased depending on the maturity.

In May 2007 short-term MFI interest rates on deposits and loans remained unchanged or increased only very slightly depending on the maturity, while market rates on two and five-year government bonds increased by about 15 basis points (see Table 4 and Chart 13). Between April and May 2007 interest rates on short-term loans to households for consumption purposes rose by 7 basis points, while those on loans to households for house purchase increased by 5 basis points. At the same time, MFI interest rates on loans to non-financial corporations with floating rates and an initial rate fixation of up to one year went up by 6 basis points for loans up to €1 million and marginally declined for loans over €1 million. In addition, bank rates on deposits from households with an

Table 4 MFI interest rates on new business

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

							Change in basis points up to May 2007 ²⁾		
	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Apr.	2007 May	2006 Oct.	2007 Jan.	2007 Apr.
MFI interest rates on deposits									
Deposits from households									
with an agreed maturity of up to one year	2.56	2.87	3.27	3.51	3.59	3.62	59	29	3
with an agreed maturity of over two years	2.57	2.68	2.84	2.71	2.84	2.83	-1	-8	-1
redeemable at notice of up to three months	2.03	2.26	2.37	2.38	2.42	2.42	13	7	0
redeemable at notice of over three months	2.52	2.68	2.86	3.14	3.20	3.25	51	28	5
Overnight deposits from non-financial corporations	1.23	1.36	1.53	1.72	1.75	1.76	31	16	1
Deposits from non-financial corporations									
with an agreed maturity of up to one year	2.70	2.98	3.47	3.67	3.74	3.74	55	25	0
with an agreed maturity of over two years	3.23	3.70	4.04	3.61	3.88	3.95	-24	-13	7
MFI interest rates on loans									
Loans to households for consumption									
with a floating rate and an initial rate fixation of up to one year	7.08	7.79	7.60	7.69	7.84	7.91	35	17	7
Loans to households for house purchase									
with a floating rate and an initial rate fixation of up to one year	4.02	4.31	4.54	4.77	4.82	4.87	45	22	5
with an initial rate fixation of over five and up to ten years	4.51	4.63	4.55	4.69	4.72	4.78	19	20	6
Bank overdrafts to non-financial corporations	5.46	5.69	5.80	6.06	6.12	6.11	35	21	-1
Loans to non-financial corporations of up to €1 million									
with a floating rate and an initial rate fixation of up to one year	4.47	4.74	5.08	5.29	5.37	5.43	52	27	6
with an initial rate fixation of over five years	4.40	4.59	4.67	4.83	4.86	4.87	27	22	1
Loans to non-financial corporations of over €1 million									
with a floating rate and an initial rate fixation of up to one year	3.74	4.03	4.50	4.67	4.70	4.69	46	23	-1
with an initial rate fixation of over five years	4.26	4.48	4.63	4.86	4.89	5.07	60	35	18
Memo items									
Three-month money market interest rate	2.99	3.34	3.68	3.89	3.98	4.07	57	32	9
Two-year government bond yield	3.47	3.62	3.79	3.94	4.11	4.26	57	32	15
Five-year government bond yield	3.78	3.70	3.83	3.95	4.15	4.31	54	29	16

Source: ECB.

1) The weight-adjusted MFI interest rates are calculated using country weights constructed from a 12-month moving average of new business volumes. For further information, see the box entitled "Analysing MFI interest rates at the euro area level" in the August 2004 issue of the Monthly Bulletin. Quarterly data refer to the end of the quarter.

2) Figures may not add up due to rounding.

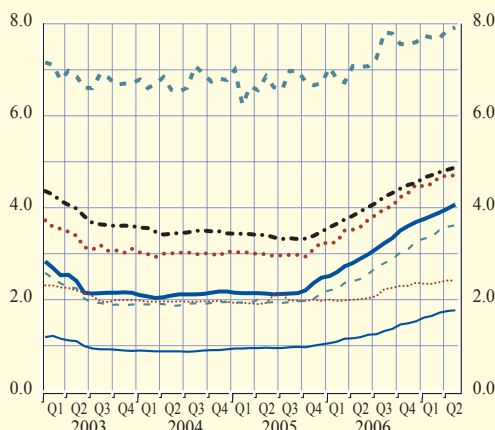
agreed maturity of up to one year increased by 3 basis points and remained unchanged for deposits from non-financial corporations.

Looking back over a longer period, the pass-through from gradually increasing market interest rates to bank rates, which was lagging behind the cycle of rising market interest rates which started in late 2005, has caught up over the past few months. Between September 2005 and May 2007 the three-month money market rate rose by 193 basis points. At the same time, MFI interest rates on deposits from households with an initial rate fixation of up to one year rose by 166 basis points. In addition, bank interest rates on loans with a floating rate and an initial rate fixation of up to one year increased by around 162 basis points for loans to non-financial corporations and by 155 basis points for loans for house purchase. By contrast, MFI interest rates on short-term loans to households for consumption purposes rose by only 95 basis points.

In May 2007 long-term MFI interest rates on deposits stayed almost unchanged for households and increased by 7 basis points for non-financial corporations (see Table 4 and Chart 14), lagging

Chart 13 Short-term MFI interest rates and a short-term market rate(percentages per annum; rates on new business; weight-adjusted)¹⁾

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

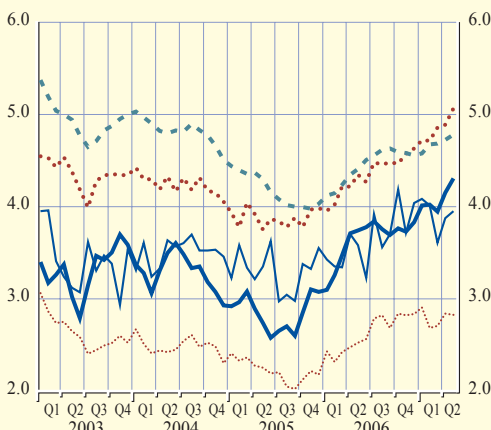


Source: ECB.

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

Chart 14 Long-term MFI interest rates and a long-term market rate(percentages per annum; rates on new business; weight-adjusted)¹⁾

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



Source: ECB.

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

behind the increase of 15 basis points in the yield on two-year government bonds in that month. At the same time, long-term MFI rates on loans to households for house purchase went up by 6 basis points, while rates on long-term loans to non-financial corporations remained broadly unchanged for loans up to €1 million, but increased more substantially for loans of over €1 million (see Chart 14).

In the case of long-term MFI rates, the pass-through of market interest rate increases since September 2005 is still lagging. The yields on two and five-year euro area government bonds rose by 204 and 171 basis points respectively between September 2005 and May 2007. Over the same period, long-term deposit rates for households increased by only 80 basis points. As for lending rates, MFI interest rates on loans to households for house purchase with an initial rate fixation of over five and up to ten years only rose by 78 basis points. In the case of loans to non-financial corporations with an initial rate fixation of over five years, MFI interest rates increased by 81 to 119 basis points, depending on the size of the loans. Factors behind still low bank spreads are likely to include deepening competition among banks, as well as non-banks, and eased credit

standards in the second quarter of 2007 (see Box 1 entitled “The results of the July 2007 bank lending survey for the euro area”). The rather sluggish pass-through to long-term lending rates is, however, broadly in line with historical experience.

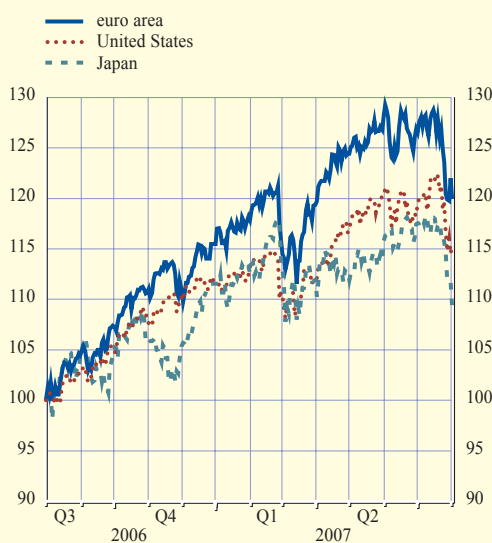
2.6 EQUITY MARKETS

Stock prices in the euro area and the United States declined significantly between end-June and early August. The turmoil in the US subprime mortgage market affected stock markets on both sides of the Atlantic. Until mid-July major equity market indices showed some resilience to the expected fallout from this turmoil, but stock markets incurred marked losses from then on until early August. However, expected corporate profitability in the euro area continued to be fairly robust which, in turn, appears consistent with the favourable outlook for economic activity. Stock market uncertainty as measured by implied volatility rose strongly in the major markets.

Broad-based stock price indices in the major markets increased from end-June to mid-July but then decreased markedly. This led to an overall strong decrease of share prices in the euro area, the United States and Japan over the review period (see Chart 15). Euro area stock prices, as measured by the Dow Jones EURO STOXX index, fell by around 5%, while those in the United States, captured by the Standard & Poor’s 500 index, decreased by around 2% between the end of June and 1 August 2007. An important factor behind these developments was the recent turmoil in the US subprime mortgage market and associated losses in the value of certain mortgage-

Chart 15 Stock price indices

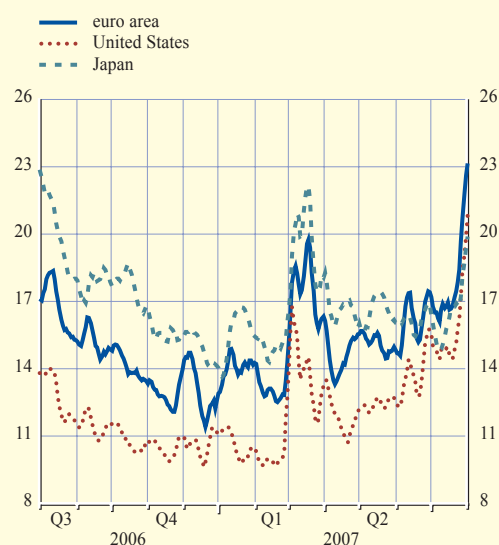
(index: 1 August 2006 = 100; daily data)



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

Chart 16 Implied stock market volatility

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



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

backed securities. This in turn triggered a more general reassessment of credit risk also in other markets. In particular, institutional investors apparently became more reluctant to hold credit risk transfer instruments such as collateralised debt obligations or credit default swaps. Banks and financial corporations with large expected exposures to such assets were adversely affected by the corresponding price declines. Moreover, profit expectations were probably also depressed by the prospect of lower fee and commission income earned from originating and placing credit risk transfer instruments. Probably reflecting apprehensions of this sort, stocks of the financial sector showed a disproportionately strong decrease since mid-July on both sides of the Atlantic. Short-term stock market uncertainty, as measured by the implied volatility extracted from stock options, increased over the review period, showing distinct intra-period spikes reflecting uncertainty-increasing news concerning the impact of the US subprime mortgage market turmoil (see Chart 16).

In the first half of July, stock prices in the United States showed considerable resilience to the subprime mortgage market turmoil. On the back of positive macroeconomic news, they rose by more than 3% compared with end-June and the Standard & Poor's 500 index recorded all-time highs. Despite the fact that forward-looking indicators might point to a moderate slowdown in corporate profit growth over the near term in the United States, stock prices were still supported by expected solid corporate profitability according to I/B/E/S data. Since mid-July, however, this positive background has been overshadowed by growing concerns among investors about the potential wider consequences of the adverse developments in the subprime mortgage market, which led to a strong decrease in stock prices of nearly 6% from mid-July to early August.

A similar pattern was observed for euro area stock prices as measured by the Dow Jones EURO STOXX index. However, its increase from end-June to mid-July only amounted to about 1% and was followed by a large decline of nearly 7% which led to an overall decrease of the index of about 5%. The index segment containing financial services declined disproportionately strongly, by more than 9% since end-June. Despite the fallout from the US subprime turmoil, euro area stock prices continued to be supported by sound profit expectations. However, although analysts' expected earnings-per-share growth increased somewhat recently, these expectations are at the same time pointing towards a further deceleration in profit growth towards still sound, but less buoyant, levels than at present. For example, according to I/B/E/S data, in July analysts' expected earnings-per-share growth 12 months ahead for companies listed in the Dow Jones EURO STOXX index increased slightly to around 10%. Actual earnings-per-share growth still ran at a rate of 15% in the same month, having gradually decelerated from around 20% at the end of 2006. Another factor that contributed to the large cumulated increases in euro area stock prices in previous months was the lively activity in the market for mergers and acquisitions in the euro area (see Box 3). However, it remains to be seen how much the impact of recent events on credit conditions may dampen M&A activity and eventually – given the past observed regularities – stock prices on a more sustained basis.

Stock market volatility in the euro area showed a strong increase. At the same time, euro area corporate bond spreads – especially at the lower end of the rating spectrum – increased significantly over the review period. Hence, it cannot be excluded that the fallout from the US subprime mortgage market turmoil also induced a general increase of investors' risk aversion.

Box 3

M&A ACTIVITY AND STOCK PRICE DEVELOPMENTS IN THE EURO AREA

The marked stock price increases in the euro area of recent years have occurred alongside a highly dynamic market for mergers and acquisitions (M&As). This box takes a closer look at the nature of and possible reasons for this apparent relationship.

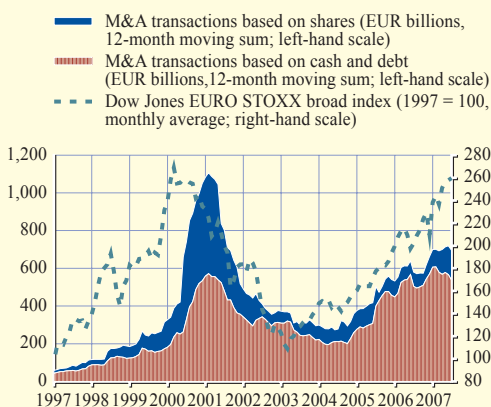
Chart A suggests that, in general, the cyclical developments in the value of M&A deals involving euro area companies (as acquirers and/or targets) and stock prices tend to be fairly strongly correlated. Specifically, the current wave of M&A activity in the euro area, which reached an annualised value of close to €700 billion in early 2007, occurred in parallel with a continued upward trend in euro area stock prices. This was the highest level of M&A activity since the boom in the late 1990s and early 2000s, which likewise occurred amid elevated stock prices.¹ One major difference between the nature of these two waves of M&A activity is that in 1999-2000 a large part of the transactions were carried out via the exchange of shares between the acquiring and target firm shareholders (see Chart A). In the more recent 2005-2007 merger wave, shares have played a much less important role as a method of payment probably owing to the very favourable debt financing conditions and ample corporate cash holdings.² These differences may suggest that the factors underlying the relationship between stock prices and M&A activity could differ over time and could indicate that stock prices played a more important role in M&A activity in the former period.

In the academic literature, several (potentially interrelated) factors have been proposed to explain the observed positive relationship between stock prices and M&A activity. First,

- 1 The fact that M&A activity seems to lag somewhat stock prices may reflect the time it takes to complete the deals following their announcement.
- 2 See also Box 4 entitled "Recent trends in merger and acquisition activity in the euro area" in the July 2006 issue of the Monthly Bulletin.

Chart A Value of M&A deals and stock prices in the euro area

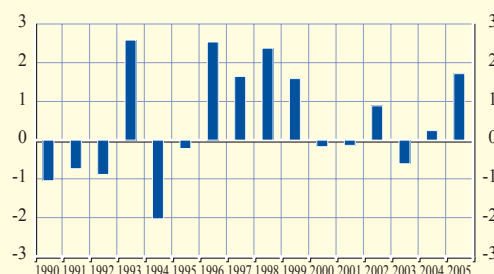
(monthly data)



Sources: Thomson Financial Datastream and Bureau van Dijk (Zephyr).
Note: M&A transactions involve completed deals where euro area companies act as acquirer and/or target.

Chart B Abnormal returns associated with M&A announcements in the euro area

(percentages)



Sources: Thomson Financial Datastream and ECB calculations.

Note: Abnormal returns are the percentage changes in the stock prices of acquiring euro area firms over a three-day window around the M&A announcement in excess of what could be normally expected given the parallel price changes in the broad market (see footnote 6 of this box), averaged over all relevant M&A announcements in each year. Only transactions where the deal value exceeded 10% of the market value of the acquiring firm were included.

mergers tend to cluster around fundamental economic and technological shocks fostering synergy effects for merging firms and hence producing immediate positive effects on stock prices from merger announcements.³ A second, and somehow related, point is that the positive correlation between M&As and stock prices could reflect investor over-optimism being fuelled by a so-called merger momentum. This would tend to imply a positive short-run reaction of stock prices to merger announcements. However, a long-run reversal of the increase in the stock price of the acquiring firms may appear once it becomes clear to investors that they were too optimistic about the supposed synergies.⁴ Third, the fact that strong M&A activity tends to occur when stock prices are high by historical standards could reflect that managers are more inclined to carry out acquisitions when they perceive their stocks to be overvalued.⁵

In order to better understand the factors underlying the recent relationship between stock prices and M&A activity in the euro area, an event study of the stock market reactions at the time of merger announcements was conducted. For this purpose, a three-day event window ranging from one day before to two days after the merger announcement is applied to calculate the abnormal returns of stock prices of acquiring firms in reaction to the announcement.⁶ Chart B shows that the yearly average abnormal return of acquiring firms varies over time, but was particularly high in the period leading up to the stock market boom in the late 1990s and 2000, as well as in 2005.⁷ Overall, these average reaction patterns do indeed suggest that firms that engage in acquisitions during merger waves tend to observe a positive initial stock market reaction to the news. This, in turn, lends some support to the aforementioned explanatory factors, namely the anticipation of future synergy effects and investor over-optimism.

Overall, these findings may suggest that M&A activity is at least partly driven by investor optimism during favourable stock market developments. Against this background, the observation that in the first seven months of 2007 announced M&A deals involving euro area companies as targets and/or acquirers amounted to around €180 billion (in addition to around €265 billion of completed deals from end-2006 to July 2007) suggests that the activity in the market for M&As in the euro area has continued at a fast pace and has exerted upward pressure on stock prices.

3 See e.g. B. Jovanovic and P. L. Rousseau (2001), "Mergers and technological change: 1885-1998", Working Paper No. 0116, Vanderbilt University.

4 See R. J. Rosen (2006), "Merger momentum and investor sentiment: The stock market reaction to merger announcements", *Journal of Business* 79 (No. 2), pp. 987-1017.

5 See e.g. M. Rhodes-Kropf, D. T. Robinson and S. Vishanathan (2005), "Valuation waves and merger activity: The empirical evidence", *Journal of Financial Economics* 77, pp. 561-603; and A. Shleifer and R. W. Vishny (2003), "Stock market driven acquisitions", *Journal of Financial Economics* 70, pp. 295-311.

6 To gauge how the firms' stock prices are related to the market portfolio, the firms' daily stock price returns are regressed on the basis of the returns of the corresponding Dow Jones EURO STOXX sector index over a one-year estimation window prior to the merger announcement event window. Abnormal returns in the event window are then calculated by subtracting the respective firms' stock price returns from the normal return derived from the estimation window results.

7 Results for 2006 and 2007 are currently not available.

3 PRICES AND COSTS

HICP inflation is estimated to have fallen to 1.8% in July 2007 from 1.9% a month earlier. Data on HICP components, available only up to June, point to counterbalancing movements in the main HICP components during the second quarter of 2007, with a slight increase in the annual growth rate of services prices broadly offset by a moderation in the annual growth rate of energy prices. Information on industrial producer prices and from firm surveys continues to signal persisting price pressures from input costs and the increased pricing power of firms in both manufacturing and, especially, services. Beyond the specific temporary developments affecting labour cost data in recent months, available information suggests contained wage developments during the first half of 2007 up to May. Looking ahead, the balance of risks remains on the upside. Such risks relate largely to domestic factors. In particular, emerging capacity constraints, given high resource utilisation and strong employment growth, could lead to stronger than expected wage and cost dynamics. In addition, pricing power in market segments with low competition may increase profit margins in such an environment. Risks also relate to further increases in oil prices. Finally, other sources of concern are represented by possible additional increases in administered prices and indirect taxes beyond those anticipated thus far, and the potentially pro-cyclical stance of fiscal policy in some countries.

3.1 CONSUMER PRICES

FLASH ESTIMATE FOR JULY 2007

According to Eurostat's flash estimate, HICP inflation was 1.8% in July 2007, down from 1.9% in June (see Table 5). While a detailed breakdown of the HICP components for July is not available yet (detailed information will be made available on 16 August 2007), available country information suggests that the energy component – and in particular a base effect from the strong increases observed a year earlier – contributed significantly to the estimated decline in inflation in July.

HICP INFLATION UP TO JUNE 2007

Euro area HICP annual inflation stood at 1.9% in June 2007, for the fourth consecutive month. With the exception of energy prices, the annual rate of growth of all components remained broadly unchanged in June (see Chart 17). Hence, the annual rate of change in the HICP excluding unprocessed food and energy remained at 1.9% – the rate at which it has been since February 2007.

Table 5 Price developments

(annual percentage changes, unless otherwise indicated)

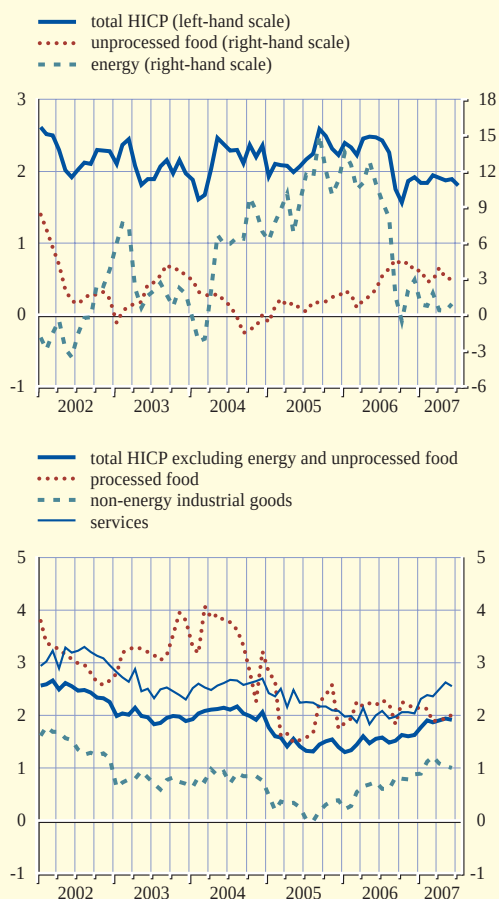
	2005	2006	2007 Feb.	2007 Mar.	2007 Apr.	2007 May	2007 June	2007 July
HICP and its components								
Overall index ¹⁾	2.2	2.2	1.8	1.9	1.9	1.9	1.9	1.8
Energy	10.1	7.7	0.8	1.8	0.4	0.3	0.9	.
Unprocessed food	0.8	2.8	2.8	2.9	3.9	3.1	3.0	.
Processed food	2.0	2.1	2.1	1.9	1.9	1.9	2.0	.
Non-energy industrial goods	0.3	0.6	1.1	1.2	1.1	1.0	1.0	.
Services	2.3	2.0	2.4	2.4	2.5	2.6	2.6	.
Other price indicators								
Industrial producer prices	4.1	5.1	2.9	2.8	2.4	2.4	.	.
Oil prices (EUR per barrel)	44.6	52.9	44.9	47.3	50.2	50.3	52.6	55.2
Non-energy commodity prices	9.4	24.8	13.9	17.6	15.3	11.9	14.2	7.8

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

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

Chart 17 Breakdown of HICP inflation: main components

(annual percentage changes; monthly data)



Source: Eurostat.

As regards the more volatile components of the HICP, the annual rate of change in HICP energy prices increased in June, mainly reflecting renewed increases in oil prices over the same period. At the same time, the annual rate of increase in the HICP energy component has been relatively contained, by historical standards, in recent months, partly thanks to the favourable base effects affecting this HICP component during the first half of 2007. In contrast to energy prices, the annual rate of growth of unprocessed food prices declined marginally in June, reflecting, among other things, a favourable base effect. On average, over the first six months of 2007, the annualised month-on-month change in seasonally adjusted unprocessed food prices was 1.7%.

No significant change was recorded in the annual rates of change of the less volatile components of the HICP in June. Taken over a longer period, while the annual rates of change in the prices of processed food and non-energy industrial goods have been broadly stable since early 2007, a gradual increase has been observed in services prices since the end of 2006. One of the factors that underpin this increase is a better ability of firms, particularly in the services sector to pass on increased input cost pressure to customers, as also suggested by survey data. The pause in the acceleration in services prices recorded in June was broadly based across sub-components. However, at this stage, it cannot be concluded that this recent development

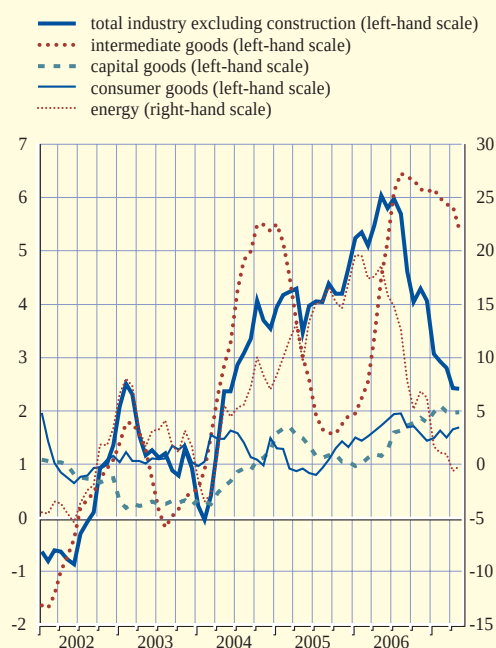
represents a stabilisation in this underlying upward movement. In fact, while the impact of the increase in German VAT is no longer likely to significantly affect developments in this component, price pressures may strengthen in the context of robust economic activity.

3.2 INDUSTRIAL PRODUCER PRICES

In May, the annual rate of change in overall industrial producer prices (excluding construction) remained at 2.4%, unchanged from a month earlier, while producer price inflation excluding energy (and construction) moved down to 3.2% from 3.4% a month earlier (see Chart 18). For June, available country data suggests that the annual rate of change in euro area industrial producer prices (excluding construction) – both the overall index and the index excluding energy – declined marginally. Despite a marginal easing in the annual rate of change in producer prices in recent months, the evolution of the main components of industrial producer prices suggests that elevated price pressures still remain in the production pipeline.

Chart 18 Breakdown of industrial producer prices

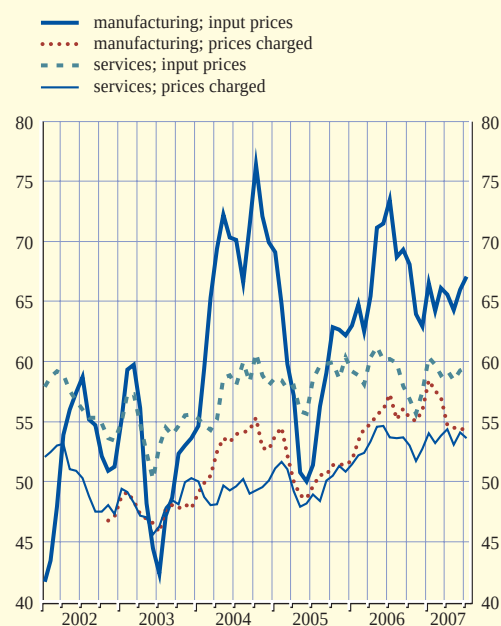
(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

Chart 19 Producer input and output price surveys

(diffusion indices; monthly data)



Source: NTC Economics.

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

The latest business survey information on price setting indicates a continuation of upward price pressures at the producer level (see Chart 19). According to the respondents of the NTC Economics Purchasing Managers' Survey, supply shortages combined with higher oil prices helped to push the rate of input price inflation in the manufacturing sector up to a nine-month high in July 2007. While the manufacturing output price indicator has eased from the highs observed at the beginning of the year, it also remains at a relatively elevated level. Available information on the services sector suggests that rising wage pressures and higher fuel costs have pushed up input cost inflation, while increased pricing power has also implied sustained pressure on prices charged in this sector.

3.3 LABOUR COST INDICATORS

Recent data on labour cost indicators has been affected by a number of specific factors of a temporary nature. After discounting these transitory influences in some countries, available information from labour cost indicators continues to point to contained wage pressures on average in the euro area.

Data for both negotiated wages and hourly labour costs in the euro area point to a moderation in the annual growth of labour costs in the first quarter of 2007 compared with the average growth

Table 6 Labour cost indicators

(annual percentage changes, unless otherwise indicated)

	2005	2006	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1
Negotiated wages	2.1	2.3	2.2	2.4	2.1	2.5	2.0
Total hourly labour costs	2.4	2.4	2.4	2.6	2.4	2.2	2.2
Compensation per employee	1.8	2.2	2.2	2.5	2.3	1.8	2.5
<i>Memo items:</i>							
Labour productivity	0.8	1.4	1.3	1.4	1.2	1.8	1.7
Unit labour costs	1.0	0.8	0.9	1.1	1.1	0.0	0.8

Sources: Eurostat, national data and ECB calculations.

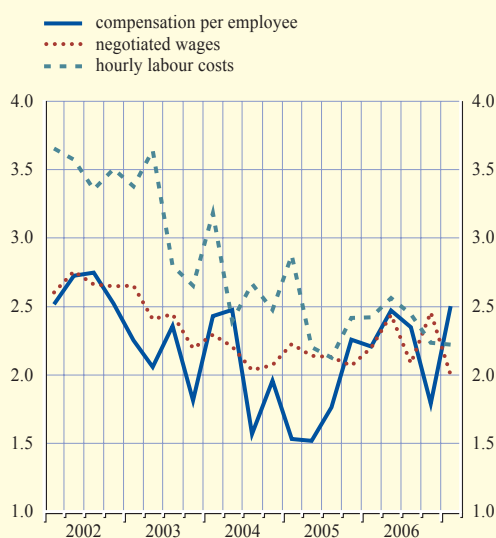
observed in 2006 (see Table 6). Currently available information suggests that an increase in the growth rate of negotiated wages occurred early in the second quarter as a result of one-off payments in Germany.

Euro area compensation per employee increased by 2.5% in annual terms in the first quarter of 2007, rebounding from the growth rate of 1.8% registered in the previous quarter (see Chart 20). The rebound was to a large extent anticipated, as it was largely driven by a normalisation of compensation growth in the public sector in Italy, after falling in the previous quarter. The annual rate of growth in unit labour costs was 0.8% in the first quarter of 2007, compared with unchanged unit labour costs in the last quarter of 2006 stemming from temporary developments in the Italian public sector. This increase in the growth of unit labour costs resulted from broadly unchanged labour

productivity growth and an increase in compensation per employee growth. Beyond these recent volatile developments, these data do not show major increases in labour costs in early 2007.

Chart 20 Selected labour cost indicators

(annual percentage changes; quarterly data)

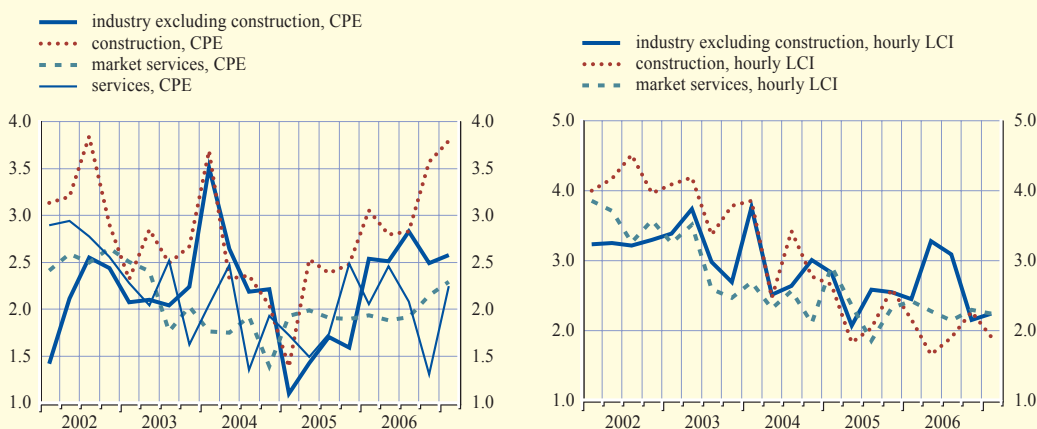


Sources: Eurostat, national data and ECB calculations.

From a sectoral perspective, data for compensation per employee points to a slight acceleration in all the main sectors in the first quarter of 2007 (see Chart 21). However, apart from developments in non-market services (which were largely affected by the above-mentioned specific temporary developments in Italy), the increases in the annual rate of growth of compensation were relatively higher in construction and market services, where increases in labour productivity growth were also observed in the first quarter of 2007. By contrast, the annual growth rate in sectoral hourly labour costs remained broadly unchanged in industry and market-related services, while in construction it moderated somewhat.

Chart 21 Sectoral labour cost developments

(annual percentage changes; quarterly data)



Sources: Eurostat and ECB calculations.

Note: CPE stands for "compensation per employee" and LCI stands for "labour cost index".

3.4 THE OUTLOOK FOR INFLATION

Looking ahead, the short-term profile of annual inflation rates continues to be determined largely by energy price developments, with last year's volatility in energy prices leading to significant base effects. On the basis of the current level of oil prices and oil price futures, annual inflation rates are likely to remain broadly around current levels in the next few months, before rising significantly towards the end of the year, largely due to these base effects.

Beyond the short run, risks to the outlook remain on the upside. These risks largely derive from domestic factors. In particular, emerging capacity constraints, given high resource utilisation and strong employment growth, could lead to stronger than expected wage and cost dynamics. Moreover, pricing power in market segments with low competition may increase profit margins in such an environment. Finally, some risks relate to the possible further increases in administered prices and indirect taxes (beyond those anticipated so far), and the potentially pro-cyclical stance of fiscal policy in some countries. On the external side, risks primarily relate to the possibility of further oil price increases. The results of the latest Survey of Professional Forecasters, conducted by the ECB in July 2007, suggest broadly similar expectations and risk assessment for the inflation outlook (see Box 4).

Box 4

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

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2007. The survey was conducted between 16 and 18 July 2007. The SPF gathers information on expectations for euro area inflation, GDP growth and unemployment from experts affiliated to financial or non-financial institutions based in the EU. Given the diversity of the panel of participants, aggregate SPF results can reflect a relatively heterogeneous set of subjective views and assumptions.

Inflation expectations for 2007, 2008 and 2009

SPF participants revised up, on average, their inflation expectations for 2007 and 2008 to 2.0%, from 1.9% in the previous round (see table)¹. The upward revisions over the forecast horizon reflect mainly higher oil price assumptions and stronger economic growth prospects, leading to increasing capacity utilisation. A few respondents also refer to higher than expected administered prices and renewed inflationary pressures from non-energy consumer goods prices. SPF inflation expectations for 2007 and 2008 are in line with the forecasts reported in the June 2007 Eurosystem staff macroeconomic projections and those published in the July 2007 issues of Consensus Economics and Euro Zone Barometer. In 2009 SPF participants expect inflation to remain at 2.0%. This point estimate is in line with the projections published in the July 2007 issue of Euro Zone Barometer and in the April 2007 issue of Consensus Economics.

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

The risks surrounding these inflation expectations are assessed by the experts to be mainly on the upside, related in particular to unexpected future oil price developments, strong economic

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

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

(annual percentage changes, unless otherwise indicated)

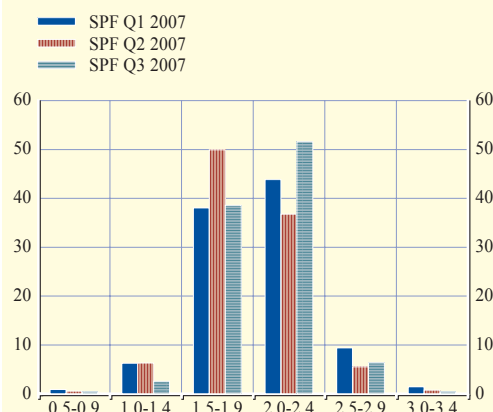
	Survey horizon					
HICP inflation	2007	June 2008	2008	June 2009	2009	Longer term ²⁾
SPF Q3 2007	2.0	2.0	2.0	2.0	2.0	2.0
Previous SPF (Q2 2007)	1.9	-	1.9	-	-	1.9
Eurosystem staff macroeconomic projections	1.8-2.2	-	1.4-2.6	-	-	-
Consensus Economics (July 2007)	2.0	-	2.0	-	2.0	1.9
Euro Zone Barometer (July 2007)	2.0	-	2.0	-	2.0	1.9
Real GDP growth	2007	Q1 2008	2008	Q1 2009	2009	Longer term ²⁾
SPF Q3 2007	2.7	2.4	2.3	2.2	2.2	2.2
Previous SPF (Q2 2007)	2.5	-	2.3	-	-	2.1
Eurosystem staff macroeconomic projections	2.3-2.9	-	1.8-2.8	-	-	-
Consensus Economics (July 2007)	2.7	-	2.3	-	2.0	1.9
Euro Zone Barometer (July 2007)	2.7	-	2.3	-	2.1	2.1
Unemployment rate ¹⁾	2007	May 2008	2008	May 2009	2009	Longer term ²⁾
SPF Q3 2007	7.0	6.8	6.7	6.6	6.6	6.4
Previous SPF (Q2 2007)	7.2	-	6.9	-	-	6.7
Consensus Economics (July 2007)	7.1	-	6.8	-	-	-
Euro Zone Barometer (July 2007)	7.1	-	6.8	-	6.7	6.5

1) As a percentage of the labour force.

2) Longer-term inflation expectations refer to 2012 in the SPF, 2011 in the Euro Zone Barometer and to the period 2013-17 in Consensus Economics. The Consensus Economics forecasts for the period 2013-17 and the year 2009 were published in the April 2007 issue of Consensus Economics.

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

(probability in percentages)

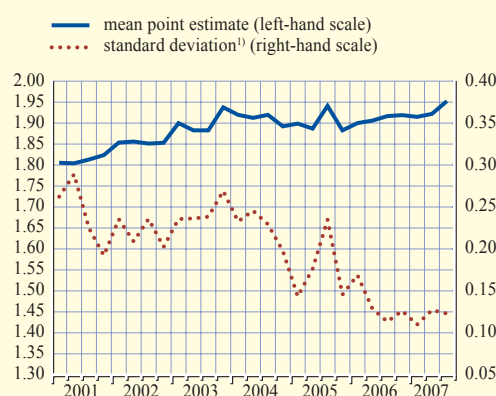


Source: ECB.

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

Chart B Long-term inflation expectations

(average annual percentage changes; percentage points)



Source: ECB.

1) The standard deviation of point estimates reported by each of the panel members responding to the survey.

growth and wage pressures stemming from improving labour market conditions. At the same time, several respondents mention the euro appreciation and ongoing productivity growth as factors somewhat containing inflationary pressures.

Indicators of longer-term inflation expectations

According to the latest SPF results, longer-term inflation expectations (five years ahead) were revised up from 1.9% to 2.0%, when rounded to one decimal place. However, the extent of this upward revision is very small when extended to two decimal points (from 1.92% to 1.95%). These expectations are marginally above the newly released expectations from the Euro Zone Barometer for 2011 and the April 2007 results from Consensus Economics for inflation expectations six to ten years ahead, which were at 1.9%. The decreasing standard deviation in the SPF indicates further convergence among respondents about their forecast for the longer-term inflation rate (see Chart B).

The average probability distribution of longer-term inflation expectations moved to marginally higher inflation rates compared with the previous round. In particular, the probability that inflation may stand at 2% or above increased to 47% compared with 46% in the previous round. These survey results can also be compared with the break-even inflation rate, an indicator of longer-term inflation expectations among market participants calculated as the yield spread between nominal and inflation-linked bonds². The rise in the probability that longer-term inflation may stand at 2% or above is in line with developments in the implied five-year forward break-even inflation rate five years ahead, which increased from 2.1% in May 2007 to 2.3% in July 2007 (see Chart C). It should be recalled that break-even inflation rates should not be interpreted as direct measures of inflation expectations, since they may also incorporate various risk premia (such as inflation uncertainty and liquidity premia).

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

Real GDP growth expectations

Expectations for real GDP growth have been revised upwards by 0.2 percentage point for 2007 in comparison with the previous SPF round, and now point to real GDP growth at 2.7%. This upward revision mainly reflects improved expectations for domestic demand (in particular private consumption and, to some extent, investment) supported by improving labour market conditions and continued strong growth in external demand. Expected GDP growth for 2008 remained unchanged at 2.3%. In both years, the risks surrounding these expectations are assessed by the respondents to be slightly on the downside, mainly related to the evolution of oil prices, the strength of the euro, higher interest rates and global imbalances. Overall, SPF growth expectations for 2007 and 2008 are within the ranges of the June 2007

Eurosystem staff macroeconomic projections and in line with the results published in the latest issues of the Euro Zone Barometer and Consensus Economics. For 2009, real GDP growth is forecast to be 2.2%. This point estimate is slightly above the results of the July 2007 issue of Euro Zone Barometer and the April 2007 issue of Consensus Economics.

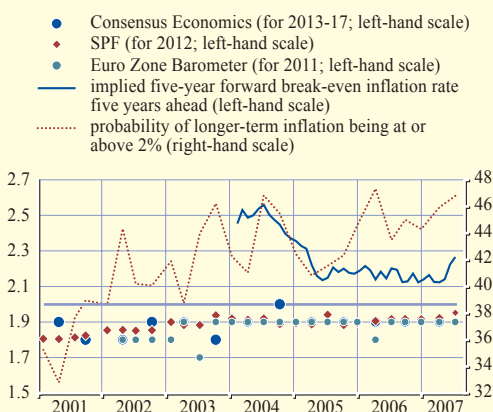
Longer-term growth expectations (i.e. for 2012) have been revised upward by 0.1 percentage point and now stand at 2.2%. According to forecasters, longer-term growth prospects depend principally on further structural reforms in the labour market and social security systems, migration flows and improved productivity.

Expectations for the euro area unemployment rate

Unemployment rate expectations for 2007 and 2008 have been revised down by 0.2 percentage point and now stand at 7.0% and 6.7% respectively. As in the previous SPF round, forecasters referred to the ongoing economic growth and the induced improvement of the labour market situation as being the main factors behind the further decline of the unemployment rate. SPF unemployment rate expectations for 2007 and 2008 are below those of the latest editions of Consensus Economics and the Euro Zone Barometer. For 2009, respondents expect the unemployment rate to decrease further to 6.6%, which is 0.1 percentage point lower than the forecast reported in the July issue of the Euro Zone Barometer. Longer-term unemployment rate expectations have also been revised down by 0.3 percentage point, to 6.4% in 2012. The balance of risks to these forecasts is assessed to be on the upside over all horizons. Respondents continue to mention that the decline in the unemployment rate over the longer-term horizon is mainly dependent on further, and deeper, labour market reforms.

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

(average annual percentage changes; percentage probability)



Sources: Consensus Economics, Euro Zone Barometer, ECB, Reuters and ECB calculations.
Note: Ten-year break-even inflation rate derived from 2012-maturity bonds until March 2005 and from 2015-maturity bonds thereafter.

4 OUTPUT, DEMAND AND THE LABOUR MARKET

The latest data releases confirm that the outlook for the euro area is positive. Investment is supported by healthy earnings growth, favourable financing conditions and the need to expand capacity in view of reported tightening in capacity utilisation rates. The labour market shows a sustained improvement and should fuel private consumption growth. External market conditions provide a favourable environment for euro area export growth. Thus, conditions overall remain in place for continuing economic expansion in the euro area. Risks remain broadly balanced over the short term and on the downside over the medium to longer term. They mainly relate to external factors, in particular the possibility of potential abrupt shifts in global financial market sentiment leading to a repricing of risks, further increases in oil prices, concerns about possible disorderly developments owing to global imbalances and fears of a rise in protectionist pressures.

4.1 OUTPUT AND DEMAND DEVELOPMENTS

REAL GDP AND EXPENDITURE COMPONENTS

According to Eurostat's second estimate, euro area real GDP grew by 0.7% in the first quarter of 2007 following growth of 0.9% in the previous quarter. Compared with the first estimate, real GDP growth has been revised upwards by 0.1 percentage point as a consequence of a revised estimate of private consumption growth (from -0.1% to 0.0%) and an upward revision to the contribution from net trade, which nevertheless remained negative (see Chart 22). Developments in private consumption in the first quarter of 2007 reflected primarily the adverse impact of the German VAT increase in January 2007. The upward revision to the contribution from net trade is explained mainly by an upward revision to the growth rate of exports (from 0.3% to 0.8%). This reflects additional revisions to trade data for the fourth quarter of 2006 due to statistical discrepancies in exports data for Germany in the second half of 2006.

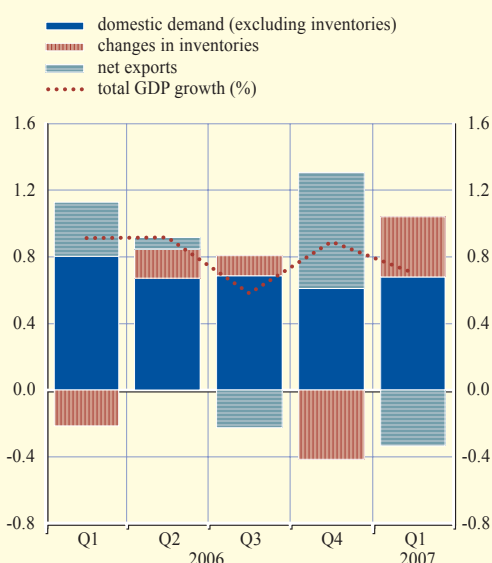
According to the euro area accounts for institutional sectors, annual growth in disposable income in the first quarter of 2007 for the first time outpaced that in consumption. This reflected a recovery in compensation and lower growth in tax payments. As a result, the saving ratio rose to 14.1% from 13.9% in the previous quarter.

The breakdown of gross fixed capital formation for the first quarter, which was made available with Eurostat's second estimate, shows that most components of investment grew at rates well above those recorded in the previous two quarters. Construction investment (roughly half of aggregate gross fixed capital formation) grew by 2.5% quarter on quarter, with vigorous growth in housing investment, which accelerated for the second consecutive quarter. Non-construction investment rose by 2.2%, reflecting remarkable increases in both the machinery and transport equipment components.

Investment dynamics in most developed economies usually exhibit a pro-cyclical pattern, accelerating more than overall economic activity at the beginning of a recovery and decelerating more during a slowdown. Developments in euro area investment since mid-2005 do not seem to depart significantly from the patterns observed during the previous recovery, which started in mid-1998. Prospects for investment remain very encouraging in view of favourable financing conditions and the need to expand capacity in response to the reported tightening in capacity utilisation rates. The acceleration in economic activity since mid-2005 has resulted in a significant increase in capacity utilisation in the euro area manufacturing sector, which is now at similar levels to those reached at the peak of the previous economic cycle.

Chart 22 Real GDP growth and contributions

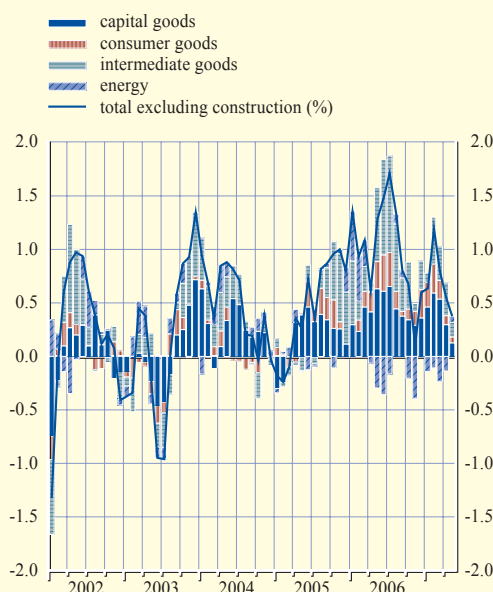
(quarter-on-quarter growth rate and quarterly percentage point contributions; seasonally adjusted)



Sources: Eurostat and ECB calculations.

Chart 23 Industrial production growth and contributions

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



Sources: Eurostat and ECB calculations.

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

According to the euro area accounts for institutional sectors, annual growth in non-financial corporations' gross entrepreneurial income fell back in the first quarter of 2007, driven by a deceleration in gross operating surplus. Other property income (mainly dividend receipts and profits from foreign direct investment) contributed positively to income growth. These increases were partly offset by a rise in net interest payable, as interest rates rose and corporate indebtedness increased.

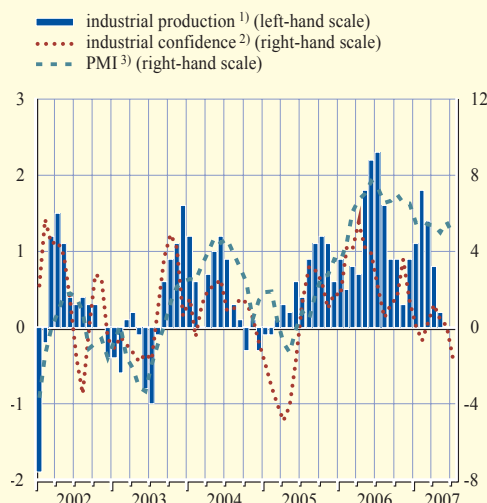
SECTORAL OUTPUT AND INDUSTRIAL PRODUCTION

The sectoral breakdown of value added growth shows that the acceleration in economic activity that started in mid-2005 has been broadly based. This pattern continued in the first quarter of 2007.

Industrial production (excluding construction) has displayed persistent growth momentum since mid-2005. More recently, however, it appears to have slowed to more moderate rates. On a three-month moving average basis, euro area industrial production (excluding construction) expanded by 0.5% in May, compared with 0.8% in the first quarter of 2007 (see Chart 23). This moderation in growth momentum is broadly based across the main industrial groupings, with the exception of the energy sector, where production has recovered somewhat. Signals from industrial new orders remain positive, as they rose by 2.0% on a three-month moving average basis in May, remaining well above their historical average growth (calculated from 1995). New orders excluding the volatile "other transport equipment" component continued the upward trend seen since the beginning of the year.

Chart 24 Industrial production, industrial confidence and the PMI

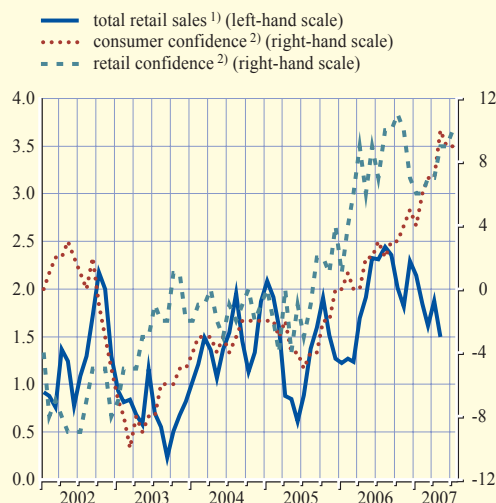
(monthly data; seasonally adjusted)



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

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

(monthly data)



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

SURVEY DATA FOR THE INDUSTRIAL AND SERVICES SECTORS

The latest survey data released for July continue to provide a positive signal for economic activity in the third quarter of 2007 in both the industrial and the services sectors.

The European Commission's industrial confidence indicator has remained broadly unchanged since the beginning of 2007, and therefore remains in July close to its historical peak (see Chart 24). The stagnation in industrial confidence in recent months is mainly related to developments in the intermediate and consumer goods industries. The Purchasing Managers' Index (PMI) for the manufacturing sector remained well above its historical average in July and hence continues to support the view of positive growth in this sector at the beginning of the third quarter, albeit at a decelerating pace. Regarding the services sector, both the European Commission's confidence indicator and the PMI remained broadly unchanged in July at values close to their highest for six years.

INDICATORS OF HOUSEHOLD SPENDING

Despite the recovery in euro area GDP growth that started in mid-2005, household spending has remained relatively subdued. Consumption growth in the euro area has been below its long-run average since 2002 and the share of consumption in GDP has fallen to a historically low level. Part of the weakness in household spending in recent years can be explained by subdued developments in disposable income, reflecting moderate wage growth. Furthermore, unlike in past cycles, much of the growth in disposable income has been driven by non-labour income, and there may be a lower propensity to fund consumption from this type of income than from labour income. Another factor may be that households harbour concerns about pension income and the sustainability of social security systems, thereby increasing precautionary savings.

Recent monthly indicators of household spending were mixed. New car registrations were broadly unchanged in the second quarter of 2007, following a fall of 3.6% in the first quarter. Retail sales growth remains muted, increasing by just 0.4% in May on a three-month moving average basis. Overall, the contribution of retail sales and car registrations to euro area private consumption growth in the second quarter is expected to be low. Meanwhile, both consumer and retail confidence in the euro area continue to hover at levels close to their historical peaks (see Chart 25). Box 5 looks in more detail at developments in consumer confidence.

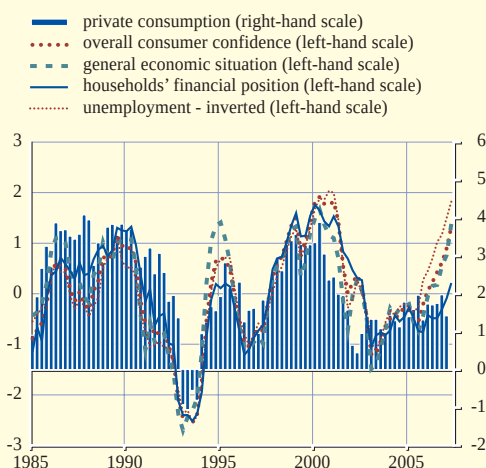
Box 5

RECENT DEVELOPMENTS IN CONSUMER CONFIDENCE

Over the past two years the European Commission measure of consumer confidence has risen sharply and by May 2007 had reached its highest level since 2001 before declining slightly in June and July. During the same period household spending was more muted (see Chart A). The protracted gap between confidence and consumption is relatively unusual; in the past they have tended to move broadly together. But the rise in the overall measure of confidence may overstate the strength of households' assessment of their economic well-being. The increase in overall consumer confidence has, until very recently, been driven largely by improvements in consumer expectations about developments in the labour market and the general economic situation.¹ In the past, these series have had a lower correlation with real household spending than the sub-component of confidence which records households' expectations about their personal financial

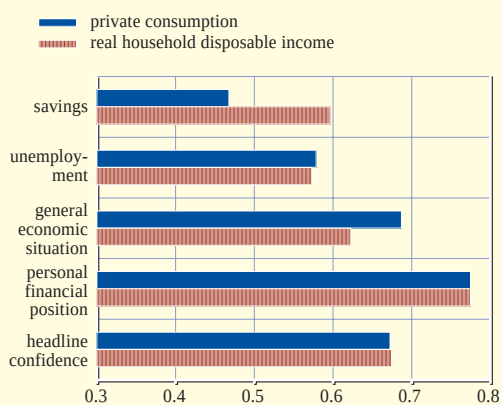
Chart A Components of consumer confidence and private consumption

(standard deviations from series means; year-on-year growth)



Sources: Eurostat, European Commission Business and Consumer Surveys and ECB calculations.

Chart B Correlations between components of confidence, private consumption and real household disposable income



Sources: Eurostat, European Commission Business and Consumer Surveys and ECB calculations.
Note: Correlations between percentage balances and annual percentage changes, Q1 1985 to Q1 2007.

1 The EC survey asks a series of questions on household finances, the general economic outlook and so on. Four of these questions are aggregated to form an overall consumer confidence measure. The four questions are: (1) how do you expect the general economic situation to develop over the next twelve months?; (2) how do you expect the financial position of your household to change over the next twelve months?; (3) how do you expect the number of people unemployed in this country to change over the next twelve months?; and (4) how likely is it that you save any money over the next twelve months? The overall consumer confidence measure aggregates – by a simple average – the net balances for the four questions.

position (see Chart B). Households' expectations about their personal financial positions have been less upbeat in the last two years and more in line with the relatively muted consumption profile in that period. This box explores some alternative explanations for the recent developments in consumer confidence and considers the possible implications for private consumption.

Interpreting consumers' assessments of their financial position

In principle, households should base their consumption decisions on the income they expect to receive during their lifetime, taking into account current and expected income. Household perceptions of their financial position are likely to be influenced by similar economic determinants – the correlation with growth in households' real disposable income growth is high (see Chart B). Since 2004, despite a pick-up in overall economic activity and rising employment in the euro area, growth in households' real disposable income has been relatively weak.² Moreover, with wage growth remaining moderate, unlike past cycles, much of the growth in disposable income has been driven by non-labour income. Typically, households appear to react more immediately to developments in labour income: confidence moves more closely with changes in labour income and households typically have a higher propensity to consume out of this category of income. As a result, consumers have recognised improvements in the general economic situation – in particular employment prospects – but they have been less positive about developments in their own financial position and household spending has been more moderate than in past recoveries.

While developments in confidence appear to be largely explained by income growth, other factors may also have affected household confidence. One possibility is that consumers' confidence about personal finances has remained relatively low because a larger part of the recent employment gains have been in temporary work than in the past. Between 2003 and 2006 the proportion of temporary jobs within total employment increased by around two percentage points. Ultimately, greater labour market flexibility benefits households, translating into increased employment opportunities and both a lower rate and duration of unemployment. However, in the short term, as households adjust to the new environment, they may feel more uncertain about their income prospects. Consequently, for a given income level, their assessment of their personal financial position may have been less optimistic, precautionary saving higher and consumption weaker than in previous upturns. Indeed, Chart C suggests that, at the moment, those countries which have experienced the largest increase in temporary employment in recent years are also those in which households register the biggest gap in confidence between the labour market developments and their personal finances.

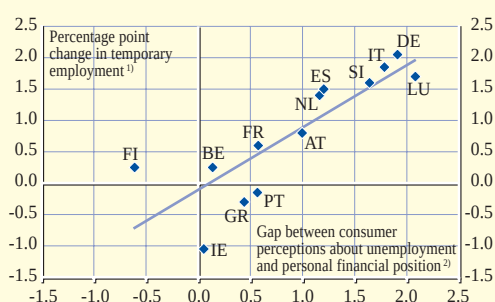
Another potential explanation is that households harbour growing concerns about demographic changes, increased longevity and the sufficiency of retirement income. Until very recently, the confidence breakdown by age group shows an increasing gap between the confidence of younger and older respondents relative to the past – with the young progressively more confident than the old – perhaps confirming that concerns about social security provision are increasingly relevant at the current juncture for the latter group (see Chart D).³ Since older

2 For more detail on recent developments in household income, see Box 9 entitled "Recent developments in the household and corporate sectors: information from new quarterly euro area sector accounts", in the June 2007 issue of the Monthly Bulletin.

3 The EC survey separates responses into four age groups: 16-29, 30-49, 50-64 and over 65. The split by age group is provided by only a subset of countries.

**Chart C Temporary employment and
consumer confidence**

(percentage points; standardised confidence balances)



Sources: Eurostat, European Commission Business and Consumer Surveys and ECB calculations.

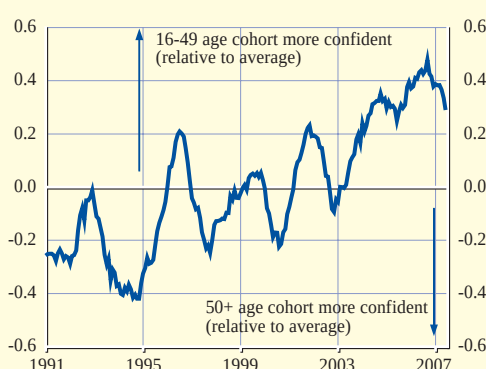
Note: Standardised confidence balances calculated as difference from series mean scaled by standard deviation.

1) Change in proportion of temporary employment within total employment between the average in 2003 and 2004 and the average in 2005 and 2006 (percentage points).

2) Average gap between unemployment and personal financial situation consumer confidence balances (expressed as standard deviations from series mean) in the first half of 2007.

Chart D Generation gap

(12-month moving average of standardised confidence balances for personal financial situation; 16-49 age cohort versus 50+ age cohort)



Sources: European Commission Business and Consumer Surveys and ECB calculations.

Note: Standardised confidence balances calculated as difference from series mean scaled by standard deviation.

members of the population typically have a higher propensity to spend, this may partly help to explain the relatively subdued consumption profile during the recent economic upturn.

Overall, there seem to have been a range of factors at work which have contributed to a discrepancy between consumer confidence and consumption. Looking ahead, as labour market conditions improve further, household income – in particular labour income – is expected to strengthen. One indication of this is that in 2006 a larger part of the employment gains was in the form of permanent jobs. That should support household confidence and consumption. Indeed, the judgement of consumers regarding their personal financial situation has improved in the last few months, although it remains low relative to other components of consumer confidence (see Chart A).

4.2 LABOUR MARKET

The euro area labour market has shown clear and persistent signs of improvement in the last few years. After increasing between 2001 and 2004, the unemployment rate started to decline in 2005 and is now approaching levels not seen since the early 1980s. The participation rate has risen in recent years, partly in line with a pattern of pro-cyclical behaviour that has been observed. Employment developments in 2006 confirmed the gradual and sustained improvement observed since 2004.

UNEMPLOYMENT

Latest unemployment data suggest that the trend improvements in the euro area labour market that started in early 2005 continued in the second quarter of 2007. The euro area unemployment rate stood at 7.0% in the second quarter of 2007 compared with 7.2% in the first quarter. The number of unemployed fell in the second quarter by a monthly average of 91,000, significantly below the monthly average of 191,000 for the first quarter, but broadly in line with the monthly average for 2006.

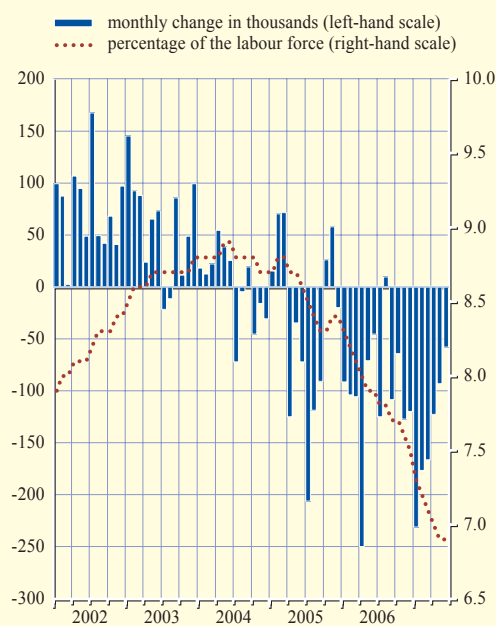
EMPLOYMENT

Compared with labour market developments in previous years, employment has improved recently. Growth in employment has also been more widely spread across age, gender and skill groups than in the past. These positive developments in employment have been led by a significant expansion in permanent and full-time jobs, indicating that firms are more confident about their medium-term prospects. The latest available data for employment corroborate this positive outlook. Eurostat's second estimate confirmed that euro area employment grew by 0.4% in the first quarter of 2007, compared with 0.3% in the previous quarter. The sectoral breakdown of total employment, which has become available with the second estimate of national accounts, confirms that employment has grown robustly in the services and construction sectors.

Annual labour productivity growth in the euro area has increased gradually since 2005, largely reflecting a cyclical recovery in industry (excluding construction). Labour productivity growth in services has, however, not kept pace, and did not reach the historical average level (calculated from 1980) until the end of 2006. Annual labour productivity grew by 1.7% in the first quarter of 2007, which is slightly below the growth rate recorded in the previous quarter (1.8%). This slight decline in labour productivity growth is consistent with the pattern of overall activity and offers some grounds for the view that the recent upswing in labour productivity is partly due to cyclical factors. The PMI composite productivity index picked up slightly in June following consecutive falls in the six previous months. The index

Chart 26 Unemployment

(monthly data; seasonally adjusted)



Source: Eurostat.

Table 7 Employment growth

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

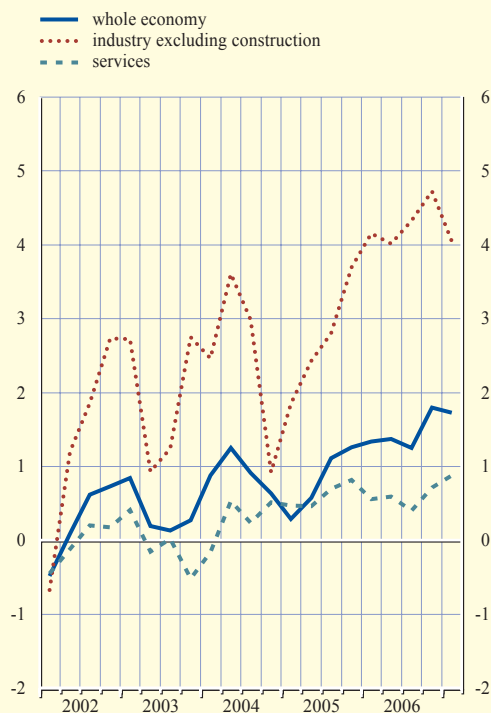
	Annual rates		Quarterly rates				
	2005	2006	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1
Whole economy	0.8	1.4	0.5	0.5	0.2	0.3	0.4
of which:							
Agriculture and fishing	-1.4	-0.4	0.1	0.7	-2.0	-0.5	-0.2
Industry	-0.1	0.7	0.1	0.3	0.2	0.4	0.3
Excluding construction	-1.3	-0.2	-0.1	0.2	0.0	-0.1	-0.1
Construction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

Sources: Eurostat and ECB calculations.

1) Also includes education, health and other services.

Chart 27 Labour productivity

(annual percentage changes)



Sources: Eurostat and ECB calculations.

remains above the no-change level of 50, and thus provides positive signals for labour productivity growth in the second quarter.

According to the European Commission's surveys and the PMI, employment expectations, which have been on an upward trend since mid-2005, remained favourable both in the manufacturing and services sector in July.

4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY

The latest indicators of developments in euro area activity suggest that the expansion seen in recent quarters is solidly based on both domestic and external conditions. Although available data on industrial production in the second quarter suggest that it experienced a mild slowdown in growth from the high rates observed previously, sentiment in industry, as reported in surveys, remains upbeat. Similarly, survey data for the services sector continue to signal positive developments. With regard to labour market developments, euro area employment growth has been consistently strong, particularly in the financial and business services sector, and expectations of further

employment increases remain high. The risks surrounding this broadly favourable outlook are considered to be generally balanced over the shorter term, but to be tilted to the downside over medium to longer-term horizons. These latter downside risks mainly relate to external factors, in particular the possibility of potential abrupt shifts in global financial market sentiment leading to a repricing of risks, further oil price increases, concerns about possible disorderly developments owing to global imbalances and fears of a rise in protectionist pressures.

5 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

5.1 EXCHANGE RATES

In effective terms, the euro has depreciated by about half a percentage point compared with three months ago. This reflects partially offsetting movements in its bilateral rates vis-à-vis a number of currencies.

EFFECTIVE EXCHANGE RATE OF THE EURO

On 1 August 2007 the nominal effective exchange rate – as measured against the currencies of 24 of the euro area's important trading partners – was about half a percentage point below its end-April level and 3.5% stronger than its 2006 average (see Chart 28). The slight depreciation of the nominal effective exchange rate reflected partially offsetting movements in bilateral rates, as the euro appreciated primarily vis-à-vis the Swedish krona and the currencies of some of the new EU Member States and depreciated against the pound sterling, the Norwegian krone and, to a larger extent, the Canadian and Australian dollars.

US DOLLAR/EURO

After sizeable fluctuations, the exchange rate of the euro vis-à-vis the US dollar on 1 August 2007 was close to its level at the end of April. Since the beginning of May the movements in the exchange rate have been influenced primarily by changing market perceptions of the relative cyclical outlook in the two economic areas and of US credit market developments.

While the euro weakened in the course of May and in the first half of June, as economic data led market participants to revise their assessment of the outlook for US economic growth upwards, mixed data releases on US inflation and growth in the second half of June shifted market participants' sentiment back in favour of the euro. Its strengthening gained pace in July, amid tensions in the US sub-prime mortgage market which were transmitted to the corporate bond market and heightened the perception of risk across equities. As in previous months, changes in the perceived cyclical differences between the United States and the euro area were mirrored by movements in the interest rate differentials between the two economic areas. However, interest rate differentials also reflected a "flight-to-quality" phenomenon which affected government bonds owing to the turbulence in the US credit market.

Notwithstanding the frequent changes in market sentiment over the period under review,

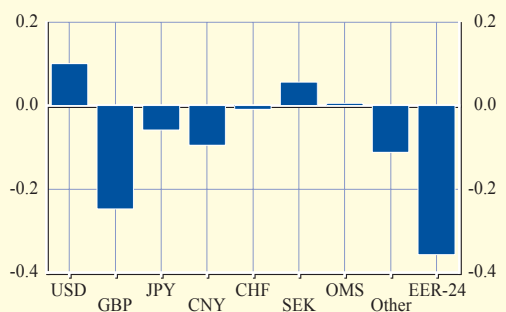
Chart 28 Euro effective exchange rate and its decomposition ¹⁾

(daily data)



Contributions to EER changes ²⁾

From 30 April to 1 August 2007
(percentage points)



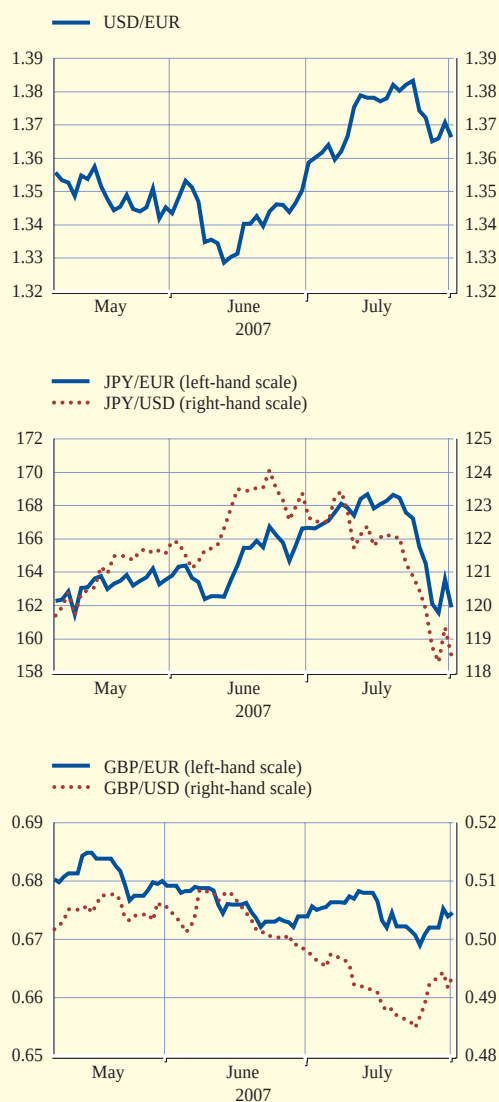
Source: ECB.

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

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

Chart 29 Patterns in exchange rates

(daily data)



Source: ECB.

developments in the prices of currency derivatives revealed expectations of broadly stable implied volatility over the short term. For the exchange rate of the euro against the US dollar, implied volatility continued to fall until mid-June, reaching values below 5%, and stabilised thereafter at around 5.5%. Over the review period the prices of currency derivatives were consistent with market expectations of a slight appreciation in the euro/dollar rate over the short term. On 1 August the euro traded at USD 1.37, i.e. just less than half a percentage point stronger than at the end of April and approximately 9% stronger than its 2006 average (see Chart 29).

JAPANESE YEN/EURO

At the beginning of August 2007 the exchange rate of the euro vis-à-vis the Japanese yen stood at about half a percentage point below its level at the end of April. However, the single currency had appreciated for a large part of the review period, reaching an all-time high of JPY 168.68 on 13 July, before falling back to levels slightly below those prevailing around the end of April.

Market participants attributed the strengthening of the euro vis-à-vis the yen mainly to the favourable market attitude towards risk which, together with an environment in which the perception of risk is extremely low by historical standards, has supported considerable carry trade activity, in which the Japanese yen is often used as a funding instrument. The appreciation recorded by the yen towards the end of July, vis-à-vis both the euro and the US dollar, may be the result of a shift in market participants' attitudes towards risk amid the

tensions in the global credit market that originated in the US sub-prime mortgage market.

After a moderate increase in June and the first half of July, the implied volatility of the Japanese yen vis-à-vis the euro fell again in the second half of that month, remaining overall well below the peak seen in March. Since the beginning of 2007 developments in the prices of currency options have signalled continued expectations of some strengthening of the Japanese currency vis-à-vis the euro in the short term, an expectation which tended to increase in the course of July. On 1 August the euro stood at JPY 161.9, i.e. approximately half a percentage point below its level at the end of April and about 11% stronger than its 2006 average (see Chart 29).

EU MEMBER STATES' CURRENCIES

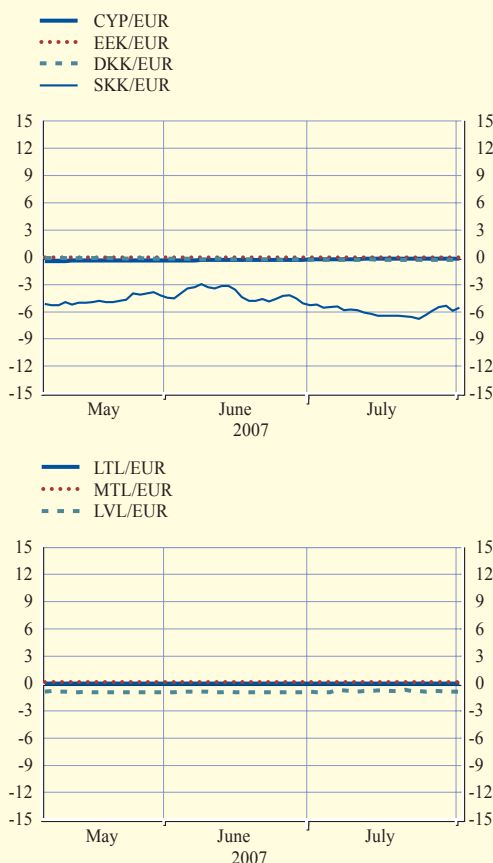
Since the end of April 2007 the currencies participating in ERM II – with the exception of the Slovak koruna and the Latvian lats – have remained stable and have continued to trade at or close to their respective central rates (see Chart 30). After depreciating in May and the first half of June, the Slovak koruna rebounded in July, almost reaching the peaks seen in March. Towards the end of the month, however, the Slovak currency began to lose momentum, trading on 1 August 5.5% stronger than its central rate. Over the same period, the Latvian lats remained broadly stable and on 1 August traded almost 1% stronger than its ERM II central rate.

With regard to the currencies of EU Member States not participating in ERM II, between the end of April and 1 August 2007 the euro weakened by 1.2% against the pound sterling and by 4.7% vis-à-vis the Romanian leu, while it appreciated by 1.2% vis-à-vis the Swedish krona.

On 10 July the EU Council adopted a decision allowing Cyprus and Malta to join the euro area and adopt the euro as their currency as from 1 January 2008. It also decided to maintain the current central rates of 0.585274 Cyprus pound and 0.429300 Maltese lira to the euro as the conversion rates (see Box 6).

Chart 30 Patterns in exchange rates in ERM II

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



Source: ECB.

Note: A positive (negative) deviation from the central rate against the euro implies that the currency is on the weak (strong) side of the band. For the Danish krone, the fluctuation band is $\pm 2.25\%$; for all other currencies, the standard fluctuation band of $\pm 15\%$ applies.

Box 6

THE INTRODUCTION OF THE EURO IN CYPRUS AND MALTA ON 1 JANUARY 2008

Following requests by the national authorities of Cyprus and Malta for a review of progress with respect to their fulfilling the provisions of the Maastricht Treaty (Article 122(2)) for the adoption of the euro, the ECB and the European Commission both prepared the required Convergence Reports. These reports, examining the achievement of a high degree of sustainable convergence, were published on 16 May 2007. On the basis of the results of the underlying examination, Cyprus and Malta were both found to have fulfilled the necessary conditions for the adoption of the single currency. On 10 July 2007 the EU Council therefore adopted a decision allowing Cyprus and Malta to adopt the euro as their currency as from 1 January 2008.

The EU Council also adopted a regulation fixing the irrevocable conversion rates for the Cyprus pound and the Maltese lira to the euro. The respective conversion rates were set at CYP 0.585274 and MTL 0.429300 to the euro. Both conversion rates correspond to the respective central rates agreed on 2 May 2005 when the Cypriot and Maltese currencies entered the exchange rate mechanism II (ERM II). Within ERM II, Cyprus and Malta have not changed their currencies' central rates against the euro and the respective exchange rates have stayed close to or at the central rates. The ECB supported the choice of the current central rates as the conversion rates upon adoption of the euro. Following the fixing of the conversion rates, the ECB, together with the national central banks of Cyprus and Malta, will monitor developments in the market exchange rates of the two currencies against the euro in the context of the ERM II agreement until the end of 2007.

With the introduction of the euro by Cyprus and Malta on 1 January 2008, the euro area will comprise 15 EU Member States. Cyprus and Malta will be able to share the benefits of the single currency, which eliminates exchange rate uncertainty within Economic and Monetary Union and offers a credible monetary policy framework for maintaining price stability in an environment of low long-term interest rates, full price and cost transparency, reduced transaction and information costs and a greater resilience to economic and financial shocks. In order to ensure that the benefits of adopting the euro are reaped in full, the EU Council has encouraged Cyprus and Malta to continue with appropriate policies with regard to, in particular, budgetary rigour, structural reform and maintaining the competitiveness of their respective economies.

More specifically, for Cyprus it will be important to continue on a sustainable and credible path of fiscal consolidation based on structural measures and to improve its fiscal performance by tangibly reducing its high debt ratio. It will also be important, particularly in the public sector, to maintain moderate wage developments that take into account labour productivity growth, labour market conditions and developments in competitor countries. Moreover, it will be essential to proceed with structural reforms of the product and labour markets. For example, the indexation mechanism for salaries and some social benefits (cost-of-living allowances) should be overhauled in order to reduce risks associated with inflation inertia. Such structural reforms will not only make the economy more resilient to shocks but also create the best conditions for sustainable economic expansion and growth in employment. Finally, a possible reunification of Cyprus could entail additional structural and fiscal challenges depending on the specific economic and fiscal arrangements.

For Malta, it will be important to continue on a sustainable and credible path of fiscal consolidation and to improve its fiscal performance by tangibly reducing its high debt ratio. It will also be important, in both the public and the private sector, to maintain moderate wage developments that take into account labour productivity growth, labour market conditions and developments in competitor countries. Attention must also focus on overcoming the structural constraints on economic growth and job creation, notably by fostering labour participation. The strengthening of competition in product markets and improvements in the functioning of the labour market are key elements in this regard. Such measures will also help to make these markets more flexible, thereby facilitating adjustment in the face of possible country or industry-specific shocks. The ability to absorb such shocks is particularly important in view of the economy's relatively high degree of specialisation. These measures will help to achieve an environment conducive to price stability, as well as to promote competitiveness and employment growth.

OTHER CURRENCIES

Over the last three months the euro has remained stable vis-à-vis the Swiss franc. By contrast, it has depreciated by about 4% against the Canadian dollar, by 2.3% against the Australian dollar and by 1.6% against the Norwegian krone.

5.2 BALANCE OF PAYMENTS

In the three-month period to May 2007 the growth rates of both extra-euro area exports and extra-euro area imports declined. Nevertheless, the 12-month cumulated goods surplus continued to rise, helping to bring the euro area current account to a close-to-balance position in that month compared with a deficit a year earlier. The decline in the cumulated income deficit over the same period also contributed to this development. In the financial account, combined direct and portfolio investment recorded net inflows of €177.3 billion in the 12-month period to May 2007, compared with net outflows of €3.7 billion in the previous year. This shift in the direction of capital flows mainly reflects larger net inflows in portfolio investment.

Table 8 Main items of the euro area balance of payments

(seasonally adjusted, unless otherwise indicated)

			Three-month moving average figures ending				12-month cumulated figures ending	
	2007 Apr.	2007 May	2006 Aug.	2006 Nov.	2007 Feb.	2007 May	2006 May	2007 May
<i>EUR billions</i>								
Current account	-1.6	-8.6	-1.1	1.1	1.6	-1.4	-28.1	0.8
Goods balance	4.7	3.5	0.6	5.4	3.8	5.5	21.8	45.9
Exports	122.6	121.1	114.7	120.9	122.3	122.3	1,292.4	1,440.4
Imports	117.9	117.7	114.0	115.5	118.5	116.8	1,270.6	1,394.4
Services balance	3.2	2.2	2.9	2.3	3.3	3.3	37.4	35.6
Exports	37.7	37.7	35.8	36.0	37.3	38.0	418.0	441.0
Imports	34.5	35.6	32.9	33.7	33.9	34.7	380.6	405.4
Income balance	-0.8	-9.6	1.1	0.5	-0.2	-3.4	-16.2	-5.8
Current transfers balance	-8.8	-4.6	-5.7	-7.1	-5.3	-6.8	-71.1	-74.9
Financial account¹⁾	17.7	0.7	4.4	11.1	-2.6	-8.6	110.5	13.0
Combined net direct and portfolio investment	-8.9	-4.0	6.2	26.4	10.8	15.6	-3.7	177.3
Net direct investment	-24.5	-11.3	-10.7	-16.9	-18.3	-13.9	-194.3	-179.2
Net portfolio investment	15.6	7.3	16.9	43.3	29.1	29.5	190.6	356.4
Equities	-10.8	10.3	25.0	15.5	24.0	13.0	181.4	232.6
Debt instruments	26.4	-3.0	-8.1	27.8	5.1	16.5	9.3	123.8
Bonds and notes	13.3	-9.7	1.9	24.4	17.4	16.1	9.6	179.4
Money market instruments	13.1	6.7	-10.0	3.3	-12.3	0.4	-0.4	-55.6
<i>Percentage changes over previous period</i>								
Goods and services								
Exports	-0.7	-0.9	1.6	4.3	1.7	0.4	11.9	10.0
Imports	2.5	0.5	2.2	1.6	2.2	-0.7	16.3	9.0
Goods								
Exports	-0.4	-1.2	1.8	5.4	1.2	-0.0	12.2	11.5
Imports	2.7	-0.2	2.3	1.3	2.6	-1.5	18.0	9.7
Services								
Exports	-1.8	0.0	1.2	0.7	3.5	1.9	11.1	5.5
Imports	2.0	3.0	2.0	2.5	0.7	2.2	11.0	6.5

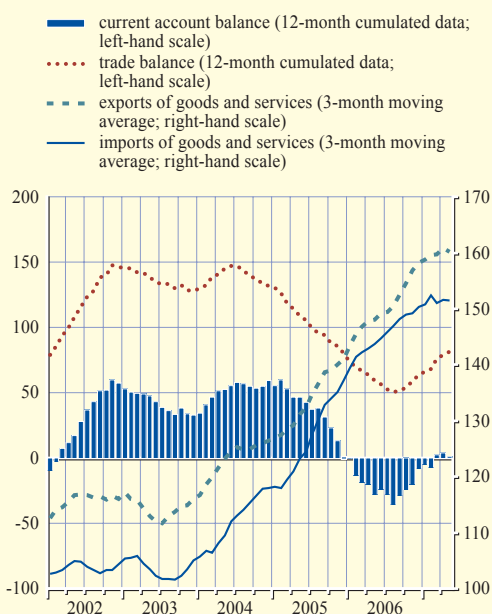
Source: ECB.

Note: Figures may not add up due to rounding.

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

Chart 31 The euro area current account and trade balances

(EUR billions; monthly data; seasonally adjusted)



Source: ECB.

TRADE AND THE CURRENT ACCOUNT

In the three-month period to May 2007 the growth rates of both extra-euro area exports and extra-euro area imports declined. The value of exports of goods and services grew in this period by 0.4%, compared with an expansion of 1.7% in the three-month period to February. Meanwhile, the value of imports of goods and services contracted by 0.7%, after having grown by 2.2% in the three-month period to February (see Table 8). The slowdown in export growth was visible in both goods and services, while the contraction of total imports reflected a decline in goods imports (-1.5%). Imports of services expanded at a rate of 2.2%, up from 0.7% in the three-month period to February.

The breakdown of extra-euro area trade in goods into volumes and prices, also available up to May 2007, indicates that the slowdown in the growth of the value of goods exports is attributable to a decline in the growth of export volumes. After a brief period of strong growth at the end of 2006, export volumes weakened markedly at the beginning of this year and

showed zero growth in the three-month period to May 2007. While the slowdown in goods export volumes may partly have been a result of statistical effects (i.e. a reversal after the exceptionally strong export growth of preceding months), somewhat weaker – although still robust – foreign demand may also have contributed. Meanwhile, goods export prices continued to increase by around 0.8% in the three months to May 2007 with respect to the previous three-month period.

On the imports side, the volume-price breakdown of extra-euro area goods trade suggests that the contraction in the value of imports is mostly the result of a decline in import volumes, which fell by 1.7% in the three months to May 2007. Meanwhile, subdued increases were observed in the prices of goods imports (0.2% in the same period) in spite of the pick-up in world oil prices, indicating that the appreciation of the euro may have so far largely offset this effect.

From a longer-term perspective, the 12-month cumulated current account to May 2007 registered a surplus of €0.8 billion, compared with a €28.1 billion deficit a year earlier (see Chart 31). The shift from a deficit to a close-to-balance position reflected primarily a rise in the goods surplus (by €24.1 billion) and, to a lesser extent, a decrease (by €10.4 billion) in the income deficit. The improvement in the goods surplus partly reflected the containment of the cumulated oil trade deficit (available up to April 2007).

As to the overall improvement in the income deficit, this was observed despite the fact that in May 2007 the euro area recorded its historically largest monthly deficit in the income account, owing to an exceptionally high distribution of dividends by euro area companies in that month.

FINANCIAL ACCOUNT

In the euro area financial account, combined direct and portfolio investment registered large cumulated net inflows of €177.3 billion in the 12-month period to May 2007, compared with net outflows of €3.7 billion a year earlier. This shift resulted mainly from higher net inflows in portfolio investment, primarily in long-term debt and, to a lesser extent, in equity securities (see Chart 32).

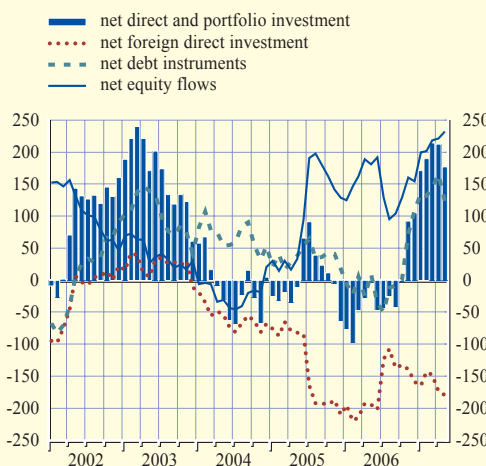
The increase in net inflows in bonds and notes was almost entirely accounted for by higher net purchases of euro area bonds and notes by non-residents, amounting to around €507 billion in the 12-month period to May 2007 compared with €286 billion a year earlier. These developments may point to a possible restructuring of global portfolios towards fixed income instruments amid the worldwide rise in interest rates.

The euro area also continued to register strong net inflows in equity securities, in line with developments in equity return differentials between the euro area and the United States. The ongoing increase in 12-month cumulated net inflows in equities – which started in early 2006 – was driven mainly by lower net purchases of foreign equity securities by euro area residents.

As for the rising net outflows in foreign direct investment (FDI), recent developments largely reflect an increase in outward FDI by euro area firms, mainly in the form of equity capital and reinvested earnings. This may point to further expansion of euro area enterprises' activities abroad, supported by the steady improvement in the investment climate over the course of the last few years.

Chart 32 Euro area combined direct and portfolio investment

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



Source: ECB.

ARTICLES

ADJUSTMENT OF GLOBAL IMBALANCES IN A FINANCIALLY INTEGRATING WORLD



The global economy continues to be characterised by large current account deficits and surpluses in several large economies, as reflected in the direction of global capital flows. These global imbalances have sparked an intense and controversial debate about what their underlying causes are and how such imbalances may be resolved. The issue is important, as a potentially disorderly unwinding could pose a risk for the global economy and the stability of the international financial system. This article offers a definition of global imbalances and various proxies to measure their complexity in order to help understand their significance and evolution. In analysing the causes of the phenomenon, the article distinguishes between structural factors – those that correspond to long-run trends and reflect underlying structural characteristics of the global economy – and cyclical factors – those that may be reversed relatively quickly. Structural factors include the role of incomplete financial globalisation, financial imperfections, the increasing trade integration of emerging Asian countries – where saving rates tend to be structurally high – and the effect of business cycle moderation. Cyclical factors include the dynamics of household savings, the role of financial asset and house prices, the impact of growth differentials across countries, the effect of public savings and oil prices. While any classification of this type is subject to caveats, given that all economic factors can have both a cyclical and a structural dimension – and taking into account that the cyclical dimension can, itself, be heavily influenced by the policy mix – this distinction is useful in understanding the likely evolution of global imbalances over time. To keep the focus of this article, some aspects of global imbalances – such as the consequences of global imbalances on global liquidity creation and on long-term interest rates – are not directly discussed here. The article concludes by discussing policy implications. Clearly, recent developments do not point to a worsening of global imbalances, owing in particular to the ongoing pattern of growth-rebalancing across countries. Although the risk of a disorderly adjustment is, to date, relatively contained, it cannot be neglected. An appropriate policy response therefore remains essential to ensure a smooth adjustment over the medium term, as agreed in G7 communiqués and in the recent IMF multilateral consultation process on this topic.

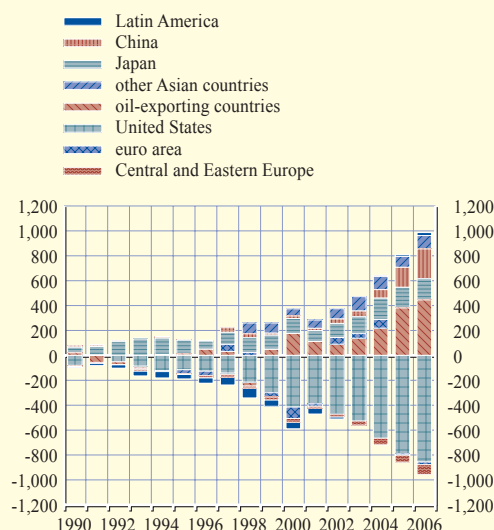
I INTRODUCTION

Large imbalances in countries' current account positions that also have implications for the global economy are not a new phenomenon but have materialised periodically over the last few centuries. They were present in the late 19th century between the United Kingdom and its colonies, for instance, during the era of the gold standard. More recently, the United States recorded a large current account deficit in the 1980s, which has since undergone significant variations and risen to unprecedented levels in recent years. In the 1980s and 1990s, several emerging markets borrowed massively from advanced economies before being hit by severe financial crises (Latin America in the 1980s and in 1994, Asia in 1997 and Russia in 1998). Such crises were also characterised by significant contagion across countries and sometimes across regions, highlighting the importance of systemic risks in a globalised economy.

The issue of global imbalances has again arisen in the current decade. More than a mere increase in the magnitude of global current account positions, what is particularly noticeable this time is the concentration of the deficits in one single country, the United States, which is now absorbing roughly 75% of the net consolidated current account of those regions with surpluses (see Chart 1). Another peculiarity of the current constellation of international net lending positions is the fact that the counterpart of the US deficit is mostly accounted for by non-industrial economies, primarily in East Asia, and oil-exporting countries. In 2006 China recorded a current account surplus equal to 9.1% of its GDP, while other emerging Asian economies registered an aggregate surplus of 3.4% and oil-exporting countries one of nearly 15%. This is somewhat paradoxical from the perspective of macroeconomic theory, as it means that emerging markets have increasingly become net lenders and advanced industrial

Chart 1 Current account balances for selected countries and regions

(USD billions)



Source: IMF World Economic Outlook.

economies net borrowers. However, in recent years, the euro area current account has been broadly balanced.

The global imbalances that emerged during the last decade represent a challenge to the international community, for two main reasons. First, they entail the risk of a disorderly adjustment, which could adversely affect the prosperity of the global economy and the stability of the international financial system. Second, they reflect, to some extent, distortions in the global allocation of capital. Such distortions are mirrored, in particular, in large foreign exchange interventions (in East Asia and several oil-exporting countries) and incomplete financial development in many emerging market economies, as well as in significant labour and product market regulation (in several advanced economies). Even if the risks of a disorderly adjustment were not to materialise, the presence of such distortions represents a welfare loss for the world economy. This article therefore aims to analyse the factors behind the current global imbalances, outline possible adjustment mechanisms and review the required policy response.

Section 2 introduces a definition of global imbalances and presents a number of indicators that measure the evolution of global imbalances over time. Section 3 reviews the main cyclical and structural factors behind global imbalances and Section 4 discusses policy measures and possible adjustment mechanisms, while Section 5 sets out the conclusions.

2 DEFINITION AND MEASUREMENT

DEFINING GLOBAL IMBALANCES

Although the notion of global imbalances is often referred to, it is rarely defined. It may be useful to define global imbalances as “external positions of systemically important economies that reflect distortions or entail risks for the global economy”. This definition, which is broader than the definition restricting global imbalances to the magnitude of the US deficit, highlights three key aspects of global imbalances.

First, defining global imbalances as a set of external positions emphasises that they are not merely a real phenomenon related to current account positions in terms of flows, but that they can also have a financial dimension in terms of the structure of financial stocks. Global imbalances are not restricted to flow concepts such as the current and financial accounts of the balance of payments; they also relate to stock concepts such as the international investment position. For example, the composition of foreign assets and liabilities, in terms of currency breakdown, liquidity and risk, has proved to be particularly relevant in past current account adjustments.¹ Another implication of this definition is that it does not rely on a particular threshold above which current

¹ Many emerging markets have, in the past, experienced balance of payment crises in spite of relatively contained current account deficits. Such crises occurred for a number of reasons, such as currency mismatches between foreign assets (in domestic currency) and liabilities (in foreign currency), weak domestic financial sectors, overvalued exchange rates and excessive government debt.

account positions are deemed to constitute an imbalance, which may vary from one country to another and over time.²

Second, focusing on all systemically important economies highlights the global nature of the issue. Studying only the United States would omit the role of the countries that run the corresponding current account surpluses, as the accumulation of net savings in Asia and in oil-exporting countries, for instance, is one of the key factors behind global imbalances. In practice, it is hard to define which countries are systemically important: some past financial crises have been triggered by relatively small economies, thus underlining that developments in such economies can also have systemic repercussions.

Third, the definition suggests a double motivation to monitor issues related to global imbalances closely, namely the fact that they entail risks and reflect distortions. The risks are primarily potentially adverse financial market developments resulting from an unexpected shock, but also include risks – such as rising protectionism – that could negatively affect the global economy.³ However, potential risks associated with large external imbalances are not the only reason for the international financial community to examine the issue. Another key element to consider when assessing the magnitude and the evolution of global imbalances is the number of distortions that they are associated with. Indeed, there is clear evidence that today's global capital flows are not entirely the result of free market forces but that various distortions have a bearing on international net lending positions. These distortions particularly take the form of i) insufficient flexibility in exchange rate regimes, which leads to large-scale interventions in the foreign exchange markets, ii) incomplete financial market liberalisation in a number of emerging markets, which forces savings to leave the country in search of liquid and safe financial assets⁴ and iii) excessive regulation in the product and labour markets, also in advanced economies. These distortions negatively affect

global factor allocation by impacting trade and production patterns, and are thus suboptimal in terms of global economic welfare. Hence, the presence, in the world economy, of distortions sustaining global imbalances is also a source of concern for policy-makers, even if the risks of unwinding were to remain contained.

MEASURING GLOBAL IMBALANCES

Several statistical indicators or proxies may be useful to shed light on the multi-faceted nature of global imbalances relating, in particular, to the magnitude and degree of dispersion of current account positions, the magnitude and dispersion of net foreign asset positions, and the level of international reserves. First, the sum of the absolute value of all current account positions has recorded a substantial rise in recent years (see Chart 2a). The fact that countries have been recording larger current account positions over time (also scaled by world GDP) is not necessarily a sign of a growing imbalance, since it could simply imply that countries are taking advantage of globalisation to trade more and enhance the diversification of their portfolios. However, it appears that this evolution does not concern all countries equally. Chart 2b shows a statistical measure for the dispersion of current account surpluses and deficits, with a rise implying an increase in dispersion. These measures indicate that, in the past ten years, global deficits have been increasingly concentrated, whereas surpluses have been increasingly spread across countries. On the deficit side, the degree of concentration is currently very similar

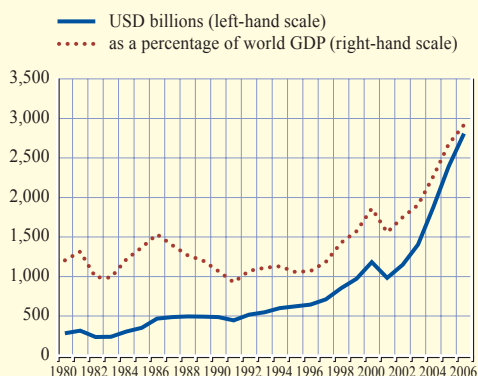
2 Economic theory does not require all current account positions to be balanced. From an intertemporal perspective, for example, it is perfectly rational for a rapidly growing economy to borrow temporarily against future income. However, in practice it is difficult to derive a threshold above which a given deficit is deemed unsustainable.

3 The economic cost of a protectionist backlash could indeed be substantial, as suggested for example in H. Faruquee, D. Laxton, D. Muir and P. Pesenti, "Would protectionism defuse global imbalances and spur economic activity? A scenario analysis", *Staff Reports, Federal Reserve Bank of New York*, No 268, December 2006.

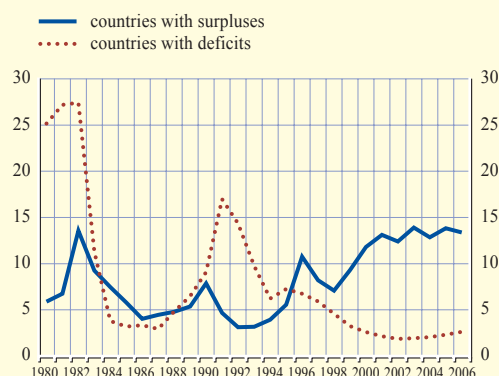
4 Related to this, portfolio inflows into emerging markets also tend to be contained owing to capital account restrictions.

Chart 2 Indicators of current account imbalances

a) Sum of the absolute values of global current account balances



b) Dispersion index



Source: ECB computations based on data from the IMF World Economic Outlook.
 Notes: Dispersion in Chart 2b is measured as:

$$S^{surpluses} = 1 / \sum_{\forall i, s.t. CA_i > 0} (\overline{CA}_i / \sum \overline{CA}_i)^2, \text{ and } S^{deficits} = 1 / \sum_{\forall i, s.t. CA_i < 0} (\overline{CA}_i / \sum \overline{CA}_i)^2,$$

where CA_i is the current account in nominal (USD) terms and $\overline{CA}_i$ is its absolute value. An increase denotes a higher dispersion/lower concentration.

to what it was in the mid-1980s. On the surplus side, just three countries – Japan, Germany and the Netherlands – accounted for half of the world current account surplus in 1985. Twenty years later, the economies accounting for most of the surplus include Japan, China, Saudi Arabia and Russia. Thus, while the countries accounting for the world surplus were all industrialised countries twenty years ago, the group of large-surplus countries has grown and now includes one East Asian emerging market economy and two oil-exporting countries. This also implies that the nature of global imbalances has become more complex than twenty years ago, given that they now involve more heterogeneous countries.⁵ Finally, one key feature of the present pattern of current account positions is their high degree of persistence: the countries that run surpluses tend to maintain high surpluses for several years, whereas the countries that run deficits (in particular the United States) tend to carry them over for protracted periods.

In addition to current account positions, there are other variables that are of key importance. In particular, net foreign asset positions – as

opposed to current account balances – indicate a somewhat smaller magnitude of global imbalances, for two main reasons. First, the magnitude of global net external positions in absolute terms has actually decreased slightly since 2002. Second, the US share of world net foreign liabilities is far smaller than its share of the current account deficit: the United States now accounts for 75% of the world current account deficit but only 37% of world net foreign liabilities. The explanation for this difference is twofold. First, changes in net foreign assets are not equal to cumulated current account balances because of return differentials and valuation effects, the difference in rates of return having been sizeable for the United States over the past few decades.⁶ Second, the starting conditions matter. The capital flows of some countries have turned into net outflows

5 In fact, the multilateral consultation launched by the IMF in 2006 involved five countries and regions: China, the euro area, Japan, Saudi Arabia and the United States.

6 See Hausman and Sturzenegger, “US and global imbalances: can dark matter prevent a big bang?”, Working Paper, Kennedy School of Government and Harvard University, 2005. Another key difference between current account and net foreign asset balances is that the statistical error is (proportionally) much larger in the case of the latter.

only recently, while they still record net foreign liabilities. Mexico, for example, continues to have significant net foreign liabilities (45% of GDP in 2005), although its current account position was close to balance in 2005, due to current account deficits accumulated in the past.

Finally, another key variable is the level of international reserves, which has increased substantially in several regions of the world, particularly in East Asia.⁷ In China, the level of international reserves amounted to USD 1.2 trillion at the beginning of 2007. While the accumulation of international reserve assets is not a distortion per se (but may, for instance, partly reflect precautionary motives⁸), it can be seen as an indirect measure of distortions when largely associated with foreign exchange interventions.

In summary, global imbalances have widened since the beginning of the 1990s and accelerated since the early 2000s, although the magnitude of this increase may vary across indicators. Furthermore, recent developments do not all point to a worsening of positions. Owing to the multi-faceted nature of these imbalances, which goes beyond the mere dispersion of current account positions in the world, it is necessary to examine together the indicators reviewed in this section to assess the evolution of global imbalances over time.

3 THE ROLE OF CYCLICAL AND STRUCTURAL FACTORS

In order to understand the nature of global imbalances and to be able to gauge their likely evolution and degree of sustainability over time, it is useful to make a distinction between structural factors and cyclical factors. While structural factors correspond to long-run trends exhibiting significant inertia, cyclical factors correspond to shorter-run factors that can be reversed rather quickly – in particular, cyclical factors are those that affect the allocation of global demand in the short run.⁹ Of course, this

distinction is especially useful for analytical purposes, these two types of factors being sometimes closely related in practice. To take an example, a given rise in world oil prices may be attributed both to short-run factors (e.g. geopolitical tensions in some of the oil-producing countries) and to broader long-run factors (e.g. a structural increase in demand from emerging market economies).¹⁰ Although the impact of each of these factors is difficult to evaluate precisely, several studies have attempted to provide estimates that can be used to gauge their relative importance.

CYCLICAL FACTORS

Of the wide range of cyclical factors that can affect the current account, five of them – asset prices, business cycles and, in particular, changes in domestic demand, public savings and oil prices – are of key importance.

Since the current account – given national account identities – is equal to the difference between domestic saving and domestic investment, fluctuations in asset prices can affect the national current account balance through their wealth effect on household consumption and net saving. In the United States, the increase in the current account deficit since the early 1990s has been associated with a fall in domestic net savings in the household sector (see Chart 3). Although the

7 Many oil-exporting countries do not accumulate foreign exchange reserves in spite of large cumulated current account surpluses. This is because their external assets are managed by heritage funds and therefore do not appear on the central bank's balance sheets.

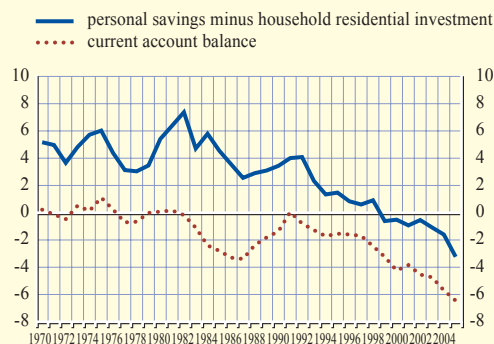
8 The accumulation of reserves partly corresponds to a precautionary motive, for example to cover a sufficient number of months of imports or to cover short-term debt to avoid a liquidity crisis (see M. Bussière and C. Mulder, "External vulnerability in emerging market economies: how high liquidity can offset weak fundamentals and the effects of contagion", IMF Working Paper 1999/88).

9 Structural and cyclical factors could also be understood as follows: structural factors affect the equilibrium level warranted by the fundamentals, whereas cyclical factors refer to transitory movements around the equilibrium level.

10 On the role of oil prices and oil-exporting countries, see the article entitled "Oil-exporting countries: key structural features, economic developments and oil revenue recycling" in the July 2007 issue of the Monthly Bulletin.

Chart 3 US households' net savings and the current account balance

(as a percentage of GDP)



Source: IMF World Economic Outlook.

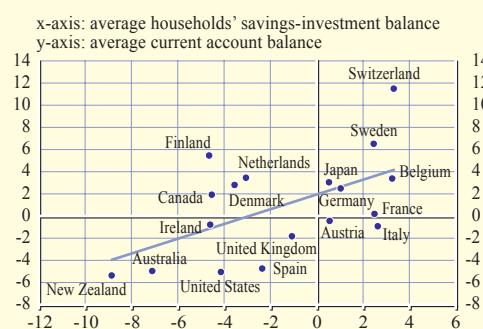
other sectors (the corporate and the government sectors) may have contributed to the overall decline in national net savings, an analysis of the reasons behind the fall in household net savings would be an important step towards understanding what triggered the rise in the US current account deficit. The link between household net savings and current account balances is in fact not limited to the United States, but also characterises several OECD countries (see Chart 4).

In turn, changes in household net savings can be related to a variety of factors, both cyclical and structural. Overall, it seems that variations in house prices – a largely cyclical factor – can have a strong effect on current account balances across countries. Changes in house prices are indeed negatively correlated with changes in current account balances across countries, as higher house prices can trigger higher consumption and reduce saving (see Chart 5). In the particular case of the United States, a fall in house prices and equity prices could therefore have significant effects on the US current account deficit by inducing a rise in domestic net savings. More generally, asset prices appear to be an important determinant of current account positions.¹¹

Turning to China, over the past three years the rise in the trade balance has been accounted for

Chart 4 Households' net savings and the current account balance in advanced economies

(average for 2001-05, as a percentage of GDP)



Source: OECD.

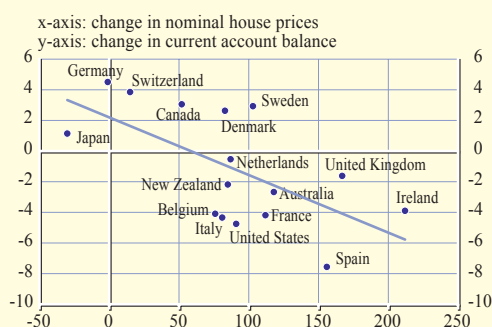
not only by the robust growth rate of exports, but also by a noticeable deceleration in imports, which was especially pronounced in the course of 2005 (see Chart 6). This deceleration may be partly due to long-run structural factors related to import substitution and to a deceleration in domestic investment. As investment is generally estimated to have a strong import content, changes in investment can have a significant impact on imports from the rest of the world. Domestic investment patterns can, in turn, be partly related to business cycle fluctuations.

Business cycle fluctuations induced by productivity shocks may indeed also constitute a key driver of global current account positions. If changes in economic growth and domestic demand are temporary in nature, the intertemporal approach to the current account suggests that the current account should be pro-cyclical: during high-growth periods, for example, when agents temporarily earn higher income, they will save and record trade surpluses in order to smooth consumption over time. Overall, however, there is ample evidence that the current account is counter-cyclical. Following a

¹¹ It has been estimated that, in the past, a 10% rise in equity prices or house prices in the United States, relative to the rest of the world, has led to an increase of about 1% in the US current account deficit (see M. Fratzscher, L. Juvenal and L. Samo, "Asset prices, exchange rates and the current account", ECB Working paper No 790, August 2007).

Chart 5 House prices and the current account balance in advanced economies

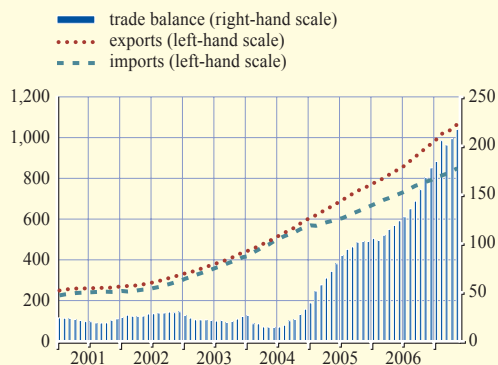
(percentage change 1997-2005)



Source: OECD and The Economist.

Chart 6 China's trade balance, and imports and exports of goods

(USD billions; monthly data, 12-month cumulated values)



Source: General Administration of Customs of the People's Republic of China.

sufficiently persistent productivity shock, the current account balance is indeed expected to move towards a deficit as investment rises.¹²

Public savings may also play a role in current account fluctuations. In the United States, the coincidence of a fiscal and current account deficit in the mid-1980s and early 2000s was sometimes referred to as the “twin-deficit” relationship. Finally, the current account of most countries has been strongly influenced by oil price fluctuations in recent years. The effect of higher oil prices differs fundamentally across countries, positively affecting the balance of oil-exporting countries and negatively affecting that of net oil importers. The reason why oil prices are so important stems from the fact that demand for oil is very inelastic in oil-importing countries, at least in the short run.¹³ In the United States, the increase in oil prices that has taken place in recent years has contributed to the increase in the overall trade deficit through higher oil imports. Similarly, in oil-exporting countries, absorption capacities are limited in the short run, such that most of the windfall in oil revenues is reinvested abroad financially.

STRUCTURAL FACTORS

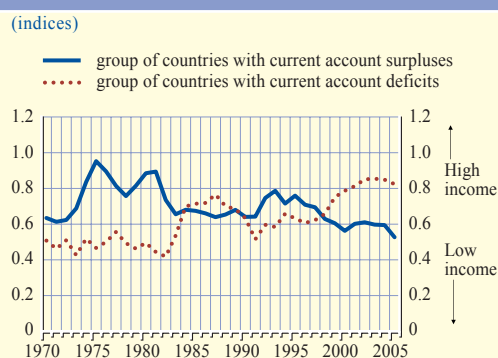
Aside from the cyclical factors, there are structural factors that affect the current account.

These factors are best understood by taking a global approach rather than focusing on one country in particular. From a global perspective, the observed pattern of current account positions is somewhat paradoxical because it amounts to capital flowing from emerging markets to developed countries. This can be seen by comparing, for each year, the average GDP per capita of the countries running a current account surplus with the average GDP per capita of the countries running a current account deficit. Since the late 1990s, the average income per capita has been higher in countries with deficits than in those with surpluses (see Chart 7), implying that capital is flowing from poorer to richer countries. The OECD countries themselves have been in quasi-permanent consolidated current account deficit for most of the past 20 years. This situation is paradoxical because it runs against the standard neoclassical model according to which capital should flow from rich to poor countries, and may be referred to as the “Lucas

12 See D. Backus, P. Kehoe and F. Kydland, “International business cycles”, *The Journal of Political Economy*, Vol. 100, August 1992, pp. 745-775 and R. Glick and K. Rogoff, “Global versus country-specific productivity shocks and the current account”, *Journal of Monetary Economics*, Vol. 35, 1995, pp. 159-192.

13 See the IMF World Economic Outlook, April 2007, Box 1.3, “Oil consumption across major countries: is the United States different?” for a recent cross-country comparison of price and income elasticities.

Chart 7 Weighted average of income in surplus and deficit countries

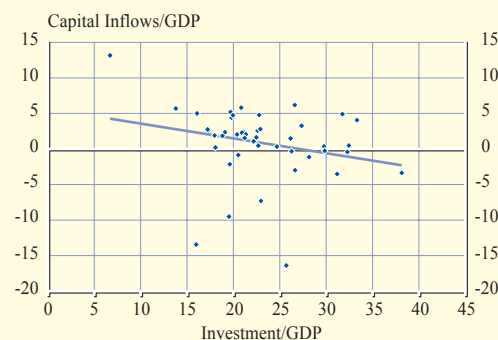


Source: E. Prasad et al.

Notes: The baseline sample includes 22 industrial and 61 non-industrial economies as defined in Bosworth and Collins, "The empirics of growth: an update", Brookings Papers on Economic Activity, No 2, 2003, pp. 117-179. The indices report a weighted average of income per capita in countries running current account surpluses or deficits. They are scaled by the income per capita of the richest country and weighted by the magnitude of each country's current account balance as a share of the sum of all surpluses or deficits.

Chart 8 Average capital inflows and investment rates in emerging economies

(as a percentage of GDP; 1980-2006)



Source: IMF World Economic Outlook.

paradox".¹⁴ Understanding what drives this particular configuration of current account positions therefore represents an important step towards explaining global imbalances and their likely evolution over time.

Several explanations of the Lucas paradox have been put forward. Lucas himself provided a first possible interpretation, which emphasises the fact that in many emerging markets the risk-adjusted return on capital is not catching up with the returns observed in advanced economies. This would explain why investors do not invest in emerging markets, where returns are not as high as in advanced economies. However, this explanation has some drawbacks. Indeed, if investment and capital flows mostly resulted from differences in risk-adjusted returns on capital, countries that invest more should also receive more capital, which is, however, not the case: capital flows and investment (both expressed as a percentage of GDP) are not positively correlated across emerging economies. Indeed, they tend to be negatively correlated (see Chart 8).¹⁵

Nevertheless, it should be noted that some types of cross-border financial flows do seem to flow from industrialised countries to emerging markets. This is particularly the case of foreign direct investment (FDI): since 1970 the weighted average income of FDI-exporting countries has always been above that of FDI-importing countries (see Chart 9).¹⁶ In other words, comparatively richer countries tend to invest in comparatively poorer countries when it comes to FDI, in contrast to the pattern observed for overall net investment in Chart 7.

The role of incomplete financial liberalisation has received increasing attention as one of the most fundamental determinants of the current constellation of global net lending positions.¹⁷

14 See R. Lucas, "Why doesn't capital flow from rich to poor countries?", *American Economic Review Papers and Proceedings*, Vol. 80, No 2, May 1990, pp. 92-6. In the original article, Lucas pointed to the paradox that capital was flowing between developed economies. The current pattern is therefore even more paradoxical since capital flows from poorer countries to richer countries.

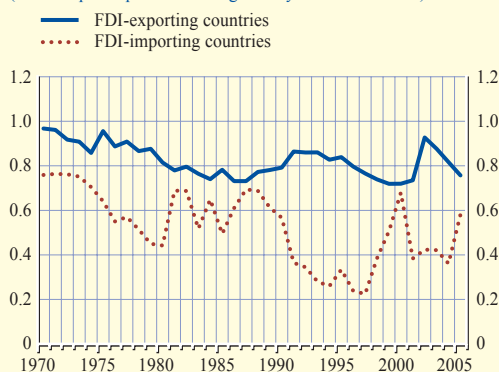
15 See P. O. Gourinchas and O. Jeanne, "Capital flows to developing countries: the allocation puzzle", mimeo, IMF, 2006.

16 See E. Prasad, R. Rajan and A. Subramanian, "Foreign capital and economic growth", mimeo, IMF, 2006.

17 See L. Bini Smaghi, "Globalization and monetary policy", *Journal of Policy Modeling*, forthcoming.

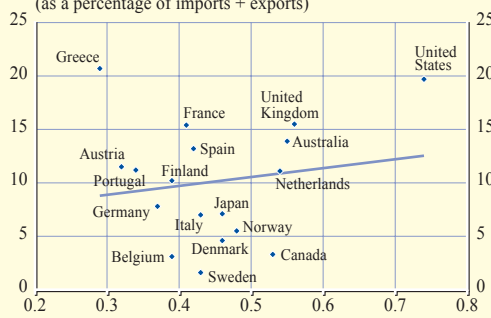
Chart 9 Weighted average income of FDI-importing and FDI-exporting countries

(relative per capita GDP weighted by current account)



Source: E. Prasad et al.

Notes: The baseline sample includes 22 industrial and 61 non-industrial economies as defined in Bosworth and Collins. The indices are constructed using the same method as in Chart 7.

Chart 10 Financial development index and foreign portfolio investmentx-axis: financial development index
y-axis: foreign portfolio inflows
(as a percentage of imports + exports)

Source: IMF World Economic Outlook.

Note: Averages for 2000-04.

The relatively low level of financial development in emerging markets seems to be a very likely explanation for their low level of portfolio inflows, since both variables appear to be correlated across countries (see Chart 10). Therefore, the apparently paradoxical pattern of international capital flows from emerging markets to developed countries could have a simple explanation highlighting the comparatively lower stage of financial developments in emerging markets. A further question that needs to be answered, however, is why capital flows from emerging markets are directed, to a large extent, to the United States rather than to other industrial countries that could offer similar services. Apart from the differences observed among the levels of domestic savings in the industrialised world that partially explain this situation, key elements that may help answer this question are the fact that the United States appears to be more open, financially, than other industrialised countries and that it is also characterised by a higher level of financial development than other advanced economies (see Chart 11).¹⁸

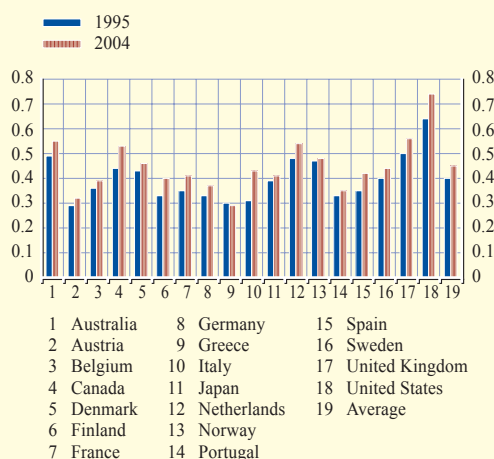
Other structural factors, specific to the United States, may also have played a role. One potentially important factor is the role of business cycle moderation and the fall of

precautionary savings. According to standard measures of business cycle volatility, the amplitude of the cycle has decreased over time in the United States (see Chart 12). This decrease represents a lower degree of uncertainty for economic agents. For a given measure of risk aversion, this should reduce the need to build up precautionary savings: agents who usually save in order to smooth their consumption in case of a sharp drop in real output are less inclined to do so if this risk decreases. This particular explanation fits in with the above-mentioned stylised facts: the fall in output volatility is consistent with the fall in household saving, which is one of the key factors behind the increase in the US current account deficit. One potential drawback to this argument is that output volatility has also decreased in other developed countries. However, as mentioned above, these other countries may not have the same degree of financial openness and liberalisation, and thus have allowed for fewer borrowing opportunities.

A further, complementary explanation is that the United States has recorded a rising share in the total output of all the advanced economies

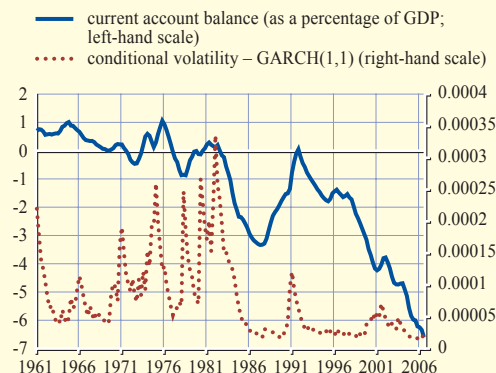
18 Additionally, the international role of the US dollar contributes to higher portfolio investment in the United States.

Chart 11 Financial development across advanced economies



Source: IMF World Economic Outlook.

Chart 12 US business cycle volatility and the current account balance



Source: ECB staff calculations based on A. Fogli and F. Perri, "The great moderation and the US external imbalances", NBER Working Paper No 12708, 2006.

over the past decade, reflecting a combination of factors such as higher productivity and demographics. Influential recent studies have shown that the large US current account deficit can, to some extent, be explained by expectations of a continued faster growth and a further increase in the US output share in the coming decades.¹⁹ This, in turn, may be related to significant differences in product and labour market distortions across countries, which result in different rates of output growth. In conclusion, today's global imbalances appear to stem from a variety of factors, some of which are cyclical in nature (and therefore may dissipate over time) and others more structural. However, one cannot count on the cyclical factors to reduce—significantly and permanently—the currently prevailing global imbalances, partly because of the high uncertainty that surrounds their likely future fluctuations—such as in the case of asset prices and oil prices—and partly because of the importance of structural determinants. By nature they are slow to move,²⁰ so that an immediate improvement cannot be expected.

4 POLICY MEASURES AND POSSIBLE ADJUSTMENT MECHANISMS

Global imbalances constitute an important challenge to policy-makers, both domestically and internationally. The share of these imbalances that stems from cyclical factors entails a non-negligible risk of a disorderly unwinding with large economic costs for the global economy and the international financial system. Additionally, structural factors pose as serious a challenge to policy as the removal of structural distortions and barriers—such as those related to financial market development and exchange rate policies in emerging market economies, and to real structural rigidities in advanced economies—and imply opportunities to generate enormous economic benefits for the economies involved and the global economy as a whole.

Recent developments do not all point to a worsening of global imbalances. For example,

¹⁹ See C. Engel and J. Rogers, "The US current account deficit and the expected share of world output," *Journal of Monetary Economics* 53(5), 2006, pp. 1063-1093.

²⁰ Structural factors are slow to move in normal times. However, they sometimes go through very rapid changes during disorderly adjustment times, as reviewed in Section 4.

towards the end of 2006, there seems to have been some moderation in the trend of rising current account imbalances observed over the previous decade. This moderation was particularly evident in the United States and oil-exporting countries, where – as a percentage of GDP – the current account balances remained broadly at the same level as the previous year. Although the fact that the US current account deficit seems to be stabilising at a historically high level (6.5% of GDP in 2006) cannot be described as a satisfactory development in itself, it has to be underlined that the growth rate of real US exports in 2006 was significantly higher than the average recorded in the previous four years. Moreover, the current account surplus of oil-exporting countries has also levelled off – albeit at a high level (15% of GDP) – in 2006. In addition, the euro area participated in the global adjustment by registering a moderate current account deficit in 2006; in the case of the United Kingdom, the change was even larger (2.9% compared with 2.4% in 2005). However, cyclical factors seem to be the main force behind this moderate improvement: the fall in oil prices since the summer of 2006 and the rebalancing of domestic demand across countries, with lower domestic demand in the United States and an acceleration of demand in the euro area and Japan. Furthermore, not all regions have recorded an improvement. In particular, current account surpluses have increased in Japan (from 3.6% in 2005 to 3.9% a year later) and more especially in China (from 7.2% in 2005 to 9.1% in 2006).

Although the importance of structural factors suggests that an unwinding will most likely be gradual and smooth, one question that remains is what an adjustment may imply for the global economy and financial markets. Some influential recent studies have argued that exchange rate adjustments may be part of a current account rebalancing.²¹ However, other studies have questioned these claims, arguing that an adjustment may not require sizeable changes in the external values of flexible currencies. Some of these studies point to the increasing size of the US economy compared

with that of other countries with flexible currencies, and show that a robust future performance of the US economy implies a stable and strong US dollar.²² In addition, a rebalancing of domestic demand across countries that is accompanied by significant adjustment through supply-side channels may allow a reduction in large current account imbalances, such as that observed in the United States, while not necessarily requiring large exchange rate changes.²³ Accordingly, structural reforms of labour and product markets in the euro area can contribute to the resolution of global imbalances by supporting domestic demand in euro area countries, which in turn could stimulate US exports.

Other empirical work suggests that, over the past 30 years, asset price developments have been a substantially more important driver of the US trade balance than the exchange rate. Thus, changes in relative asset prices, such as equity prices and house prices, including the possibility of stronger wealth effects stemming from relatively larger asset price increases outside the United States, are potentially a more relevant source for an adjustment of current account imbalances in the future.

More generally, large exchange rate changes in advanced economies have not been observed frequently in past episodes of current account reversals. Rather, an internal adjustment through a shift in domestic demand appears to have been a much more relevant mechanism in past episodes of current account adjustment.²⁴

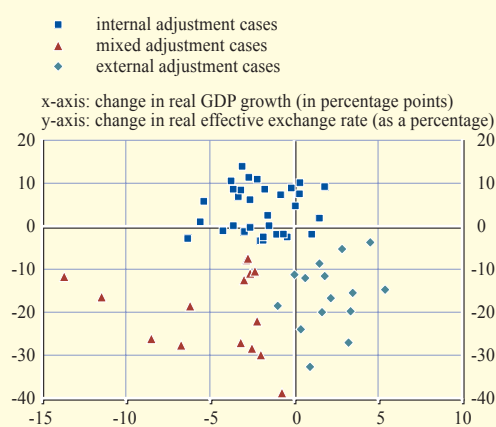
21 See, in particular, M. Obstfeld and K. Rogoff, "Global current account imbalances and exchange rate adjustments", *Brookings Papers on Economic Activity*, Vol. 1, 2005 and "The unsustainable US current account position revisited" in R. Clarida, ed. "G7 current account imbalances: sustainability and adjustment", The University of Chicago Press, 2006.

22 See C. Engel and J. Rogers (2006).

23 See P. Engler, M. Fidora and C. Thimann, "External imbalances and the US current account: how supply-side changes affect an exchange rate adjustment", ECB Working Paper No 761, 2007. Taking into account endogenous supply-side changes, this study shows that the implied US dollar depreciation is noticeably attenuated. This also highlights the importance of supply-side changes in the current account adjustment beyond the short-run effect of demand.

24 B. Algieri and T. Bracke, ECB Working Paper No 762, 2007.

Chart 13 Real GDP growth and exchange rate developments during current account reversals



Source: B. Algieri and T. Bracke.

To investigate these episodes, it is necessary to define what constitutes a current account adjustment, based on whether: i) the initial current account balance recorded a deficit, ii) the improvement in the current account balance exceeded a minimum threshold,²⁵ iii) the adjustment took place within a maximum of four years and iv) this adjustment persisted for at least five years. These episodes can then be classified in different groups using clustering techniques (see B. Algieri and T. Bracke for further details). Chart 13 shows that, out of 60 such past cases of current account adjustments, around half fall into the “internal adjustment” category (i.e. when the adjustment is primarily achieved by means of a reduction in domestic absorption and growth, without a significant depreciation in the exchange rate), whereas the remaining cases are almost evenly split between the “external adjustment” and the “mixed adjustment” categories (i.e. when the exchange rate induced a large share of the adjustment). For advanced economies in particular, past episodes have frequently not been associated with significant exchange rate movements, underlining the point of other studies that a sizeable exchange rate adjustment of the currencies of countries with current account deficits is frequently not required to induce an unwinding of such imbalances.

5 CONCLUSION

The current magnitude of global imbalances stems from a combination of structural and cyclical factors. It currently represents one of the key challenges facing the global economy and policy-makers. Indeed, external positions of systemically important economies reflect, to some extent, important distortions and also continue to entail risks for the global economy, in terms of a possible disorderly unwinding or giving rise to protectionist pressure. Although a gradual adjustment scenario remains the most likely outcome, it is important to ensure a gradual decline in global imbalances in the longer run through appropriate policy action. Equally importantly, the removal of structural distortions and barriers – such as through financial liberalisation and development – and structural reforms of labour and product markets offer vast opportunities to raise the level of economic activity and prosperity.

Several G7 communiqués since September 2003, and in particular February 2004, as well as the recently concluded IMF multilateral consultation on global imbalances, have outlined what cyclical and structural policy measures the most important countries and regions should implement. Commitment to these policy measures is going to play an essential role in ensuring that the reduction of global imbalances follows an orderly path.

The recent rebalancing in demand among advanced economies is a positive cyclical development that is likely to attenuate imbalances over the shorter term, but more structural measures need to be taken to address the medium-term challenges related to global imbalances. Specifically, greater exchange rate flexibility in countries that lack such flexibility remains of the utmost importance. This includes, in particular, China, which has been recording very large and rising current account surpluses.

²⁵ The threshold differs from country to country and is set at one standard deviation of the ratio of the country's current account balance to GDP. This allows for a higher threshold for countries with historically volatile current account balances.

The misalignment of its currency is also reflected in very high rates of foreign reserve accumulation leading to challenges in domestic macroeconomic management, inter alia through strong liquidity and credit growth. Moreover, financial sector reforms, deregulation and liberalisation in many emerging markets, including China, will be crucial to reduce excess savings and improve the effectiveness of economic policies and the overall allocation of resources, thereby fostering the economic well-being of the population at large.

However, it is not only emerging markets that need to take appropriate policy action. Further progress in the structural reform of labour and product markets in Europe and Japan are important to allow also these economies to contribute to the resolution of global imbalances. In the case of the United States, the country with by far the world's largest current account deficit in absolute terms, an adjustment in macroeconomic policies – including fiscal policy – and determined steps to raise, in particular, private savings will be crucial to help rebalance current account positions and re-equilibrate global capital flows. Overall, given that the responsibility for global imbalances is shared by the world's largest economies, the joint implementation of structural reforms in all of the countries concerned will considerably reinforce the chances of a successful adjustment.

THE FINANCING OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EURO AREA

ARTICLES

The financing of small and medium-sized enterprises in the euro area

Small and medium-sized enterprises (SMEs) have received particular attention from policy-makers in Europe given their prominent economic role. This article provides an in-depth analysis of how financing patterns differ across firm size categories in the euro area and analyses the financial position of SMEs using firm-level data. It also reviews the available evidence on the existence of financing constraints for SMEs in particular. Evidence based on several surveys points to the perception of financing constraints on the part of SMEs, although not in all countries. Evidence based on aggregated balance sheet data shows that, after controlling for sectoral composition and country effects, differences between the financial position of SMEs and that of larger firms emerge with regard to the degree of reliance on external sources of finance and to holdings of cash and financial fixed assets. Likewise, the smaller a firm is, the lower its debt repayment ability is. In addition, micro-level data show that there has been an increase in the dispersion of SMEs' financial position in the euro area in the last few years. The data also reveal links between various financial indicators which point to firms' fragile financial positions.

I INTRODUCTION

Understanding corporate financing decisions is important for monetary policy in the context of an assessment of financial and economic developments, as the transmission of monetary policy impulses depends to a certain degree on the financing behaviour and balance sheet structures of firms. Various factors – such as the size and age of the firm, the sector in which it chiefly operates, the country from which it operates (and, in particular, that country's institutions), and the level of economic and financial development – have been found to influence the availability of finance to firms.¹

In the light of the particular interest in the access of SMEs² to financing, this article focuses on one specific factor among those mentioned above – firm size – and analyses how financing patterns differ across large, medium-sized and small enterprises.

Firm size may affect the quality and quantity of information available on a firm's projects and collateral, as well as its relationship with the markets and banks. Smaller firms are often believed to face more severe financing problems than large firms.³ Unlike large firms, small firms often do not enter into contracts that are publicly visible (contracts with the labour force, suppliers and customers are generally kept private). In addition, small businesses do not normally issue traded securities that are

continuously priced in public markets. Among publicly traded firms, smaller, newer firms are less likely to be tracked by analysts. As a result, small firms often cannot credibly convey their quality and may have difficulty in building up a reputation to signal that they are of high quality or low risk. The resulting asymmetry of information between the two sides of the market may even result in firms being completely unable to obtain external finance. For instance, on the supply (bank) side, the costs involved in assessing and setting appropriate premia for risk and the relatively high monitoring costs may hinder the flow of funds to smaller firms. In this respect, the Basel II framework is expected to lead to the development of credit ratings also for SMEs. The possibly stronger relationship between credit ratings and the pricing of external finance may reduce information asymmetries and thus enable firms to benefit from greater access to finance.

Differences related to guarantees and the cost of financing may also affect the financing patterns of SMEs. Small firms often have less collateral that could protect creditors from

1 See "Corporate finance in the euro area", ECB, May 2007.

2 There are several definitions of SMEs. According to the Observatory of European SMEs, they are firms having less than 250 employees.

3 See, among others, M. Gertler, "Financial structure and aggregate economic activity: an overview", *Journal of Money, Credit and Banking*, Vol. 20 (3), pp. 559-88, August 1988, and "The SME financing gap, volume 1, theory and evidence", OECD, 2006.

adverse selection or moral hazard effects. In addition, it is plausible that funding costs contain a significant fixed cost component. These fixed costs would make small loans more expensive than larger ones, which are mostly obtained by large firms.

Given the above reasons, it is reasonable to expect the financing patterns of SMEs to differ from those of large firms. However, one way of reducing asymmetric information is to build up a long-term relationship with finance providers.⁴ This way, a firm can signal its quality by meeting its debt obligations. It could then be expected that small firms would have more stable bank relationships. Moreover, with regard to external finance, small firms may not have access to capital markets and may rely more on credit markets. Anticipating financing difficulties, these firms may respond by holding more cash to avoid the risk of not realising valuable projects.

Against this background, this article first focuses on the existence of financing constraints for SMEs and assesses the available empirical evidence. In particular, the analysis uses information derived from surveys (Section 2). On the basis of aggregated balance sheet data, Section 3 then assesses the impact of sectoral and country effects on firms' financial position across firm sizes. In addition, micro-level data are used to further analyse the financial position of SMEs (Section 4). The main conclusions are presented in Section 5.

2 SMALL AND MEDIUM-SIZED ENTERPRISES AND FINANCING CONSTRAINTS: RESULTS BASED ON SURVEYS

The importance of financing constraints is an empirical question, and consensus on their determinants – or even on their definition – has not yet been reached. One line of investigation is to ask firms directly whether they feel that they are subject to financing constraints.⁵ Some important caveats should be kept in mind when reviewing the results of the various surveys

conducted by the European Commission, the OECD and national authorities.⁶ For instance, the way in which questions are posed may mean that surveys miss some of the firms facing financing constraints (for example, they might capture firms which under current conditions feel financially constrained, but not those that would have borrowed more under more favourable conditions). Alternatively, firms' responses may only reflect a general deterioration of credit conditions in the economy, with the result that they might claim to be financially constrained even if they are not. An additional caveat related to the results of the various surveys is that a comparison with large firms is not possible. In this article, the term “financing constraints” should be interpreted as the inability of a company to obtain a sufficient amount of financing to fund its investment needs at current, or even higher, interest rates.⁷

SURVEY RESULTS ON THE CONSTRAINTS ON BUSINESS DEVELOPMENT AND ACCESS TO BANK FINANCING

Although surveys differ considerably in terms of their structure and questions, overall they

- 4 There is extensive literature on this issue. See, for example, M. A. Petersen and R. G. Rajan, “The benefits of lending relationships: evidence from small business data”, *Journal of Finance*, Vol. 49 (1), pp. 3-37, 1994, and, more recently, A. N. Berger, R. J. Rosen and G. F. Udell, “Does market size structure affect competition? The case of small business lending”, *Journal of Banking and Finance*, Vol. 31 (1), pp.11-33, 2007.
- 5 Another approach is based on the econometric estimation of models in which the presence of financing constraints has implications for firms' behaviour that can be tested (see the review of the literature in “Corporate finance in the euro area”, ECB, 2007). The evidence is inconclusive, as there are conflicting results regarding the correlation between firm size and financing constraints.
- 6 The European Commission has had surveys on SMEs conducted about once every other year since 1993. The results of the surveys related to SMEs' access to finance were published in a Flash Eurobarometer in 2005 and by the Observatory of European SMEs in 2003. At the national level, surveys are conducted by national statistical institutes (Portugal), NCBs (France, Italy, Belgium and Finland) or other institutions (the Netherlands, Spain and Germany).
- 7 The definition does not include, however, those firms that decide not to seek additional financing owing to the perceived “high” cost, which implies that, for the purposes of this article, financing constraints are not a matter of cost but rather a matter of available resources.

tend to indicate that the vast majority of firms are able to obtain the funds they need. However, significant cross-country differences exist. According to the 2003 European Network for SME Research (ENSR) survey,⁸ on average around 10% of SMEs in 19 European countries reported that access to finance was the major constraint weighing on their business performance over the previous two years. More firms reported other constraints, such as the purchasing power of consumers (36%), which was related to the unfavourable economic climate at that time, and a lack of skilled labour (13%). The financial constraint was more relevant for firms in the transport and communications sector and for small firms (10-49 workers) than for micro-firms (less than 10 employees) or medium-sized firms (50-249 employees).

Taking a slightly different perspective, the Flash Eurobarometer survey⁹ more recently asked firms about the factors which would best ensure their development. "Easy access to means of financing" was cited after "social and fiscal regulations" and "better qualified people available on the market". Firms were also asked whether their current financing was in general sufficient to see their projects through. In all euro area countries, the majority of SMEs replied in the affirmative, but there were some disparities across countries. In Ireland and Finland, more than nine out of ten SMEs reported having sufficient financing, compared with just two-thirds of SMEs in Portugal and Italy.

A recent OECD survey¹⁰ tentatively concludes that in OECD countries, SMEs are able to obtain sufficient credit from banks and other credit institutions, and that there is therefore no significant SME financing gap in these countries. The survey also shows that the gap is greater for equity financing than for debt financing. At the same time, there is a perception in most countries that there are still problems in directing funds to start-ups and young high-risk firms with new business models.¹¹ It should be noted that, by contrast with the surveys

conducted for the European Commission, this survey was not carried out at the firm level but was directed at government policy and central bank experts.

With regard to the sources of finance, the surveys conducted for the European Commission indicate that bank loans are the main instrument for obtaining external funds. The results from the latest Flash Eurobarometer survey indicate that banks are by far the main source of external finance for SMEs, followed by leasing/renting companies and private investors (depending on the country). Access to bank financing is considered most important in France, where 64% of companies agree that without a bank loan their projects could not be successfully completed. Finland stands at the opposite extreme, with 78% of firms disagreeing with this statement. Views about the ease of access to bank loans also differ. For instance, in Finland, 95% of firms reported that access was easy, compared with only 14% in Germany.

The ENSR surveys also show that bank loans and overdrafts are the most widespread debt financing methods for SMEs, although alternative sources such as leasing and factoring have been growing in importance. The 2002 ENSR survey shows that, during the three years prior to the survey year, only 37% of firms did not request an additional bank loan. Of the firms surveyed, 50% asked for a loan and received the amount requested, 2% received part of the loan, and only 6% were denied a loan (which corresponds to 10% of the firms which applied for a bank loan) (see Table 1). The demand for loans was better served for medium-sized firms and least well served for micro-firms (0-9 employees) and firms in the

8 See Observatory of European SMEs, European Commission, 2003.

9 See "SME access to finance", Flash Eurobarometer 174, European Commission, 2005.

10 See "The SME financing gap, volume 1, theory and evidence", OECD, 2006.

11 See also the report "IT innovations and financing patterns: implications for the financial system", BIS, 2002, which explores the linkage between the use of new technologies and firms' financing needs, and the role of financial markets and intermediaries in financing innovative activities.

Table I Access to finance: difficulties in obtaining bank loans for SMEs

(percentages)

Did you get all the loans you needed from your bank in the last three years?

	Number of employees, 2001			Main activity			Total
	0-9	10-49	50-249	Industry	Trade	Services	
Not applicable: no need for loans in the last three years	38	28	23	34	36	39	37
Yes	49	55	53	54	52	46	50
Partly	2	2	1	2	2	2	2
No	6	6	5	6	6	6	6
Don't know/no answer	5	9	18	4	4	6	5
Total	100	100	100	100	100	100	100

Source: 2002 European Network for SME Research survey.

services sector. According to the survey, the main reason for additional loans to be refused is the lack of sufficient collateral, especially for micro-firms and small enterprises (10-49 employees). The importance of collateral diminishes as the enterprise size increases, whereas good performance and the information flow gain in importance.

RESULTS BASED ON NATIONAL SURVEYS

In addition to the regular surveys conducted for the European Commission, several euro area countries conduct national surveys on enterprises.¹² The main focus of these surveys is to monitor developments in investment and employment; however, they generally also contain alternative measures of financial constraints and access to finance, albeit according to ad hoc methodologies (in terms of both the formulation of the questions and the definition of the size categories). Although the answers cannot easily be compared across countries, the survey results suggest the existence of some financing constraints for small firms. They also indicate that the relationship between the size of the company and the perceived financing constraints is not necessarily either monotonic or constant over time. However, this might be due to the fact that other relevant factors, e.g. the age of the firm, are not taken into account.

To sum up, there is some evidence from surveys to suggest that some euro area SMEs face binding financing constraints (i.e. have no access to finance despite having borrowing requirements), while the vast majority enjoy appropriate access to finance. In addition, the OECD survey results show that in OECD countries the financing gap is larger in the financing of innovative SMEs.¹³ All in all, the evidence of a gap in the financing of a minority of SMEs does not per se point to a lack of efficiency in the allocation of credit.

3 DIFFERENCES BETWEEN THE FINANCING OF SMALL AND MEDIUM-SIZED ENTERPRISES AND THAT OF LARGE FIRMS

As large firms are more diversified, can offer more collateral and have more bargaining power vis-à-vis banks on account of their size, they may have easier access to market and bank financing. In addition, they probably face less severe asymmetric information problems than SMEs. Accordingly, one might expect smaller firms to rely more on internal financing than large firms and, thus, to show lower levels of indebtedness. However, if small firms are less

¹² See footnote 6.

¹³ This could imply that firms facing financing constraints can be classified into two categories: a) innovative firms, usually in riskier sectors, which request finance from credit institutions although their investment would be better covered by equity; and b) those which are not able to create value and represent a high credit risk.

profitable, their levels of indebtedness could be higher than those of larger firms. In addition, with regard to external financing, small firms may not have access to capital markets and may thus be forced to rely more on credit markets. It is therefore to be expected that, in terms of external financing, they use comparatively more bank financing than large firms.

On the assets side, the empirical and theoretical literature has often emphasised the potential link between cash holdings and financing constraints.¹⁴ This link suggests that smaller firms hold more cash if they are more affected by financing constraints. Likewise, large firms are often said to be more financially sophisticated and hence may hold more diversified portfolios.

However, the assertion that SMEs are more financially constrained than large firms may possibly reflect their larger presence in sectors or economies with specific characteristics (e.g. asymmetric information problems or institutional factors) that result in greater difficulties with regard to accessing external finance. The data from the Observatory of European SMEs show that SMEs play a prominent role in sectors such as construction, wholesale trade and retail trade. By contrast, large firms predominate in large-scale industries, such as extraction and transport and communications. Firms also tend to be larger in industries with a greater need for external financing owing to the relative ease of accessing finance.

In addition, there are large disparities in the SME landscape across countries. Compared with the euro area average, the share of SMEs in employment is much higher in Italy, Spain, Portugal and Greece and much lower in Germany, the Netherlands and Finland. In terms of value added, the contribution from SMEs is well above the euro area average in Italy, Greece and Luxembourg, and well below it in Ireland, Finland and France.

A way of assessing the impact of sectoral and country effects on firms' financial position

across firm sizes is to compare relevant financial indicators directly derived from aggregated balance sheet data ("unadjusted indicators" from the European Commission's BACH database¹⁵) with the same indicators adjusted for those effects. The adjustment consists in applying the same country and sectoral composition to all size classes. The weights used for each sector in each country, for all sizes, are the shares of value added for the sector/country combinations in total value added for the euro area.

Chart 1a suggests that large firms have witnessed, on average, the highest return on assets (ROA).¹⁶ However, this pattern is largely driven by country and sectoral effects: if the same country and sectoral composition is imposed on all size groups, no marked differences in the ROA are observed for the different size groups in the last few years of the sample. In the second half of the 1990s the ROA is higher for large firms if adjusted indicators are used.

Turning to the analysis of external financing, size appears to matter considerably for specific sources of funds. Small and medium-sized firms rely more on loans than large firms, and this pattern remains after adjusting for sectoral and country effects (see Chart 1b).

14 T. Opler, L. Pinkowitz, R. Stulz and R. Williamson, "The determinants and implications of corporate cash holdings", *Journal of Financial Economics*, Vol. 52, pp. 3-46, 1999.

15 The Bank for the Accounts of Companies Harmonised (BACH) database contains harmonised annual accounts statistics for non-financial corporations provided by national central balance sheet offices. It allows cross-country comparisons to be made and is published on the European Commission's website. The database provides annual aggregated data for nine euro area countries (Belgium, Germany, Spain, France, Italy, the Netherlands, Austria, Portugal and Finland). Data are broken down into NACE Rev. 1 industrial sub-sectors with three different size classes. Small companies are defined as those with a turnover of below €10 million, medium-sized enterprises as those with a turnover of between €10 and €50 million, and large ones as those with a turnover of more than €50 million.

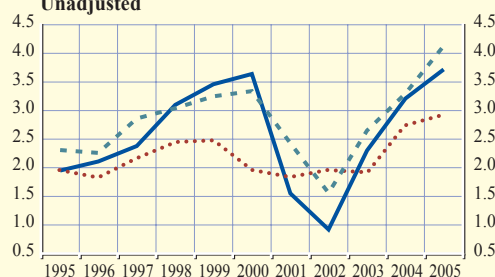
16 Large firms also show the highest values for the return on equity. However, the positive relationship between profitability and size does not appear to be linear, as medium-sized firms generally show lower return on assets than smaller firms over time, as well as lower return on equity in some years.

Chart I Selected indicators of firms' financial position across firm sizes

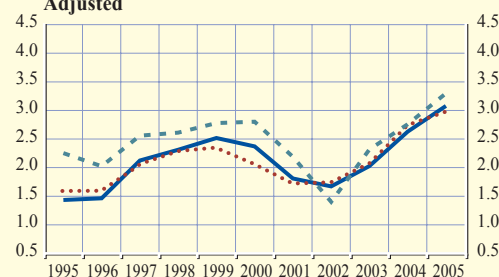
— small
... medium
- - large

1a – Return on assets

Unadjusted

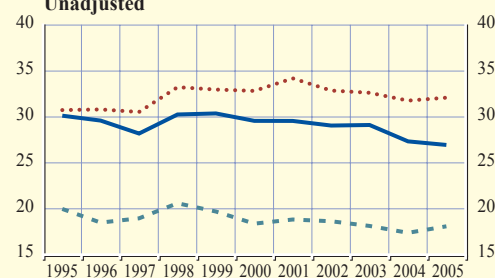


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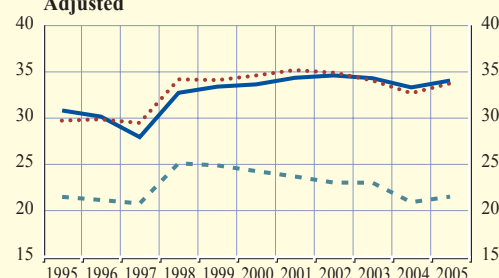


1b – Bank loans to total debt

Unadjusted

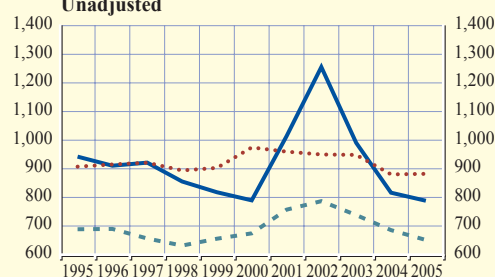


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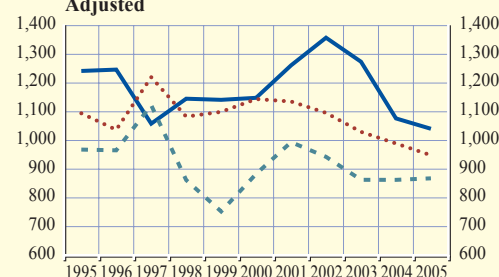


1c – Debt to cash flow

Unadjusted

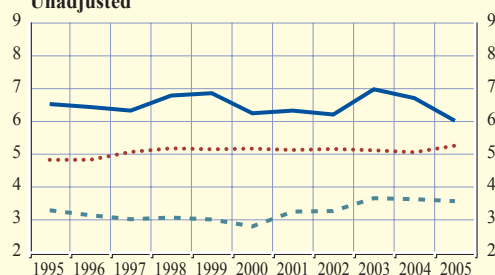


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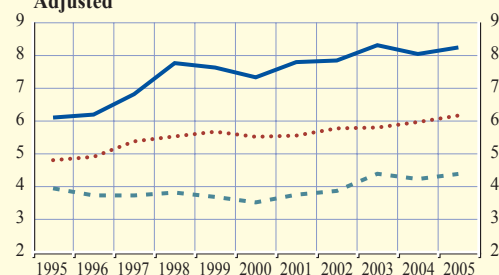


1d – Cash to total assets

Unadjusted



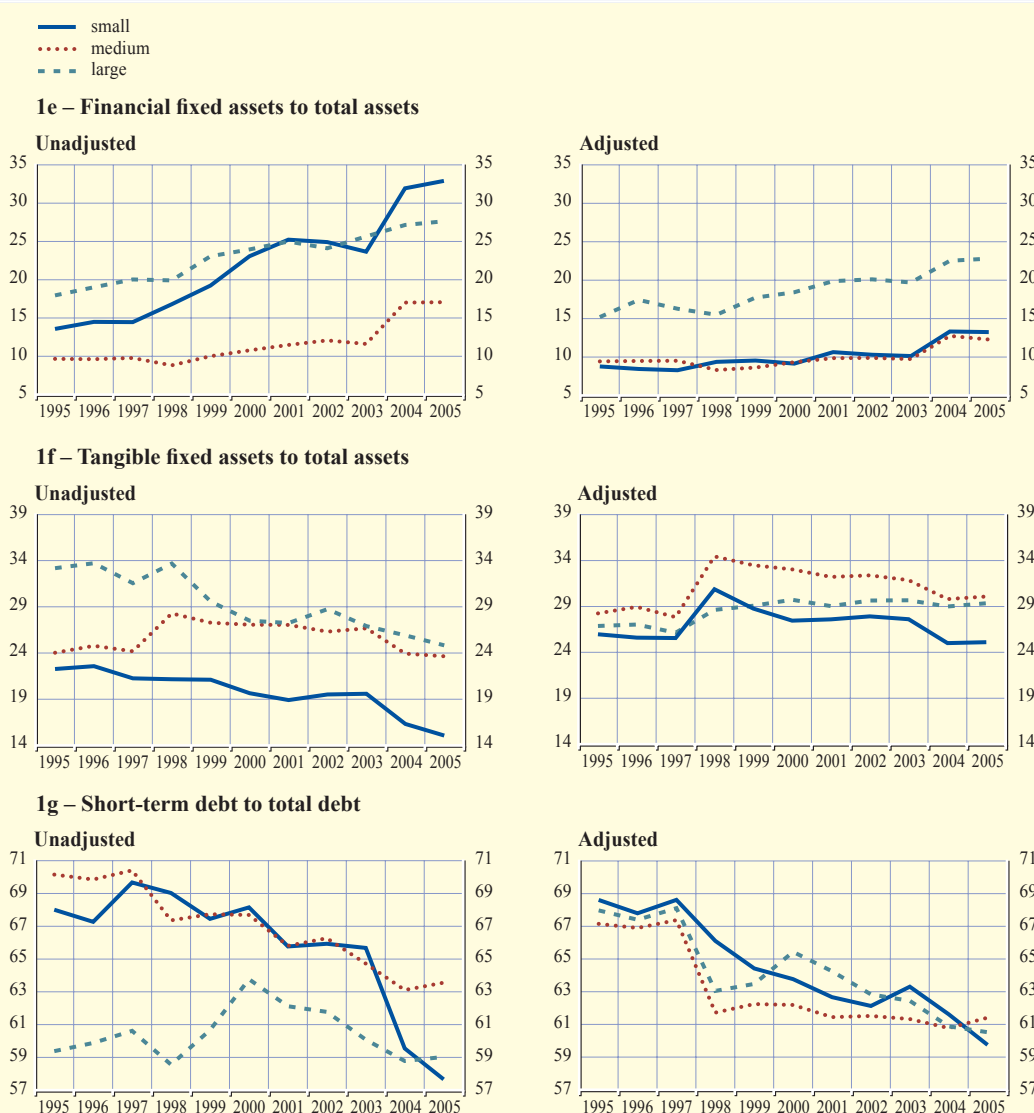
Adjusted



Sources: BACH database and ECB calculations.

Note: The adjusted values are calculated giving the same weight to each sector in each country for all size groups. The weights used correspond to the shares of value added for the sector/country combinations in total value added in the euro area.

Chart I Selected indicators of firms' financial position across firm sizes (cont'd)



Sources: BACH database and ECB calculations.

Note: The adjusted values are calculated giving the same weight to each sector in each country for all size groups. The weights used correspond to the shares of value added for the sector/country combinations in total value added in the euro area.

According to the debt-to-cash flow ratio, which provides a measure of the ability of a firm to repay its debt, large firms display the soundest financial situation (see Chart 1c). The adjusted data show a broadly monotonic relationship between size and debt repayment (that is, the smaller the size of the firm, the lower its repayment capacity), which is not as clearly demonstrated by the unadjusted indicators.¹⁷

With regard to the structure of assets, the ratios of cash and financial fixed assets to total assets differ considerably across size classes: large firms show the highest values for the ratio of financial fixed assets to total assets when adjusted and the lowest values for the ratio of cash to total assets (see Charts 1d and 1e). In addition, these ratios differ widely across

17 The same pattern is observed for the debt-to-total assets ratio.

countries, possibly pointing to cross-country disparities in financial market developments, and to a lesser extent across sectors. Differences across sectors are considerable for the ratio of tangible fixed assets to total assets, which is in line with the huge sectoral disparities in capital intensity. Since large firms play an important role in sectors such as electricity, transport, storage and communications, which are – together with “other services” – the most capital-intensive sectors, the ratio of fixed assets to total assets is highest for large firms in all countries (on the basis of unadjusted data). When controlling for sectoral and country factors, the monotonic positive relationship between size and the ratio of tangible fixed assets to total assets observed on the basis of unadjusted data is reversed and becomes uncertain (see Chart 1f).

Turning to the maturity structure of liabilities, the ratio of short-term debt to total debt appears to be basically the same across firm classes on the basis of adjusted data (see Chart 1g). By contrast, unadjusted data show lower values for this ratio for larger firms. This difference is largely caused by sectoral effects: the construction sector and the wholesale and retail

sector, where small firms predominate, show the shortest maturity of assets.

To sum up, some of the differences observed between the financial position of SMEs and that of larger firms are driven by differences in their sectoral composition and relative concentrations across countries. This seems to be the case for the ratios of tangible fixed assets to total assets and short-term debt to total debt. In other cases, differences remain even after controlling for sectoral and country characteristics, for instance in the share of fixed financial assets to total assets, the degree of reliance on cash and bank loans and the ratio of debt to cash flow. Similar results are obtained by using a variance decomposition (see the box below).

However, there are some caveats to the conclusions reached here. Some possibly important determinants of access to finance, such as the age of the firm or the form of ownership (which are likely to be correlated with the size of the firm), have not been taken into account. Another caveat relates to a selection bias of the BACH database, whereby the small firms covered tend to be those in a better financial situation.

Box

THE ROLE OF SIZE IN EXPLAINING DIFFERENCES IN FINANCING PATTERNS ACROSS FIRMS: A VARIANCE ANALYSIS

The variance decomposition method is used to compare the variance of a set of financial ratios that can be explained by firm size with what is left unexplained by that factor, but could be explained by other existing sources of variability.

To this end, the total variance for a given ratio is decomposed into the variance between and the variance within size classes.¹ In particular, the variance within a given size class captures

1 This consists in decomposing the variance (the sum of squares SS) of a dataset organised by classes into the variances between and within these classes. The classes can be organised around factors such as size ($J = 1, \dots, 3$), sector ($S = 1, \dots, 6$) and country ($C = 1, \dots, 9$). For instance, in the case of size, with d representing size classes: $SS = SS \text{ between } d + SS \text{ within } d$

The variances between and within size classes for indicator I can be calculated as follows:

Variance between size classes to total variance:

$$\frac{1}{3} \cdot \sum_{J=1}^3 \left(\sum_{C=1}^9 \sum_{S=1}^6 W_{CS} I_{CS} \right)^2 - \left(\frac{1}{3} \right) \cdot \left(\sum_{J=1}^3 \sum_{C=1}^9 \sum_{S=1}^6 W_{CS} I_{CS} \right)^2$$

Variance within size classes to total variance:

Sum (Weighted variance (I large), weighted variance (I medium), Weighted variance (I small))

where Weighted variance (I_J)

$$\left(\frac{1}{3} \right) \cdot \left(\sum_{C=1}^9 \sum_{S=1}^6 W_{CS} I_{CS}^2 \right) - \left(\sum_{C=1}^9 \sum_{S=1}^6 W_{CS} I_{CS} \right)^2$$

the heterogeneity of this size class, calculated using the observations in the different sectors and countries. The variance decomposition is conducted in a similar way for the sector and country factors. The “variance between” obtained from these decompositions can then be compared to assess how relevant the size dimension is in explaining financing patterns, relative to the sector of activity or country of origin.

In the analysis that follows, one observation – corresponding to the average over the period 1999-2005 – is taken for each size/sector/country observation, with the analysis thus focusing on structural differences across financing patterns.

The results of the variance decomposition are shown in the table, which reports the percentage of the variance that is explained by the size, sector or country factors for each financial ratio analysed. The presence or the lack of differences across size classes for the set of adjusted indicators presented in the main text is broadly confirmed by the contribution of size to the total variance across firms.

Profitability and external financing

Looking at the upper panel of the table, the first column indicates that differences in the return on assets do not appear to be significantly related to size – less than 1% of the variance is explained by this factor – but are more likely to be mainly driven by the relative weights of SMEs in the various sectors and countries.

The country of origin matters more than the size and sector for the degree of reliance on loans (second column). Additional analysis points to the fact that there are large disparities across countries in the weight of loans for SMEs (particularly for small firms), while disparities are low across countries for large firms. Thus, this large variability in the weight of loans for SMEs probably reflects institutional disparities. These results are in line with the finding that the corporate bond market in the euro area has achieved a high degree of integration, whereas retail banking continues to be fragmented.²

Balance sheet structure

The lower panel of the table reports four indicators related to the balance sheet structure. For the debt-to-cash flow ratio, the variance decomposition shows that the country and sector are both more important factors than size, with each accounting for nearly 25% of the variability observed. Regarding the structure of assets, the ratios of cash and financial fixed assets to total assets differ widely across countries, possibly pointing to cross-country disparities in financial

Variance contribution of size, sector and country factors

(adjusted indicators; 1999-2005 average; in percentages)

Profitability and external financing

Indicator	Return on assets	Bank loans to total debt
Size	0.5	8.6
Sector	12	19
Country	43	37

Balance sheet structure

Indicator	Debt to cash flow	Cash to total assets	Short-term debt to total debt	Financial fixed assets to total assets
Size	4.8	31	0.1	19
Sector	22	13	66	10
Country	22	40	20	33

Sources: BACH database and ECB calculations.

² See “Financial integration in Europe”, ECB, March 2007.

market developments, and to a lesser extent across sectors. Size does not seem to play a major role with regard to the maturity structure of liabilities, where the dominant factor is the sector.

4 THE FINANCIAL POSITION OF SMALL AND MEDIUM-SIZED FIRMS: A FIRM-LEVEL ANALYSIS

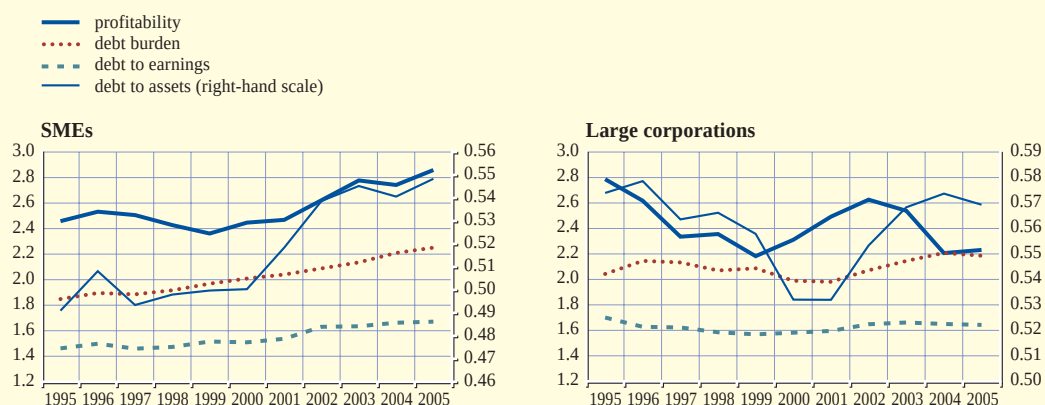
There is ample empirical evidence that firms' real decisions (on investment and employment, for example) are conditioned by their financial situation. This is especially true of those companies which are in a more fragile financial position¹⁸, which indicates the advisability of complementing aggregated information with a micro-analysis in order to further assess the financial situation of SMEs in the euro area. A first step in the assessment includes a measure of the dispersion of financial indicators across companies. A further assessment of the changes in the dispersion requires a more detailed analysis of the distributional patterns. Against this background, this section relies on firm-level data which are derived from the AMADEUS database of Bureau van Dijk. The analysis covers the period 1995-2005.

Chart 2 presents a measure of dispersion that takes into consideration the difference between values observed in the upper and lower part of the distribution of firms – the inter-quartile coefficient of variation. The measure is calculated for profitability, debt burden and indebtedness (the latter with respect to both assets and results) for SMEs (panel a) and for large firms (panel b). The comparison indicates that SMEs do not record greater variability in their financial position than large firms.¹⁹ However, the measure of dispersion has increased in recent years in all the ratios analysed, with the largest increase being recorded in the profitability indicator, a

18 See I. Hernando and C. Martínez-Carrascal, "The impact of financial variables on firms' real decisions: evidence from Spanish firm-level data", Working Paper No 0319, Banco de España, 2003.

19 It is worth noting that the dispersion would be higher for SMEs if it was measured using the highest and lowest decile instead of the highest and lowest quartile, i.e. taking into consideration only the most extreme values.

Chart 2 Inter-quartile coefficient of variation: SMEs and large corporations



Sources: Bureau van Dijk (AMADEUS database) and ECB calculations.

Notes: The inter-quartile coefficient of variation is defined as the distance between the 75th and 25th percentiles divided by the value of the 50th percentile. Profitability is defined as profits over the average value of assets for the year. The debt burden is defined as interest payments over earnings before interest, taxes, depreciation and amortisation. Indebtedness is defined as debt over earnings before interest, taxes, depreciation and amortisation. Debt includes trade credit, as this variable is not available separately for all countries in the database used for this analysis.

Chart 3 Selected financial ratios for SMEs



Sources: Bureau van Dijk (AMADEUS database) and ECB calculations.

development which has not been observed for large companies. As this increase in dispersion can potentially reflect a divergent pattern in the different percentiles of the distribution, it is interesting to focus on the evolution over time of these percentiles for each of the financial indicators.

Chart 3 shows the values of the 10th, 25th, 50th, 75th and 90th percentiles for the four indicators analysed here. These percentiles capture, for each year, the level of the ratios that, after ordering all the observations from lower to higher values, leaves below 10%, 25%, 50%, 75% and 90% of the observations. For example, 50% of the companies display lower values than the 50th percentile, while the rest display higher values. Hence, this percentile can be considered representative of the “typical” SME, while the higher percentiles capture – except in the case of the profitability indicator – the situation of those firms that bear higher financial pressure.

Several conclusions can be extracted from the chart. First, the evolution shown by the typical firm (the 50th percentile) is in most cases in line with the evolution shown by the corresponding aggregate indicator. However, this is not the case for the profitability indicator (see the upper-left panel of Chart 3): while aggregate profitability shows a recovery from 2002 after the downturn observed between 1999 and 2001, the median firm has continued the decline which started at the end of the 1990s. Those companies in a more vulnerable situation (those in the lower decile) have also registered a reduction in profitability. This development contrasts with that observed for large firms, where a positive trend is observed in the last few years of the sample in the different percentiles of the distribution, including those corresponding to firms in a more fragile financial situation.

Second, the reduction of the debt burden observed at the aggregate level from 2002

reflects positive developments for most SMEs but has not been observed for those companies in a more vulnerable situation (that is, those in the upper part of the distribution, as shown in the upper-right panel of Chart 3). The overall result is the increase in the inter-quartile coefficient of variation mentioned previously. It can also be observed that the reduction in interest rates in the second half of the 1990s benefited in particular companies with higher debt burden ratios.

Finally, the increase in the aggregate dispersion observed for the debt-to-earnings ratio reflects a higher increase for those firms in the upper part of the distribution (see the lower-right panel of Chart 3), which again is higher than that observed for large companies. The debt-to-assets distribution has remained broadly stable over the last decade (see the lower-left panel of Chart 3).

THE INTERACTION BETWEEN FINANCIAL INDICATORS: AN ANALYSIS OF THE TAILS OF THE DISTRIBUTION

In order to draw conclusions about the financial soundness of the corporate sector, it is useful to jointly analyse alternative indicators of financial

health. For example, the risks associated with high indebtedness levels are lower if accompanied by high profitability and/or high liquidity ratios. By contrast, the coexistence of high indebtedness with low profitability, a high debt burden and a low liquidity ratio is expected to increase the sensitivity of a given firm to unexpected shocks.

Table 2 shows the median value for profitability²⁰, the debt burden, liquidity and the debt-to-earnings ratio for four different groups of firms, classified according to the debt-to-assets ratio. The first group includes firms with a debt-to-assets ratio below the 25th percentile of the distribution in a given year. The second group includes those between the 25th and 50th percentiles, while the third includes those between the 50th and 75th percentiles. The last group contains firms in the upper quartile of the distribution of this variable. As can be seen, firms in the latter group – that is, firms with the highest indebtedness with respect to assets – show the lowest median values for the liquidity and profitability ratios,

20 In this analysis, profitability is calculated using earnings before interest, taxes, depreciation and amortisation, in order to avoid this ratio being affected by large interest payments associated with high indebtedness.

Table 2 Distribution of selected financial indicators according to the debt-to-assets ratio

Low debt-to-assets ratio (below 25th percentile)					Low-medium debt-to-assets ratio (between 25th and 50th percentile)				
	Median liquidity	Median profitability	Median debt burden	Median debt to earnings		Median liquidity	Median profitability	Median debt burden	Median debt to earnings
1995	0.112	0.118	0.135	2.663	1995	0.076	0.125	0.199	4.667
2000	0.117	0.128	0.077	2.468	2000	0.084	0.131	0.120	4.643
2005	0.128	0.106	0.063	2.713	2005	0.084	0.107	0.105	5.333
Medium-high debt-to-assets ratio (between 50th and 75th percentile)					High debt-to-assets ratio (above 75th percentile)				
	Median liquidity	Median profitability	Median debt burden	Median debt to earnings		Median liquidity	Median profitability	Median debt burden	Median debt to earnings
1995	0.058	0.109	0.294	6.908	1995	0.045	0.086	0.482	10.826
2000	0.061	0.108	0.196	7.300	2000	0.047	0.079	0.333	12.346
2005	0.058	0.089	0.178	8.538	2005	0.043	0.066	0.304	14.470

Sources: Bureau van Dijk (AMADEUS database) and ECB calculations.

and the highest median values for the debt burden indicator. Moreover, these companies display the highest levels of indebtedness with respect to the earnings they generate. Similarly, more than 40% of the companies with debt-to-assets ratios over the 75th percentile of the distribution also show values in the upper tail, or quartile, of the debt burden and debt-to-cash flow indicators, and values in the lower tail of the profitability indicator. 35% of these companies show values in the lower quartile of the liquidity ratio distribution. This evidence illustrates that there are substantial links between various financial position indicators which point to a fragile financial situation.²¹

5 CONCLUSION

Differences in the financing patterns of small and large firms and the existence of financing constraints (which are an extreme case of market imperfection) may suggest that monetary policy has a different impact on firms of different sizes, with implications for the transmission mechanism itself. In this respect, the existence of possible differences in small and medium-sized enterprises' access to finance as compared with that of large firms has been widely discussed. Evidence based on several surveys conducted at the European level for the European Commission shows that some euro area SMEs may face financing constraints (i.e. have no access to finance despite having borrowing requirements), while the vast majority enjoy appropriate access to finance. At the same time, the perception of the existence of financing constraints also differs across countries. Some national surveys also suggest the existence of some financing constraints for small firms, although results vary across countries and are not easily comparable. Moreover, the measurement of financing constraints might be distorted by existing subsidies for small enterprises. It may also be the case that small firms find ways around financial obstacles.

Several studies have described differences in the financing patterns of SMEs and large firms.

The analysis carried out here indicates that some of the differences are caused by factors such as heterogeneous sectoral compositions and relative concentrations across countries. The institutional factors behind cross-country differences have not been investigated in this article but may be very relevant from a policy perspective. However, differences across size classes remain for some aspects of the financing patterns, that is, even within a given sector and a given country. This applies to the share of financial assets in total assets (which is positively related to the size of the firm), to the degree of reliance on cash and bank loans, and to the ratio of debt to cash flow (which are all negatively related to the size of the firm). The results on the retention of cash are particularly robust. As this variable is often considered to be an indicator of the existence of financing constraints, the analysis seems to indicate that differences might exist across size classes in terms of access to finance. Regarding bank loans, the analysis also points to the fact that there are large disparities across countries in the weight of loans for SMEs (particularly for small firms), while disparities are low across countries for large firms. Thus, this high variability in the weight of loans for SMEs probably reflects institutional disparities.²²

There are some caveats to these conclusions related to the characteristics of the database used, such as the existence of a selection bias whereby the small firms covered tend to be those in a better financial situation.

The analysis based on firm-level data shows that large differences do not exist in the overall dispersion of the financial conditions across size classes. However, while the dispersion has increased for SMEs in the last few years, this development has not been observed for large firms. A more detailed distributional analysis

21 This pattern is also observed for the whole UK non-financial corporation sector (see A. Benito and G. Vlieghe, "Stylised facts on UK corporate financial health: evidence from micro-data", *Financial Stability Review*, Bank of England, June 2000).

22 See Box 2 in "Corporate finance in the euro area", ECB, May 2007.

points to a deterioration in the financial position of SMEs in a more fragile financial situation, but such a development cannot be as clearly observed in the case of large firms in a similar situation. The analysis also reveals links between the values of financial indicators reflecting a fragile financial position, since firms with the highest indebtedness show the lowest median values for the liquidity and profitability ratios. This indicates the advisability of supplementing macro-indicators with information at the micro level, since the fragility of certain companies is not necessarily compensated for by the soundness of others, and the financial position – whether solid or weak – might be exerting asymmetric non-linear influence on firms' real decisions.²³

23 See Box 4 in "Corporate finance in the euro area", ECB, May 2007.

LEVERAGED BUYOUTS AND FINANCIAL STABILITY

ARTICLES

Leveraged
buyouts
and financial
stability

Since 2004, activity in the leveraged buyout (LBO) segment of the private equity market in the EU has expanded substantially, with 2006 transaction values reaching levels similar to those seen in the United States, a traditionally larger market. The sizes of individual deals have also grown significantly and, at the same time, the leverage involved in these transactions has increased materially. This article analyses concepts and features of LBO transactions, which are relevant for understanding how the LBO market works. Based on the findings of a recent survey undertaken by the ESCB's Banking Supervision Committee (BSC), it then discusses and assesses the main risks that arise for banks from their involvement in LBO transactions. It also reviews risks associated with debt syndication and credit risk transfer mechanisms, on which banks rely to distribute LBO exposures to other investors so as to reduce their own exposures to comfortable levels, and discusses their potential impact on the stability of the global financial system.

I INTRODUCTION

The concepts of leveraged buyout and private equity activity are often used as synonyms, which is somewhat inaccurate, given that the LBO market is a segment of the private equity market. The notion that the private equity market provides (medium to long-term) capital to companies that are not quoted on a public equity market is not entirely correct either. Private equity funds are generally devoted to the acquisition of companies with the aim of improving their operational efficiency and financial structure. While the vast majority of these target companies were initially not quoted in public equity markets, investments in listed companies, which are then taken private, have become increasingly common (public-to-private transactions) since 2005.

The private equity market encompasses different types of financing that may include funding new company start-ups, helping existing companies to grow and increasing the operating potential of mature and/or underperforming companies. In broad terms, private equity funds can be characterised as venture capital, buyout or distressed funds according to the state of the companies in which they invest. In 2006, over 80% of the capital raised by private equity funds was devoted to LBOs.¹ Similarly, according to preliminary figures compiled by the European Private Equity and Venture Capital Association (EVCA), €71 billion of the total of €90 billion raised by European private equity funds in 2006 were allocated to buyouts. From

a financial stability perspective, the reason for focusing surveillance on the LBO segment of the private equity market stems not only from its size but also from the significant level of banks' involvement in the financing of LBOs. The involvement of the banking sector in the provision of venture capital and the financing of distressed debt, by contrast, tends to be more limited on account of the fact that these undertakings generally entail a higher level of risk.

This article provides an overview of the LBO market in the EU and an assessment of the risks the LBO business may pose to the banking system (mostly via direct exposures) and the financial system as a whole (via market risks). Section 2 explains the LBO business model. Section 3 discusses direct risks to the banking sector based on the findings of a survey – conducted by the BSC – of banks' exposures to LBO activity in the EU in 2006.² Section 4 considers market risks posed by LBO transactions that may indirectly affect banks and other market participants. In Section 5, recent developments in the US sub-prime mortgage markets are revisited and some parallels are drawn between features of this market and those of the leveraged loan market, an important driver of LBO activity at present. Section 6 concludes.

1 According to Standard & Poor's, *European Leveraged Buyout Review*, fourth quarter of 2006.

2 See ECB, "Large banks and private equity-sponsored leveraged buyouts in the EU", April 2007.

2 THE LEVERAGED BUYOUT MARKET

Since 2003, a combination of robust economic growth and low inflation has underpinned particularly benign global financial market conditions, characterised by low interest rates and low volatility. This environment encouraged a search for more aggressive risk-return profiles among various market participants. It also provided vast borrowing opportunities for the corporate sector, which was offered higher leverage levels, at low cost and on rather favourable terms. In 2006, the global amount of private equity-sponsored LBO transactions was around double the figure of 2005, reaching more than USD 650 billion. The global volume of private equity-sponsored LBOs accounted for more than 17% of the global market for mergers and acquisitions (M&As), compared with a share of just 3% in 2000.³ In contrast to the hedge fund business (often also involving LBO transactions), which is to be found predominantly in the United States, global LBO activity is split almost equally between the US and EU markets in terms of transaction volumes. In 2006, the volume of LBO transactions in the EU (at around USD 225 billion) matched that in the United States, given investors' growing interest in the untapped EU market.⁴

The capital structures involved in the financing of private equity transactions may include both debt and equity. Debt is usually extended by banks, while equity is provided by private equity funds that raise their capital through, for example, funds of funds, pension funds or investment funds. Capital is raised on private rather than public markets, thereby leading to the term private equity.

In broad terms, an LBO – as opposed to a regular corporate merger or acquisition – can be defined as an operation involving the acquisition, friendly or hostile, of a firm, in which a significant amount of borrowed funds (bonds or loans) is used to meet the cost of the takeover. In addition to the assets of the acquiring private equity sponsor, the assets of the target company are generally used as

collateral for these loans. Ideal LBO targets are firms that generate high and steady cash flows and that have deployable assets that can easily be pledged as collateral.⁵ The debt usually appears on the target company's balance sheet, and the free cash flow of the target firm is used to repay the debt. Overall, LBOs allow private equity sponsors to make large acquisitions without having to commit a material amount of their own capital.

The financing of an LBO project tends to involve the following steps. To start with, the general partners, who are the managers of the LBO fund (or sponsors), invest their money in a private equity fund and raise equity capital through institutional investors or limited partners. The general partners may draw down these funds while searching for target companies, but the funds generally need to be invested in target companies within a given time frame. The general partners (who can also have unlimited liability for the obligations of the partnership) usually contribute 3% to 5% to the fund's equity capital, while the limited partners, (who cannot lose more than the amount they invest in the fund) commit to providing the bulk of equity capital (95% to 97%). The general partners, or fund managers, are responsible both for undertaking investments and for participating in the management of the target companies; they are often a team with complementary backgrounds, involving technical experts in the target firm's sector of activity and financial specialists. Limited partners are generally institutional investors such as pension funds, investment funds, hedge funds, insurance companies, endowments, individuals with a high net worth and, to a lesser extent, banks. Once the target companies have been identified, debt financing is raised, typically from banks, which subsequently distribute their credit exposures among the wider investor community.

3 Data from Marketview Research.

4 See Standard & Poor's, *Leveraged Commentary & Data*, 2006.

5 Recent transactions have increasingly involved target firms without this feature (as a result of increased competition for LBO targets), often resulting in a higher level of risk for the overall LBO deal.

Funds for private equity are typically raised with an expected lifetime of around ten years and are invested in a number of target companies (which are thereby acquired). General partners tend to invest the capital committed to the fund in the first five years of the fund's lifetime so as to allow enough time to improve the performance of each of the purchased companies and to arrange the divestment. The expected success of a prospective LBO project is conditional on the target company's capacity to generate future cash flows. The exit strategy is also an important determinant of the prospective success of an LBO investment, given its critical role in determining the final return on the funds invested. The most common exits from LBO deals are secondary sales to other private equity funds, initial public offerings (IPOs), by means of which the target firm is floated on the stock market, trade sales to companies willing to acquire the target firm, or recapitalisations. After the exit, the proceeds of the operation are distributed among the general and the limited partners.

Turning to the debt providers in LBO transactions, it is important to note that the proportion of debt to equity capital has tended to rise over the last three years, thus contributing to increased leverage in transactions. In large European deals, equity capital often represented only around 20% of the capital structure of LBO transactions completed in 2006.⁶ The expected returns to debt holders depend on their position in the seniority structure. The debt structure of an LBO deal can be split into senior and subordinated debt, each category generally including a number of different instruments. Senior debt includes senior loans, consisting of revolving facilities and term loans A, B, and C, as well as bridge loans; subordinated debt is often composed of second-lien loans, mezzanine loans, high-yield bonds and payment-in-kind (PIK) notes, the latter including elements with equity-like features.⁷ A common feature in current debt structures on both sides of the Atlantic seems to be that an increasing proportion of LBO financing is being provided

in the form of leveraged loans – generally comprising senior loan tranches B and C, usually with a non-amortising structure⁸, as well as second-lien and mezzanine debt. In turn, banks typically sell leveraged loans to other banks and institutional investors.

3 RISKS TO BANKS FROM THEIR DIRECT EXPOSURES TO THE LBO MARKET

The rapid growth of private equity-sponsored LBOs since 2004 has attracted considerable attention from market observers, central banks and prudential regulators alike, especially on account of the important role banks play as debt providers in LBO transactions. The fact that leverage in LBO transactions has increased steadily over the past few years has fostered further interest in banks' involvement in this business.

In April 2007 the ECB published a report – prepared by the BSC – on large banks' exposures to LBO activity in the EU, based on a survey comprising 41 banks.⁹ The survey was conducted in June 2006 and presented the situation at two points in time, namely in June 2005 and in June 2006. Of the 41 banks surveyed, 30 were domiciled in the EU,¹⁰ while 11 were global banks (from the United States, Switzerland and Japan) that were active in the EU LBO market via affiliates in the United Kingdom. Among the risks involved in LBO transactions, the banks surveyed emphasised intense competition in leverage levels offered to private equity sponsors for financing buyouts, as well as competition in pricing and in the extent of the

6 See ECB, "Accounting for rising leveraged buyout activity", *Financial Stability Review*, June 2007.

7 See ECB, *op. cit.*, April 2007, for a more detailed description of these debt instruments.

8 A non-amortising (or bullet) loan is a loan that has a one-off payment of principal and interest on termination.

9 See ECB, *op. cit.*, April 2007.

10 The EU countries involved were Belgium, Germany, Spain, France, Italy, the Netherlands, Austria, Portugal, Sweden and the United Kingdom.

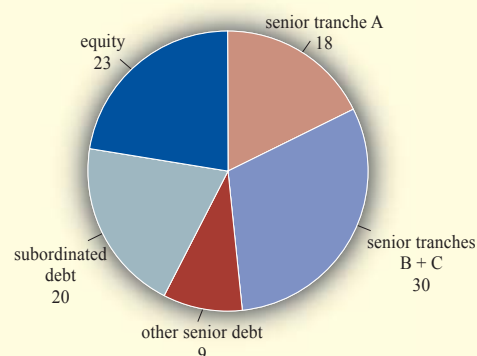
loan covenants¹¹ designed to protect creditors against changes in borrowers' repayment capabilities.¹²

In general terms, banks can be exposed to the LBO market via three main channels, namely debt exposures from financing or underwriting LBO transactions, non-interest income generated by arranging LBO deals (e.g. fees and commissions earned from related advisory activities and from arranging financing packages) and equity exposures from their own-account equity investment in LBO funds or other funds participating in LBOs.¹³ Banks' exposures via each of these channels depend largely on their respective business models as providers of leveraged finance. Two distinct approaches can be identified: (i) the "portfolio" model under which lenders provide finance and intend to retain a significant portion of the debt on their books, thereby earning both fee and interest income from holding these positions; and (ii) the "capital turnover" or "originate and distribute" model under which providers of leverage finance often arrange the transactions and aim at reducing their exposures to low levels in a short period of time once the transaction has been completed. Institutions adopting the latter business model focus on earning fees, rather than interest income, and dispose of exposures via the leveraged loan market (e.g. syndications) or by using credit derivatives. Banks may not actually strictly follow one or the other model and can combine features from both, as was the case for a number of banks in the survey.

The survey confirmed that the average size of LBO transactions had increased significantly in the 12 months up to June 2006. Almost 60% of the capital turnover in respect of banks' LBO debt in June 2006 related to large deals of more than €1 billion. Senior debt – debt that has priority of claim over other obligations – was by far the largest element in transactions' capital structure (representing almost 60%; see Chart 1), while non-amortising senior tranches B and C accounted for 30% of the total capital.

Chart 1 Capital structure of LBO transactions in June 2006

(percentage shares)



Source: BSC.

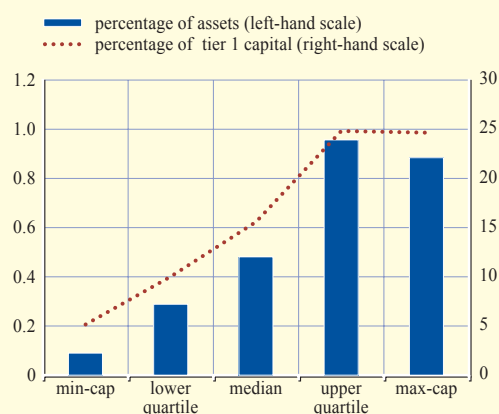
Note: Based on the top five LBO transactions reported by each surveyed bank in the 12 months to June 2006. Tranche A is the safest type of senior debt that generally has a fixed amortisation schedule, while tranche B encompasses lower-grade senior debt that is typically structured in a non-amortising way and tranche C covers the lowest-grade senior debt that is likewise structured in a non-amortising manner.

Although still part of secured debt, non-amortising tranches, which are generally repaid in full at maturity, necessarily carry higher credit risk for the lenders and render exposures sensitive to macro-financial outcomes several years into the future. Together with eroded covenant packages, the fact that, in the case of this type of loan structure, the debt servicing burden on target companies may be reduced significantly in the early years may also delay the identification of financial problems in LBOs. In addition, indicators of leverage, such as the ratio of debt to equity, the ratio of debt to earnings before interest, tax, depreciation and

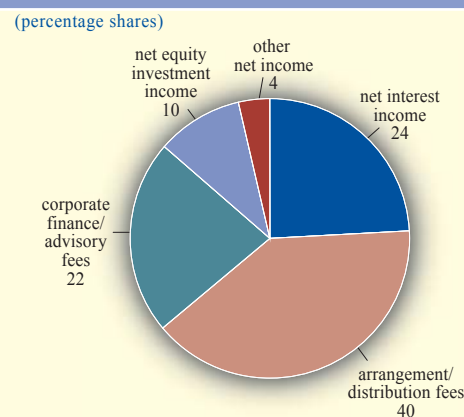
¹¹ Covenants are agreements that impose restrictions on the borrower's behaviour, often on the basis of specific indicators, so as to limit the borrower's ability to increase the credit risk over and beyond pre-determined parameters; a covenant breach may allow the lender to call the loan.

¹² Historically, loans were subject to maintenance covenants (covenants tested on an ongoing basis), while bonds were subject to incurrence covenants (covenants tested only when an event occurs). More recently, loans have been increasingly granted with bond-style incurrence covenants, or with "covenant-light" features, according to which loans are subject to incurrence, instead of maintenance, covenants.

¹³ Another channel (which is more macroeconomic in character) relates to the possibility that LBO transactions may increase the leverage of target companies with outstanding loans from several banks. The LBO transaction may increase leverage ratios beyond the optimal level for those banks.

Chart 2 LBO exposures of EU banks in June 2006

Source: BSC.
Note: Based on EU banks' total net exposures.

Chart 3 Structure of net income of "capital turnover" banks in June 2006

Source: BSC.
Note: "Capital turnover" banks represented a quarter of all surveyed banks.

amortisation (EBITDA) and the ratio of the transaction price to EBITDA, increased across the board from June 2005 to June 2006. Moreover, there have been no subsequent signs of it declining in 2007.¹⁴

With respect to banks' direct credit exposures, however, the survey revealed that retained LBO debt accounted for a relatively low proportion of banks' total assets or own funds. Therefore, the argument that such exposures could pose risks to the banking or financial system are not supported by the findings of the survey. For three-quarters of the surveyed EU banks, LBO exposures represented less than 1% of the total size of their balance sheet, and the median value of LBO debt as a share of tier 1 capital was around 15%, reaching 25% in a few cases (see Chart 2). There were also indications that exposures are mainly concentrated on banks' top five deals. For "capital turnover" banks, in particular, the median value of exposures to the largest five transactions as a share of their LBO portfolio was just below 60%.

Banks' equity investments in LBO transactions appeared quite limited according to the survey results. Equity exposures may derive from equity investments in LBO funds or from other

funds exposed to LBO activity, or from co-investments in the equity part of LBO transactions.¹⁵

Turning to banks' income exposures to LBO transactions, the survey indicated that many banks earn significant income from the fees and commissions derived from LBO-related activities. "Capital turnover" banks, in particular, confirmed their focus on non-interest income, stating that they extract 40% of their total LBO-derived income from arrangement and distribution fees, and more than 20% from advisory fees (see Chart 3). Even a partial reliance on LBO-related non-interest revenues suggests that a slowdown in the market could have a negative impact on these institutions' income streams. However, it appears unlikely that an adverse income scenario would in itself be sufficient to generate systemic effects since income generated from LBO transactions

¹⁴ See Standard & Poor's Leveraged Commentary & Data, LCD EuroStats, May 2007.

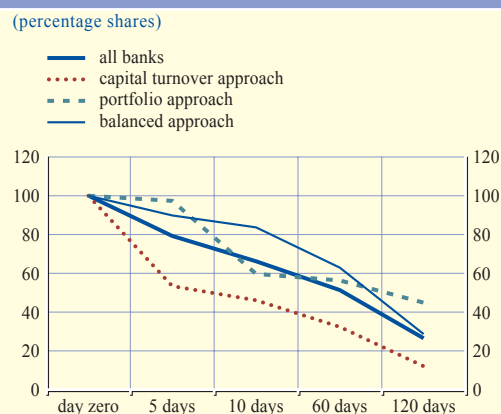
¹⁵ However, the survey results may have underestimated banks' provision of equity capital for LBO transactions since the activities of these separate structures might not have been consolidated in banks' replies, especially in the case of non-EU banks' affiliates. The total stock of equity exposures in June 2006 amounted to €12 billion, as opposed to the stock of debt exposures of around €100 billion.

represented an only moderate fraction of total income.¹⁶

Surveyed banks indicated that due diligence, credit analysis and the ability to syndicate and distribute credit risk are key elements in their assessment of the risks associated with LBO lending. Banks that arranged syndications typically carried out their own due diligence, while banks participating in syndications often relied to a great extent on external due diligence. However, banks considered it to be crucial to carry out their own credit analysis, with the aim of determining both the level of debt the target companies could cope with in adverse scenarios and the bank's ability to dispose of exposures down to comfortable levels.

Banks perceived their ability to pass on acquired debt exposures as depending largely on market sentiment regarding LBO debt, which could worsen significantly in the case of an adverse credit event or an early default of a target firm. The most important source of risk to banks identified by the survey concerned "warehousing" or underwriting risk if the LBO market should experience a sharp and unexpected downturn. This risk arises from the large LBO debt concentrations which the underwriting banks, especially those closer to the "capital turnover" approach, are exposed to from the day they commit to finance an LBO transaction until its completion, and throughout the debt distribution process to the market. The survey revealed that, on average, the period of time from a bank's commitment to provide funds until the finalisation of the transaction (i.e. the execution of the cash transfer) was 60 days. Once a transaction is finalised, LBO debt can be disposed of in the market. However, the survey revealed that the time frames for distributing debt exposures to the market tend to be rather lengthy as well. The survey results also showed significant variations in the speed at which banks were able to distribute their exposures further, again predominantly reflecting their respective business models (see Chart 4).

Chart 4 Reduction in exposures over time, by business model, in June 2006



Source: BSC.

Notes: Based on the top five LBO transactions reported by each surveyed bank in the 12 months to June 2006. A significant number of banks in the sample classified themselves as following a balanced approach that combines features of both the capital turnover and the portfolio approach.

Chart 4 shows that banks' LBO debt distribution profiles do not strictly follow the expected paths for the "portfolio" or the "capital turnover" models since, on average, all banks dispose of their LBO debt exposures. "Capital turnover" banks distribute, on average, 50% of their exposures within five days of finalising a transaction, which can be considered quite efficient. However, should their aim be to distribute exposures down to zero, the process could take more than four months. Taken together with the LBO execution time frames, this yields, on average, a period of roughly half a year, with an even longer time lag for banks that follow alternative business models.

4 INDIRECT RISKS: RELIANCE OF LBO ACTIVITY ON CREDIT RISK TRANSFER

Although it is apparent from the results of the BSC survey that large banks' direct risk exposures to LBO transactions in the EU are limited, there are important caveats to that

¹⁶ While dispersion was significant across banks, LBO income represented more than 5% of total income for only a quarter of the EU responding banks in June 2006.

conclusion. These are mainly related to the role played by the markets for credit risk transfer (CRT) that support the mechanisms of hedging and debt distribution used by banks to limit their credit risk exposures. Indeed, it can be argued that most banks – both “portfolio” banks and, in particular, “capital turnover” banks – that are active in the debt financing of large LBO transactions would not participate in such transactions in the absence of a well-functioning market that allows them to shed credit risk exposures.

However, even after the successful completion of a deal, the CRT mechanisms invoked to facilitate debt distribution and hedging can give rise to various risks. These can be classified broadly into three different categories, although additional risks could also be identified. First, counterparty risks arise from the possibility that the party taking on the bank’s credit risk exposure fails, for some reason or another, to meet its contractual obligations. Second, operational risks could materialise if the market for credit derivatives fails to function properly under certain market conditions. Third, legal risks may arise after a failure of an LBO undertaking if the various parties that had acquired exposures to the LBO project in the CRT market have very different objectives and incentives in the ensuing distress resolution (or workout) process. These risks are covered in more detail below.

With regard to counterparty risks, the immediate counterparties for the banks in the context of their financing of LBO transactions are the private equity fund and the target company. Once the contractual arrangements for the debt underwriting transaction have been completed, however, the banks start disposing of their loan exposures in the secondary market using CRT channels. In this process, the number and variety of potential counterparties increases substantially: the purchasing parties of the LBO credit exposures can include other banks, insurance companies, pension funds, credit portfolio investors and hedge funds.

The various counterparties in the secondary markets for debt are typically interested in acquiring different types of loans, according to their particular risk-return profiles. Therefore, investors with pronounced buy-and-hold strategies and/or limitations on the level of risk they are allowed to bear, such as banks, pension funds and insurance companies, often invest in the most senior (least risky) loan tranches. On the other hand, investors seeking to maximise the returns on the investment, such as hedge funds and managers of large credit portfolios, may regard the more subordinated loan tranches as more attractive. It should be noted, however, that the EU market for LBO loans is developing rapidly and that it is becoming increasingly difficult to classify investors’ demand according to their “traditional” risk-return profiles.

Should counterparty risks materialise, the underwriting bank could find itself exposed to a risk it had thought not to have any exposure to. The emergence of unexpected risk exposures could lead to a re-statement of the bank’s current and past earnings, could have adverse consequences on the bank’s profitability and share price and could, in extreme events, affect the bank’s capital. To avoid such adverse scenarios, banks that are active in LBO financing should make sure that the debt exposures which are off-loaded from the balance sheet are properly priced to reflect possible changes in the operational environment of the underlying LBO undertaking over the entire lifetime of the loan. In addition, after the credit risk exposures have been hedged or sold, a continued monitoring by banks of the activities and financial soundness of both borrowers and banks’ counterparties in the secondary market for debt remains of crucial importance.

Turning to the operational risks, given that the risk management techniques used by banks active in LBO financing are characterised by a widespread use of credit derivatives, the robustness of the derivatives market infrastructure becomes key for ensuring that the hedging processes function smoothly. The vast majority of all transactions in derivatives

take place in over-the-counter (OTC) markets where many of the instruments traded are non-callable and non-standardised.¹⁷ Against the background of the sharp increase in trading volumes in recent years, problems in the OTC market infrastructure have been highlighted which contributed to a multiplication of supporting documentation and an accumulation of non-confirmed trades. Such distortions could create bottlenecks in the system in situations where trading volumes surge unexpectedly, as in cases where several investors want to unwind their hedging positions simultaneously. In response to these concerns, central banks, regulators and market participants in major financial centres have taken pro-active measures to prevent risks from materialising. However, the rapid growth of, and product innovation in, the derivatives markets require practices to be constantly updated so as to guarantee a smooth functioning of the market in all circumstances.

Legal risks constitute a latent risk related to the sharing of LBO credit risk exposures, as is facilitated by CRT. Market observers have pointed out that distressed debt resolution after failed LBO projects could become substantially more complicated than it tends to be in traditional relationship lending. In contrast to the situation in relationship lending, where the creditor is a bank or a group of banks with a long history of financing the firm, the counterparties in the debt resolution process in LBO financing can be institutions that have acquired exposures in the secondary market and may have rather differing preferences, incentives and investment horizons. In addition, in the case of LBO transactions that involve cross-border elements, the fact that the debtor and the various creditors may be operating under multiple bankruptcy legislations may further complicate the proceedings.

By way of an example, one can imagine, on the one hand, a hedge fund that has bought the most junior (equity) tranche of the LBO debt financing package and would, consequently, be the first party to be hit by the financial distress of the LBO target company. At the same time,

the often short-term nature of its funding structure might not allow it to sustain losses beyond the short term, suggesting that it could be rather keen to force the firm into liquidation at an early stage in order to recover at least part of its loss. On the other hand, banks and pension funds are typically long-term investors with stable balance sheets and funding sources which buy the more senior loan tranches and could have an incentive to allow the firm to re-structure its debt and to continue its operations. It is not entirely clear *ex ante* how such differences would be resolved in an orderly manner in a potentially rapidly evolving market environment.

5 RISKS INVOLVED IN LBO ASSET-BACKED SECURITIES MARKETS

An important driver of the demand for loans originated from LBO transactions has been the financial innovation that pools high-yield, often low credit-quality bonds and slices the cash flow into tranches with varying exposure to credit risk. Such instruments include asset-backed securities (ABSs) and collateralised debt obligations (CDOs). CDOs whose collateral pool consists of bank loans, rather than bonds, are called collateralised loan obligations (CLOs). The high demand for such products in recent years has partly been driven by the low returns on many traditional financial assets such as bonds. The most senior tranches of CDOs and CLOs are protected against defaults by the more junior tranches, which absorb the first credit losses to the asset pool. Consequently, the senior tranches can achieve very high credit ratings, despite the fact that the underlying assets in the collateral pool may be rated sub-investment grade. Reflecting the degree of the relative default risk, the various tranches pay a yield premium over the market rate. Investors in such products are often insurance

¹⁷ This entails, among other things, that a derivatives contract, once issued, can only be cancelled by issuing a contract that takes an opposite position to that expressed in the original transaction, thus multiplying the amount of transactions required in the marketplace.

companies and pension funds which have been keen to find assets that match their risk profile and nevertheless provide sufficient excess returns relative to the yields paid by long-term government bonds. However, many market observers have pointed out that the high credit ratings granted for structured credit products fail to account for the fact that, as leveraged instruments, CDOs and CLOs are also subject to, sometimes significant, market risk and could face illiquidity problems in less benign trading conditions.

In the United States, popular assets to be included in CDO collateral pools have been bonds originated from the securitisation of so-called sub-prime mortgage loans.^{18,19} Popular assets for CLO loan pools are loans originated under LBO transactions (so-called leveraged loans). Both types of debt instruments have characteristics that provide, on the face of it, ideal building blocks for structured credit products. The original loan transactions are rather “secure” in that mortgages and loans granted to firms with steady cash flows (which are often targets for LBOs) are long-term contracts providing steady interest payments to maturity. This is important for CDO/CLO managers as the replacement of non-performing or defaulted bonds and loans is costly.

In the course of 2007, financial markets were shaken by the news that delinquencies in sub-prime mortgages extended in 2005 and 2006 had increased rapidly. The reasons behind the borrower re-payment difficulties were mainly lower house prices, higher interest payments and reduced re-financing possibilities. Since many CDO tranches are not constantly marked to market on account of the illiquidity that is due to their bespoke nature, the pricing of such products is dependent on complex models that often rely on strong assumptions (i.e. the instruments are marked to model). As a result of the changes in the external environment that were not fully factored into the CDO pricing models, or were not reflected in the short time series of historical data used to calibrate them, the model assumptions underlying the rating,

risk management and pricing of US sub-prime loans broke down in 2005 and 2006.

The global leveraged loan market, including a large European segment, shows some similarities to the US sub-prime mortgage market that could raise financial stability concerns in the case of an adverse turn in the credit cycle. The high leverage ratios in recent buyouts can be compared with high loan-to-value ratios in sub-prime mortgages. In addition, the practice of dividend re-capitalisation, whereby the LBO partners can take advantage of the rising market valuation of target companies, is similar to the mortgage re-financing that was an important factor supporting the sub-prime market in the years of rising US house prices. As banks have been competing hard for underwriting and advisory business in the LBO market, lending standards may have deteriorated and increasingly borrower-friendly structures, such as “covenant-light” debt contracts, may have been adopted. This is akin to the interest-only and negative-amortisation mortgages applied in the sub-prime lending business. While it can be argued that some of these kinds of practices improve the degree of standardisation in the market, allowing an introduction of tradable indices and hedging instruments such as loan credit default swaps (LCDs), they could at the same time allow unviable companies to stay in business longer than they would otherwise without having to file for bankruptcy. When the firms finally default, the recovery rates for creditors could have deteriorated substantially.

18 Sub-prime mortgages are loans for house purchase granted to borrowers with little or no credit history, and are usually characterised by high loan-to-value ratios and variable interest rates. The institution originating the mortgage subsequently sells the loans to investment banks, which securitise them and sell the bonds in the wider marketplace. Sub-prime mortgages were often initially extended with lower “teaser” interest rates that were re-set at higher levels after a pre-specified period of time.

19 According to Moody’s, the average share of sub-prime assets underlying CDO collateral pools was about 45% in 2006. However, there is a wide range of CDOs that are broken down into different risk categories, with the less risky ones including only prime mortgages in the collateral pools, while others could contain up to 80% of sub-prime loans.

There are, of course, also important differences between the two markets: the key difference is that, unlike borrowers in the sub-prime mortgage markets, borrowers in the leveraged loan markets are generally highly sophisticated in financial terms. They have therefore been able to push for arrangements that would in many cases shelter them from short-term cyclical fluctuations. Despite these protective structures, the experiences of the sub-prime mortgage markets could provide an illustration of how the leveraged loan market could unfold in a broader credit market downturn. Since many recent LBO transactions may have been made with the expectation of a further rise in purchase prices that would allow the deals to be quickly re-financed, a decline in the market could expose many deals to market conditions that were not priced into the original transactions. For example, higher market interest rates would decrease the interest coverage of existing deals, possibly pushing some of them into default.²⁰ In addition, in cases where LBO loan re-payments are scheduled to take place at the end of the loan (back-ended amortisation schemes), the retained earnings and cash flows of the target companies may turn out not to be sufficient to service the debts if the economic environment were to deteriorate at the time when the re-payments are due.

exposures to LBO projects – through equity or direct credit – in their balance sheets could be hit. The potential systemic consequences would then play out in ways rather similar to those in the case of a sudden deterioration in the quality of the corporate loan book of a large bank. In particular, financial stability risks would depend mainly on the adequacy of the financial buffers of the affected bank and on its relevance for the broader financial system, for example, via the interbank markets. The second impact could be transmitted via the counterparty risks in the CRT market, to the extent that some of the institutions which have acquired exposure to credit risk may not be able to sustain losses beyond the short term. Given the significant role of CRT markets for large banks, particularly in their business models and risk management, any shock that leads to a profound dislocation in product pricing, market-making or trading functions in these markets could have potential consequences for a number of institutions at the same time.

6 CONCLUSION

When attempting to assess the risk to financial stability that arises from the LBO market, it is important to consider the extent to which the risks of a slowdown in this market could have systemic consequences. While banks' direct debt exposures to LBO transactions appear limited, given that most debt is disposed of via CRT instruments or securitisation, the uncertainty about the identity of the final holders of LBO credit risk that is being distributed is substantial. However, if the experience from the US sub-prime market is any guide, the impact on banks of a market downturn is likely to come in several phases. In the first instance, banks which keep direct

²⁰ The BSC survey revealed that a large share of European LBO deals financed by banks in 2005-2006 had, at the time, only marginal interest rate cover, which measures the earnings above an estimated multiple of scheduled interest payments.

EURO AREA STATISTICS



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

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

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

Conventions used in the tables

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



EURO AREA OVERVIEW

Summary of economic indicators for the euro area

(annual percentage changes, unless otherwise indicated)

1. Monetary developments and interest rates

	M1 ¹⁾	M2 ¹⁾	M3 ^{1), 2)}	M3 ^{1), 2)} 3-month moving average (centred)	MFI loans to euro area residents excluding MFIs and general government ¹⁾	Securities other than shares issued in euro by non-MFI corporations ¹⁾	3-month interest rate (EURIBOR, % per annum, period averages)	10-year government bond yield (% per annum, period averages)
	1	2	3	4	5	6	7	8
2005	10.4	7.9	7.4	-	8.1	12.6	2.18	3.44
2006	8.6	8.7	8.4	-	10.9	15.8	3.08	3.86
2006 Q3	7.6	8.4	8.1	-	11.2	15.0	3.22	3.97
Q4	6.8	8.7	9.0	-	11.2	16.6	3.59	3.86
2007 Q1	7.0	9.1	10.2	-	10.6	15.9	3.82	4.08
Q2	6.2	9.2	10.6	-	10.5	.	4.07	4.42
2007 Feb.	6.7	8.9	10.1	10.4	10.4	15.5	3.82	4.12
Mar.	7.0	9.5	11.0	10.5	10.6	17.4	3.89	4.02
Apr.	6.0	8.8	10.3	10.6	10.4	18.0	3.98	4.25
May	5.9	9.3	10.6	10.6	10.4	18.3	4.07	4.37
June	6.1	9.5	10.9	.	10.8	.	4.15	4.66
July	.	.	.	.	.	.	4.22	4.63

2. Prices, output, demand and labour markets

	HICP	Industrial producer prices	Hourly labour costs	Real GDP	Industrial production excluding construction	Capacity utilisation in manufacturing (percentages)	Employment	Unemployment (% of labour force)
	1	2	3	4	5	6	7	8
2005	2.2	4.1	2.4	1.5	1.3	81.2	0.8	8.6
2006	2.2	5.1	2.4	2.8	4.0	83.3	1.4	7.9
2006 Q4	1.8	4.1	2.2	3.3	4.0	84.2	1.5	7.6
2007 Q1	1.9	2.9	2.2	3.1	3.7	84.6	1.4	7.2
Q2	1.9	.	.	.	.	84.5	.	7.0
2007 Feb.	1.8	2.9	-	-	3.9	-	-	7.2
Mar.	1.9	2.8	-	-	4.0	-	-	7.1
Apr.	1.9	2.4	-	-	2.7	84.8	-	7.0
May	1.9	2.4	-	-	2.3	-	-	6.9
June	1.9	.	-	-	.	-	-	6.9
July	1.8	.	-	-	.	84.2	-	.

3. Balance of payments, reserve assets and exchange rates

(EUR billions, unless otherwise indicated)

	Balance of payments (net transactions)				Reserve assets (end-of-period positions)	Effective exchange rate of the euro: EER-24 ³⁾ (index, 1999 Q1 = 100)		USD/EUR exchange rate
	Current and capital accounts	Goods	Direct investment	Portfolio investment		Nominal	Real (CPI)	
	1	2	3	4	5	6	7	8
2005	10.3	45.4	-210.0	146.1	320.1	103.3	104.1	1.2441
2006	0.4	28.6	-158.8	263.5	325.8	103.6	104.4	1.2556
2006 Q3	-3.6	7.5	-43.9	22.3	325.0	104.5	105.3	1.2743
Q4	22.5	17.8	-59.4	120.4	325.8	104.6	105.3	1.2887
2007 Q1	2.8	7.6	-24.2	122.2	331.6	105.5	105.9	1.3106
Q2	.	.	.	.	325.3	107.1	107.3	1.3481
2007 Feb.	-4.5	2.3	-11.0	23.0	337.5	105.4	105.9	1.3074
Mar.	11.1	9.6	-5.9	65.6	331.6	106.1	106.4	1.3242
Apr.	-3.7	4.3	-24.5	15.6	330.0	107.1	107.4	1.3516
May	-12.6	3.6	-11.3	7.3	327.4	107.3	107.4	1.3511
June	.	.	.	.	325.3	106.9	106.9	1.3419
July	.	.	.	.	.	107.6	107.6	1.3716

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

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

1) Annual percentage changes of monthly data refer to the end of the month, whereas those of quarterly and yearly data refer to the annual change in the period average of the series. See the Technical notes for details.

2) M3 and its components exclude holdings by non-euro area residents of money market fund shares/units and debt securities with a maturity of up to two years.

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



MONETARY POLICY STATISTICS

I.1 Consolidated financial statement of the Eurosystem (EUR millions)

1. Assets

	2007 6 July	2007 13 July	2007 20 July	2007 27 July
Gold and gold receivables	172,712	172,624	172,336	172,141
Claims on non-euro area residents in foreign currency	144,357	143,170	143,569	143,246
Claims on euro area residents in foreign currency	22,760	23,892	23,526	24,268
Claims on non-euro area residents in euro	16,535	15,882	16,292	16,207
Lending to euro area credit institutions in euro	448,171	442,002	451,819	465,667
Main refinancing operations	297,999	292,000	301,499	315,501
Longer-term refinancing operations	150,002	150,002	150,002	150,003
Fine-tuning reverse operations	0	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	4	0	318	155
Credits related to margin calls	166	0	0	8
Other claims on euro area credit institutions in euro	13,567	14,177	13,976	14,018
Securities of euro area residents in euro	93,931	93,117	93,313	94,246
General government debt in euro	37,149	37,149	37,149	37,148
Other assets	242,575	243,351	244,439	245,643
Total assets	1,191,757	1,185,364	1,196,419	1,212,584

2. Liabilities

	2007 6 July	2007 13 July	2007 20 July	2007 27 July
Banknotes in circulation	638,219	638,835	638,230	638,962
Liabilities to euro area credit institutions in euro	191,614	193,115	190,198	196,804
Current accounts (covering the minimum reserve system)	190,548	193,037	190,119	195,209
Deposit facility	1,064	78	79	1,595
Fixed-term deposits	0	0	0	0
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	2	0	0	0
Other liabilities to euro area credit institutions in euro	213	215	218	216
Debt certificates issued	0	0	0	0
Liabilities to other euro area residents in euro	56,892	50,087	63,772	71,036
Liabilities to non-euro area residents in euro	19,472	18,904	18,826	18,698
Liabilities to euro area residents in foreign currency	182	181	156	323
Liabilities to non-euro area residents in foreign currency	17,172	16,888	16,972	17,299
Counterpart of special drawing rights allocated by the IMF	5,517	5,517	5,517	5,517
Other liabilities	77,154	76,299	77,207	78,406
Revaluation accounts	117,010	117,010	117,010	117,010
Capital and reserves	68,312	68,313	68,313	68,313
Total liabilities	1,191,757	1,185,364	1,196,419	1,212,584

Source: ECB.

1.2 Key ECB interest rates

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

With effect from ¹⁾	Deposit facility		Main refinancing operations			Marginal lending facility	
			Fixed rate tenders	Variable rate tenders			
			Fixed rate	Minimum bid rate			
	Level	Change	Level	Level	Change	Level	Change
	1	2	3	4	5	6	7
1999 1 Jan.	2.00	-	3.00	-	-	4.50	-
4 ²⁾	2.75	0.75	3.00	-	...	3.25	-1.25
22	2.00	-0.75	3.00	-	...	4.50	1.25
9 Apr.	1.50	-0.50	2.50	-	-0.50	3.50	-1.00
5 Nov.	2.00	0.50	3.00	-	0.50	4.00	0.50
2000 4 Feb.	2.25	0.25	3.25	-	0.25	4.25	0.25
17 Mar.	2.50	0.25	3.50	-	0.25	4.50	0.25
28 Apr.	2.75	0.25	3.75	-	0.25	4.75	0.25
9 June	3.25	0.50	4.25	-	0.50	5.25	0.50
28 ³⁾	3.25	...	-	4.25	...	5.25	...
1 Sep.	3.50	0.25	-	4.50	0.25	5.50	0.25
6 Oct.	3.75	0.25	-	4.75	0.25	5.75	0.25
2001 11 May	3.50	-0.25	-	4.50	-0.25	5.50	-0.25
31 Aug.	3.25	-0.25	-	4.25	-0.25	5.25	-0.25
18 Sep.	2.75	-0.50	-	3.75	-0.50	4.75	-0.50
9 Nov.	2.25	-0.50	-	3.25	-0.50	4.25	-0.50
2002 6 Dec.	1.75	-0.50	-	2.75	-0.50	3.75	-0.50
2003 7 Mar.	1.50	-0.25	-	2.50	-0.25	3.50	-0.25
6 June	1.00	-0.50	-	2.00	-0.50	3.00	-0.50
2005 6 Dec.	1.25	0.25	-	2.25	0.25	3.25	0.25
2006 8 Mar.	1.50	0.25	-	2.50	0.25	3.50	0.25
15 June	1.75	0.25	-	2.75	0.25	3.75	0.25
9 Aug.	2.00	0.25	-	3.00	0.25	4.00	0.25
11 Oct.	2.25	0.25	-	3.25	0.25	4.25	0.25
13 Dec.	2.50	0.25	-	3.50	0.25	4.50	0.25
2007 14 Mar.	2.75	0.25	-	3.75	0.25	4.75	0.25
13 June	3.00	0.25	-	4.00	0.25	5.00	0.25

Source: ECB.

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

1.3 Eurosystem monetary policy operations allotted through tenders ^{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	7
Main refinancing operations							
2007 4 Apr.	382,753	356	291,500	3.75	3.83	3.83	7
11	364,037	346	280,000	3.75	3.81	3.82	7
18	397,484	366	281,500	3.75	3.81	3.82	7
25	392,541	350	288,500	3.75	3.82	3.83	7
2 May	371,510	306	279,500	3.75	3.82	3.83	7
9	353,181	325	276,000	3.75	3.81	3.82	6
15	360,720	307	281,000	3.75	3.82	3.82	8
23	364,192	359	295,500	3.75	3.82	3.82	7
30	360,182	331	284,500	3.75	3.82	3.83	7
6 June	331,056	322	279,000	3.75	3.75	3.77	7
13	363,785	344	282,000	4.00	4.06	4.07	7
20	365,298	361	288,000	4.00	4.06	4.07	7
27	340,137	341	313,500	4.00	4.07	4.08	7
4 July	357,489	334	298,000	4.00	4.03	4.05	7
11	382,686	352	292,000	4.00	4.06	4.06	7
18	375,272	376	301,500	4.00	4.06	4.06	7
25	370,371	358	315,500	4.00	4.06	4.07	7
1 Aug.	373,286	329	298,000	4.00	4.04	4.06	7
Longer-term refinancing operations							
2006 27 July	54,824	158	40,000	-	3.08	3.09	91
31 Aug.	51,079	148	40,000	-	3.20	3.21	91
28 Sep.	49,801	136	40,000	-	3.30	3.32	84
26 Oct.	62,854	159	40,000	-	3.48	3.50	98
30 Nov.	72,782	168	40,000	-	3.58	3.58	91
21 Dec.	74,150	161	40,000	-	3.66	3.67	98
2007 1 Feb.	79,099	164	50,000	-	3.72	3.74	85
1 Mar.	80,110	143	50,000	-	3.80	3.81	91
29	76,498	148	50,000	-	3.87	3.87	91
27 Apr.	71,294	148	50,000	-	3.96	3.97	90
31 May	72,697	147	50,000	-	4.06	4.07	91
28 June	66,319	139	50,000	-	4.11	4.12	91
26 July	78,703	144	50,000	-	4.20	4.20	98

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	9
2006 7 Feb.	Reverse transaction	28,260	28	6,500	-	2.25	2.31	2.32	1
7 Mar.	Collection of fixed-term deposits	2,600	3	2,600	2.25	-	-	-	1
11 Apr.	Reverse transaction	47,545	29	26,000	-	2.50	2.55	2.58	1
9 May	Collection of fixed-term deposits	15,810	16	11,500	2.50	-	-	-	1
14 June	Collection of fixed-term deposits	4,910	8	4,910	2.50	-	-	-	1
11 July	Collection of fixed-term deposits	9,000	9	8,500	2.75	-	-	-	1
8 Aug.	Collection of fixed-term deposits	19,860	21	18,000	2.75	-	-	-	1
5 Sep.	Collection of fixed-term deposits	13,635	17	11,500	3.00	-	-	-	1
10 Oct.	Reverse transaction	36,120	26	9,500	-	3.00	3.05	3.06	1
12 Dec.	Reverse transaction	21,565	25	2,500	-	3.25	3.32	3.33	1
2007 13 Mar.	Collection of fixed-term deposits	2,300	2	2,300	3.50	-	-	-	1
17 Apr.	Collection of fixed-term deposits	42,245	35	22,500	3.75	-	-	-	1
14 May	Collection of fixed-term deposits	2,460	7	2,460	3.75	-	-	-	1
12 June	Collection of fixed-term deposits	12,960	11	6,000	3.75	-	-	-	1
10 July	Reverse transaction	17,385	18	2,500	-	4.00	4.06	4.07	1

Source: ECB.

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

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

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

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

1.4 Minimum reserve and liquidity statistics

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

1. Reserve base of credit institutions subject to reserve requirements

Reserve base as at ¹⁾	Total	Liabilities to which a 2% reserve coefficient is applied		Liabilities to which a 0% reserve coefficient is applied		
		Deposits (overnight, up to 2 years ²⁾ agreed maturity and notice period)	Debt securities up to 2 years ²⁾ agreed maturity	Deposits (over 2 years ²⁾ agreed maturity and notice period)	Repos	Debt securities over 2 years ²⁾ agreed maturity
	1	2	3	4	5	6
2005	14,040.7	7,409.5	499.2	1,753.5	1,174.9	3,203.6
2006	15,648.3	8,411.7	601.9	1,968.4	1,180.3	3,486.1
2007 Jan.	15,889.0	8,478.5	638.8	1,984.4	1,278.8	3,508.5
Feb.	16,033.9	8,490.3	645.9	1,990.6	1,350.2	3,556.9
Mar.	16,253.0	8,634.2	657.4	2,009.8	1,358.8	3,592.8
Apr.	16,456.1	8,764.2	677.6	2,021.0	1,387.2	3,606.1
May	16,718.7	8,886.3	701.9	2,044.3	1,439.8	3,646.4

2. Reserve maintenance

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

3. Liquidity

Maintenance period ending on:	Liquidity-providing factors					Liquidity-absorbing factors					Credit institutions' current accounts	Base money
	Monetary policy operations of the Eurosystem					Banknotes in circulation	Central government deposits with the Eurosystem	Other factors (net)				
	Eurosystem's net assets in gold and foreign currency	Main refinancing operations	Longer-term refinancing operations	Marginal lending facility	Other liquidity-providing operations				Deposit facility	Other liquidity-absorbing operations ²⁾		
	1	2	3	4	5				6	7		
2005	313.2	301.3	90.0	0.0	0.0	0.1	0.3	539.8	51.0	-39.6	153.0	692.9
2006	327.0	313.1	120.0	0.1	0.1	0.1	0.0	598.6	54.9	-66.4	173.2	771.8
2007 Q1	321.6	288.7	134.6	0.0	0.0	0.5	0.8	606.2	47.1	-90.0	180.6	787.2
2007 17 Apr.	323.6	281.7	145.7	0.5	0.0	0.3	0.9	614.8	48.2	-95.2	182.6	797.7
14 May	326.1	281.6	150.0	0.3	0.0	0.5	0.1	620.0	51.3	-97.2	183.2	803.8
12 June	326.4	284.9	150.0	0.3	0.0	0.2	0.2	625.2	49.1	-99.4	186.2	811.7
10 July	323.0	295.4	150.0	0.2	0.1	0.3	0.0	631.3	53.9	-106.4	189.6	821.2

Source: ECB.

1) End of period.

2) Starting from 1 January 2007, includes monetary policy operations in the form of collection of fixed-term deposits which were conducted by Banka Slovenije before 1 January 2007 and were still outstanding after this date.



MONEY, BANKING AND INVESTMENT FUNDS

2.1 Aggregated balance sheet of euro area MFIs ¹⁾

(EUR billions; outstanding amounts at end of period)

1. Assets

	Total	Loans to euro area residents				Holdings of securities other than shares issued by euro area residents				Money market fund shares/ units ²⁾	Holdings of shares/ other equity issued by euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	MFIs	Total	General government	Other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Eurosystem														
2005	1,404.9	635.5	20.7	0.6	614.2	185.7	165.6	2.1	18.1	-	14.8	337.0	14.7	217.2
2006	1,558.2	695.7	19.7	0.6	675.3	217.0	187.5	2.5	27.0	-	17.2	351.4	14.7	262.4
2007 Jan.	1,540.4	663.7	19.7	0.6	643.3	224.7	194.4	2.4	27.9	-	17.2	361.4	14.8	258.6
Feb.	1,582.1	682.5	19.7	0.6	662.1	234.6	202.8	2.4	29.5	-	17.2	365.7	14.8	267.4
Mar.	1,576.7	693.3	19.7	0.6	673.0	238.0	205.5	2.1	30.4	-	17.4	359.6	14.8	253.6
Apr.	1,588.8	700.1	19.1	0.6	680.4	243.5	210.2	2.2	31.1	-	17.7	355.8	15.3	256.4
May	1,629.8	724.7	18.1	0.6	705.9	248.1	213.5	2.1	32.5	-	17.8	354.0	15.3	269.8
June ³⁾	1,651.5	751.5	17.7	0.6	733.1	249.8	213.2	2.2	34.3	-	17.8	354.1	15.4	263.0
MFIs excluding the Eurosystem														
2005	23,631.5	13,681.7	826.9	8,285.1	4,569.7	3,498.6	1,429.4	551.5	1,517.7	83.1	1,008.7	3,652.8	165.7	1,540.9
2006	25,973.9	14,904.2	810.5	9,160.3	4,933.4	3,555.2	1,276.5	645.8	1,632.8	83.5	1,194.5	4,330.1	172.6	1,733.9
2007 Jan.	26,402.2	15,074.2	806.2	9,275.8	4,992.2	3,601.8	1,296.0	644.4	1,661.4	84.6	1,219.6	4,489.6	171.8	1,760.7
Feb.	26,619.6	15,158.9	803.2	9,337.0	5,018.7	3,626.4	1,293.2	658.2	1,675.0	87.4	1,219.6	4,575.7	171.8	1,779.7
Mar.	27,107.3	15,339.9	801.3	9,441.0	5,097.6	3,661.0	1,282.2	685.8	1,693.0	92.4	1,244.5	4,684.7	195.1	1,889.8
Apr.	27,478.4	15,500.4	802.3	9,526.0	5,172.2	3,671.1	1,258.8	706.3	1,706.0	96.9	1,314.3	4,802.2	199.6	1,893.9
May	27,847.8	15,613.6	797.8	9,600.2	5,215.7	3,746.4	1,291.6	733.9	1,720.9	95.0	1,352.8	4,901.2	200.6	1,938.1
June ³⁾	28,054.7	15,779.9	798.1	9,717.2	5,264.5	3,763.8	1,284.6	758.3	1,720.9	95.4	1,277.5	4,870.2	201.6	2,066.1

2. Liabilities

	Total	Currency in circulation	Deposits of euro area residents				Money market fund shares/ units ³⁾	Debt securities issued ⁴⁾	Capital and reserves	External liabilities	Remaining liabilities
			Total	Central government	Other general government/ other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11
Eurosystem											
2005	1,404.9	582.7	385.4	24.4	14.5	346.5	-	0.1	202.9	27.6	206.2
2006	1,558.2	647.0	431.6	33.7	15.9	382.0	-	0.1	208.6	35.3	235.6
2007 Jan.	1,540.4	621.2	433.3	48.2	18.8	366.3	-	0.8	214.9	36.9	233.2
Feb.	1,582.1	623.2	466.5	51.4	19.8	395.2	-	0.4	218.2	39.1	234.7
Mar.	1,576.7	632.7	455.6	44.8	17.5	393.3	-	0.3	216.3	39.5	232.4
Apr.	1,588.8	641.6	455.5	42.0	19.8	393.7	-	0.1	213.6	43.1	234.9
May	1,629.8	644.9	482.3	47.2	21.3	413.8	-	0.1	211.4	42.5	248.6
June ³⁾	1,651.5	652.6	495.2	51.2	23.3	420.7	-	0.1	207.0	51.0	245.6
MFIs excluding the Eurosystem											
2005	23,631.5	-	12,212.2	149.2	7,211.9	4,851.2	698.9	3,858.3	1,310.6	3,518.0	2,033.5
2006	25,973.9	-	13,257.2	124.2	7,890.6	5,242.4	697.7	4,247.6	1,449.7	3,991.1	2,330.5
2007 Jan.	26,402.2	-	13,297.9	122.3	7,888.2	5,287.4	726.1	4,313.8	1,459.3	4,181.6	2,423.6
Feb.	26,619.6	-	13,358.7	138.0	7,899.2	5,321.4	739.9	4,372.4	1,478.1	4,231.2	2,439.4
Mar.	27,107.3	-	13,595.8	139.0	8,047.1	5,409.7	758.7	4,425.0	1,529.7	4,255.6	2,542.6
Apr.	27,478.4	-	13,693.8	131.6	8,098.1	5,464.1	779.2	4,448.1	1,546.8	4,407.5	2,603.0
May	27,847.8	-	13,850.8	152.6	8,164.2	5,534.0	797.5	4,502.3	1,547.6	4,519.8	2,629.7
June ³⁾	28,054.7	-	14,028.4	169.2	8,265.6	5,593.6	795.2	4,522.0	1,554.6	4,449.2	2,705.2

Source: ECB.

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

2) Amounts issued by euro area residents. Amounts issued by non-euro area residents are included in external assets.

3) Amounts held by euro area residents.

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

2.2 Consolidated balance sheet of euro area MFIs ¹⁾

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

1. Assets

	Total	Loans to euro area residents			Holdings of securities other than shares issued by euro area residents			Holdings of shares/ other equity issued by other euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	Total	General government	Other euro area residents				
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2005	17,870.7	9,133.3	847.5	8,285.7	2,148.5	1,595.0	553.6	710.5	3,989.7	180.4	1,708.2
2006	19,743.5	9,991.1	830.2	9,161.0	2,112.3	1,464.0	648.3	829.9	4,681.5	187.3	1,941.4
2007 Jan.	20,097.3	10,102.4	826.0	9,276.4	2,137.2	1,490.5	646.8	846.3	4,850.9	186.6	1,973.8
Feb.	20,284.2	10,160.6	822.9	9,337.6	2,156.6	1,496.0	660.6	836.5	4,941.4	186.6	2,002.6
Mar.	20,649.3	10,262.7	821.0	9,441.6	2,175.6	1,487.7	687.9	857.6	5,044.2	209.9	2,099.2
Apr.	20,918.5	10,348.0	821.4	9,526.6	2,177.5	1,469.0	708.5	916.8	5,157.9	214.9	2,103.4
May	21,217.6	10,416.7	815.9	9,600.8	2,241.1	1,505.1	736.0	928.0	5,255.2	215.9	2,160.7
June ^(p)	21,395.9	10,533.7	815.8	9,717.9	2,258.4	1,497.9	760.6	881.0	5,224.4	217.0	2,281.4
Transactions											
2005	1,608.6	708.9	12.8	696.0	156.2	76.2	80.0	53.2	448.5	1.4	240.4
2006	1,998.2	877.3	-14.4	891.6	10.6	-96.8	107.4	98.5	802.0	6.4	203.5
2007 Jan.	292.7	84.5	-4.0	88.4	22.8	21.2	1.6	13.0	143.9	-0.9	29.3
Feb.	223.2	63.2	-3.0	66.2	18.0	4.3	13.7	-10.5	124.9	0.0	27.6
Mar.	368.0	106.3	-1.3	107.7	22.3	-6.5	28.9	17.8	125.6	1.4	94.6
Apr.	308.7	92.5	0.5	92.1	3.9	-16.7	20.6	58.2	151.7	1.0	1.4
May	270.2	69.4	-5.5	74.9	60.7	36.7	24.0	5.9	77.4	1.0	55.8
June ^(p)	190.7	119.2	-0.5	119.7	20.5	-5.2	25.8	-45.0	-23.0	1.2	117.8

2. Liabilities

	Total	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Money market fund shares/ units ³⁾	Debt securities issued ³⁾	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2005	17,870.7	532.8	173.6	7,226.4	615.8	2,322.6	1,200.6	3,545.6	2,239.7	13.7
2006	19,743.5	592.2	157.9	7,906.5	614.1	2,587.9	1,276.5	4,026.5	2,566.1	15.7
2007 Jan.	20,097.3	575.6	170.4	7,907.0	641.5	2,625.3	1,283.7	4,218.6	2,656.8	18.3
Feb.	20,284.2	578.7	189.5	7,919.0	652.5	2,668.3	1,296.0	4,270.2	2,674.1	35.8
Mar.	20,649.3	588.4	183.8	8,064.6	666.3	2,701.8	1,341.8	4,295.1	2,775.0	32.5
Apr.	20,918.5	594.7	173.6	8,117.9	682.3	2,711.1	1,345.1	4,450.6	2,837.9	5.3
May	21,217.6	597.6	199.8	8,185.6	702.5	2,749.0	1,316.4	4,562.3	2,878.4	26.2
June ^(p)	21,395.9	604.9	220.4	8,288.8	699.8	2,766.9	1,347.2	4,500.2	2,950.9	16.7
Transactions										
2005	1,608.6	64.4	10.9	495.7	-3.0	213.5	96.2	448.0	333.8	-50.8
2006	1,998.2	59.4	-15.2	683.7	27.0	285.6	57.3	601.6	253.4	45.4
2007 Jan.	292.7	-17.0	11.2	-20.6	28.9	30.0	0.6	166.8	96.1	-3.4
Feb.	223.2	3.1	19.0	16.1	11.5	50.5	8.3	84.3	6.6	23.8
Mar.	368.0	9.7	-5.4	147.8	14.1	37.0	29.7	41.1	93.7	0.2
Apr.	308.7	6.3	-10.2	58.0	18.0	18.9	-2.2	191.1	46.5	-17.9
May	270.2	2.8	26.2	65.4	15.6	32.0	-28.2	91.7	46.0	18.7
June ^(p)	190.7	7.3	20.6	102.6	-2.4	18.4	36.8	-58.6	73.3	-7.5

Source: ECB.

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

2) Amounts held by euro area residents.

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

2.3 Monetary statistics ¹⁾

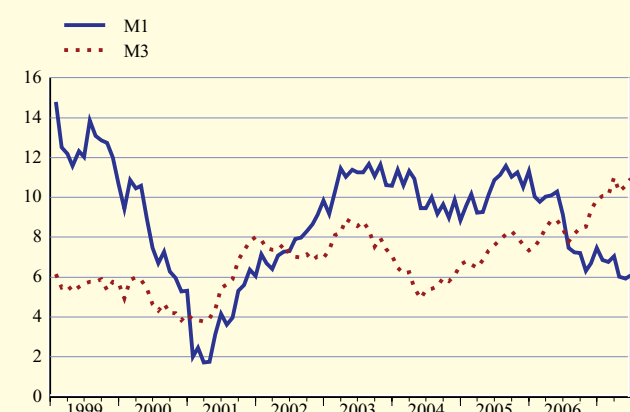
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

1. Monetary aggregates ²⁾ and counterparts

	M1		M2	M3-M2	M3	M3 3-month moving average (centred)	Longer-term financial liabilities	Credit to general government	Credit to other euro area residents		Net external assets ³⁾
		M2-M1							Loans		
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2005	3,419.4	2,653.2	6,072.6	999.4	7,072.0	-	5,000.2	2,472.5	9,561.0	8,287.3	422.2
2006	3,676.6	2,953.1	6,629.7	1,102.1	7,731.8	-	5,428.7	2,321.2	10,658.5	9,167.4	632.9
2007 Jan.	3,688.1	2,989.4	6,677.4	1,134.5	7,811.9	-	5,479.0	2,321.7	10,770.9	9,273.9	629.4
Feb.	3,709.7	3,006.4	6,716.2	1,152.8	7,868.9	-	5,514.6	2,321.7	10,843.2	9,342.4	680.0
Mar.	3,746.8	3,064.9	6,811.8	1,190.4	8,002.2	-	5,590.4	2,301.4	10,978.0	9,444.7	766.5
Apr.	3,740.1	3,106.4	6,846.5	1,190.5	8,037.0	-	5,621.4	2,277.1	11,095.8	9,516.8	731.6
May	3,768.7	3,127.8	6,896.5	1,217.3	8,113.8	-	5,640.4	2,313.9	11,212.4	9,592.8	726.6
June ^(a)	3,784.7	3,170.1	6,954.8	1,228.6	8,183.3	-	5,711.2	2,300.6	11,327.4	9,689.1	719.3
Transactions											
2005	337.0	138.9	475.9	8.5	484.4	-	401.5	94.5	835.5	700.4	0.1
2006	255.5	309.9	565.4	130.2	695.6	-	427.0	-114.1	1,105.0	896.5	200.2
2007 Jan.	2.9	27.0	29.8	34.0	63.9	-	32.6	-4.6	85.0	79.5	-3.8
Feb.	23.0	18.9	41.9	18.5	60.5	-	40.4	-1.1	76.5	73.5	52.4
Mar.	37.8	59.5	97.3	38.7	136.0	-	63.0	-18.1	136.7	105.9	93.0
Apr.	-5.5	43.9	38.4	1.1	39.5	-	37.2	-22.1	123.9	79.2	-32.5
May	27.9	20.5	48.4	21.2	69.5	-	14.1	37.3	108.8	76.8	-4.9
June ^(a)	14.8	43.2	58.0	9.9	67.9	-	77.7	-11.7	120.8	98.9	-2.9
Growth rates											
2005 Dec.	11.3	5.4	8.5	0.9	7.3	7.5	8.9	4.1	9.6	9.2	0.1
2006 Dec.	7.5	11.7	9.3	13.2	9.9	9.8	8.5	-4.7	11.6	10.8	200.2
2007 Jan.	6.9	12.0	9.1	16.1	10.1	10.0	8.6	-4.8	11.3	10.7	189.4
Feb.	6.7	11.6	8.9	17.9	10.1	10.4	8.4	-4.1	10.8	10.4	256.5
Mar.	7.0	12.7	9.5	20.2	11.0	10.5	8.9	-4.9	10.9	10.6	341.4
Apr.	6.0	12.4	8.8	19.5	10.3	10.6	8.9	-5.6	10.8	10.4	316.5
May	5.9	13.6	9.3	18.6	10.6	10.6	8.5	-3.1	11.1	10.4	298.3
June ^(a)	6.1	13.9	9.5	19.9	10.9	.	9.2	-3.6	11.5	10.8	262.0

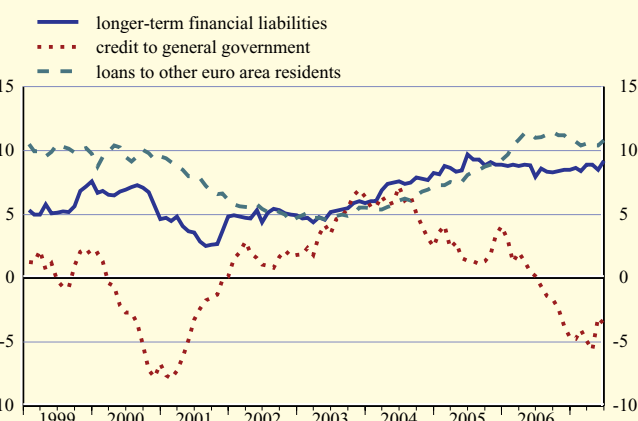
CI Monetary aggregates ¹⁾

(annual growth rates; seasonally adjusted)



C2 Counterparts ¹⁾

(annual growth rates; seasonally adjusted)



Source: ECB.

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

2) Monetary liabilities of MFIs and central government (post office, treasury) vis-à-vis non-MFI euro area residents excluding central government (M1, M2, M3: see glossary).

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

2.3 Monetary statistics ¹⁾

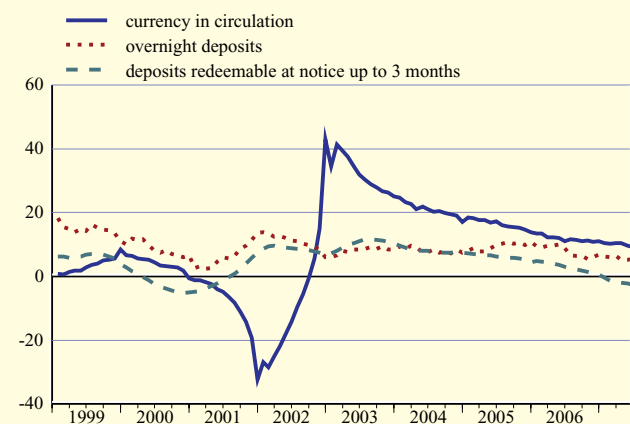
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

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

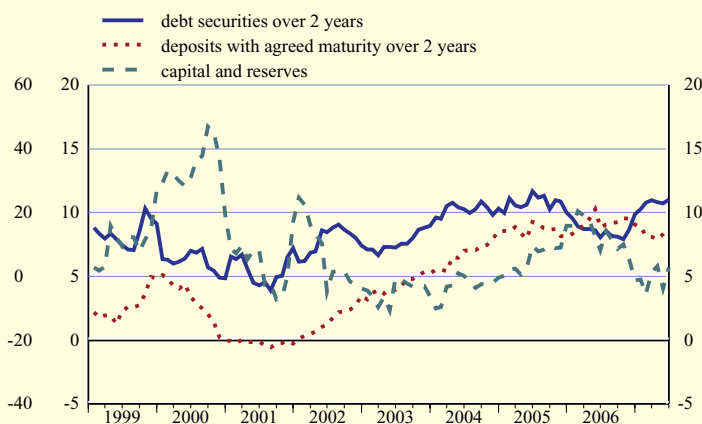
	Currency in circulation	Overnight deposits	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Repos	Money market fund shares/units	Debt securities up to 2 years	Debt securities over 2 years	Deposits redeemable at notice over 3 months	Deposits with agreed maturity over 2 years	Capital and reserves
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2005	521.5	2,897.9	1,109.9	1,543.2	241.6	631.6	126.2	2,202.6	86.9	1,511.2	1,199.6
2006	579.0	3,097.6	1,401.7	1,551.4	272.0	631.4	198.7	2,396.2	102.4	1,654.6	1,275.6
2007 Jan.	583.2	3,104.9	1,442.5	1,546.9	268.2	645.5	220.8	2,423.0	105.2	1,666.4	1,284.4
Feb.	588.3	3,121.5	1,468.3	1,538.1	265.1	655.7	231.9	2,442.3	106.9	1,670.0	1,295.5
Mar.	592.1	3,154.7	1,528.2	1,536.8	280.3	670.0	240.1	2,461.4	107.8	1,682.7	1,338.5
Apr.	597.4	3,142.7	1,573.3	1,533.0	271.6	676.3	242.6	2,467.7	108.7	1,694.0	1,351.0
May	597.8	3,170.9	1,595.6	1,532.3	270.5	691.8	255.0	2,488.9	108.6	1,716.2	1,326.7
June ^(p)	599.2	3,185.5	1,644.3	1,525.7	285.7	701.2	241.7	2,517.3	109.4	1,736.4	1,348.1
Transactions											
2005	63.2	273.8	69.1	69.8	-5.9	-2.0	16.4	198.4	-4.3	111.2	96.1
2006	57.5	198.0	300.8	9.2	31.2	28.8	70.2	216.3	15.5	137.8	57.5
2007 Jan.	3.7	-0.9	32.4	-5.4	-3.8	15.6	22.3	19.1	2.1	9.2	2.2
Feb.	5.1	17.9	27.7	-8.7	-3.0	10.8	10.8	27.3	1.6	4.4	7.0
Mar.	3.8	34.0	60.8	-1.3	15.2	14.5	9.0	21.9	0.9	13.1	27.1
Apr.	5.3	-10.8	47.6	-3.6	-8.6	8.4	1.4	17.0	1.0	12.3	6.9
May	0.4	27.5	21.3	-0.8	-1.1	10.9	11.3	16.3	-0.1	21.7	-23.8
June ^(p)	1.3	13.5	49.0	-5.8	13.7	9.7	-13.6	29.2	0.9	20.2	27.4
Growth rates											
2005 Dec.	13.8	10.9	6.5	4.4	-2.4	-0.3	15.7	10.0	-4.7	8.1	8.9
2006 Dec.	11.0	6.8	27.2	0.6	13.0	4.7	54.5	9.9	17.8	9.1	4.7
2007 Jan.	10.4	6.2	29.3	-0.4	11.6	8.2	58.1	10.3	18.9	8.9	4.8
Feb.	10.2	6.1	29.3	-1.3	15.2	9.6	56.2	10.7	20.7	8.2	3.6
Mar.	10.5	6.4	32.3	-1.7	19.3	12.2	52.0	11.0	20.6	8.1	5.3
Apr.	10.5	5.2	31.2	-2.0	13.5	13.2	52.5	10.8	20.4	7.9	5.8
May	9.6	5.3	34.7	-2.3	10.3	13.8	48.0	10.7	18.4	8.3	4.1
June ^(p)	9.2	5.5	35.0	-2.5	14.8	14.5	48.5	11.0	17.6	8.8	5.7

C3 Components of monetary aggregates ¹⁾

(annual growth rates; seasonally adjusted)

**C4 Components of longer-term financial liabilities ¹⁾**

(annual growth rates; seasonally adjusted)



Source: ECB.

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

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

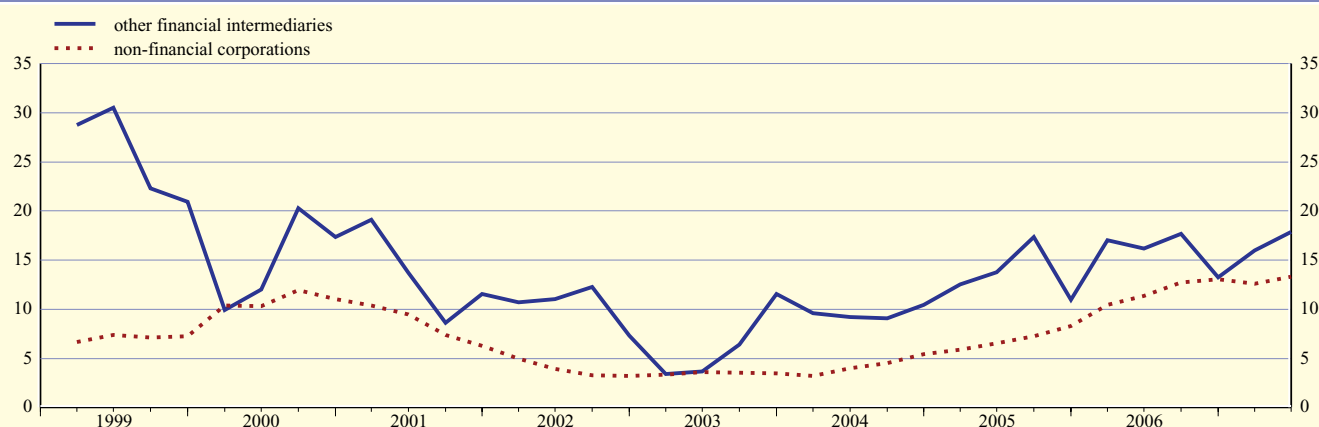
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

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

	Insurance corporations and pension funds		Other financial intermediaries ⁴⁾		Non-financial corporations			
	Total		Total		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8
Outstanding amounts								
2005	64.6	41.6	620.4	370.2	3,409.1	1,037.7	594.0	1,777.3
2006	82.8	55.2	696.0	420.6	3,844.5	1,137.9	707.1	1,999.5
2007 Jan.	99.8	72.2	721.9	440.9	3,898.3	1,157.5	717.4	2,023.3
Feb.	96.9	70.2	741.9	460.8	3,920.6	1,160.6	726.1	2,033.9
Mar.	98.5	71.7	774.9	488.6	3,957.0	1,172.1	738.5	2,046.4
Apr.	105.6	79.4	794.8	502.5	3,998.0	1,188.7	749.0	2,060.2
May	109.0	82.4	788.5	492.3	4,047.9	1,196.8	765.7	2,085.4
June ^(p)	110.4	83.5	802.4	502.2	4,113.3	1,230.5	776.2	2,106.5
Transactions								
2005	15.0	9.8	60.8	29.2	262.7	56.8	54.3	151.6
2006	18.1	13.9	81.9	57.7	446.2	100.5	123.1	222.6
2007 Jan.	17.0	17.0	16.8	19.1	39.1	14.9	7.1	17.1
Feb.	-2.8	-2.0	21.1	20.7	24.9	3.9	9.3	11.7
Mar.	1.6	1.6	33.1	28.1	41.7	12.5	13.1	16.1
Apr.	7.2	7.8	22.0	15.1	44.1	17.7	11.2	15.1
May	3.3	2.9	-6.7	-10.8	50.3	7.9	17.3	25.1
June ^(p)	1.5	1.1	13.6	9.4	67.0	34.1	10.9	22.0
Growth rates								
2005 Dec.	30.6	31.2	11.0	8.7	8.3	5.8	9.9	9.3
2006 Dec.	28.0	33.3	13.3	15.6	13.1	9.7	20.8	12.4
2007 Jan.	30.4	37.1	11.5	13.2	13.3	10.2	20.4	12.7
Feb.	28.6	37.0	10.7	12.3	12.8	9.5	19.6	12.3
Mar.	20.4	26.1	16.0	19.6	12.6	9.9	18.7	12.1
Apr.	20.2	26.7	16.3	18.2	12.4	9.4	18.9	11.9
May	25.5	33.9	14.3	14.2	12.8	10.3	19.6	12.0
June ^(p)	30.6	40.6	17.9	20.3	13.3	11.3	20.0	12.1

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

(annual growth rates)



Source: ECB.

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

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

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

4) This category includes investment funds.

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

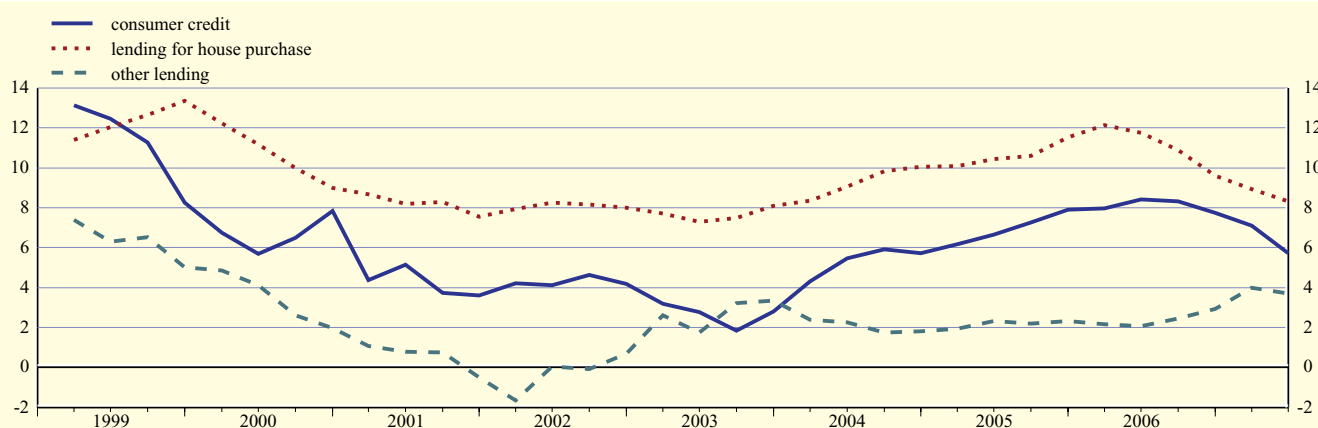
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Loans to households ³⁾

	Total	Consumer credit				Lending for house purchase				Other lending			
		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12	13
	Outstanding amounts												
2005	4,191.0	554.1	129.1	200.7	224.3	2,915.3	15.2	67.5	2,832.6	721.6	147.3	99.9	474.4
2006	4,537.0	586.6	135.3	202.7	248.5	3,212.0	15.6	72.1	3,124.4	738.4	146.2	101.5	490.7
2007 Jan.	4,555.8	587.0	134.7	202.2	250.0	3,230.5	15.3	72.4	3,142.8	738.3	145.3	100.9	492.1
Feb.	4,577.6	585.2	132.5	201.5	251.2	3,252.1	15.5	72.5	3,164.0	740.2	145.6	100.8	493.9
Mar.	4,610.7	590.2	132.0	202.4	255.8	3,271.8	16.1	71.9	3,183.8	748.6	147.5	102.4	498.7
Apr.	4,627.6	593.7	133.3	202.2	258.2	3,286.3	15.7	71.9	3,198.6	747.6	146.4	102.7	498.4
May	4,654.8	595.7	133.0	203.5	259.2	3,311.7	15.9	72.2	3,223.6	747.4	145.2	102.6	499.6
June ^(p)	4,691.1	601.3	134.9	205.0	261.5	3,333.8	16.3	72.0	3,245.5	756.0	150.2	104.0	501.8
	Transactions												
2005	357.5	40.7	9.0	11.6	20.0	300.6	0.7	4.8	295.0	16.2	3.8	1.3	11.1
2006	345.4	42.7	8.2	4.8	29.6	281.8	1.5	4.6	275.7	20.9	1.4	3.8	15.7
2007 Jan.	15.5	-1.3	-0.6	-1.1	0.4	17.1	-0.3	0.4	17.0	-0.3	-1.2	-0.7	1.6
Feb.	23.0	-1.3	-2.2	-0.6	1.5	21.9	0.3	0.1	21.5	2.4	0.4	-0.1	2.1
Mar.	31.3	4.7	-0.4	1.1	3.9	19.7	0.6	-0.3	19.4	6.9	1.5	1.5	3.9
Apr.	18.8	4.1	1.3	-0.1	2.8	15.3	-0.4	0.0	15.6	-0.6	-1.0	0.4	0.0
May	28.0	2.3	-0.2	1.3	1.2	25.4	0.1	0.3	25.0	0.3	-1.2	0.2	1.2
June ^(p)	37.6	6.0	1.9	1.6	2.5	22.5	0.4	-0.1	22.3	9.0	5.0	1.5	2.5
	Growth rates												
2005 Dec.	9.4	7.9	7.5	6.1	9.8	11.5	5.1	7.5	11.7	2.3	2.6	1.3	2.4
2006 Dec.	8.2	7.7	6.5	2.4	13.3	9.6	9.7	6.8	9.7	2.9	1.0	3.9	3.3
2007 Jan.	8.1	7.3	6.2	2.0	12.6	9.5	8.9	7.8	9.5	2.9	0.5	3.8	3.4
Feb.	8.1	6.7	5.2	1.2	12.5	9.5	10.6	7.6	9.5	3.4	1.1	3.0	4.2
Mar.	7.9	7.1	5.8	1.5	12.8	8.9	13.6	6.4	9.0	4.0	1.7	4.1	4.7
Apr.	7.6	7.0	6.1	0.8	12.9	8.6	12.2	6.5	8.6	3.8	1.1	5.1	4.3
May	7.4	6.0	4.2	0.3	11.9	8.6	12.9	6.2	8.6	3.6	1.3	4.9	4.0
June ^(p)	7.2	5.7	4.4	0.8	10.7	8.3	10.3	3.7	8.4	3.7	0.5	5.5	4.3

C6 Loans to households ²⁾

(annual growth rates)



Source: ECB.

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

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

3) Including non-profit institutions serving households. Before January 2003 data were collected in March, June, September and December each year. Monthly data prior to January 2003 are derived from quarterly data.

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

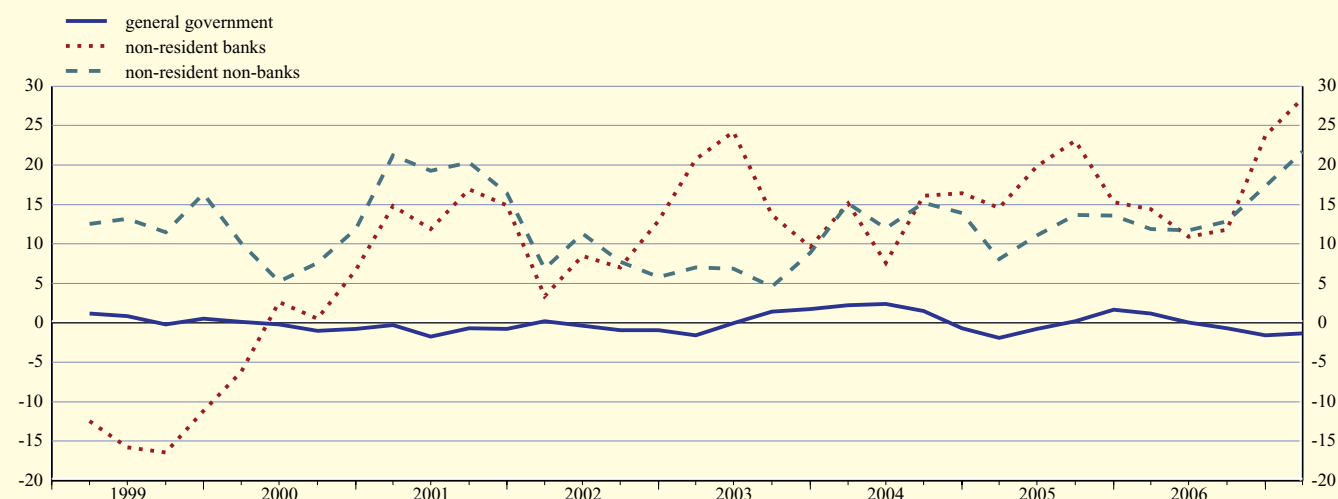
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Loans to government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ³⁾	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2004	811.9	130.1	252.3	405.7	23.8	1,974.7	1,342.2	632.5	61.3	571.1
2005	826.9	125.1	246.8	425.8	29.2	2,485.2	1,722.1	763.1	66.0	697.1
2006 Q1	816.0	118.3	240.9	427.7	29.2	2,594.7	1,821.6	773.1	62.9	710.2
Q2	809.0	106.5	234.5	436.0	32.0	2,611.3	1,839.9	771.5	66.5	705.0
Q3	803.6	101.2	230.1	436.6	35.7	2,735.9	1,919.9	816.1	66.5	749.6
Q4	810.5	104.1	232.5	448.1	25.8	2,924.3	2,061.0	863.4	63.2	800.2
2007 Q1 ^(p)	801.3	96.6	225.2	453.6	26.0	3,169.7	2,260.3	908.7	63.2	845.5
Transactions										
2004	-5.6	2.2	-13.9	17.3	-11.2	275.6	194.9	80.4	1.8	78.6
2005	13.7	-5.6	-8.1	21.9	5.5	296.8	207.9	89.0	4.7	84.3
2006 Q1	-10.7	-6.6	-5.9	1.9	-0.1	131.2	111.6	19.6	-3.0	22.6
Q2	-6.8	-11.6	-6.4	8.3	2.9	56.3	42.8	13.5	3.6	9.9
Q3	-3.3	-3.1	-4.3	0.4	3.6	120.2	75.8	44.3	-0.7	45.0
Q4	7.4	3.7	2.4	11.2	-9.8	224.8	173.1	51.7	-2.7	54.4
2007 Q1 ^(p)	-8.2	-7.4	-6.3	5.5	0.1	272.6	217.2	54.8	0.2	54.6
Growth rates										
2004 Dec.	-0.7	1.7	-5.2	4.4	-32.1	15.6	16.4	13.9	3.1	15.2
2005 Dec.	1.7	-4.3	-3.2	5.4	22.9	14.8	15.3	13.6	7.7	14.2
2006 Mar.	1.2	-8.2	-3.9	5.8	29.5	13.7	14.4	11.9	1.7	12.9
June	0.0	-14.1	-6.3	7.4	12.2	11.2	10.9	11.7	7.3	12.1
Sep.	-0.7	-13.3	-7.9	6.5	9.1	12.1	11.8	12.8	2.9	13.8
Dec.	-1.6	-14.0	-5.8	5.1	-11.6	21.8	23.7	17.4	-4.2	19.4
2007 Mar. ^(p)	-1.3	-15.7	-6.1	5.9	-11.0	26.4	28.4	21.7	0.7	23.6

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

(annual growth rates)



Source: ECB.

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

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

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

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

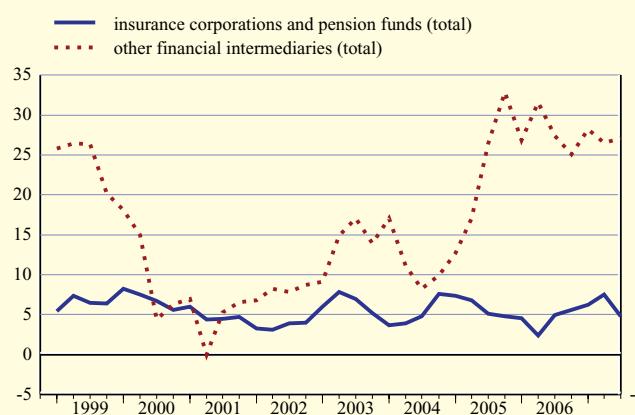
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

1. Deposits by financial intermediaries

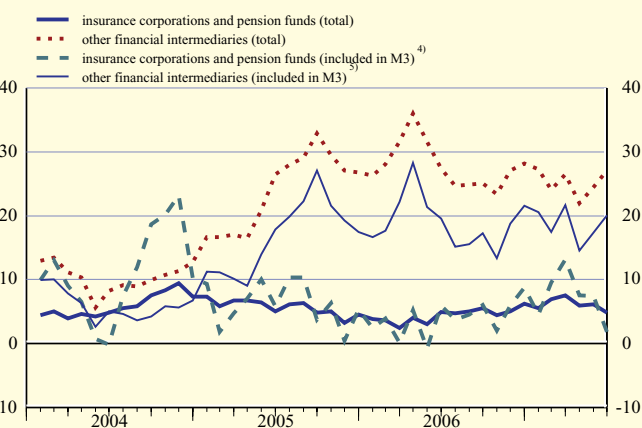
	Insurance corporations and pension funds							Other financial intermediaries ³⁾						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
2005	612.6	67.8	51.9	469.7	1.2	1.4	20.6	880.4	233.9	185.0	329.8	10.5	0.1	121.1
2006	650.0	70.2	57.1	495.4	1.0	1.4	24.9	1,140.3	283.1	251.8	469.4	10.6	0.2	125.1
2007 Jan.	655.7	71.9	57.7	499.5	1.0	1.4	24.3	1,177.5	307.3	247.1	475.8	10.5	0.2	136.6
Feb.	657.0	69.4	58.3	502.8	1.1	1.2	24.2	1,176.3	299.9	246.9	480.3	10.3	0.2	138.6
Mar.	658.8	72.3	58.4	503.0	1.1	1.2	22.9	1,250.9	318.6	267.7	501.9	11.4	0.3	151.0
Apr.	666.2	70.2	63.2	506.3	1.0	1.2	24.4	1,264.7	307.2	276.8	517.2	11.3	0.3	151.8
May	659.7	65.5	60.1	509.0	0.9	1.2	23.0	1,291.2	315.6	274.3	537.8	11.4	0.3	151.7
June ⁴⁾	656.2	65.1	58.0	512.4	0.8	1.2	18.6	1,334.4	320.6	287.7	558.5	11.5	0.2	155.8
Transactions														
2005	26.3	7.4	-0.6	19.2	0.4	0.0	-0.2	176.1	40.1	37.3	96.8	1.5	0.0	0.4
2006	37.9	2.7	5.5	25.6	-0.2	0.0	4.4	249.2	45.5	67.8	130.5	0.3	0.1	4.9
2007 Jan.	5.2	1.5	0.3	4.0	0.0	0.0	-0.7	34.3	23.6	-5.6	5.1	-0.3	0.0	11.5
Feb.	1.6	-2.4	0.7	3.4	0.1	-0.1	0.0	0.9	-6.8	0.6	5.3	-0.1	0.0	2.0
Mar.	1.9	2.9	0.1	0.2	0.0	0.0	-1.3	75.8	19.0	21.2	22.0	1.1	0.1	12.5
Apr.	7.0	-2.6	4.9	3.3	-0.1	0.0	1.5	16.3	-10.7	10.0	16.1	0.0	0.0	0.8
May	-6.6	-4.7	-3.1	2.7	-0.1	0.0	-1.4	25.3	8.1	-3.0	20.2	0.1	0.0	0.0
June ⁴⁾	-3.5	-0.4	-2.2	3.4	0.0	0.0	-4.3	42.1	5.1	13.6	20.8	0.0	0.0	2.6
Growth rates														
2005 Dec.	4.5	12.4	-1.2	4.3	36.0	2.9	-0.8	26.9	22.2	25.0	47.3	14.3	-	0.4
2006 Dec.	6.2	4.0	10.7	5.4	-16.3	-3.4	21.2	28.2	19.5	36.8	38.9	2.9	-	4.0
2007 Jan.	5.6	-0.8	15.7	5.9	-13.5	-3.5	-1.4	27.3	16.4	38.5	38.7	4.7	-	5.4
Feb.	6.9	1.2	23.4	6.2	-6.7	-13.8	7.1	24.1	15.3	30.0	35.0	1.2	-	4.9
Mar.	7.5	10.4	15.9	5.9	-2.9	-14.3	16.0	26.5	15.6	37.6	34.4	4.1	-	12.4
Apr.	6.0	2.9	25.5	5.6	-11.0	-13.9	-13.0	22.0	9.9	25.5	34.5	8.5	-	7.2
May	6.1	-1.6	31.0	5.8	-19.9	-14.6	-10.2	24.5	13.3	33.1	36.1	-2.1	-	4.3
June ⁴⁾	4.8	-5.5	21.0	5.7	-20.5	-13.6	-15.8	27.1	13.4	35.4	38.1	5.9	-	11.3

C8 Total deposits by sector ²⁾

(annual growth rates)

**C9 Total deposits and deposits included in M3 by sector ²⁾**

(annual growth rates)



Source: ECB.

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

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

3) This category includes investment funds.

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

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

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

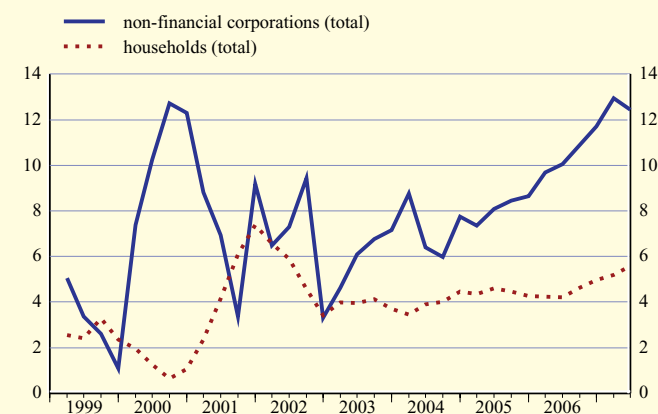
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Deposits by non-financial corporations and households

	Non-financial corporations							Households ³⁾						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
2005	1,211.9	769.2	305.1	67.2	44.5	1.2	24.6	4,343.1	1,685.9	534.0	631.7	1,354.2	84.5	52.8
2006	1,343.1	851.8	355.3	69.4	40.5	1.3	24.8	4,552.6	1,751.2	669.0	606.8	1,355.7	99.8	70.0
2007 Jan.	1,302.5	807.3	359.2	69.7	39.4	2.1	24.9	4,553.2	1,717.7	701.3	602.5	1,357.1	101.7	72.9
Feb.	1,304.4	808.6	360.4	69.1	38.0	2.1	26.3	4,562.1	1,717.3	721.7	597.2	1,347.0	103.8	75.0
Mar.	1,349.0	833.0	379.3	68.9	39.4	1.3	27.0	4,589.5	1,727.5	745.0	593.1	1,342.2	105.4	76.4
Apr.	1,348.8	833.3	382.8	68.9	37.9	1.3	24.5	4,616.5	1,746.3	765.1	587.0	1,336.5	105.7	76.0
May	1,370.9	844.4	392.0	68.6	37.7	1.3	26.9	4,631.6	1,749.5	783.1	581.3	1,333.4	105.5	78.8
June ⁴⁾	1,386.5	861.6	392.4	68.7	36.1	1.3	26.4	4,678.0	1,785.7	801.9	577.2	1,329.2	106.2	77.7
Transactions														
2005	96.6	88.9	11.4	-1.6	3.7	-0.4	-5.4	177.7	125.1	16.3	-2.8	45.9	-4.0	-2.9
2006	141.2	85.7	55.7	3.9	-4.2	0.1	0.2	215.2	65.7	137.5	-23.1	2.5	15.4	17.2
2007 Jan.	-45.0	-46.3	2.5	0.1	-1.3	0.0	0.1	-12.2	-39.1	26.7	-5.4	1.0	1.8	2.9
Feb.	3.1	1.8	1.8	-0.5	-1.4	0.0	1.4	9.6	-0.2	20.8	-5.3	-10.0	2.1	2.1
Mar.	45.2	24.7	19.3	-0.2	1.4	-0.7	0.7	27.7	10.3	23.5	-4.1	-4.9	1.6	1.4
Apr.	1.3	1.0	4.2	0.2	-1.5	0.0	-2.6	27.9	19.0	20.8	-6.1	-5.6	0.3	-0.4
May	21.6	10.8	8.9	-0.4	-0.2	0.0	2.4	14.8	3.1	17.8	-5.8	-3.0	-0.2	2.8
June ⁴⁾	15.7	17.4	0.4	0.1	-1.7	0.0	-0.5	46.8	36.2	19.1	-4.0	-4.2	0.7	-1.0
Growth rates														
2005 Dec.	8.6	13.1	3.8	-2.0	9.0	-29.0	-18.2	4.3	8.5	3.1	-0.4	3.3	-4.5	-5.1
2006 Dec.	11.7	11.2	18.4	5.7	-9.4	5.9	0.6	5.0	3.9	25.8	-3.7	0.2	18.2	32.6
2007 Jan.	10.2	9.1	20.1	2.0	-17.5	8.7	-2.4	4.8	2.6	30.3	-4.2	-0.6	19.4	37.1
Feb.	10.9	9.9	19.9	0.3	-19.8	8.4	19.3	4.9	2.7	32.6	-4.6	-1.4	21.4	39.7
Mar.	13.0	12.0	22.6	-2.2	-16.1	-29.8	25.4	5.2	2.9	35.0	-4.8	-1.9	22.1	38.7
Apr.	11.7	11.1	21.0	-3.1	-17.9	-36.0	14.3	5.1	2.2	37.8	-5.4	-2.2	22.1	40.4
May	11.7	9.4	25.5	-4.0	-17.8	-36.2	10.7	5.3	2.5	38.9	-6.0	-2.2	20.2	39.1
June ⁴⁾	12.4	10.1	26.2	-4.1	-18.0	-29.7	20.0	5.6	3.2	40.1	-6.3	-2.5	19.2	32.9

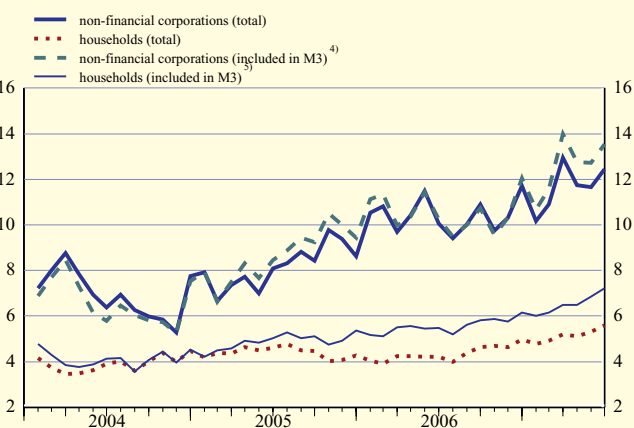
C10 Total deposits by sector ²⁾

(annual growth rates)



C11 Total deposits and deposits included in M3 by sector ²⁾

(annual growth rates)



Source: ECB.

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

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

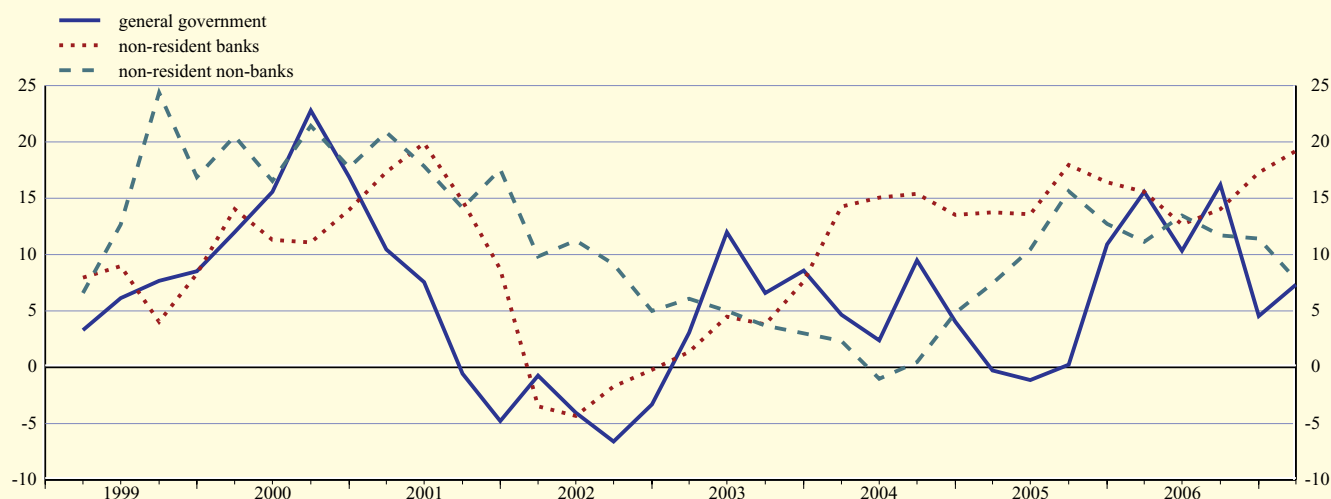
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Deposits by government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ³⁾	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2004	282.2	137.7	30.5	69.6	44.3	2,428.9	1,748.0	680.9	103.4	577.5
2005	313.1	149.2	38.3	80.9	44.7	3,050.5	2,250.5	800.0	125.8	674.2
2006 Q1	312.2	148.1	38.1	77.0	48.9	3,241.9	2,410.4	831.5	128.2	703.3
Q2	317.2	138.1	39.6	82.6	56.9	3,202.9	2,368.0	834.9	128.3	706.6
Q3	333.0	147.7	41.6	83.5	60.2	3,369.2	2,492.1	877.1	133.3	743.7
Q4	329.0	124.2	45.4	91.8	67.6	3,429.0	2,557.1	871.9	128.6	743.3
2007 Q1 ^(p)	337.8	139.0	42.1	88.9	68.2	3,663.9	2,781.3	880.4	133.6	746.9
Transactions										
2004	11.0	2.7	1.8	2.8	3.8	247.1	214.9	32.0	6.9	25.0
2005	30.8	11.2	7.8	11.5	0.3	381.1	292.8	88.3	22.4	66.0
2006 Q1	-1.0	-1.1	-0.2	-3.9	4.3	210.4	170.9	39.5	2.4	37.1
Q2	6.0	-9.1	1.5	5.6	8.0	7.9	-8.3	16.2	0.1	16.2
Q3	15.8	9.6	2.0	0.9	3.3	157.5	117.5	40.0	5.1	34.9
Q4	-6.7	-24.0	3.8	6.1	7.4	100.7	104.0	-5.5	-4.8	-0.7
2007 Q1 ^(p)	7.8	14.1	-3.4	-3.3	0.5	256.5	240.3	13.1	4.8	8.3
Growth rates										
2004 Dec.	4.0	2.0	5.6	4.1	9.2	11.0	13.5	4.8	7.2	4.4
2005 Dec.	10.9	8.1	25.4	16.6	0.7	15.4	16.4	12.7	21.6	11.2
2006 Mar.	15.6	17.0	14.1	14.3	14.6	14.3	15.5	11.1	21.6	9.3
June	10.3	2.7	13.0	18.7	17.6	12.9	12.7	13.4	8.2	14.4
Sep.	16.2	10.1	15.8	17.2	33.3	13.4	14.0	11.7	6.5	12.7
Dec.	4.5	-16.5	18.4	10.8	51.4	15.8	17.2	11.4	2.2	13.2
2007 Mar. ^(p)	7.3	-6.3	10.3	12.3	39.2	16.4	19.2	7.8	4.1	8.4

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

(annual growth rates)



Source: ECB.

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

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

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

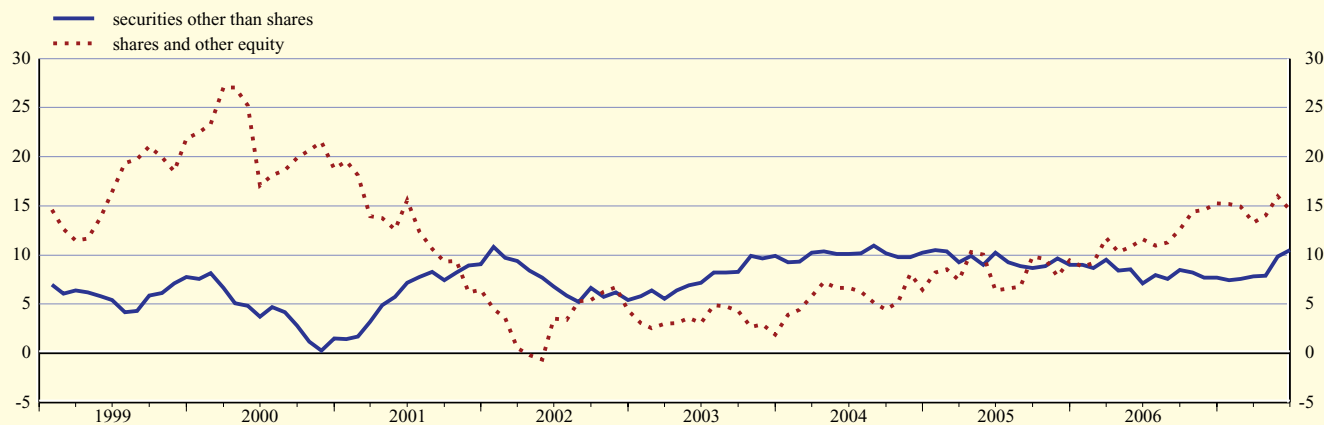
2.6 MFI holdings of securities, breakdown ^{1), 2)}

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

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
	Outstanding amounts											
2005	4,418.9	1,450.4	67.3	1,412.5	17.0	525.7	25.8	920.3	1,254.7	308.5	700.1	246.1
2006	4,663.8	1,560.5	72.3	1,260.4	16.2	615.7	30.1	1,108.6	1,490.3	377.3	817.2	295.8
2007 Jan.	4,756.2	1,586.3	75.1	1,279.9	16.2	613.8	30.6	1,154.3	1,528.3	386.0	833.5	308.7
Feb.	4,790.9	1,596.4	78.6	1,277.2	16.0	625.7	32.5	1,164.5	1,541.8	395.9	823.8	322.1
Mar.	4,842.7	1,616.6	76.5	1,266.6	15.6	651.7	34.1	1,181.7	1,576.5	399.7	844.8	332.0
Apr.	4,863.2	1,629.4	76.6	1,243.4	15.4	672.0	34.4	1,192.1	1,654.0	410.8	903.6	339.7
May	4,984.0	1,641.8	79.1	1,275.8	15.8	699.0	34.9	1,237.6	1,703.7	438.2	914.6	351.0
June ^(p)	5,005.5	1,641.0	79.8	1,269.0	15.6	724.2	34.2	1,241.7	1,623.9	409.8	867.7	346.4
	Transactions											
2005	356.3	85.7	2.0	52.3	-0.9	71.9	7.7	137.6	109.1	26.5	53.4	29.2
2006	336.8	122.7	10.6	-122.7	0.5	100.4	6.5	218.7	194.4	58.8	97.0	38.6
2007 Jan.	82.1	25.0	1.9	15.8	-0.6	-1.4	3.3	38.3	34.1	7.2	13.0	14.0
Feb.	46.0	9.9	4.8	-3.4	0.0	11.3	2.4	21.1	13.1	9.9	-10.5	13.7
Mar.	62.1	20.7	-1.5	-9.6	-0.2	27.2	1.9	23.6	30.8	3.5	17.8	9.5
Apr.	33.6	13.5	1.4	-22.4	0.2	19.7	0.9	20.5	73.9	9.2	58.2	6.6
May	110.1	15.7	0.5	31.8	0.3	23.9	0.0	37.8	42.3	27.2	5.9	9.2
June ^(p)	24.9	0.0	0.8	-5.8	-0.1	26.3	-0.7	4.3	-78.0	-28.0	-45.1	-5.0
	Growth rates											
2005 Dec.	9.0	6.3	3.6	4.2	-4.5	16.0	43.8	18.2	9.4	9.4	8.0	13.6
2006 Dec.	7.7	8.5	16.5	-8.9	3.0	19.3	25.7	24.2	15.2	18.7	13.7	15.2
2007 Jan.	7.4	8.2	24.9	-9.3	-2.5	17.9	31.4	23.9	15.2	17.2	13.2	18.3
Feb.	7.6	7.6	26.2	-9.0	-4.7	17.5	41.8	24.5	14.9	22.2	9.2	22.1
Mar.	7.8	7.9	18.4	-10.2	-3.3	21.3	40.6	25.2	13.3	21.0	6.4	24.1
Apr.	7.9	8.5	15.8	-11.6	-4.1	22.6	36.5	26.0	14.0	20.7	6.7	28.7
May	9.8	7.7	19.9	-8.1	-2.6	24.8	39.4	28.8	16.0	22.6	8.0	32.3
June ^(p)	10.5	8.8	26.3	-8.6	-7.0	27.5	43.7	28.7	14.6	18.6	7.7	30.1

C13 MFI holdings of securities ²⁾

(annual growth rates)



Source: ECB.

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

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

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

(EUR billions)

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

	Consumer credit				Lending for house purchase				Other lending			
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12
2005	-4.1	-1.7	-0.9	-1.5	-4.4	-0.3	-1.1	-3.0	-9.8	-2.7	-3.2	-3.9
2006	-3.9	-1.5	-0.9	-1.6	-2.7	-0.1	-0.1	-2.4	-6.7	-1.1	-2.0	-3.6
2007 Jan.	-0.5	-0.2	-0.1	-0.2	-0.5	0.0	0.0	-0.5	-0.9	-0.3	-0.1	-0.5
Feb.	-0.2	-0.1	-0.1	-0.1	-0.2	0.0	0.0	-0.1	-0.5	-0.1	-0.1	-0.3
Mar.	-0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.5	0.0	-0.1	-0.3
Apr.	-0.3	0.0	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.3	0.0	-0.1	-0.2
May	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.6	0.0	-0.3	-0.2
June ^(p)	-0.3	-0.1	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.5	0.0	-0.1	-0.3

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

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

3. Revaluation of securities held by MFIs

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
2005	21.5	3.4	0.5	6.7	0.7	1.3	0.2	8.6	25.7	5.0	14.4	6.3
2006	-8.6	1.2	-0.4	-7.9	-0.2	-0.4	-0.3	-0.7	31.5	7.1	16.3	8.0
2007 Jan.	-0.5	-1.4	0.0	0.5	0.0	-0.1	0.0	0.4	2.8	0.4	2.4	-0.1
Feb.	0.5	0.4	-0.2	0.7	0.0	0.7	-0.1	-1.0	1.1	0.0	1.3	-0.2
Mar.	-4.2	-0.4	-0.1	-1.0	0.0	-1.1	0.0	-1.5	3.9	0.3	3.3	0.3
Apr.	0.2	0.2	-0.1	-0.9	-0.1	0.6	0.0	0.4	4.6	1.9	1.7	1.0
May	-1.7	-0.6	0.1	-1.7	0.0	-0.1	0.0	0.5	7.6	0.2	5.2	2.1
June ^(p)	-3.6	-0.5	0.0	-2.0	0.0	-0.1	0.0	-0.8	-1.8	-0.4	-1.8	0.4

Source: ECB.

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

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

3) Including non-profit institutions serving households.

2.8 Currency breakdown of selected MFI balance sheet items ^{1),2)}

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

1. Deposits

	MFIs ³⁾							Non-MFIs						
	All currencies (outstanding amount)	Euro ⁴⁾	Non-euro currencies					All currencies (outstanding amount)	Euro ⁴⁾	Non-euro currencies				
			Total							Total				
			USD	JPY	CHF	GBP	USD			JPY	CHF	GBP		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	By euro area residents													
2004	4,709.0	91.4	8.6	5.0	0.5	1.5	1.1	6,778.5	97.2	2.8	1.7	0.3	0.1	0.4
2005	4,851.2	90.9	9.1	5.6	0.4	1.5	1.0	7,361.0	96.8	3.2	1.9	0.3	0.1	0.5
2006 Q1	4,949.5	89.8	10.2	6.2	0.4	1.5	1.4	7,467.7	96.6	3.4	2.0	0.3	0.1	0.6
Q2	5,057.9	90.3	9.7	5.6	0.4	1.5	1.5	7,648.5	96.6	3.4	2.0	0.3	0.1	0.6
Q3	5,091.2	90.4	9.6	5.7	0.4	1.5	1.2	7,760.9	96.4	3.6	2.2	0.3	0.1	0.6
Q4	5,242.4	90.7	9.3	5.6	0.4	1.5	1.2	8,014.8	96.4	3.6	2.2	0.3	0.1	0.6
2007 Q1 ^(p)	5,409.7	90.6	9.4	5.6	0.5	1.5	1.1	8,186.1	96.3	3.7	2.3	0.3	0.2	0.6
	By non-euro area residents													
2004	1,748.0	46.7	53.3	35.8	2.1	3.2	9.5	680.9	55.4	44.6	28.9	1.5	2.2	9.3
2005	2,250.5	46.2	53.8	35.4	2.7	2.8	10.0	800.0	51.8	48.2	32.1	1.7	2.2	9.2
2006 Q1	2,410.4	47.4	52.6	34.3	2.9	2.6	9.7	831.5	51.9	48.1	32.6	1.4	2.0	9.1
Q2	2,368.0	47.7	52.3	34.1	2.1	2.7	10.5	834.9	52.5	47.5	31.1	1.5	2.3	9.2
Q3	2,492.1	47.3	52.7	34.4	2.2	2.6	10.3	877.1	51.7	48.3	31.2	1.6	2.1	10.1
Q4	2,557.1	45.3	54.7	35.1	2.3	2.7	11.5	871.9	50.7	49.3	32.0	1.3	2.0	10.4
2007 Q1 ^(p)	2,781.3	46.3	53.7	34.7	2.2	2.5	11.3	880.4	51.6	48.4	31.3	1.6	2.2	9.5

2. Debt securities issued by euro area MFIs

	All currencies (outstanding amount)	Euro ⁴⁾	Non-euro currencies				
			Total				
			USD	JPY	CHF	GBP	
	1	2	3	4	5	6	7
2004	3,653.9	84.6	15.4	7.6	1.7	1.9	2.7
2005	4,051.7	81.2	18.8	9.6	1.8	1.9	3.2
2006 Q1	4,204.3	81.2	18.8	9.5	1.8	1.9	3.2
Q2	4,273.7	81.2	18.8	9.5	1.7	1.9	3.2
Q3	4,383.1	80.9	19.1	9.8	1.6	1.9	3.3
Q4	4,485.5	80.5	19.5	10.0	1.6	1.9	3.5
2007 Q1 ^(p)	4,673.7	80.7	19.3	9.8	1.6	1.9	3.6

Source: ECB.

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

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

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

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

2.8 Currency breakdown of selected MFI balance sheet items ^{1),2)}

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

3. Loans

	MFIs ³⁾							Non-MFIs						
	All currencies (outstanding amount)	Euro ⁴⁾	Non-euro currencies				All currencies (outstanding amount)	Euro ⁴⁾	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	To euro area residents													
2004	4,457.8	-	-	-	-	-	-	8,367.5	96.6	3.4	1.4	0.2	1.3	0.4
2005	4,569.7	-	-	-	-	-	-	9,112.0	96.3	3.7	1.6	0.2	1.3	0.5
2006 Q1	4,656.2	-	-	-	-	-	-	9,365.4	96.3	3.7	1.7	0.2	1.2	0.5
Q2	4,730.2	-	-	-	-	-	-	9,591.3	96.4	3.6	1.7	0.1	1.2	0.5
Q3	4,790.9	-	-	-	-	-	-	9,786.9	96.3	3.7	1.7	0.1	1.2	0.6
Q4	4,933.4	-	-	-	-	-	-	9,970.8	96.4	3.6	1.6	0.2	1.1	0.5
2007 Q1 ^(p)	5,097.6	-	-	-	-	-	-	10,242.3	96.4	3.6	1.6	0.2	1.1	0.5
	To non-euro area residents													
2004	1,342.2	51.4	48.6	29.9	3.7	2.2	8.7	632.5	42.2	57.8	40.1	2.6	4.5	7.2
2005	1,722.1	48.5	51.5	30.5	4.3	2.0	10.1	763.1	38.2	61.8	43.7	1.8	4.1	8.6
2006 Q1	1,821.6	49.6	50.4	30.3	3.8	2.4	9.2	773.1	38.9	61.1	44.1	1.7	3.9	7.8
Q2	1,839.9	49.6	50.4	29.4	2.8	2.4	10.6	771.5	40.3	59.7	42.2	1.1	4.1	8.3
Q3	1,919.9	50.2	49.8	29.1	2.3	2.4	10.8	816.1	41.2	58.8	41.1	1.8	3.8	8.5
Q4	2,061.0	50.7	49.3	28.9	2.0	2.3	11.0	863.4	39.3	60.7	43.2	1.1	4.0	8.6
2007 Q1 ^(p)	2,260.3	51.6	48.4	28.1	1.9	2.5	10.7	908.7	41.4	58.6	41.3	0.9	4.0	8.5

4. Holdings of securities other than shares

	Issued by MFIs ³⁾							Issued by non-MFIs						
	All currencies (outstanding amount)	Euro ⁴⁾	Non-euro currencies					All currencies (outstanding amount)	Euro ⁴⁾	Non-euro currencies				
			Total							Total				
			USD	JPY	CHF	GBP	USD			JPY	CHF	GBP		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Issued by euro area residents													
2004	1,422.7	95.8	4.2	1.8	0.3	0.5	1.3	1,765.4	98.2	1.8	0.9	0.5	0.1	0.3
2005	1,517.7	95.6	4.4	2.0	0.3	0.4	1.4	1,980.9	97.8	2.2	1.1	0.3	0.1	0.5
2006 Q1	1,570.9	95.6	4.4	2.0	0.2	0.4	1.5	2,014.0	97.8	2.2	1.1	0.3	0.1	0.6
Q2	1,585.3	95.8	4.2	1.9	0.3	0.4	1.3	2,002.8	97.8	2.2	1.2	0.3	0.1	0.6
Q3	1,626.6	95.8	4.2	2.2	0.2	0.3	1.2	1,969.4	97.7	2.3	1.3	0.3	0.1	0.6
Q4	1,632.8	95.6	4.4	2.3	0.2	0.3	1.3	1,922.3	97.6	2.4	1.3	0.3	0.1	0.7
2007 Q1 ^(p)	1,693.0	95.5	4.5	2.3	0.3	0.3	1.4	1,968.0	97.5	2.5	1.3	0.3	0.1	0.8
	Issued by non-euro area residents													
2004	341.4	50.3	49.7	28.6	1.0	0.5	17.0	410.5	44.8	55.2	30.5	8.6	0.7	9.2
2005	397.5	51.0	49.0	28.5	0.8	0.5	15.7	522.8	38.3	61.7	35.0	7.8	0.8	12.6
2006 Q1	426.5	52.8	47.2	26.8	0.8	0.5	15.7	539.8	39.6	60.4	33.8	5.3	0.8	14.8
Q2	439.9	53.5	46.5	26.8	0.9	0.5	15.0	537.7	40.1	59.9	33.5	5.6	0.8	14.6
Q3	475.2	52.4	47.6	28.4	0.7	0.6	14.5	581.5	38.2	61.8	35.6	4.7	0.8	15.4
Q4	514.4	52.2	47.8	28.8	0.7	0.4	14.5	594.2	38.9	61.1	36.5	4.9	0.8	14.2
2007 Q1 ^(p)	549.8	52.1	47.9	29.4	0.6	0.5	14.3	631.6	38.6	61.4	37.3	4.9	0.7	13.5

Source: ECB.

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

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

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

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

2.9 Aggregated balance sheet of euro area investment funds ¹⁾

(EUR billions; outstanding amounts at end of period)

1. Assets

	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
2005 Q4	4,791.4	291.5	1,848.4	109.6	1,738.8	1,684.7	505.3	176.1	285.4
2006 Q1	5,199.6	316.0	1,905.5	139.9	1,765.6	1,898.2	569.3	177.3	333.3
Q2	5,138.0	316.9	1,908.6	145.2	1,763.3	1,777.9	601.0	180.3	353.3
Q3	5,359.0	317.5	1,985.0	178.4	1,806.6	1,874.4	631.3	181.5	369.2
Q4	5,551.3	320.6	2,005.8	170.6	1,835.2	2,022.0	670.6	187.9	344.3
2007 Q1 ^(p)	5,714.7	333.0	2,030.8	180.3	1,850.5	2,069.1	718.0	188.9	374.9

2. Liabilities

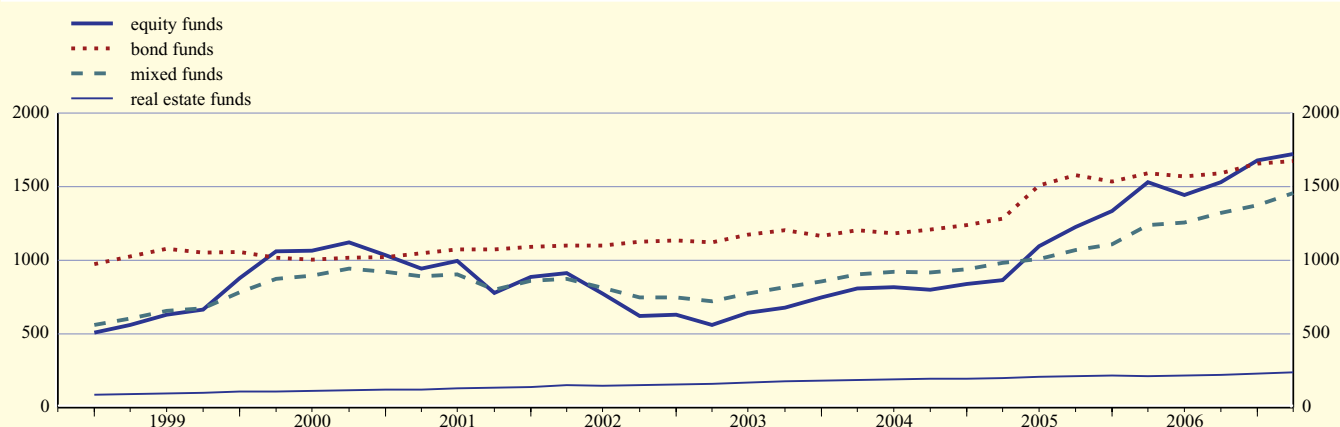
	Total	Deposits and loans taken	Investment fund shares	Other liabilities
	1	2	3	4
2005 Q4	4,791.4	61.8	4,519.0	210.5
2006 Q1	5,199.6	73.6	4,871.3	254.7
Q2	5,138.0	76.4	4,789.6	272.0
Q3	5,359.0	75.9	4,999.5	283.7
Q4	5,551.3	77.8	5,217.0	256.4
2007 Q1 ^(p)	5,714.7	81.6	5,350.2	282.9

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

	Total	Funds by investment policy					Funds by type of investor	
		Equity funds	Bond funds	Mixed funds	Real estate funds	Other funds	General public funds	Special investors' funds
	1	2	3	4	5	6	7	8
2005 Q4	4,791.4	1,337.3	1,538.1	1,109.8	216.2	590.0	3,661.3	1,130.1
2006 Q1	5,199.6	1,532.0	1,592.6	1,239.4	214.0	621.5	3,999.0	1,200.5
Q2	5,138.0	1,443.3	1,569.3	1,257.0	217.4	650.9	3,913.3	1,224.7
Q3	5,359.0	1,533.4	1,594.2	1,321.3	221.2	688.9	4,085.5	1,273.5
Q4	5,551.3	1,680.7	1,657.0	1,375.8	231.8	606.0	4,252.1	1,299.2
2007 Q1 ^(p)	5,714.7	1,723.0	1,674.8	1,459.0	238.4	619.4	4,376.0	1,338.8

C14 Total assets of investment funds

(EUR billions)



Source: ECB.

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

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

(EUR billions; outstanding amounts at end of period)

1. Funds by investment policy

	Total	Deposits	Holdings of securities other than shares			Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
			Total	Up to 1 year	Over 1 year				
	1	2	3	4	5	6	7	8	9
Equity funds									
2005 Q4	1,337.3	50.9	45.9	5.7	40.3	1,146.7	60.3	-	33.5
2006 Q1	1,532.0	55.2	51.5	6.3	45.2	1,309.7	71.1	-	44.6
Q2	1,443.3	52.3	51.4	6.5	44.9	1,221.7	69.3	-	48.6
Q3	1,533.4	53.8	76.1	33.2	42.9	1,284.3	66.8	-	52.3
Q4	1,680.7	56.1	66.0	22.7	43.3	1,429.5	74.3	-	54.8
2007 Q1 ^(p)	1,723.0	59.3	65.8	25.7	40.1	1,461.7	78.0	-	58.4
Bond funds									
2005 Q4	1,538.1	100.0	1,251.8	67.6	1,184.2	38.6	46.3	-	101.3
2006 Q1	1,592.6	108.9	1,285.4	82.6	1,202.8	41.1	49.3	-	107.9
Q2	1,569.3	106.5	1,264.7	87.3	1,177.4	38.5	47.5	-	112.1
Q3	1,594.2	105.5	1,288.5	86.8	1,201.8	41.6	48.2	-	110.3
Q4	1,657.0	108.3	1,343.6	91.1	1,252.5	45.4	49.8	-	110.0
2007 Q1 ^(p)	1,674.8	112.3	1,356.6	94.7	1,261.9	44.5	52.5	-	108.9
Mixed funds									
2005 Q4	1,109.8	60.9	441.1	26.9	414.1	315.9	202.0	0.1	89.9
2006 Q1	1,239.4	67.9	465.4	38.6	426.7	349.6	238.5	0.1	117.9
Q2	1,257.0	72.0	484.1	40.3	443.8	318.6	253.6	0.2	128.6
Q3	1,321.3	68.4	510.6	45.2	465.4	332.3	272.3	0.3	137.4
Q4	1,375.8	71.0	519.4	43.4	476.0	364.0	292.8	0.4	128.2
2007 Q1 ^(p)	1,459.0	73.5	530.2	45.1	485.1	380.4	322.0	0.3	152.5
Real estate funds									
2005 Q4	216.2	14.5	7.8	1.5	6.3	1.4	6.9	175.1	10.4
2006 Q1	214.0	15.1	6.1	1.7	4.4	1.8	4.4	176.5	10.1
Q2	217.4	15.5	5.6	1.5	4.1	1.6	5.4	179.4	9.9
Q3	221.2	16.4	6.0	1.6	4.4	1.9	6.2	180.3	10.4
Q4	231.8	17.6	6.1	1.7	4.4	2.2	7.0	187.0	11.9
2007 Q1 ^(p)	238.4	18.9	6.7	1.9	4.8	2.3	9.6	188.4	12.6

2. Funds by type of investor

	Total	Deposits	Holdings of securities other than shares	Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
	1	2	3	4	5	6	7
General public funds							
2005 Q4	3,661.3	242.9	1,277.9	1,372.7	381.1	150.1	236.7
2006 Q1	3,999.0	263.4	1,334.4	1,551.3	427.5	150.2	272.2
Q2	3,913.3	257.1	1,321.4	1,449.8	452.2	151.2	281.6
Q3	4,085.5	260.6	1,374.1	1,531.3	470.9	151.2	297.3
Q4	4,252.1	265.4	1,402.4	1,650.2	498.2	155.2	280.6
2007 Q1 ^(p)	4,376.0	275.3	1,420.5	1,694.0	528.6	155.6	302.0
Special investors' funds							
2005 Q4	1,130.1	48.6	570.6	312.0	124.3	25.9	48.7
2006 Q1	1,200.5	52.7	571.0	346.9	141.7	27.1	61.1
Q2	1,224.7	59.9	587.2	328.1	148.8	29.1	71.7
Q3	1,273.5	56.9	610.9	343.1	160.5	30.2	71.9
Q4	1,299.2	55.2	603.4	371.8	172.4	32.7	63.7
2007 Q1 ^(p)	1,338.8	57.7	610.3	375.1	189.3	33.3	73.0

Source: ECB.



EURO AREA ACCOUNTS

3.1 Integrated economic and financial accounts by institutional sector

(EUR billions)

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

Sources: ECB and Eurostat.

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

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

(EUR billions)

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

Sources: ECB and Eurostat.

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

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

(EUR billions)

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

Source: ECB.

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

(EUR billions)

Liabilities	Euro area	Households	Non-financial corporations	MFIs	Other financial intermediaries	Insurance corporations and pension funds	General government	Rest of the world
2007 Q1								
Opening balance sheet, liabilities								
Total liabilities		5,409.2	21,609.4	20,073.1	9,326.3	6,066.9	6,712.9	11,894.9
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	12,151.6	210.8	3.9	345.6	2,345.9
Short-term debt securities			267.6	325.2	70.2	0.1	560.7	194.0
Long-term debt securities			425.5	2,500.6	1,251.7	26.1	4,357.0	2,307.5
Loans		5,021.3	6,250.1		1,260.5	155.8	1,075.5	2,207.7
<i>of which long-term</i>		4,709.8	4,214.2		610.8	79.6	944.1	.
Shares and other equity			12,070.1	3,209.7	6,311.3	656.3	4.8	4,390.6
Quoted shares			4,458.0	1,056.0	299.1	320.8	0.0	.
Unquoted shares and other equity			7,612.1	1,215.3	867.8	335.5	4.8	.
Mutual fund shares				938.4	5,144.4			.
Insurance technical reserves		32.7	325.8	53.3	0.5	4,967.7	0.6	
Other accounts payable and financial derivatives		355.2	2,270.3	1,832.7	221.2	257.1	368.8	449.3
<i>Net financial worth¹⁾</i>	-1,139.6	11,509.3	-8,200.9	-357.7	44.8	-111.0	-4,024.2	
Financial account, transactions in liabilities								
Total transactions in liabilities		93.4	244.0	802.0	231.7	99.0	85.2	648.3
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	413.6	3.8	0.0	-7.4	271.3
Short-term debt securities			15.9	33.2	-2.7	-0.1	49.3	29.8
Long-term debt securities			-4.8	97.2	81.2	0.0	38.5	94.4
Loans		75.1	143.2		37.1	19.4	7.0	148.9
<i>of which long-term</i>		77.1	93.9		-0.3	1.5	-20.3	.
Shares and other equity			59.7	77.9	104.9	3.1	0.0	76.1
Quoted shares			6.9	5.2	8.3	0.5	0.0	.
Unquoted shares and other equity			52.8	-0.6	8.3	2.6	0.0	.
Mutual fund shares				73.2	88.3			.
Insurance technical reserves		0.0	1.0	0.6	-0.1	77.2	0.0	
Other accounts payable and financial derivatives		18.3	28.9	179.5	7.6	-0.6	-2.2	27.8
<i>Changes in net financial worth due to transactions¹⁾</i>	2.2	63.6	-49.7	37.4	-0.6	1.9	-50.4	-2.2
Other changes account, liabilities								
Total other changes in liabilities		10.6	396.0	65.3	44.6	17.6	-20.3	18.5
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	-5.2	0.1	0.0	0.0	-35.0
Short-term debt securities			0.3	-1.4	0.0	0.0	2.6	0.3
Long-term debt securities			2.8	-4.2	-1.5	-0.1	-30.5	2.6
Loans		7.0	29.7		4.3	-2.5	-2.9	14.6
<i>of which long-term</i>		5.7	17.4		1.6	-0.7	-3.1	.
Shares and other equity			354.5	72.4	64.4	14.0	0.1	24.2
Quoted shares			197.1	38.9	36.1	7.2	0.0	.
Unquoted shares and other equity			157.4	35.7	-2.6	6.8	0.1	.
Mutual fund shares				-2.3	30.9			.
Insurance technical reserves		0.0	0.0	0.0	0.0	1.7	0.0	
Other accounts payable and financial derivatives		3.6	8.6	3.7	-22.7	4.5	10.4	11.9
<i>Other changes in net financial worth¹⁾</i>	-42.6	153.7	-232.0	-38.8	30.0	5.0	39.6	47.1
Closing balance sheet, liabilities								
Total liabilities		5,513.2	22,249.3	20,940.4	9,602.6	6,183.6	6,777.7	12,561.7
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			0.0	12,560.0	214.7	3.9	338.2	2,582.2
Short-term debt securities			283.9	357.1	67.5	0.1	612.6	224.0
Long-term debt securities			423.6	2,593.5	1,331.3	26.1	4,364.9	2,404.5
Loans		5,103.4	6,422.9		1,302.0	172.6	1,079.5	2,371.2
<i>of which long-term</i>		4,792.6	4,325.5		612.1	80.4	920.7	.
Shares and other equity			12,484.3	3,360.0	6,480.6	673.4	4.9	4,490.8
Quoted shares			4,662.0	1,100.2	343.5	328.5	0.0	.
Unquoted shares and other equity			7,822.3	1,250.5	873.5	344.9	4.9	.
Mutual fund shares				1,009.3	5,263.6			.
Insurance technical reserves		32.7	326.8	53.9	0.4	5,046.6	0.6	
Other accounts payable and financial derivatives		377.1	2,307.8	2,015.9	206.1	261.0	377.1	489.0
<i>Net financial worth¹⁾</i>	-1,180.0	11,726.5	-8,482.6	-359.1	74.3	-104.1	-4,035.0	

Source: ECB.

3.2 Euro area non-financial accounts

(EUR billions; four-quarter cumulated flows)

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

Sources: ECB and Eurostat.

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

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

(EUR billions; four-quarter cumulated flows)

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

Sources: ECB and Eurostat.

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

3.3 Households

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

	2003	2004	2005	2005 Q2- 2006 Q1	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1
Income, saving and changes in net worth								
Compensation of employees (+)	3,664.3	3,769.5	3,871.3	3,903.4	3,942.6	3,980.7	4,014.8	4,057.0
Gross operating surplus and mixed income (+)	1,231.3	1,284.9	1,330.3	1,346.0	1,363.7	1,383.0	1,407.7	1,429.3
Interest receivable (+)	237.8	228.8	226.5	229.4	234.9	242.3	250.0	257.0
Interest payable (-)	123.4	123.2	126.3	129.7	135.3	143.6	151.2	159.3
Other property income receivable (+)	611.3	642.7	691.7	703.9	713.9	717.4	723.4	730.0
Other property income payable (-)	8.7	9.2	9.2	9.2	9.2	9.3	9.3	9.3
Current taxes on income and wealth (-)	702.5	706.7	739.6	750.7	764.5	772.1	789.8	796.4
Net social contributions (-)	1,384.4	1,423.7	1,464.7	1,479.0	1,494.7	1,511.0	1,525.2	1,536.8
Net social benefits (+)	1,396.4	1,440.0	1,481.3	1,492.8	1,503.3	1,513.7	1,524.7	1,531.0
Net current transfers receivable (+)	65.1	65.0	69.2	69.1	68.1	66.9	68.8	71.9
= Gross disposable income	4,987.2	5,168.2	5,330.5	5,375.9	5,422.8	5,468.1	5,513.8	5,574.3
Final consumption expenditure (-)	4,306.6	4,461.6	4,621.9	4,670.3	4,714.6	4,755.5	4,799.1	4,843.1
Changes in net worth in pension funds (+)	54.6	58.1	60.0	60.1	60.6	60.8	61.1	62.0
= Gross saving	735.2	764.6	768.7	765.8	768.7	773.4	775.8	793.3
Consumption of fixed capital (-)	288.0	303.3	318.0	321.1	324.4	327.7	330.7	334.3
Net capital transfers receivable (+)	12.6	19.0	20.8	18.4	17.3	23.4	25.2	24.8
Other changes in net worth ¹⁾ (+)	229.2	285.9	617.7	712.0	499.0	351.1	447.5	326.7
= Changes in net worth ¹⁾	689.0	766.2	1,089.2	1,175.0	960.6	820.2	917.8	810.5
Investment, financing and changes in net worth								
Net acquisition of non-financial assets (+)	482.3	512.0	537.1	549.1	559.2	573.4	586.8	601.6
Consumption of fixed capital (-)	288.0	303.3	318.0	321.1	324.4	327.7	330.7	334.3
Financial investment (+)								
Currency and deposits	220.6	246.0	239.2	245.8	250.2	270.4	282.4	277.8
<i>of which M3 deposits ²⁾</i>	166.1	168.5	207.7	214.5	215.7	226.1	242.1	251.6
Short-term debt securities	-34.5	6.6	-19.0	-2.1	3.8	13.0	16.3	20.1
Long-term debt securities	23.9	71.1	30.0	37.7	39.1	83.0	72.2	49.2
Shares and other equity	89.8	-18.6	128.8	85.4	46.0	-9.6	-23.5	-2.3
Quoted shares	29.5	-51.1	9.1	-24.6	-24.9	-35.1	-14.9	-3.7
Unquoted shares and other equity	-19.0	36.8	61.0	66.8	44.0	36.0	17.1	34.1
Mutual fund shares	79.3	-4.3	58.7	43.3	26.9	-10.5	-25.7	-32.7
<i>of which money market fund shares</i>	14.4	-19.4	-10.1	-11.5	-9.0	-10.0	-4.9	1.6
Insurance technical reserves	244.3	269.5	315.4	323.7	308.7	298.9	276.2	259.0
Financing (-)								
Loans	262.8	312.2	388.7	418.1	417.4	414.8	404.5	391.1
<i>of which from euro area MFIs</i>	211.6	277.4	357.5	379.6	382.6	371.0	345.4	336.9
Other changes in financial assets (+)								
Shares and other equity	266.9	240.8	507.5	606.2	420.7	310.5	396.2	299.7
Insurance technical reserves	28.7	76.8	136.3	113.8	62.3	46.4	37.5	20.7
Remaining net flows (+)	-82.2	-22.4	-79.3	-45.5	12.5	-23.4	8.9	10.0
= Changes in net worth ¹⁾	689.0	766.2	1,089.2	1,175.0	960.6	820.2	917.8	810.5
Financial balance sheet								
Financial assets (+)								
Currency and deposits	4,569.8	4,807.4	5,053.3	5,075.0	5,166.8	5,197.2	5,333.8	5,349.3
<i>of which M3 deposits ²⁾</i>	3,405.1	3,576.6	3,787.0	3,813.3	3,887.9	3,911.3	4,025.1	4,073.0
Short-term debt securities	25.5	33.0	14.7	25.9	33.5	36.7	30.3	43.8
Long-term debt securities	1,292.6	1,350.9	1,372.1	1,415.6	1,413.6	1,435.5	1,431.5	1,458.2
Shares and other equity	3,695.2	3,917.5	4,553.8	4,802.0	4,681.7	4,797.1	4,926.5	5,099.4
Quoted shares	797.0	849.5	1,039.0	1,140.9	1,071.1	1,154.1	1,213.0	1,254.2
Unquoted shares and other equity	1,415.3	1,575.9	1,877.6	1,987.7	1,984.6	2,017.5	2,067.7	2,190.8
Mutual fund shares	1,483.0	1,492.1	1,637.2	1,673.4	1,626.0	1,625.5	1,645.8	1,654.5
<i>of which money market fund shares</i>	263.8	249.0	235.3	213.4	216.0	211.1	186.4	195.1
Insurance technical reserves	3,806.4	4,152.8	4,604.5	4,706.0	4,746.6	4,834.2	4,918.1	4,985.7
Remaining net assets	-80.6	-84.4	-145.7	-153.3	-130.8	-132.2	-109.6	-106.4
Liabilities (-)								
Loans	3,960.3	4,276.8	4,650.8	4,733.1	4,839.1	4,920.5	5,021.3	5,103.4
<i>of which from euro area MFIs</i>	3,521.2	3,809.0	4,191.6	4,280.8	4,384.5	4,459.3	4,537.7	4,611.3
= Net financial wealth	9,348.6	9,900.2	10,801.8	11,138.1	11,072.4	11,248.1	11,509.3	11,726.5

Sources: ECB and Eurostat.

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

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

3.4 Non-financial corporations

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

	2003	2004	2005	2005 Q2- 2006 Q1	2005 Q3- 2006 Q2	2005 Q4- 2006 Q3	2006 Q1- 2006 Q4	2006 Q2- 2007 Q1
Income and saving								
Gross value added (basic prices) (+)	3,781.5	3,928.2	4,034.5	4,075.7	4,106.6	4,155.2	4,217.1	4,269.4
Compensation of employees (-)	2,304.5	2,371.7	2,430.2	2,450.5	2,475.1	2,499.1	2,524.7	2,554.0
Other taxes less subsidies on production (-)	59.1	66.4	72.4	72.1	74.1	74.4	73.2	71.9
= Gross operating surplus (+)	1,417.9	1,490.0	1,531.9	1,553.1	1,557.4	1,581.7	1,619.2	1,643.5
Consumption of fixed capital (-)	608.7	632.8	661.3	667.2	674.0	681.2	688.0	695.7
= Net operating surplus (+)	809.3	857.3	870.5	886.0	883.4	900.5	931.2	947.9
Property income receivable (+)	318.0	363.4	410.3	423.1	433.5	445.9	461.9	471.6
Interest receivable	124.2	118.4	125.1	131.0	137.5	145.0	151.2	154.5
Other property income receivable	193.8	244.9	285.2	292.1	296.0	300.9	310.7	317.1
Interest and rents payable (-)	228.0	226.0	233.6	240.0	247.3	257.2	267.8	278.6
= Net entrepreneurial income (+)	899.3	994.6	1,047.2	1,069.0	1,069.5	1,089.2	1,125.4	1,140.9
Distributed income (-)	690.6	748.3	828.6	843.2	858.6	861.7	881.0	896.1
Taxes on income and wealth payable (-)	116.7	131.6	147.4	150.1	156.8	166.7	180.4	186.5
Social contributions receivable (+)	73.5	73.6	74.0	73.9	74.1	74.3	74.5	75.1
Social benefits payable (-)	59.9	60.5	62.0	62.0	62.1	62.3	62.3	62.4
Net other current transfers payable (-)	43.1	48.3	47.9	45.6	46.1	46.3	45.6	45.4
Changes in net worth of households in pension funds (-)	13.0	12.8	11.8	11.9	12.0	12.1	12.1	12.1
= Net saving	49.5	66.7	23.6	30.1	7.9	14.4	18.5	13.5
Investment, financing and saving								
Net acquisition of non-financial assets (+)	167.5	190.0	206.0	230.6	239.8	255.1	260.3	269.1
Gross fixed capital formation (+)	775.3	815.0	850.9	866.8	882.5	897.2	919.3	940.8
Consumption of fixed capital (-)	608.7	632.8	661.3	667.2	674.0	681.2	688.0	695.7
Net acquisition of other non-financial assets (+)	0.9	7.8	16.5	31.0	31.3	39.1	29.1	24.0
Financial investment (+)								
Currency and deposits	115.2	83.5	152.6	161.0	168.8	164.3	175.2	188.2
of which M3 deposits ¹⁾	63.0	73.8	99.3	103.9	108.9	116.8	138.5	157.7
Debt securities	-33.5	-56.9	-20.4	-4.6	13.9	-0.7	22.1	3.8
Loans	141.6	61.0	138.5	99.8	104.5	108.5	129.2	156.9
Shares and other equity	176.8	177.7	162.3	179.1	228.0	191.0	206.7	233.0
Insurance technical reserves	4.9	5.9	8.7	5.9	6.1	5.7	6.2	6.1
Remaining net assets (+)	2.3	64.4	22.6	84.7	113.4	157.6	163.8	133.0
Financing (-)								
Debt	294.9	216.1	403.0	467.6	576.6	630.5	657.1	670.8
Loans	217.2	196.0	395.0	462.4	555.8	593.1	605.5	618.6
of which from euro area MFIs	102.8	163.9	262.7	334.2	371.8	422.7	446.2	442.7
Debt securities	62.6	6.7	-4.6	-7.6	8.6	25.4	39.6	42.1
Pension fund reserves	15.0	13.5	12.6	12.7	12.2	12.0	12.0	10.0
Shares and other equity	185.3	188.6	184.9	209.0	238.6	171.6	207.3	222.1
Quoted shares	19.1	11.9	101.3	96.1	113.5	39.7	32.4	41.1
Unquoted shares and other equity	166.1	176.7	83.6	112.9	125.1	131.9	174.9	181.0
Net capital transfers receivable (-)	45.0	54.3	58.9	49.8	51.4	65.2	80.5	83.7
= Net saving	49.5	66.7	23.6	30.1	7.9	14.4	18.5	13.5
Financial balance sheet								
Financial assets								
Currency and deposits	1,194.2	1,262.2	1,417.4	1,428.8	1,472.2	1,512.8	1,577.0	1,604.2
of which M3 deposits ¹⁾	984.2	1,042.9	1,147.3	1,131.9	1,167.0	1,199.4	1,277.4	1,284.5
Debt securities	395.9	310.4	285.9	297.1	307.7	296.0	301.0	295.4
Loans	1,337.8	1,389.5	1,524.3	1,544.2	1,577.6	1,608.0	1,676.6	1,717.5
Shares and other equity	4,842.9	5,340.7	6,250.1	6,696.2	6,611.0	6,905.4	7,243.9	7,489.0
Insurance technical reserves	110.8	118.2	124.4	126.9	128.4	129.7	131.0	133.1
Remaining net assets (+)	170.2	198.6	163.8	189.6	230.1	220.8	208.7	219.8
Liabilities								
Debt	6,068.3	6,237.2	6,646.2	6,802.7	7,003.0	7,127.2	7,269.0	7,457.2
Loans	5,151.3	5,268.4	5,667.8	5,816.8	5,997.2	6,116.0	6,250.1	6,422.9
of which from euro area MFIs	3,034.4	3,152.2	3,409.1	3,525.4	3,640.2	3,731.6	3,844.5	3,957.0
Debt securities	628.6	667.5	664.6	669.1	686.3	688.7	693.1	707.4
Pension fund reserves	288.5	301.2	313.8	316.8	319.5	322.6	325.8	326.8
Shares and other equity	8,077.2	8,977.0	10,468.5	11,207.0	11,016.2	11,364.5	12,070.1	12,484.3
Quoted shares	2,732.2	2,987.3	3,681.2	4,088.5	3,947.3	4,091.8	4,458.0	4,662.0
Unquoted shares and other equity	5,345.1	5,989.7	6,787.2	7,118.5	7,068.8	7,272.7	7,612.1	7,822.3

Sources: ECB and Eurostat.

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

3.5 Insurance corporations and pension funds

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

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

Source: ECB.

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

FINANCIAL MARKETS

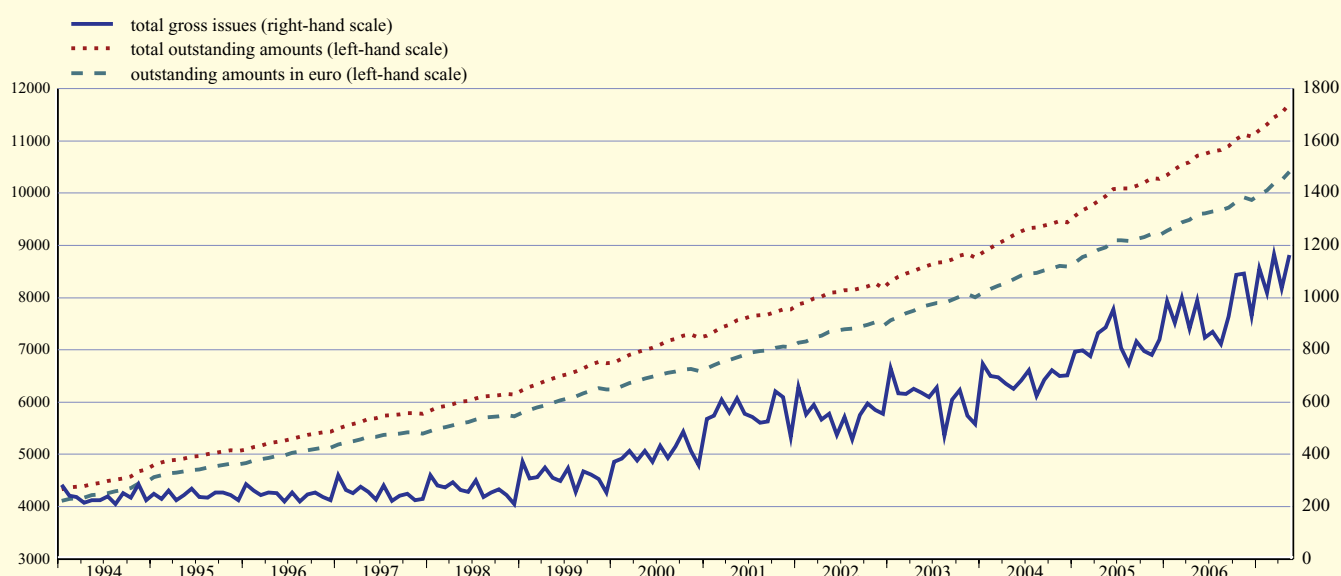


4.1 Securities, other than shares, by original maturity, residency of the issuer and currency

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

	Total in euro ¹⁾			By euro area residents									
				In euro			In all currencies					Seasonally adjusted ²⁾	
	Outstanding amounts	Gross issues	Net issues	Outstanding amounts	Gross issues	Net issues	Outstanding amounts	Gross issues	Net issues	Annual growth rates		Net issues	6-month growth rates
	1	2	3	4	5	6	7	8	9	10		11	12
Total													
2006 May	11,291.0	1,007.8	126.7	9,596.7	936.9	111.9	10,717.6	989.4	125.9	7.7		88.8	8.1
June	11,353.6	896.0	64.6	9,618.4	793.4	23.5	10,750.9	846.7	32.4	6.6		24.9	7.0
July	11,371.4	883.8	17.2	9,652.3	820.1	33.4	10,799.0	868.1	43.5	7.0		52.5	6.8
Aug.	11,403.7	837.9	31.8	9,673.8	779.9	21.0	10,828.8	822.8	24.6	7.2		74.7	7.0
Sep.	11,524.3	1,004.1	120.1	9,724.3	882.0	50.1	10,897.5	927.9	56.9	7.3		57.0	6.7
Oct.	11,619.8	1,106.2	93.3	9,827.8	1,023.0	101.6	11,032.9	1,086.0	122.2	7.9		123.0	8.1
Nov.	11,758.3	1,134.5	137.7	9,919.2	1,036.6	90.8	11,124.2	1,092.7	107.3	8.2		100.0	8.3
Dec.	11,734.1	976.7	-24.9	9,864.3	884.9	-55.8	11,079.3	929.7	-59.9	7.8		39.6	8.5
2007 Jan.	11,831.9	1,144.3	97.8	9,961.6	1,052.1	97.4	11,206.5	1,111.7	116.0	7.9		76.4	8.9
Feb.	11,937.7	1,042.2	105.9	10,051.6	953.5	90.2	11,316.2	1,019.5	117.0	8.1		88.3	9.1
Mar.	12,166.6	1,254.9	227.7	10,182.7	1,112.8	129.8	11,452.9	1,165.4	135.9	8.4		108.0	10.1
Apr.	.	.	.	10,255.3	980.6	72.4	11,536.3	1,035.4	89.3	8.6		74.7	9.0
May	.	.	.	10,404.8	1,101.6	150.2	11,712.4	1,162.1	171.1	8.9		132.8	9.5
Long-term													
2006 May	10,267.2	206.0	100.7	8,670.3	167.5	85.9	9,645.0	187.4	95.6	7.7		63.5	7.6
June	10,326.6	200.2	60.2	8,734.2	168.2	64.5	9,729.6	193.5	80.9	6.7		52.9	7.1
July	10,365.1	192.9	38.6	8,758.5	158.7	24.5	9,769.3	177.6	35.8	7.1		47.9	6.9
Aug.	10,381.4	90.5	16.5	8,769.7	71.6	11.4	9,787.5	88.2	21.1	7.5		66.0	7.2
Sep.	10,475.1	218.5	94.0	8,824.6	156.7	55.2	9,856.9	175.7	62.9	7.5		53.4	7.0
Oct.	10,576.3	224.8	98.8	8,895.0	173.9	68.4	9,949.5	206.5	86.1	8.1		102.0	8.2
Nov.	10,711.4	226.0	134.2	8,989.6	167.2	93.9	10,043.1	193.4	108.5	8.3		101.6	9.0
Dec.	10,732.5	171.1	18.4	9,008.3	132.6	15.8	10,069.6	152.7	12.9	8.1		56.1	9.0
2007 Jan.	10,807.8	229.9	75.2	9,058.8	176.6	50.4	10,141.1	200.4	61.4	8.1		64.6	9.3
Feb.	10,902.9	234.9	95.3	9,135.3	184.8	76.6	10,231.4	218.3	98.1	8.3		74.7	9.4
Mar.	11,037.7	274.8	134.8	9,225.8	206.7	90.4	10,324.9	227.5	95.5	8.4		74.7	9.8
Apr.	.	.	.	9,274.7	154.5	48.6	10,379.7	176.1	62.1	8.6		63.1	8.9
May	.	.	.	9,398.3	186.7	125.1	10,523.2	212.1	139.3	9.0		106.6	8.9

C15 Total outstanding amounts and gross issues of securities, other than shares, issued by euro area residents (EUR billions)



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

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

2) For the calculation of the growth rates, see the Technical notes. The 6-month growth rates have been annualised.

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

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

1. Outstanding amounts and gross issues

	Outstanding amounts						Gross issues					
	Total	MFIs (including Eurosysteem)	Non-MFI corporations		General government		Total	MFIs (including Eurosysteem)	Non-MFI corporations		General government	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
	1	2	3	4	5	6	7	8	9	10	11	12
Total												
2005	10,270	4,122	926	613	4,327	283	9,875	6,988	325	1,032	1,435	95
2006	11,079	4,566	1,156	645	4,408	305	11,334	8,377	414	1,118	1,339	85
2006 Q2	10,751	4,349	1,027	639	4,437	299	2,717	1,977	107	261	351	22
Q3	10,898	4,448	1,063	637	4,452	298	2,619	1,928	79	265	329	18
Q4	11,079	4,566	1,156	645	4,408	305	3,108	2,365	144	336	241	23
2007 Q1	11,453	4,762	1,236	657	4,489	309	3,297	2,448	126	285	415	23
2007 Feb.	11,316	4,710	1,195	649	4,457	306	1,020	773	45	75	118	8
Mar.	11,453	4,762	1,236	657	4,489	309	1,165	824	57	133	144	8
Apr.	11,536	4,811	1,249	666	4,501	310	1,035	749	29	133	119	7
May	11,712	4,873	1,278	678	4,575	308	1,162	825	38	155	138	5
Short-term												
2005	945	482	7	90	361	5	7,797	6,046	45	943	729	33
2006	1,010	570	12	94	329	4	9,175	7,375	59	1,023	686	31
2006 Q2	1,021	531	10	101	374	5	2,166	1,739	16	227	175	8
Q3	1,041	561	12	96	367	4	2,177	1,733	16	249	171	8
Q4	1,010	570	12	94	329	4	2,556	2,086	14	305	144	7
2007 Q1	1,128	621	12	106	385	4	2,650	2,132	16	271	222	8
2007 Feb.	1,085	612	11	100	357	4	801	655	5	71	68	3
Mar.	1,128	621	12	106	385	4	938	724	5	128	78	3
Apr.	1,157	638	12	113	389	5	859	659	5	124	68	3
May	1,189	652	12	120	401	5	950	727	3	144	73	3
Long-term ¹⁾												
2005	9,324	3,639	919	522	3,966	278	2,078	942	280	89	706	61
2006	10,070	3,996	1,143	551	4,079	301	2,159	1,002	354	95	653	54
2006 Q2	9,730	3,818	1,017	538	4,063	294	551	237	91	34	175	14
Q3	9,857	3,887	1,051	540	4,085	294	442	196	62	16	158	9
Q4	10,070	3,996	1,143	551	4,079	301	553	279	130	31	97	16
2007 Q1	10,325	4,141	1,224	551	4,105	304	646	316	110	13	192	14
2007 Feb.	10,231	4,099	1,183	549	4,100	301	218	118	40	5	51	5
Mar.	10,325	4,141	1,224	551	4,105	304	228	99	52	5	66	5
Apr.	10,380	4,173	1,238	552	4,112	305	176	89	24	9	51	3
May	10,523	4,221	1,267	558	4,174	303	212	98	35	12	65	2
Of which long-term fixed rate												
2005	6,725	2,020	459	413	3,616	217	1,230	414	91	54	622	48
2006	7,048	2,136	535	420	3,719	237	1,289	476	137	61	576	39
2006 Q2	6,922	2,084	499	415	3,692	232	332	109	41	21	151	10
Q3	6,975	2,112	508	415	3,708	233	275	94	22	11	140	8
Q4	7,048	2,136	535	420	3,719	237	280	117	44	20	90	10
2007 Q1	7,164	2,212	561	421	3,728	243	405	174	39	9	169	13
2007 Feb.	7,132	2,190	554	419	3,730	239	135	62	21	4	43	4
Mar.	7,164	2,212	561	421	3,728	243	131	53	11	3	58	5
Apr.	7,189	2,222	567	419	3,737	244	102	43	12	5	39	3
May	7,267	2,233	575	424	3,791	244	116	38	11	7	57	2
Of which long-term variable rate												
2005	2,266	1,350	456	93	306	60	718	432	188	27	58	12
2006	2,603	1,507	601	117	314	64	716	405	214	31	51	15
2006 Q2	2,432	1,431	512	107	320	62	177	96	50	12	15	4
Q3	2,490	1,450	537	110	333	60	134	77	40	4	13	2
Q4	2,603	1,507	601	117	314	64	231	124	86	11	5	6
2007 Q1	2,712	1,560	655	117	320	61	200	113	69	4	13	1
2007 Feb.	2,662	1,547	621	117	315	62	70	45	19	1	4	1
Mar.	2,712	1,560	655	117	320	61	83	36	41	1	5	1
Apr.	2,746	1,574	662	120	329	61	61	37	12	4	9	0
May	2,789	1,591	683	121	334	59	71	37	24	4	5	0

Source: ECB.

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

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

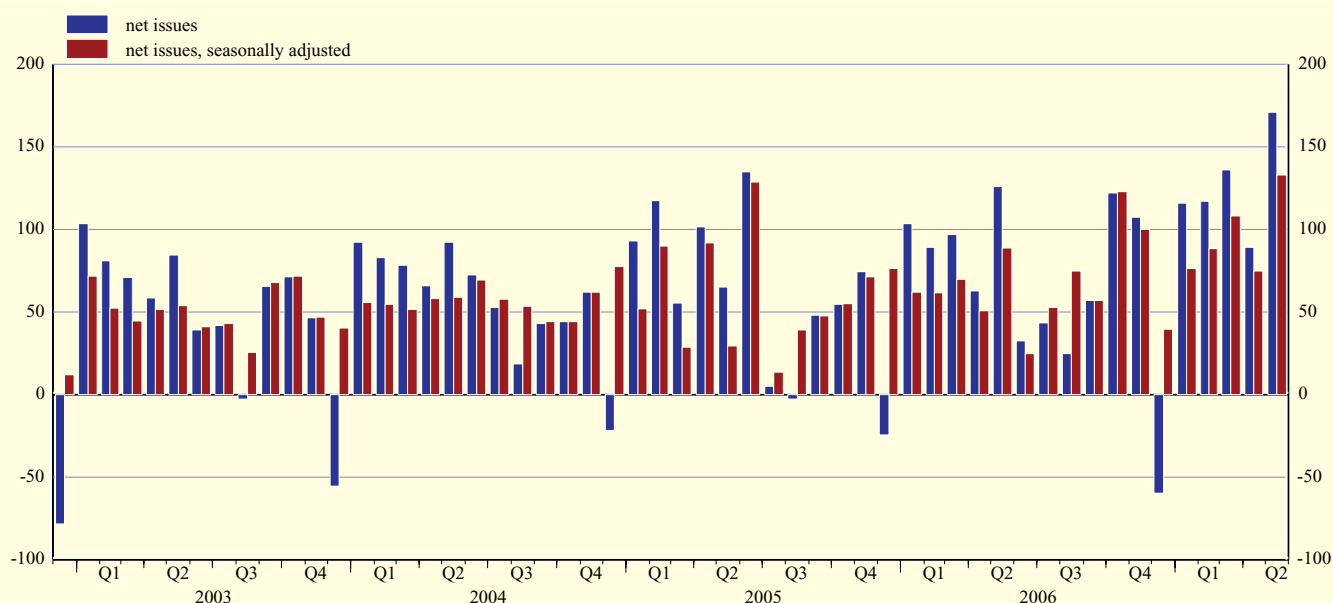
(EUR billions unless otherwise indicated; transactions during the period; nominal values)

2. Net issues

	Non-seasonally adjusted						Seasonally adjusted					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
	1	2	3	4	5	6	7	8	9	10	11	12
Total												
2005	721.6	319.9	175.9	21.9	171.5	32.4	723.5	323.4	171.7	22.1	173.8	32.6
2006	805.2	419.3	236.7	36.5	90.2	22.3	804.4	423.7	232.2	36.9	89.2	22.4
2006 Q2	221.1	83.4	60.3	19.6	48.6	9.1	164.5	87.8	47.9	12.9	7.3	8.6
Q3	124.9	78.7	34.7	-2.4	14.4	-0.5	184.2	95.2	51.3	1.7	33.7	2.3
Q4	169.6	98.4	95.9	10.0	-41.4	6.7	262.6	133.7	67.2	16.2	40.0	5.4
2007 Q1	368.9	187.8	81.6	13.0	82.6	3.9	272.6	129.7	107.0	9.4	23.6	2.8
2007 Feb.	117.0	69.1	32.9	4.2	11.0	-0.2	88.3	49.6	34.5	3.7	1.7	-1.3
Mar.	135.9	48.6	42.2	8.9	33.3	2.9	108.0	27.5	47.5	8.6	20.8	3.6
Apr.	89.3	50.1	15.2	9.4	13.3	1.3	74.7	40.0	16.0	6.6	10.1	1.9
May	171.1	60.1	28.3	11.9	72.5	-1.7	132.8	50.7	30.0	6.1	47.7	-1.7
Long-term												
2005	713.9	296.5	176.3	22.1	186.3	32.6	715.6	298.4	172.2	22.1	190.2	32.8
2006	755.6	346.5	231.4	33.1	121.4	23.3	754.9	348.7	226.9	33.0	123.1	23.3
2006 Q2	219.7	87.1	57.3	16.5	49.7	9.1	161.0	84.9	44.7	9.9	12.8	8.7
Q3	119.8	62.4	33.3	2.6	21.5	-0.1	167.2	67.2	49.9	4.8	42.7	2.6
Q4	207.6	96.3	95.2	12.2	-3.3	7.2	259.7	126.5	66.6	11.3	49.2	6.0
2007 Q1	255.0	142.2	81.9	1.0	26.6	3.3	214.0	108.3	107.2	6.5	-10.1	2.1
2007 Feb.	98.1	64.9	33.4	0.1	0.0	-0.4	74.7	46.7	35.4	1.6	-7.7	-1.3
Mar.	95.5	42.4	41.6	3.0	5.6	3.0	74.7	23.3	46.5	3.7	-2.3	3.4
Apr.	62.1	34.5	15.7	2.3	8.6	0.9	63.1	34.2	17.3	2.6	7.5	1.5
May	139.3	46.5	28.2	5.5	60.9	-1.8	106.6	35.4	29.7	2.0	41.2	-1.7

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

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



Source: ECB.

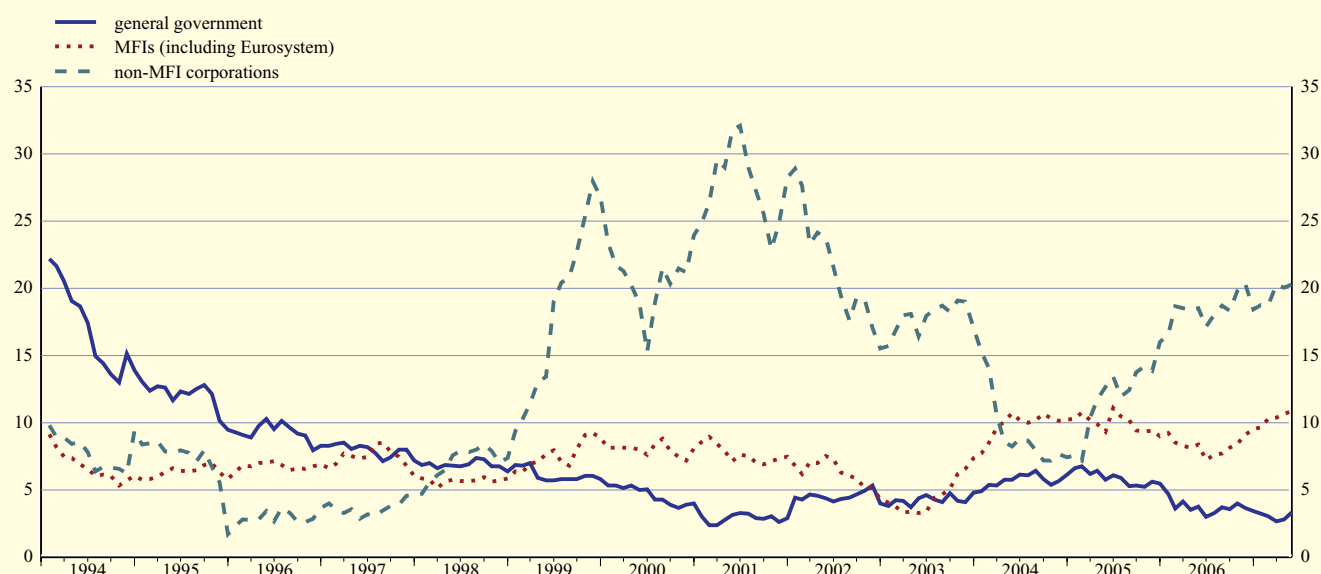
4.3 Growth rates of securities, other than shares, issued by euro area residents ¹⁾

(percentage changes)

	Annual growth rates (non-seasonally adjusted)						6-month seasonally adjusted growth rates					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
	1	2	3	4	5	6	7	8	9	10	11	12
Total												
2006 May	7.7	10.0	26.0	3.7	2.6	12.2	8.1	10.5	30.3	6.0	1.8	10.6
June	6.6	8.1	23.8	4.6	1.8	12.4	7.0	9.6	26.6	6.2	0.7	10.6
July	7.0	8.3	25.6	4.8	2.2	11.8	6.8	8.8	25.2	5.3	1.2	10.7
Aug.	7.2	8.4	27.2	3.4	2.5	12.2	7.0	8.8	23.9	2.7	2.3	10.2
Sep.	7.3	9.0	26.4	4.3	2.2	10.4	6.7	8.8	21.5	4.8	1.9	7.7
Oct.	7.9	9.6	29.0	4.0	2.6	9.5	8.1	10.1	27.9	4.8	2.5	7.6
Nov.	8.2	10.0	29.5	5.2	2.5	8.8	8.3	9.5	28.6	4.4	3.3	7.0
Dec.	7.8	10.2	25.7	6.0	2.1	7.9	8.5	10.8	24.6	5.7	3.4	5.3
2007 Jan.	7.9	10.5	26.1	5.3	1.9	7.4	8.9	12.3	27.0	5.3	2.5	4.1
Feb.	8.1	10.7	26.1	5.4	2.1	5.8	9.1	12.7	28.4	8.3	1.9	1.3
Mar.	8.4	10.5	28.2	6.5	2.4	6.7	10.1	12.1	35.3	8.2	2.9	5.5
Apr.	8.6	10.6	27.9	6.8	2.6	7.3	9.0	11.1	27.9	8.7	2.7	6.9
May	8.9	10.5	28.5	6.6	3.5	5.1	9.5	11.4	28.5	8.8	3.7	3.2
Long-term												
2006 May	7.7	8.4	26.1	6.8	3.2	12.6	7.6	7.7	30.1	8.0	2.7	11.1
June	6.7	7.2	23.7	6.4	2.3	12.8	7.1	8.7	26.0	6.6	1.6	10.8
July	7.1	7.6	25.5	6.1	2.7	12.0	6.9	7.9	24.6	5.2	2.1	10.8
Aug.	7.5	7.7	26.9	5.6	3.1	12.5	7.2	7.8	23.2	4.0	3.3	10.1
Sep.	7.5	8.1	26.1	5.8	3.1	10.9	7.0	8.3	20.6	5.7	2.8	8.1
Oct.	8.1	8.4	28.7	5.2	3.6	10.0	8.2	9.1	27.3	4.6	3.5	8.2
Nov.	8.3	9.1	29.2	5.7	3.3	9.4	9.0	10.5	28.2	3.4	3.9	7.7
Dec.	8.1	9.5	25.3	6.4	3.1	8.4	9.0	10.4	24.4	6.1	4.6	6.0
2007 Jan.	8.1	9.6	25.8	6.3	2.9	7.6	9.3	11.4	26.9	7.4	3.7	4.5
Feb.	8.3	10.3	25.9	5.7	2.8	5.9	9.4	12.9	28.7	7.4	2.4	1.8
Mar.	8.4	10.4	27.9	6.2	2.4	6.9	9.8	12.4	35.6	6.7	1.9	5.6
Apr.	8.6	10.7	27.8	5.7	2.4	7.4	8.9	12.2	28.4	6.7	1.3	6.7
May	9.0	10.8	28.5	4.9	3.2	5.1	8.9	11.2	28.9	6.5	2.4	2.7

C17 Annual growth rates of long-term debt securities, by sector of the issuer, in all currencies combined

(annual percentage changes)



Source: ECB.

1) For the calculation of the growth rates, see the Technical notes. The 6-month growth rates have been annualised.

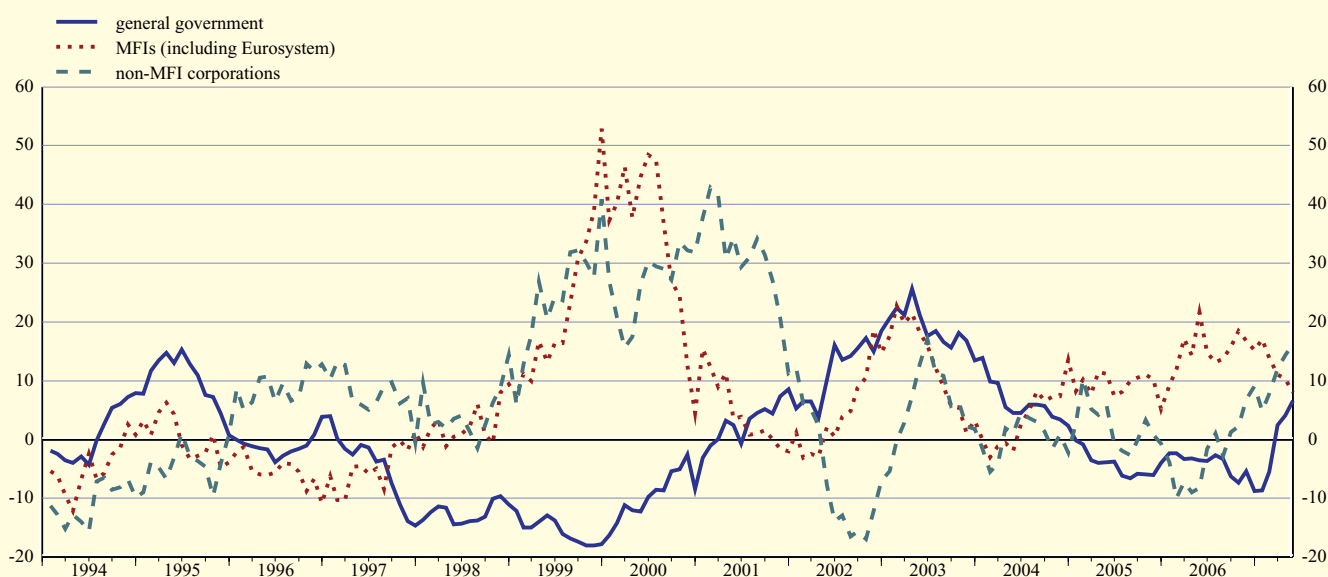
4.3 Growth rates of securities, other than shares, issued by euro area residents ¹⁾ (cont'd)

(percentage changes)

	Long-term fixed rate						Long-term variable rate					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
	13	14	15	16	17	18	19	20	21	22	23	24
In all currencies combined												
2005	4.7	3.1	5.7	0.3	5.5	15.0	19.5	18.6	35.8	22.1	9.9	4.8
2006	4.5	4.7	13.8	1.2	3.1	13.4	16.4	11.8	41.3	27.4	5.2	4.4
2006 Q2	4.2	4.5	11.7	1.1	3.0	13.5	16.6	11.9	44.4	28.3	3.6	5.5
Q3	4.4	4.6	14.9	1.0	2.8	13.8	14.8	10.0	38.1	30.3	4.1	6.4
Q4	5.1	5.4	19.5	1.8	3.1	11.1	15.5	11.0	36.3	27.0	5.5	4.7
2007 Q1	5.3	6.3	19.5	3.8	2.9	7.9	15.0	12.1	32.3	21.6	1.4	4.0
2006 Dec.	5.2	6.0	18.2	3.0	3.1	9.3	14.9	11.7	32.0	25.3	2.7	5.3
2007 Jan.	5.2	5.7	18.9	4.1	3.1	8.4	14.8	12.2	32.3	21.3	0.2	4.8
Feb.	5.5	6.7	20.8	3.6	3.0	6.6	14.7	12.3	30.6	20.8	1.0	3.5
Mar.	5.2	7.1	19.2	4.3	2.2	8.2	16.0	12.0	36.1	20.3	3.6	2.2
Apr.	5.3	7.6	18.7	3.7	2.2	9.0	16.4	12.2	36.5	19.6	5.6	1.7
May	5.7	7.4	19.9	3.3	3.0	7.5	16.2	12.0	36.7	16.1	5.9	-3.4
In euro												
2005	4.3	0.9	9.2	-0.2	5.4	15.3	18.9	17.3	35.2	22.1	10.3	5.4
2006	3.8	3.1	11.3	0.3	3.2	13.6	15.2	10.1	37.8	30.4	5.4	3.6
2006 Q2	3.6	2.8	10.0	0.8	3.1	13.9	15.3	10.1	40.3	31.5	3.6	4.4
Q3	3.7	3.1	11.2	-0.2	2.9	13.7	13.3	8.0	33.5	34.2	4.1	5.0
Q4	4.3	4.1	14.8	0.1	3.3	11.1	14.5	9.5	33.4	29.8	5.6	3.7
2007 Q1	4.7	5.5	15.3	1.7	3.2	7.9	13.7	10.8	28.8	22.9	1.5	3.5
2006 Dec.	4.6	5.0	14.6	1.1	3.4	9.4	13.7	10.2	28.4	27.3	2.8	4.3
2007 Jan.	4.7	5.0	15.0	2.1	3.5	8.3	13.3	10.6	28.8	22.5	0.2	4.2
Feb.	4.8	5.8	15.8	1.5	3.3	6.6	13.5	11.2	27.2	21.9	1.1	3.2
Mar.	4.5	6.3	15.5	1.6	2.5	8.1	15.0	11.2	32.2	21.3	3.8	1.8
Apr.	4.7	7.1	15.6	1.2	2.5	8.9	15.7	11.3	34.0	20.8	5.8	1.3
May	5.1	6.7	16.5	0.9	3.3	7.2	15.4	11.1	34.3	16.9	6.1	-4.0

C18 Annual growth rates of short-term debt securities, by sector of the issuer, in all currencies combined

(annual percentage changes)



Source: ECB.

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

4.4 Quoted shares issued by euro area residents ¹⁾

(EUR billions, unless otherwise indicated; market values)

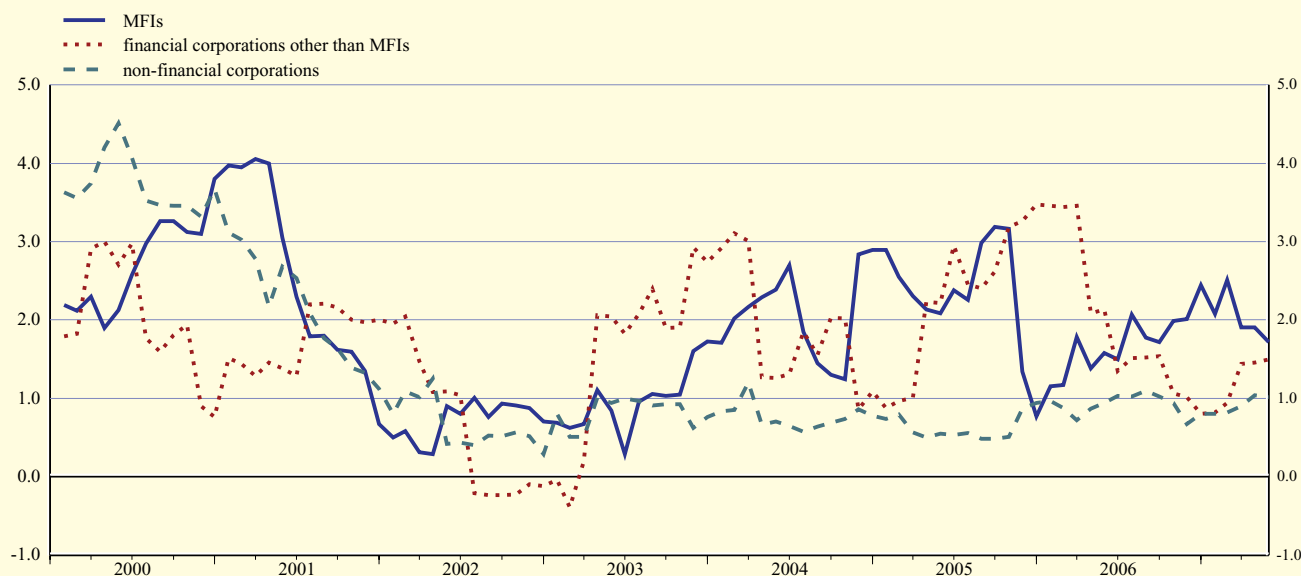
1. Outstanding amounts and annual growth rates

(outstanding amounts as end-of-period)

	Total			MFIs		Financial corporations other than MFIs		Non-financial corporations	
	Total	Index Dec. 01 = 100	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)
	1	2	3	4	5	6	7	8	9
2005 May	4,280.1	102.9	1.0	678.1	2.1	425.4	2.2	3,176.5	0.6
June	4,386.8	103.1	1.1	698.1	2.4	442.6	2.9	3,246.1	0.5
July	4,636.6	103.1	1.0	727.9	2.3	467.7	2.5	3,441.0	0.6
Aug.	4,611.4	103.1	1.1	723.5	3.0	458.2	2.4	3,429.8	0.5
Sep.	4,832.3	103.2	1.1	764.1	3.2	484.8	2.6	3,583.4	0.5
Oct.	4,665.0	103.4	1.2	752.4	3.2	481.5	3.2	3,431.1	0.5
Nov.	4,887.5	103.7	1.2	809.2	1.3	514.6	3.3	3,563.7	0.9
Dec.	5,061.7	103.8	1.2	836.4	0.8	541.8	3.5	3,683.5	0.9
2006 Jan.	5,294.6	103.8	1.2	884.8	1.2	536.8	3.5	3,873.0	1.0
Feb.	5,434.6	103.8	1.2	938.8	1.2	562.7	3.4	3,933.1	0.9
Mar.	5,635.1	103.9	1.2	962.3	1.8	580.0	3.5	4,092.7	0.7
Apr.	5,662.8	104.0	1.1	948.8	1.4	573.9	2.1	4,140.1	0.9
May	5,370.9	104.1	1.2	896.7	1.6	534.5	2.1	3,939.7	0.9
June	5,382.6	104.3	1.1	905.0	1.5	530.6	1.3	3,947.0	1.0
July	5,378.9	104.4	1.3	918.4	2.1	544.4	1.5	3,916.1	1.0
Aug.	5,543.0	104.4	1.3	958.6	1.8	595.7	1.5	3,988.7	1.1
Sep.	5,687.1	104.5	1.2	986.1	1.7	607.7	1.5	4,093.3	1.0
Oct.	5,866.6	104.6	1.1	1,015.6	2.0	614.5	1.1	4,236.6	0.9
Nov.	5,922.6	104.6	0.9	1,024.3	2.0	603.8	1.0	4,294.5	0.7
Dec.	6,136.7	104.9	1.1	1,056.3	2.4	623.2	0.8	4,457.2	0.8
2007 Jan.	6,307.7	104.9	1.0	1,111.3	2.1	641.7	0.8	4,554.6	0.8
Feb.	6,220.5	105.0	1.1	1,081.2	2.5	633.4	0.9	4,506.0	0.8
Mar.	6,421.3	105.1	1.1	1,099.9	1.9	646.2	1.4	4,675.2	0.9
Apr.	6,669.7	105.3	1.2	1,156.5	1.9	672.2	1.5	4,841.0	1.0
May	6,940.4	105.4	1.2	1,161.3	1.7	685.8	1.5	5,093.3	1.0

C19 Annual growth rates for quoted shares issued by euro area residents

(annual percentage changes)



Source: ECB.

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

4.4 Quoted shares issued by euro area residents ¹⁾

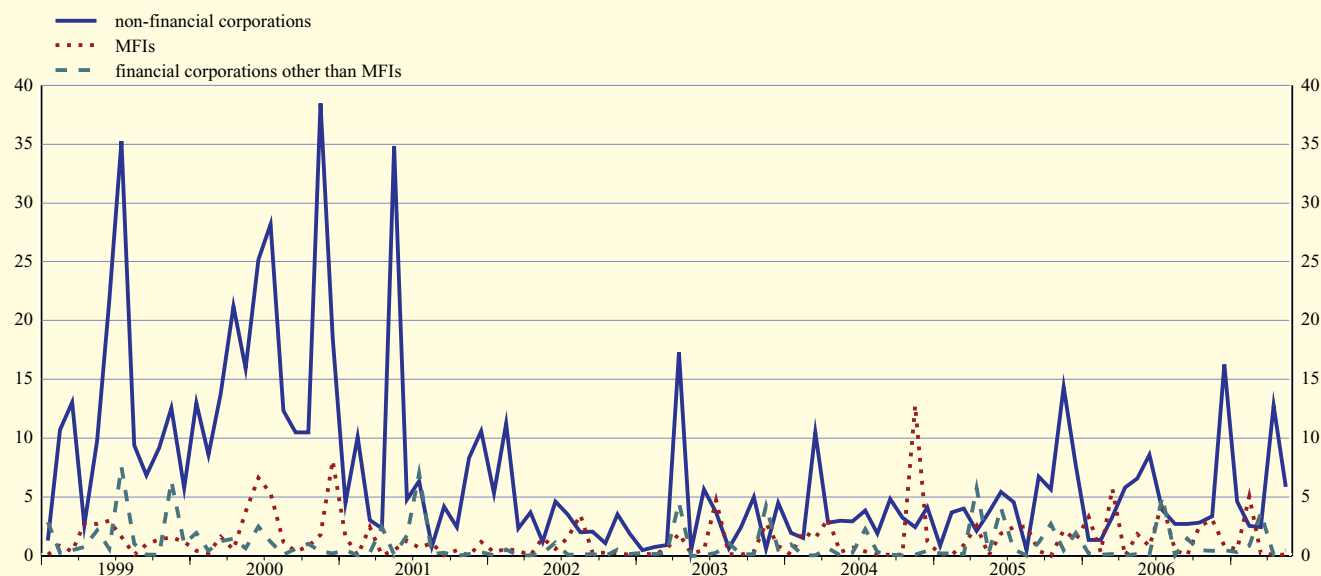
(EUR billions; market values)

2. Transactions during the month

	Total			MFIs			Financial corporations other than MFIs			Non-financial corporations		
	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues
	1	2	3	4	5	6	7	8	9	10	11	12
2005 May	3.9	3.1	0.8	0.0	0.0	0.0	0.2	0.3	-0.1	3.7	2.8	0.8
June	11.4	4.9	6.5	1.9	1.0	0.9	4.1	0.7	3.3	5.4	3.2	2.3
July	7.5	6.6	0.9	2.4	2.9	-0.4	0.5	0.0	0.5	4.5	3.7	0.8
Aug.	2.9	2.2	0.8	2.5	0.0	2.5	0.0	0.2	-0.1	0.4	2.0	-1.6
Sep.	8.2	2.3	5.9	0.4	0.0	0.4	1.1	0.1	1.0	6.7	2.2	4.5
Oct.	8.3	1.6	6.8	0.0	0.1	-0.1	2.7	0.0	2.7	5.6	1.4	4.2
Nov.	17.0	3.9	13.0	2.1	0.0	2.1	0.5	0.1	0.4	14.4	3.9	10.5
Dec.	10.9	7.4	3.5	1.3	4.3	-3.0	1.9	0.4	1.5	7.7	2.6	5.0
2006 Jan.	4.8	0.8	4.1	3.3	0.0	3.3	0.2	0.0	0.2	1.3	0.7	0.6
Feb.	1.7	1.7	0.0	0.3	0.1	0.2	0.1	0.0	0.1	1.3	1.6	-0.3
Mar.	9.1	5.4	3.7	5.7	0.0	5.7	0.1	0.0	0.1	3.3	5.4	-2.1
Apr.	5.8	0.5	5.4	0.0	0.2	-0.1	0.0	0.0	0.0	5.8	0.3	5.5
May	8.6	2.2	6.4	1.9	0.0	1.8	0.2	0.0	0.2	6.5	2.2	4.4
June	9.4	2.7	6.8	0.8	0.3	0.5	0.1	0.1	0.0	8.6	2.4	6.2
July	13.4	6.6	6.8	4.5	0.0	4.5	5.0	3.5	1.5	3.9	3.1	0.8
Aug.	3.2	1.8	1.4	0.4	0.0	0.4	0.0	0.1	-0.1	2.7	1.6	1.1
Sep.	4.2	0.5	3.7	0.0	0.0	0.0	1.5	0.0	1.4	2.7	0.5	2.2
Oct.	5.8	1.2	4.6	2.5	0.0	2.5	0.5	0.0	0.5	2.8	1.2	1.6
Nov.	6.9	2.1	4.8	3.1	0.0	3.1	0.4	0.2	0.3	3.3	1.9	1.5
Dec.	17.6	5.1	12.5	0.9	0.3	0.5	0.5	0.0	0.5	16.3	4.7	11.5
2007 Jan.	5.4	3.9	1.5	0.5	0.1	0.4	0.3	0.0	0.3	4.6	3.8	0.8
Feb.	8.4	2.0	6.4	5.0	0.0	5.0	0.9	0.0	0.9	2.5	2.0	0.5
Mar.	6.3	1.7	4.5	0.2	0.0	0.2	3.6	0.4	3.3	2.4	1.4	1.1
Apr.	13.0	0.4	12.6	0.1	0.3	-0.2	0.1	0.0	0.1	12.8	0.2	12.6
May	6.4	1.8	4.5	0.1	0.0	0.1	0.5	0.0	0.5	5.8	1.8	4.0

C20 Gross issues of quoted shares by sector of the issuer

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



Source: ECB.

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

4.5 MFI interest rates on euro-denominated deposits and loans by euro area residents ¹⁾

(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 ²⁾	With agreed maturity			Redeemable at notice ^{2), 3)}		Overnight ²⁾	With agreed maturity			
		Up to 1 year	Over 1 and up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 1 year	Over 1 and up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9	10	11
2006 June	0.81	2.57	2.88	2.57	2.04	2.53	1.22	2.70	3.22	3.27	2.65
July	0.81	2.70	3.04	2.80	2.08	2.58	1.24	2.78	3.31	3.99	2.76
Aug.	0.85	2.79	2.97	2.82	2.23	2.63	1.32	2.92	3.25	3.78	2.86
Sep.	0.86	2.87	3.15	2.66	2.26	2.68	1.36	2.99	3.45	3.82	2.96
Oct.	0.90	3.04	3.30	2.87	2.30	2.75	1.45	3.19	3.58	4.24	3.14
Nov.	0.91	3.10	3.34	2.80	2.30	2.81	1.49	3.26	3.47	3.66	3.23
Dec.	0.92	3.27	3.31	2.79	2.38	2.87	1.51	3.47	4.99	3.88	3.41
2007 Jan.	0.98	3.33	3.48	2.92	2.35	2.98	1.61	3.49	3.91	4.07	3.46
Feb.	1.00	3.37	3.64	2.72	2.35	3.07	1.64	3.48	3.80	4.15	3.47
Mar.	1.02	3.51	3.65	2.68	2.39	3.14	1.71	3.67	3.84	3.72	3.64
Apr.	1.04	3.59	3.68	2.78	2.42	3.20	1.75	3.74	4.01	3.87	3.70
May	1.06	3.62	3.52	2.72	2.42	3.25	1.77	3.74	3.80	3.74	3.73

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

	Bank overdrafts ²⁾	Consumer credit				Lending for house purchase					Other lending by initial rate fixation		
		By initial rate fixation			Annual percentage rate of charge ⁴⁾	By initial rate fixation				Annual percentage rate of charge ⁴⁾	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 and up to 10 years	Over 10 years				
	1	2	3	4	5	6	7	8	9	10	11	12	13
2006 June	9.84	7.01	6.31	7.82	7.67	4.00	4.20	4.48	4.25	4.42	4.52	5.09	4.71
July	9.86	7.23	6.33	8.02	7.84	4.11	4.24	4.52	4.35	4.51	4.56	5.24	4.74
Aug.	9.95	7.73	6.39	8.15	8.08	4.21	4.37	4.60	4.40	4.59	4.65	5.27	4.94
Sep.	10.06	7.72	6.26	8.09	7.95	4.30	4.37	4.61	4.45	4.66	4.76	5.30	4.98
Oct.	10.04	7.50	6.02	8.17	7.78	4.42	4.45	4.58	4.47	4.73	4.93	5.18	4.80
Nov.	10.08	7.66	6.16	8.15	7.83	4.49	4.50	4.58	4.47	4.76	4.97	5.26	4.91
Dec.	10.03	7.56	6.08	7.97	7.72	4.55	4.58	4.56	4.49	4.80	4.93	5.24	4.82
2007 Jan.	10.15	7.63	6.71	8.39	8.26	4.67	4.60	4.60	4.50	4.83	5.13	5.43	4.92
Feb.	10.33	7.69	6.86	8.27	8.30	4.71	4.71	4.70	4.61	4.90	5.27	5.38	5.14
Mar.	10.23	7.51	6.71	8.34	8.15	4.78	4.76	4.71	4.62	4.94	5.26	5.60	5.20
Apr.	10.30	7.77	6.72	8.24	8.17	4.84	4.73	4.75	4.67	5.00	5.28	5.57	5.21
May	10.31	8.09	6.74	8.28	8.30	4.87	4.77	4.80	4.72	5.04	5.38	5.65	5.27

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

	Bank overdrafts ²⁾	Other loans up to EUR 1 million by initial rate fixation			Other loans over EUR 1 million by initial rate fixation		
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years
	1	2	3	4	5	6	7
2006 June		5.45	4.47	4.84	4.33	3.76	4.23
July		5.52	4.57	4.99	4.38	3.85	4.37
Aug.		5.56	4.70	5.09	4.60	3.98	4.49
Sep.		5.69	4.75	5.02	4.54	4.04	4.47
Oct.		5.76	4.91	5.17	4.57	4.24	4.45
Nov.		5.82	5.00	5.25	4.68	4.31	4.58
Dec.		5.80	5.08	5.24	4.71	4.50	4.63
2007 Jan.		5.94	5.16	5.31	4.69	4.44	4.71
Feb.		6.03	5.21	5.44	4.86	4.50	4.71
Mar.		6.04	5.30	5.45	4.88	4.65	4.87
Apr.		6.12	5.37	5.47	4.88	4.69	4.90
May		6.08	5.43	5.56	4.90	4.69	5.06

Source: ECB.

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

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

3) For this instrument category, households and non-financial corporations are merged and allocated to the household sector, since the outstanding amounts of non-financial corporations are negligible compared with those of the household sector in all participating Member States combined.

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

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

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

4. Interest rates on deposits (outstanding amounts)

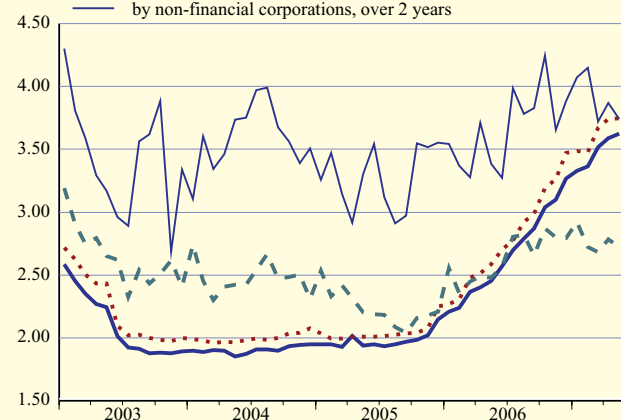
	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight ¹⁾	With agreed maturity		Redeemable at notice ^{1),2)}		Overnight ¹⁾	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9
2006 June	0.81	2.34	3.08	2.04	2.53	1.22	2.72	3.57	2.63
July	0.81	2.43	3.03	2.08	2.58	1.24	2.80	3.61	2.71
Aug.	0.85	2.52	3.05	2.23	2.63	1.32	2.93	3.69	2.81
Sep.	0.86	2.59	3.08	2.26	2.68	1.36	3.00	3.69	2.90
Oct.	0.90	2.69	3.10	2.30	2.75	1.45	3.15	3.80	3.05
Nov.	0.91	2.78	3.05	2.30	2.81	1.49	3.24	3.80	3.14
Dec.	0.92	2.89	3.05	2.38	2.87	1.51	3.42	3.88	3.29
2007 Jan.	0.98	2.99	3.06	2.35	2.98	1.61	3.45	3.91	3.36
Feb.	1.00	3.07	3.12	2.35	3.07	1.64	3.49	3.92	3.41
Mar.	1.02	3.16	3.05	2.39	3.14	1.71	3.61	3.93	3.54
Apr.	1.04	3.23	3.06	2.42	3.20	1.75	3.67	3.93	3.59
May	1.06	3.29	3.02	2.42	3.25	1.77	3.72	3.93	3.66

5. Interest rates on loans (outstanding amounts)

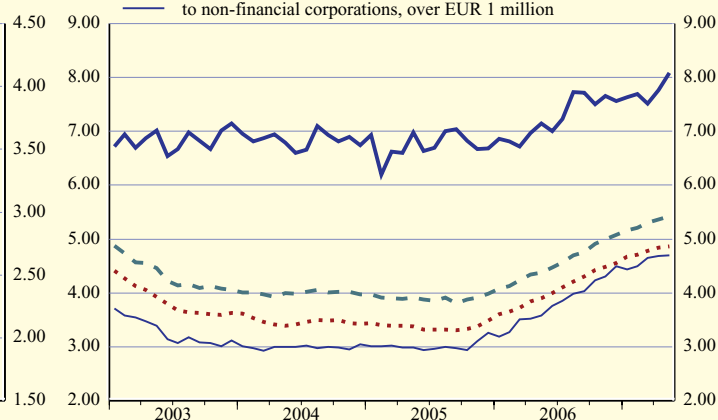
	Loans to households						Loans to non-financial corporations		
	Lending for house purchase, with maturity			Consumer credit and other loans, with maturity			With maturity		
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9
2006 June	4.67	4.20	4.55	8.10	6.75	5.73	4.72	4.19	4.40
July	4.68	4.21	4.57	8.15	6.71	5.82	4.81	4.27	4.45
Aug.	4.72	4.23	4.60	8.21	6.72	5.82	4.85	4.33	4.48
Sep.	4.82	4.27	4.62	8.31	6.81	5.87	4.93	4.40	4.53
Oct.	4.90	4.29	4.65	8.36	6.81	5.88	5.07	4.51	4.57
Nov.	4.98	4.33	4.68	8.34	6.81	5.91	5.14	4.59	4.63
Dec.	5.01	4.34	4.70	8.43	6.81	5.93	5.23	4.66	4.68
2007 Jan.	5.05	4.38	4.72	8.55	6.84	5.95	5.30	4.76	4.77
Feb.	5.11	4.46	4.79	8.67	6.95	5.96	5.37	4.83	4.83
Mar.	5.14	4.46	4.79	8.64	6.88	5.95	5.43	4.90	4.84
Apr.	5.14	4.48	4.80	8.69	6.96	5.97	5.50	4.94	4.87
May	5.16	4.48	4.82	8.73	6.91	5.97	5.50	4.98	4.89

C21 New deposits with agreed maturity
(percentages per annum excluding charges; period averages)

— by households, up to 1 year
 by non-financial corporations, up to 1 year
 - - - by households, over 2 years
 — by non-financial corporations, over 2 years

**C22 New loans at floating rate and up to 1 year initial rate fixation**
(percentages per annum excluding charges; period averages)

— to households for consumption
 to households for house purchase
 - - - to non-financial corporations, up to EUR 1 million
 — to non-financial corporations, over EUR 1 million



Source: ECB.

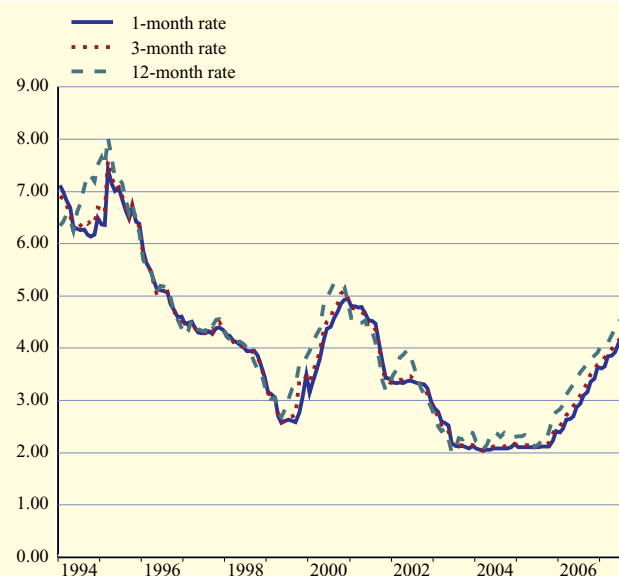
4.6 Money market interest rates

(percentages per annum; period averages)

	Euro area ^{1),2)}					United States	Japan
	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)	3-month deposits (LIBOR)	3-month deposits (LIBOR)
	1	2	3	4	5	6	7
2004	2.05	2.08	2.11	2.15	2.27	1.62	0.05
2005	2.09	2.14	2.18	2.23	2.33	3.56	0.06
2006	2.83	2.94	3.08	3.23	3.44	5.19	0.30
2006 Q2	2.63	2.74	2.90	3.06	3.32	5.21	0.21
Q3	2.94	3.06	3.22	3.41	3.62	5.43	0.41
Q4	3.36	3.46	3.59	3.72	3.86	5.37	0.49
2007 Q1	3.61	3.71	3.82	3.94	4.09	5.36	0.62
Q2	3.86	3.96	4.07	4.20	4.38	5.36	0.69
2006 July	2.81	2.94	3.10	3.29	3.54	5.50	0.40
Aug.	2.97	3.09	3.23	3.41	3.62	5.42	0.41
Sep.	3.04	3.16	3.34	3.53	3.72	5.38	0.42
Oct.	3.28	3.35	3.50	3.64	3.80	5.37	0.44
Nov.	3.33	3.42	3.60	3.73	3.86	5.37	0.48
Dec.	3.50	3.64	3.68	3.79	3.92	5.36	0.56
2007 Jan.	3.56	3.62	3.75	3.89	4.06	5.36	0.56
Feb.	3.57	3.65	3.82	3.94	4.09	5.36	0.59
Mar.	3.69	3.84	3.89	4.00	4.11	5.35	0.71
Apr.	3.82	3.86	3.98	4.10	4.25	5.35	0.66
May	3.79	3.92	4.07	4.20	4.37	5.36	0.67
June	3.96	4.10	4.15	4.28	4.51	5.36	0.73
July	4.06	4.11	4.22	4.36	4.56	5.36	0.77

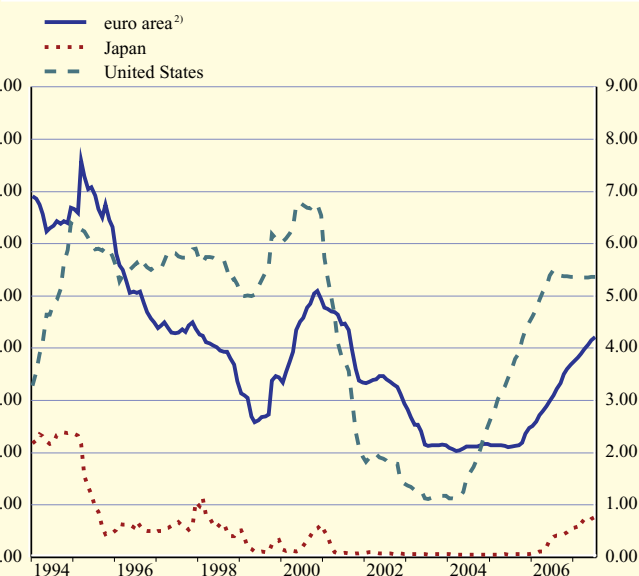
C23 Euro area money market rates ²⁾

(monthly; percentages per annum)



C24 3-month money market rates

(monthly; percentages per annum)



Source: ECB.

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

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

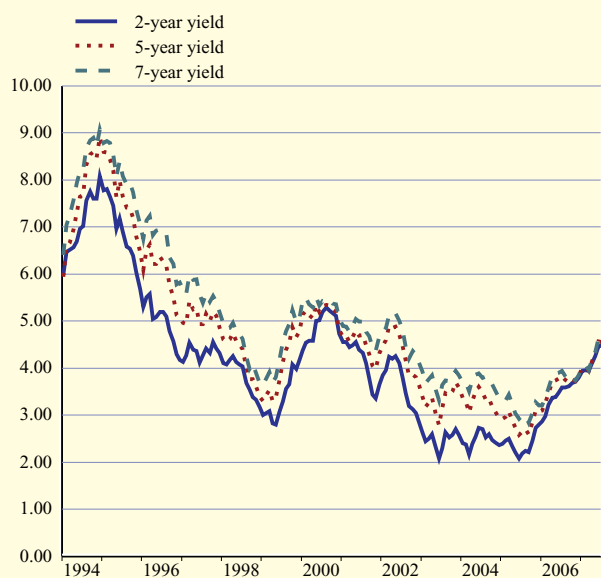
4.7 Government bond yields

(percentages per annum; period averages)

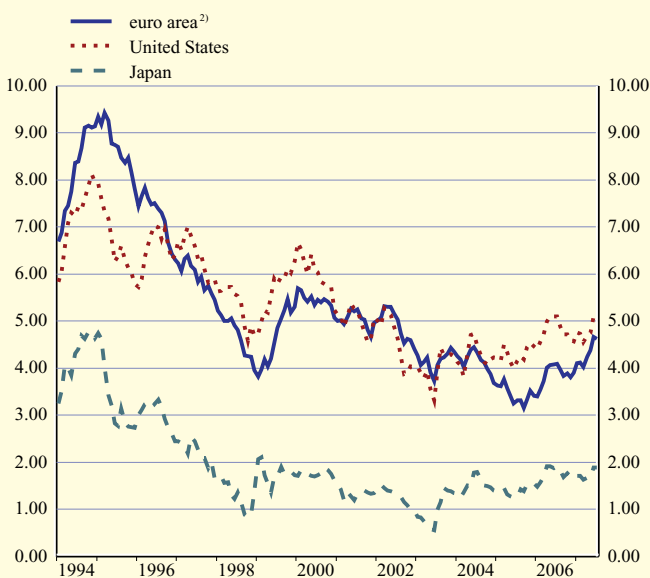
	Euro area ^{1),2)}					United States	Japan
	2 years	3 years	5 years	7 years	10 years	10 years	10 years
	1	2	3	4	5	6	7
2004	2.47	2.77	3.29	3.70	4.14	4.26	1.50
2005	2.38	2.55	2.85	3.14	3.44	4.28	1.39
2006	3.44	3.51	3.64	3.72	3.86	4.79	1.74
2006 Q2	3.41	3.53	3.75	3.88	4.05	5.07	1.90
Q3	3.60	3.66	3.76	3.84	3.97	4.90	1.80
Q4	3.73	3.73	3.77	3.79	3.86	4.63	1.70
2007 Q1	3.95	3.96	3.99	4.02	4.08	4.68	1.68
Q2	4.27	4.30	4.34	4.38	4.42	4.84	1.74
2006 July	3.58	3.69	3.84	3.94	4.10	5.10	1.91
Aug.	3.59	3.65	3.75	3.83	3.97	4.88	1.81
Sep.	3.62	3.64	3.70	3.74	3.84	4.72	1.68
Oct.	3.69	3.70	3.77	3.80	3.88	4.73	1.76
Nov.	3.71	3.70	3.73	3.74	3.80	4.60	1.70
Dec.	3.79	3.79	3.83	3.84	3.90	4.57	1.64
2007 Jan.	3.94	3.96	4.02	4.02	4.10	4.76	1.71
Feb.	3.96	3.98	4.02	4.07	4.12	4.73	1.71
Mar.	3.94	3.94	3.95	3.96	4.02	4.56	1.62
Apr.	4.11	4.12	4.15	4.20	4.25	4.69	1.67
May	4.26	4.28	4.31	4.34	4.37	4.75	1.67
June	4.45	4.51	4.57	4.62	4.66	5.11	1.89
July	4.48	4.52	4.55	4.59	4.63	5.01	1.89

C25 Euro area government bond yields ²⁾

(monthly; percentages per annum)

**C26 10-year government bond yields**

(monthly; percentages per annum)



Source: ECB.

- 1) To December 1998, euro area yields are calculated on the basis of harmonised national government bond yields weighted by GDP. Thereafter, the weights are the nominal outstanding amounts of government bonds in each maturity band.
- 2) Data refer to the changing composition of the euro area. For further information, see the General notes.

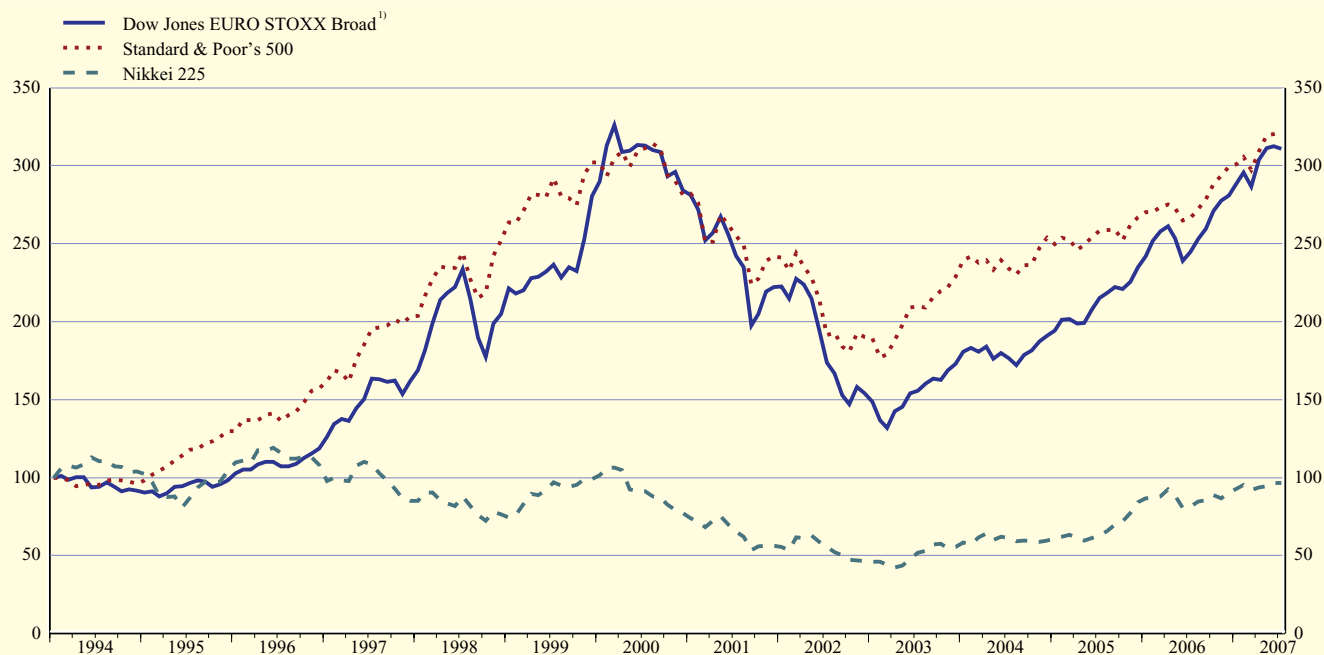
4.8 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX indices ¹⁾												United States	Japan
	Benchmark		Main industry indices											
	Broad	50	Basic materials	Consumer services	Consumer goods	Oil & gas	Financials	Industrials	Technology	Utilities	Telecom.	Health care		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004	251.1	2,804.8	251.4	163.4	219.9	300.5	238.2	258.6	298.3	266.3	399.2	395.9	1,131.1	11,180.9
2005	293.8	3,208.6	307.0	181.3	245.1	378.6	287.7	307.3	297.2	334.1	433.1	457.0	1,207.4	12,421.3
2006	357.3	3,795.4	402.3	205.0	293.7	419.8	370.3	391.3	345.3	440.0	416.8	530.2	1,310.5	16,121.2
2006 Q2	348.2	3,692.9	386.0	199.6	285.5	412.8	357.5	387.5	358.0	417.7	403.5	539.1	1,280.9	16,190.0
Q3	350.2	3,726.8	399.7	202.0	287.9	410.1	364.7	378.4	325.8	438.1	397.8	532.9	1,288.6	15,622.2
Q4	383.3	4,032.4	450.4	219.3	315.1	432.7	400.7	419.5	343.1	490.8	450.1	526.3	1,389.2	16,465.0
2007 Q1	402.5	4,150.5	489.9	233.3	335.7	422.8	418.6	462.7	349.4	512.3	472.8	527.2	1,424.8	17,363.9
Q2	429.0	4,416.2	549.6	246.8	373.0	454.1	434.2	512.5	376.6	556.0	475.8	536.7	1,496.6	17,678.7
2006 July	339.6	3,617.3	389.0	196.6	277.0	409.5	348.2	369.8	321.7	415.7	393.3	548.6	1,261.2	15,133.2
Aug.	351.1	3,743.9	399.7	200.9	289.3	418.2	366.5	375.9	324.4	442.3	394.9	525.3	1,287.2	15,786.8
Sep.	359.9	3,817.6	410.4	208.4	297.2	401.9	379.1	389.6	331.3	456.0	405.6	525.4	1,317.5	15,930.9
Oct.	375.8	3,975.8	435.6	216.9	306.8	419.4	397.5	405.6	341.1	475.6	431.1	532.2	1,363.4	16,515.7
Nov.	384.8	4,052.8	451.8	220.1	319.2	438.6	401.3	420.2	343.6	490.5	456.8	517.4	1,389.4	16,103.9
Dec.	389.5	4,070.4	464.4	221.0	319.3	440.4	403.4	433.3	344.6	507.0	463.1	529.4	1,416.2	16,790.2
2007 Jan.	400.4	4,157.8	476.4	229.1	328.2	426.5	419.8	452.2	350.4	505.0	485.0	538.1	1,423.9	17,270.0
Feb.	410.3	4,230.2	496.6	235.9	339.4	428.2	428.3	476.2	355.3	524.7	481.0	530.4	1,445.3	17,729.4
Mar.	397.5	4,070.5	497.9	235.1	340.2	413.9	408.6	461.2	343.0	508.5	452.6	512.9	1,407.0	17,130.0
Apr.	421.7	4,330.7	531.7	247.6	363.9	437.2	432.7	493.8	362.4	540.4	477.4	531.5	1,462.7	17,466.5
May	431.7	4,444.8	545.5	248.5	374.4	454.1	439.8	514.4	374.5	559.2	476.2	547.7	1,511.3	17,577.7
June	433.4	4,470.2	571.9	244.2	380.4	471.1	429.4	529.0	393.1	568.2	473.8	529.9	1,514.5	18,001.4
July	431.3	4,449.0	585.9	242.6	384.7	491.4	418.7	529.3	399.8	563.1	467.1	513.1	1,520.9	17,986.8

C27 Dow Jones EURO STOXX Broad, Standard & Poor's 500 and Nikkei 225

(January 1994 = 100; monthly averages)



Source: ECB.

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

PRICES, OUTPUT, DEMAND AND LABOUR MARKETS



5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

1. Harmonised Index of Consumer Prices ¹⁾

	Total					Total (s.a., percentage change on previous period)						Memo item: Administered prices ²⁾	
	Index 2005 = 100	Total		Goods	Services	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy (n.s.a.)	Services	Total HICP excluding administered prices	Administered prices
		Total excl. unprocessed food and energy											
% of total ³⁾	100.0	100.0	82.8	59.2	40.8	100.0	11.9	7.6	30.0	9.6	40.8	85.8	14.2
	1	2	3	4	5	6	7	8	9	10	11	12	13
2003	95.8	2.1	2.0	1.8	2.5	-	-	-	-	-	-	2.0	2.2
2004	97.9	2.1	2.1	1.8	2.6	-	-	-	-	-	-	2.0	3.2
2005	100.0	2.2	1.5	2.1	2.3	-	-	-	-	-	-	2.1	2.8
2006	102.2	2.2	1.5	2.3	2.0	-	-	-	-	-	-	2.1	3.0
2006 Q2	102.4	2.5	1.5	2.8	2.0	0.8	0.5	0.5	0.3	3.9	0.5	2.4	3.1
Q3	102.5	2.1	1.5	2.3	2.0	0.5	0.4	1.8	0.2	0.6	0.6	2.0	3.1
Q4	102.8	1.8	1.6	1.6	2.1	0.1	0.8	0.7	0.3	-4.2	0.6	1.6	2.8
2007 Q1	102.9	1.9	1.9	1.6	2.4	0.5	0.4	0.0	0.3	1.0	0.7	1.7	2.8
Q2	104.4	1.9	1.9	1.5	2.6	0.8	0.4	0.8	0.2	3.3	0.7	1.8	2.4
2007 Feb.	102.8	1.8	1.9	1.5	2.4	0.2	0.1	-0.3	0.2	0.3	0.2	1.7	2.9
Mar.	103.5	1.9	1.9	1.7	2.4	0.3	0.1	0.0	0.1	1.5	0.2	1.8	2.5
Apr.	104.2	1.9	1.9	1.5	2.5	0.3	0.1	0.9	0.0	1.4	0.3	1.8	2.6
May	104.4	1.9	1.9	1.4	2.6	0.2	0.1	-0.3	0.1	0.9	0.3	1.8	2.4
June	104.5	1.9	1.9	1.5	2.6	0.2	0.2	0.3	0.0	0.5	0.2	1.8	2.3
July ⁴⁾	.	1.8	.	.	.	.	.	.	.	.	.	.	.

	Goods						Services					
	Food (incl. alcoholic beverages and tobacco)			Industrial goods			Housing		Transport	Communication	Recreation and personal	Miscellaneous
	Total	Processed food	Unprocessed food	Total	Non-energy industrial goods	Energy	Rents					
% of total ³⁾	19.6	11.9	7.6	39.6	30.0	9.6	10.2	6.2	6.4	3.1	14.4	6.7
	14	15	16	17	18	19	20	21	22	23	24	25
2003	2.8	3.3	2.1	1.2	0.8	3.0	2.4	2.0	2.9	-0.6	2.7	3.4
2004	2.3	3.4	0.6	1.6	0.8	4.5	2.4	1.9	2.8	-2.0	2.4	5.1
2005	1.6	2.0	0.8	2.4	0.3	10.1	2.6	2.0	2.7	-2.2	2.3	3.1
2006	2.4	2.1	2.8	2.3	0.6	7.7	2.5	2.1	2.5	-3.3	2.3	2.3
2006 Q2	2.0	2.2	1.6	3.1	0.7	11.6	2.5	2.1	2.8	-3.6	2.3	2.2
Q3	2.8	2.1	3.9	2.0	0.7	6.3	2.5	2.1	2.6	-3.6	2.4	2.3
Q4	2.9	2.2	4.1	1.0	0.8	1.5	2.5	2.1	2.3	-2.5	2.4	2.4
2007 Q1	2.5	2.1	3.1	1.1	1.1	1.1	2.6	2.0	2.9	-2.1	2.8	2.5
Q2	2.5	2.0	3.3	1.0	1.0	0.5	2.7	2.0	2.6	-1.9	2.9	3.6
2007 Jan.	2.8	2.2	3.7	0.9	0.9	0.9	2.6	2.0	2.9	-1.7	2.7	2.4
Feb.	2.4	2.1	2.8	1.1	1.1	0.8	2.6	2.0	2.8	-1.8	2.8	2.6
Mar.	2.3	1.9	2.9	1.4	1.2	1.8	2.6	2.0	2.9	-2.8	2.9	2.6
Apr.	2.7	1.9	3.9	1.0	1.1	0.4	2.7	2.1	2.6	-2.2	2.7	3.7
May	2.4	1.9	3.1	0.9	1.0	0.3	2.8	2.0	2.8	-1.8	2.9	3.6
June	2.4	2.0	3.0	1.0	1.0	0.9	2.8	2.0	2.4	-1.8	3.0	3.5

Sources: Eurostat and ECB calculations.

- 1) Data refer to the changing composition of the euro area. For further information, see the General notes.
- 2) ECB estimates based on Eurostat data; these experimental statistics can only provide an approximate measure of price administration since changes in administered prices cannot be fully isolated from other influences. Please refer to <http://www.ecb.europa.eu/stats/prices/hicp/html/index.en.html> for a note explaining the methodology used in the compilation of this indicator.
- 3) Referring to the index period 2007.
- 4) Estimate based on provisional national releases usually covering around 95% of the euro area, as well as on early information on energy prices.

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

2. Industry, construction, residential property and commodity prices

	Industrial producer prices excluding construction										Construct- ion ¹⁾	Residential property prices ²⁾	World market prices of raw materials ³⁾	Oil prices ⁴⁾ (EUR per barrel)	
	Total (index 2000 = 100)	Total	Industry excluding construction and energy						Energy						
			Manu- facturing	Total	Intermediate goods	Capital goods	Consumer goods			Total					
							Total	Durable					Non-durable	Total excluding energy	
% of total ⁵⁾	100.0	100.0	89.5	82.4	31.6	21.2	29.6	4.0	25.6	17.6			100.0	32.8	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2003	103.4	1.4	0.9	0.8	0.8	0.3	1.1	0.6	1.2	3.7	2.2	7.0	-4.0	-4.5	25.1
2004	105.7	2.3	2.5	2.0	3.5	0.7	1.3	0.7	1.4	3.9	3.2	7.4	18.4	10.8	30.5
2005	110.1	4.1	3.2	1.8	2.9	1.3	1.1	1.3	1.1	13.4	3.1	7.9	28.5	9.4	44.6
2006	115.8	5.1	3.4	2.8	4.8	1.4	1.7	1.6	1.7	13.2	3.8	6.5	19.7	24.8	52.9
2006 Q2	115.8	5.8	3.9	2.6	4.4	1.2	1.7	1.6	1.8	17.3	4.0	7.0 ⁶⁾	30.0	26.2	56.2
Q3	116.9	5.4	3.7	3.6	6.3	1.7	1.9	1.8	1.9	11.7	4.3	-	13.4	26.6	55.7
Q4	116.6	4.1	2.8	3.5	6.2	1.8	1.6	1.7	1.6	6.1	3.9	6.0 ⁶⁾	3.9	23.0	47.3
2007 Q1	117.3	2.9	2.5	3.4	6.0	2.0	1.5	1.9	1.5	1.2	.	-	-5.5	15.7	44.8
Q2	.	.	.	.	.	.	.	.	.	.	.	.	-3.1	13.8	51.0
2007 Feb.	117.2	2.9	2.5	3.5	6.0	2.1	1.6	2.0	1.6	1.1	-	-	-4.6	13.9	44.9
Mar.	117.7	2.8	2.6	3.4	5.9	2.0	1.5	1.9	1.4	1.0	-	-	-2.3	17.6	47.3
Apr.	118.2	2.4	2.6	3.4	5.8	2.0	1.7	1.8	1.6	-0.6	-	-	-5.6	15.3	50.2
May	118.6	2.4	2.6	3.2	5.4	2.0	1.7	1.7	1.7	-0.1	-	-	-3.9	11.9	50.3
June	.	.	.	.	.	.	.	.	.	.	-	-	0.3	14.2	52.6
July	.	.	.	.	.	.	.	.	.	.	-	-	-1.7	7.8	55.2

3. Hourly labour costs⁷⁾

	Total (s.a. index 2000 = 100)	Total	By component		By selected economic activity			Memo: indicator of negotiated wages
			Wages and salaries	Employers' social contributions	Mining, manufacturing and energy	Construction	Services	
% of total ⁵⁾	100.0	100.0	73.1	26.9	34.6	9.1	56.3	
	1	2	3	4	5	6	7	8
2003	110.9	3.1	2.9	3.8	3.2	3.9	2.9	2.4
2004	113.9	2.7	2.3	3.2	3.0	3.1	2.4	2.2
2005	116.6	2.4	2.5	1.9	2.5	2.3	2.4	2.1
2006	119.4	2.4	2.7	1.8	2.7	2.0	2.3	2.3
2006 Q1	118.4	2.4	2.9	1.1	2.5	2.2	2.4	2.2
Q2	119.1	2.6	2.8	2.0	3.3	1.7	2.3	2.4
Q3	119.7	2.4	2.7	2.1	3.1	1.9	2.1	2.1
Q4	120.4	2.2	2.4	1.9	2.2	2.3	2.3	2.5
2007 Q1	121.0	2.2	2.3	2.1	2.2	1.9	2.2	2.0

Sources: Eurostat, HWWI (columns 13 and 14 in Table 2 in Section 5.1), ECB calculations based on Thomson Financial Datastream data (column 15 in Table 2 in Section 5.1), ECB calculations based on Eurostat data (column 6 in Table 2 in Section 5.1 and column 7 in Table 3 in Section 5.1) and ECB calculations (column 12 in Table 2 in Section 5.1 and column 8 in Table 3 in Section 5.1).

1) Residential buildings, based on non-harmonised data.

2) Residential property price indicator for the euro area, based on non-harmonised sources.

3) Refers to the prices expressed in euro.

4) Brent Blend (for one-month forward delivery).

5) In 2000.

6) The quarterly data for the second (fourth) quarter refer to semi-annual averages of the first (second) half of the year, respectively. Since some national data are only available at annual frequency, the semi-annual estimate is partially derived from annual results; therefore, the accuracy of semi-annual data is lower than the accuracy of annual data.

7) Hourly labour costs for the whole economy, excluding agriculture, public administration, education, health and services not elsewhere classified. Owing to differences in coverage, the estimates for the components may not be consistent with the total.

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

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

(seasonally adjusted)

	Total (index 2000 = 100)	Total	By economic activity					
			Agriculture, hunting, forestry and fishing	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other services
	1	2	3	4	5	6	7	8
	Unit labour costs ¹⁾							
2003	106.5	1.8	5.9	0.2	3.1	2.1	1.6	2.8
2004	107.8	1.2	-9.4	0.1	3.4	-0.1	2.3	2.7
2005	108.8	1.0	7.3	-1.2	3.4	0.3	2.0	2.0
2006	109.6	0.8	4.8	-1.6	1.2	0.3	2.4	2.1
2006 Q1	109.5	0.9	6.2	-1.6	1.6	0.2	2.4	2.2
Q2	109.8	1.1	5.4	-1.4	0.2	0.7	1.8	3.2
Q3	109.7	1.1	5.4	-1.4	1.0	0.2	3.0	2.5
Q4	109.4	0.0	2.3	-2.1	2.1	0.2	2.4	0.6
2007 Q1	110.3	0.8	0.7	-1.4	0.5	0.1	3.0	2.1
	Compensation per employee							
2003	107.6	2.1	2.3	2.1	2.6	1.9	2.5	2.1
2004	109.8	2.1	2.2	2.6	2.6	1.5	1.9	2.3
2005	111.8	1.8	3.3	1.5	2.2	1.6	2.2	1.9
2006	114.2	2.2	3.0	2.6	3.1	2.0	1.6	2.1
2006 Q1	113.3	2.2	2.2	2.5	3.1	2.0	1.6	2.3
Q2	114.2	2.5	2.4	2.5	2.8	2.3	1.1	3.2
Q3	114.5	2.3	4.0	2.8	2.8	1.7	1.8	2.5
Q4	114.9	1.8	3.5	2.5	3.6	2.0	2.0	0.5
2007 Q1	116.2	2.5	3.8	2.6	3.8	1.6	2.7	2.5
	Labour productivity ²⁾							
2003	101.0	0.4	-3.3	1.9	-0.5	-0.2	0.9	-0.7
2004	101.9	0.9	12.8	2.5	-0.8	1.6	-0.4	-0.4
2005	102.7	0.8	-3.7	2.7	-1.1	1.3	0.3	-0.1
2006	104.2	1.4	-1.7	4.3	1.8	1.7	-0.8	0.0
2006 Q1	103.5	1.3	-3.8	4.2	1.4	1.8	-0.7	0.1
Q2	104.0	1.4	-2.8	4.0	2.6	1.6	-0.7	0.0
Q3	104.3	1.2	-1.3	4.3	1.8	1.5	-1.1	-0.1
Q4	105.0	1.8	1.2	4.7	1.5	1.8	-0.4	0.0
2007 Q1	105.3	1.7	3.1	4.1	3.3	1.5	-0.3	0.4

5. Gross domestic product deflators

	Total (s.a. index 2000 = 100)	Total	Domestic demand				Exports ³⁾	Imports ³⁾
			Total	Private consumption	Government consumption	Gross fixed capital formation		
	1	2	3	4	5	6	7	8
2003	107.3	2.1	2.0	2.1	2.4	1.2	-1.2	-1.7
2004	109.4	1.9	2.1	2.1	2.2	2.5	1.1	1.5
2005	111.4	1.9	2.2	2.0	2.4	2.3	2.7	3.7
2006	113.4	1.8	2.3	2.2	1.9	2.7	2.6	4.0
2006 Q1	112.5	1.7	2.7	2.4	2.4	2.4	2.7	5.4
Q2	113.1	1.9	2.6	2.4	2.8	2.7	3.0	5.0
Q3	113.7	1.9	2.2	2.1	1.9	2.8	2.8	3.6
Q4	114.2	1.6	1.7	1.8	0.5	3.0	2.0	2.1
2007 Q1	115.2	2.4	1.7	1.7	1.6	3.0	2.2	0.5

Sources: ECB calculations based on Eurostat data.

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

2) Value added (volumes) per person employed.

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

5.2 Output and demand

1. GDP and expenditure components

	GDP								
	Total	Domestic demand					External balance ¹⁾		
		Total	Private consumption	Government consumption	Gross fixed capital formation	Changes in inventories ²⁾	Total	Exports ¹⁾	Imports ¹⁾
	1	2	3	4	5	6	7	8	9
Current prices (EUR billions, seasonally adjusted)									
2003	7,486.5	7,330.5	4,291.6	1,531.5	1,504.7	2.6	156.0	2,638.6	2,482.7
2004	7,767.1	7,608.2	4,442.3	1,586.1	1,570.9	8.9	158.8	2,837.5	2,678.7
2005	8,039.9	7,920.7	4,602.2	1,648.0	1,651.6	18.9	119.2	3,042.6	2,923.5
2006	8,417.6	8,315.7	4,785.8	1,713.1	1,783.5	33.3	101.9	3,383.6	3,281.7
2006 Q1	2,062.6	2,045.1	1,180.4	423.3	430.2	11.2	17.5	818.4	800.9
Q2	2,093.0	2,071.4	1,190.9	428.4	443.0	9.0	21.7	832.9	811.3
Q3	2,117.1	2,096.7	1,203.7	429.1	450.4	13.4	20.4	851.0	830.6
Q4	2,144.9	2,102.6	1,210.8	432.3	459.9	-0.4	42.3	881.3	838.9
2007 Q1	2,178.8	2,142.4	1,217.3	438.3	474.8	12.0	36.4	891.3	854.9
percentage of GDP									
2006	100.0	98.8	56.9	20.4	21.2	0.4	1.2	-	-
Chain-linked volumes (prices of the previous year, seasonally adjusted ³⁾)									
quarter-on-quarter percentage changes									
2006 Q1	0.9	0.6	0.6	1.1	1.2	-	-	3.5	2.8
Q2	0.9	0.9	0.3	0.2	2.2	-	-	0.9	0.8
Q3	0.6	0.8	0.7	0.6	0.9	-	-	1.4	2.0
Q4	0.9	0.2	0.4	0.4	1.5	-	-	3.3	1.6
2007 Q1	0.7	1.1	0.0	0.8	2.4	-	-	0.8	1.7
annual percentage changes									
2003	0.8	1.5	1.2	1.8	1.1	-	-	1.1	3.1
2004	2.0	1.9	1.5	1.4	2.3	-	-	6.8	6.7
2005	1.5	1.7	1.5	1.4	2.6	-	-	4.2	5.0
2006	2.8	2.5	1.7	2.0	4.8	-	-	8.2	7.9
2006 Q1	2.4	2.4	1.7	2.2	4.3	-	-	9.1	9.4
Q2	2.9	2.6	1.7	1.8	5.5	-	-	8.1	7.7
Q3	2.8	3.0	1.7	1.9	4.8	-	-	6.8	7.4
Q4	3.3	2.5	2.0	2.3	5.9	-	-	9.5	7.4
2007 Q1	3.1	3.0	1.4	1.9	7.1	-	-	6.6	6.3
contributions to quarter-on-quarter percentage changes of GDP in percentage points									
2006 Q1	0.9	0.6	0.3	0.2	0.2	-0.2	0.3	-	-
Q2	0.9	0.8	0.2	0.0	0.4	0.2	0.1	-	-
Q3	0.6	0.8	0.4	0.1	0.2	0.1	-0.2	-	-
Q4	0.9	0.2	0.2	0.1	0.3	-0.4	0.7	-	-
2007 Q1	0.7	1.0	0.0	0.2	0.5	0.4	-0.3	-	-
contributions to annual percentage changes of GDP in percentage points									
2003	0.8	1.4	0.7	0.4	0.2	0.2	-0.7	-	-
2004	2.0	1.9	0.9	0.3	0.5	0.2	0.2	-	-
2005	1.5	1.7	0.9	0.3	0.5	0.0	-0.2	-	-
2006	2.8	2.5	1.0	0.4	1.0	0.1	0.3	-	-
2006 Q1	2.4	2.4	1.0	0.5	0.9	0.0	0.1	-	-
Q2	2.9	2.6	1.0	0.4	1.1	0.1	0.3	-	-
Q3	2.8	2.9	1.0	0.4	1.0	0.6	-0.1	-	-
Q4	3.3	2.5	1.1	0.5	1.2	-0.3	0.9	-	-
2007 Q1	3.1	2.9	0.8	0.4	1.5	0.3	0.2	-	-

Sources: Eurostat and ECB calculations.

1) Exports and imports cover goods and services and include cross-border intra-euro area trade. They are not fully consistent with Tables 7.1.2 and 7.3.1.

2) Including acquisitions less disposals of valuables.

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

5.2 Output and demand

2. Value added by economic activity

	Gross value added (basic prices)							Taxes less subsidies on products
	Total	Agriculture, hunting, forestry and fishing activities	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business activities	Public administration, education, health and other services	
	1	2	3	4	5	6	7	8
Current prices (EUR billions, seasonally adjusted)								
2003	6,725.5	152.6	1,392.2	391.6	1,426.8	1,830.4	1,531.8	761.0
2004	6,971.0	157.8	1,421.3	412.9	1,483.2	1,906.4	1,589.4	796.1
2005	7,201.9	145.5	1,459.0	438.2	1,525.8	1,986.8	1,646.5	838.0
2006	7,515.2	143.5	1,528.2	481.2	1,576.9	2,084.4	1,701.0	902.4
2006 Q1	1,841.6	35.1	374.5	115.1	386.7	510.6	419.6	221.0
Q2	1,869.1	35.5	379.3	118.6	392.0	517.8	425.9	223.9
Q3	1,893.1	36.0	385.9	122.2	397.6	524.9	426.4	224.0
Q4	1,911.4	36.9	388.4	125.4	400.5	531.1	429.1	233.5
2007 Q1	1,939.7	35.9	397.8	129.5	402.6	539.7	434.2	239.1
percentage of value added								
2006	100.0	1.9	20.3	6.4	21.0	27.7	22.6	-
Chain-linked volumes (prices of the previous year, seasonally adjusted ¹⁾)								
quarter-on-quarter percentage changes								
2006 Q1	0.8	-2.9	1.7	-0.2	0.8	1.0	0.6	1.5
Q2	1.0	0.5	1.1	2.7	1.2	1.0	0.3	0.2
Q3	0.6	-0.1	1.1	1.3	0.6	0.5	0.1	0.6
Q4	0.7	2.0	0.7	1.5	0.7	0.6	0.4	2.8
2007 Q1	0.8	-1.4	1.1	2.1	0.3	1.2	0.5	-0.4
annual percentage changes								
2003	0.7	-5.9	0.4	0.3	0.4	1.6	1.0	1.4
2004	2.1	11.4	1.8	0.8	2.9	1.8	1.4	1.6
2005	1.5	-5.0	1.1	1.5	1.8	2.3	1.3	1.5
2006	2.6	-2.0	3.8	4.4	2.8	2.6	1.3	3.8
2006 Q1	2.3	-3.5	3.5	3.6	2.5	2.2	1.4	3.6
Q2	2.8	-1.8	3.9	4.5	3.0	2.9	1.4	3.5
Q3	2.8	-2.4	4.3	5.0	2.9	2.7	1.3	2.9
Q4	3.1	-0.5	4.6	5.4	3.3	3.1	1.4	5.2
2007 Q1	3.1	1.0	4.0	7.8	2.8	3.3	1.3	3.2
contributions to quarter-on-quarter percentage changes of value added in percentage points								
2006 Q1	0.8	-0.1	0.3	0.0	0.2	0.3	0.1	-
Q2	1.0	0.0	0.2	0.2	0.3	0.3	0.1	-
Q3	0.6	0.0	0.2	0.1	0.1	0.1	0.0	-
Q4	0.7	0.0	0.1	0.1	0.1	0.2	0.1	-
2007 Q1	0.8	0.0	0.2	0.1	0.1	0.3	0.1	-
contributions to annual percentage changes of value added in percentage points								
2003	0.7	-0.1	0.1	0.0	0.1	0.4	0.2	-
2004	2.1	0.3	0.4	0.0	0.6	0.5	0.3	-
2005	1.5	-0.1	0.2	0.1	0.4	0.6	0.3	-
2006	2.6	0.0	0.8	0.3	0.6	0.7	0.3	-
2006 Q1	2.3	-0.1	0.7	0.2	0.5	0.6	0.3	-
Q2	2.8	0.0	0.8	0.3	0.6	0.8	0.3	-
Q3	2.8	0.0	0.9	0.3	0.6	0.7	0.3	-
Q4	3.1	0.0	0.9	0.3	0.7	0.9	0.3	-
2007 Q1	3.1	0.0	0.8	0.5	0.6	0.9	0.3	-

Sources: Eurostat and ECB calculations.

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

5.2 Output and demand

(annual percentage changes, unless otherwise indicated)

3. Industrial production

	Total	Industry excluding construction									Construction	
		Total (s.a. index 2000 = 100)	Total	Industry excluding construction and energy						Energy		
				Manu- facturing	Total	Intermediate goods	Capital goods	Consumer goods				
								Total	Durable			Non-durable
% of total ¹⁾	100.0	82.9	82.9	75.0	74.0	30.0	22.4	21.5	3.6	17.9	8.9	17.1
	1	2	3	4	5	6	7	8	9	10	11	12
2004	2.1	102.5	2.2	2.2	2.1	2.4	3.4	0.5	0.1	0.6	2.2	-0.5
2005	1.2	103.9	1.3	1.3	1.1	0.9	2.8	0.4	-0.9	0.7	1.4	-0.4
2006	3.8	108.1	4.0	4.4	4.4	4.9	5.9	2.4	4.2	2.1	0.8	4.3
2006 Q2	3.2	107.9	4.3	4.4	4.7	5.7	5.7	2.6	3.7	2.4	0.9	3.7
Q3	4.2	108.7	4.2	4.5	4.4	5.8	5.7	1.7	5.1	1.2	1.5	4.4
Q4	4.1	109.4	4.0	4.8	4.8	5.3	6.8	3.1	5.6	2.7	-3.3	6.8
2007 Q1	4.6	110.2	3.7	5.6	5.9	6.4	7.3	3.4	4.4	3.2	-7.4	11.0
2006 Dec.	4.4	110.4	4.8	6.0	6.0	7.3	7.8	4.0	6.7	3.5	-4.2	8.7
2007 Jan.	3.6	109.7	3.3	5.4	5.6	5.5	7.3	3.6	3.7	3.6	-7.7	9.8
Feb.	4.9	110.2	3.9	5.8	6.0	7.1	7.7	2.6	4.9	2.2	-7.4	12.0
Mar.	5.1	110.8	4.0	5.7	5.9	6.5	7.0	3.9	4.4	3.8	-7.2	11.1
Apr.	2.9	109.9	2.7	3.8	3.9	3.6	5.4	2.1	1.5	2.2	-3.2	3.3
May	1.9	110.8	2.3	2.6	2.6	2.5	4.0	1.2	0.2	1.4	0.8	1.6
		month-on-month percentage changes (s.a.)										
2006 Dec.	0.9	-	1.2	1.3	1.5	2.1	0.8	1.2	0.9	1.2	1.9	0.5
2007 Jan.	-0.3	-	-0.6	-0.1	-0.1	-0.7	0.4	-0.4	-1.7	-0.2	-3.6	0.3
Feb.	0.7	-	0.5	0.5	0.4	0.6	0.8	0.0	0.6	-0.1	-0.1	0.9
Mar.	0.8	-	0.6	0.4	0.7	0.5	0.2	0.8	0.1	0.9	0.7	0.6
Apr.	-1.9	-	-0.9	-1.1	-1.6	-1.5	-1.1	-1.1	-2.0	-0.9	0.8	-1.2
May	0.7	-	0.9	0.7	0.9	0.9	1.0	0.6	1.7	0.5	2.0	0.1

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

	Industrial new orders		Industrial turnover		Retail sales							New passenger car registrations	
	Manufacturing ²⁾ (current prices)		Manufacturing (current prices)		Current prices	Constant prices							
	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		Total (s.a., thousands) ³⁾	Total	
									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
2004	105.0	7.5	106.3	5.1	2.3	105.3	1.6	1.2	1.7	1.9	3.3	926	1.0
2005	110.9	4.6	110.8	3.6	2.2	106.7	1.3	0.6	1.7	2.3	1.2	941	1.6
2006	121.5	9.5	118.9	7.3	3.4	108.9	2.1	0.7	2.7	2.9	4.9	966	2.6
2006 Q3	123.3	10.6	119.9	6.5	3.9	109.3	2.4	1.3	2.8	3.5	5.1	939	-1.8
Q4	125.3	6.9	121.9	7.6	3.4	109.7	2.3	-0.2	3.5	3.1	7.0	985	5.1
2007 Q1	127.9	8.5	124.4	7.6	2.6	109.6	1.6	0.3	2.4	4.3	4.3	951	-1.7
Q2	.	.	.	.	.	.	.	.	.	.	.	952	-1.9
2007 Jan.	127.2	12.4	123.4	10.1	2.0	109.1	0.9	-0.4	1.6	2.5	3.7	942	-2.9
Feb.	126.4	5.2	123.9	7.3	2.0	109.5	1.2	-0.7	2.6	4.9	3.9	938	-3.7
Mar.	130.1	8.1	125.9	5.8	3.8	110.2	2.7	2.0	3.1	5.9	5.1	972	0.8
Apr.	129.2	11.8	123.9	9.4	2.9	110.2	1.7	0.5	2.6	6.9	2.9	917	-5.8
May	131.3	9.0	126.2	4.9	1.1	109.4	0.1	-0.3	0.2	-0.9	0.8	967	-0.8
June	.	.	.	.	.	.	.	.	.	.	.	971	0.7
	month-on-month percentage changes (s.a.)												
2007 Jan.	-	0.1	-	-0.1	-0.9	-	-1.0	-0.3	-1.2	-0.5	-2.4	-	-8.5
Feb.	-	-0.6	-	0.4	0.4	-	0.4	0.2	0.7	1.0	0.4	-	-0.4
Mar.	-	2.9	-	1.6	0.8	-	0.6	0.7	0.4	0.0	0.9	-	3.6
Apr.	-	-0.7	-	-1.6	0.0	-	-0.1	-0.1	0.1	1.4	-1.0	-	-5.6
May	-	1.7	-	1.8	-0.5	-	-0.7	-0.7	-0.7	-3.1	-0.4	-	5.4
June	-	.	-	.	.	-	.	.	.	.	.	-	0.4

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⁾ (percentages)	Total ⁵⁾	Financial situation over next 12 months	Economic situation over next 12 months	Unemployment situation over next 12 months	Savings over next 12 months
		Total ⁵⁾	Order books	Stocks of finished products	Production expectations						
	1	2	3	4	5	6	7	8	9	10	11
2003	93.1	-10	-25	10	4	80.8	-18	-5	-20	37	-10
2004	99.2	-5	-15	8	10	81.5	-14	-4	-14	30	-9
2005	97.9	-7	-17	11	6	81.2	-14	-4	-15	28	-9
2006	106.9	2	0	6	13	83.3	-9	-3	-9	15	-9
2006 Q2	106.8	2	0	6	13	83.0	-10	-3	-10	16	-9
Q3	108.2	4	3	5	12	83.8	-8	-3	-10	12	-8
Q4	109.9	6	6	4	15	84.2	-7	-3	-7	10	-9
2007 Q1	110.0	6	7	4	14	84.6	-5	-2	-5	6	-8
Q2	111.6	6	8	4	15	84.5	-2	-1	0	2	-7
2007 Feb.	109.7	5	7	3	12	-	-5	-3	-4	5	-8
Mar.	111.1	6	8	4	14	-	-4	-1	-3	5	-8
Apr.	111.0	7	9	4	15	84.8	-4	-2	-3	3	-9
May	112.1	6	8	5	14	-	-1	-1	2	1	-6
June	111.7	6	7	4	15	-	-2	-1	2	2	-7
July	111.0	5	5	5	14	84.2	-2	-1	1	0	-7

	Construction confidence indicator			Retail trade confidence indicator				Services confidence indicator			
	Total ⁵⁾	Order books	Employment expectations	Total ⁵⁾	Present business situation	Volume of stocks	Expected business situation	Total ⁵⁾	Business climate	Demand in recent months	Demand in the months ahead
	12	13	14	15	16	17	18	19	20	21	22
2003	-16	-23	-9	-10	-12	16	0	4	-4	3	14
2004	-12	-20	-4	-8	-12	14	1	11	6	8	18
2005	-7	-12	-2	-7	-12	13	4	11	5	10	18
2006	0	-5	5	0	3	14	13	18	13	18	23
2006 Q2	-1	-6	4	1	1	14	16	19	14	18	24
Q3	3	-2	7	2	5	13	14	19	14	19	25
Q4	3	-3	8	2	8	13	11	20	13	21	26
2007 Q1	0	-8	9	-1	1	16	12	21	16	21	25
Q2	0	-6	6	1	4	13	14	22	19	22	25
2007 Feb.	0	-8	8	-1	0	16	12	20	15	21	24
Mar.	0	-9	9	0	2	15	13	22	18	22	28
Apr.	1	-6	7	0	3	17	15	23	19	24	25
May	0	-7	7	2	5	11	13	23	20	23	25
June	1	-5	6	2	4	12	13	21	18	20	25
July	0	-7	6	3	8	14	13	21	16	21	26

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

- 1) Difference between the percentages of respondents giving positive and negative replies.
- 2) The economic sentiment indicator is composed of the industrial, services, consumer, construction and retail trade confidence indicators; the industrial confidence indicator has a weight of 40%, the services confidence indicator a weight of 30%, the consumer confidence indicator a weight of 20% and the two other indicators a weight of 5% each. Values of the economic sentiment indicator above (below) 100 indicate above-average (below-average) economic sentiment, calculated for the period 1990 to 2006.
- 3) Owing to changes in the questionnaire used for the French survey, euro area results from January 2004 onwards are not fully comparable with previous results.
- 4) Data are collected in January, April, July and October each year. The quarterly figures shown are averages of two successive surveys. Annual data are derived from quarterly averages.
- 5) The confidence indicators are calculated as simple averages of the components shown; the assessments of stocks (columns 4 and 17) and unemployment (column 10) are used with inverted signs for the calculation of confidence indicators.

5.3 Labour markets ¹⁾

(annual percentage changes, unless otherwise indicated)

1. Employment

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

2. Unemployment

(seasonally adjusted)

	Total		By age ³⁾				By gender ⁴⁾			
	Millions	% of labour force	Adult		Youth		Male		Female	
			Millions	% of labour force	Millions	% of labour force	Millions	% of labour force	Millions	% of labour force
% of total ²⁾	100.0		75.4		24.6		48.0		52.0	
	1	2	3	4	5	6	7	8	9	10
2003	12.539	8.7	9.344	7.4	3.195	17.6	5.983	7.3	6.556	10.4
2004	12.882	8.8	9.661	7.5	3.221	17.9	6.193	7.5	6.690	10.5
2005	12.660	8.6	9.569	7.4	3.090	17.4	6.140	7.4	6.520	10.1
2006	11.732	7.9	8.841	6.7	2.891	16.5	5.627	6.7	6.105	9.3
2006 Q2	11.787	7.9	8.921	6.8	2.866	16.4	5.694	6.8	6.092	9.3
Q3	11.579	7.8	8.712	6.6	2.866	16.4	5.539	6.6	6.039	9.2
Q4	11.321	7.6	8.485	6.4	2.836	16.2	5.370	6.4	5.951	9.0
2007 Q1	10.794	7.2	8.070	6.1	2.724	15.7	5.100	6.1	5.695	8.6
Q2	10.420	7.0	7.800	5.9	2.620	15.2	4.894	5.8	5.527	8.4
2007 Jan.	10.967	7.3	8.205	6.2	2.763	15.9	5.206	6.2	5.761	8.7
Feb.	10.791	7.2	8.059	6.1	2.732	15.8	5.095	6.1	5.695	8.7
Mar.	10.624	7.1	7.946	6.0	2.678	15.5	4.997	6.0	5.627	8.5
Apr.	10.502	7.0	7.860	5.9	2.642	15.3	4.939	5.9	5.563	8.5
May	10.409	6.9	7.794	5.9	2.615	15.2	4.886	5.9	5.523	8.4
June	10.351	6.9	7.748	5.8	2.603	15.1	4.856	5.8	5.495	8.3

Source: Eurostat.

1) Data for employment refer to persons and are based on the ESA 95. Data for unemployment refer to persons and follow ILO recommendations.

2) In 2006.

3) Adult: 25 years of age and over; youth: below 25 years of age; rates are expressed as a percentage of the labour force for the relevant age group.

4) Rates are expressed as a percentage of the labour force for the relevant gender.



GOVERNMENT FINANCE

6.1 Revenue, expenditure and deficit/surplus ¹⁾

(as a percentage of GDP)

1. Euro area – revenue

	Total		Current revenue										Capital revenue		Memo: fiscal burden ²⁾
			Direct taxes			Indirect taxes	Received by EU institutions	Social contributions			Sales	Capital taxes			
	Households	Corporations	Employers	Employees											
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
1998	46.6	46.3	12.2	9.1	2.8	13.9	0.6	16.1	8.3	4.9	2.3	0.3	0.3	42.5	
1999	47.0	46.7	12.5	9.3	2.9	14.1	0.6	16.1	8.3	4.9	2.3	0.3	0.3	43.0	
2000	46.6	46.4	12.7	9.4	3.0	13.9	0.6	15.9	8.2	4.8	2.2	0.3	0.3	42.7	
2001	45.8	45.6	12.3	9.2	2.8	13.6	0.6	15.7	8.2	4.7	2.2	0.2	0.3	41.8	
2002	45.3	45.0	11.8	9.1	2.5	13.5	0.4	15.7	8.2	4.6	2.1	0.3	0.3	41.3	
2003	45.2	44.5	11.5	8.9	2.3	13.5	0.4	15.8	8.3	4.7	2.1	0.6	0.5	41.3	
2004	44.7	44.3	11.4	8.6	2.5	13.6	0.3	15.6	8.2	4.6	2.1	0.5	0.4	41.0	
2005	45.1	44.7	11.6	8.7	2.7	13.7	0.3	15.5	8.1	4.5	2.2	0.5	0.3	41.2	
2006	45.8	45.5	12.2	8.8	3.1	13.9	0.3	15.6	8.1	4.5	2.1	0.3	0.3	42.0	

2. Euro area – expenditure

	Total	Current expenditure								Capital expenditure				Memo: primary expenditure ³⁾
		Total	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social payments	Subsidies	Paid by EU institutions	Investment	Capital transfers	Paid by EU institutions		
	1	2	3	4	5	6	7	8	9	10	11	12	13	
1998	48.9	45.1	10.6	4.7	4.6	25.2	22.2	2.1	0.5	3.8	2.4	1.4	0.1	44.2
1999	48.4	44.5	10.6	4.8	4.0	25.1	22.1	2.1	0.5	3.9	2.5	1.4	0.1	44.3
2000	47.6	43.9	10.4	4.8	3.9	24.8	21.7	2.0	0.5	3.8	2.5	1.3	0.0	43.7
2001	47.7	43.8	10.3	4.8	3.8	24.8	21.8	1.9	0.5	3.9	2.5	1.4	0.0	43.9
2002	47.8	44.0	10.4	4.9	3.5	25.2	22.3	1.9	0.5	3.8	2.4	1.4	0.0	44.3
2003	48.2	44.3	10.5	5.0	3.3	25.5	22.7	1.9	0.5	4.0	2.5	1.4	0.1	44.9
2004	47.6	43.7	10.4	5.0	3.1	25.2	22.5	1.7	0.5	3.8	2.5	1.4	0.0	44.4
2005	47.6	43.7	10.4	5.1	3.0	25.2	22.5	1.7	0.5	3.9	2.5	1.4	0.0	44.6
2006	47.4	43.3	10.3	5.0	2.9	25.1	22.3	1.7	0.5	4.1	2.5	1.6	0.0	44.4

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

	Deficit (-)/surplus (+)					Primary deficit (-)/surplus (+)	Government consumption 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
	1	2	3	4	5		6	7	8	9	10	11	12	13
1998	-2.3	-2.2	-0.2	0.1	0.1	2.3	19.8	10.6	4.7	4.8	1.9	2.3	8.2	11.6
1999	-1.4	-1.7	-0.1	0.1	0.4	2.7	19.9	10.6	4.8	4.9	1.9	2.3	8.3	11.6
2000	-1.0	-1.4	-0.1	0.1	0.5	2.9	19.8	10.4	4.8	4.9	1.9	2.2	8.2	11.6
2001	-1.9	-1.7	-0.4	-0.1	0.3	1.9	19.9	10.3	4.8	5.0	1.9	2.2	8.1	11.7
2002	-2.6	-2.1	-0.5	-0.2	0.2	0.9	20.3	10.4	4.9	5.1	1.9	2.1	8.2	12.0
2003	-3.1	-2.4	-0.5	-0.2	0.0	0.2	20.5	10.5	5.0	5.2	1.9	2.1	8.3	12.2
2004	-2.8	-2.4	-0.3	-0.2	0.1	0.3	20.4	10.4	5.0	5.2	1.9	2.1	8.3	12.2
2005	-2.5	-2.2	-0.3	-0.3	0.2	0.5	20.5	10.4	5.1	5.2	1.9	2.2	8.2	12.3
2006	-1.6	-1.6	-0.1	-0.2	0.3	1.4	20.4	10.3	5.0	5.2	1.9	2.1	8.1	12.3

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

	BE	DE	IE	GR	ES	FR	IT	LU	NL	AT	PT	SI	FI
	1	2	3	4	5	6	7	8	9	10	11	12	13
2003	0.1	-4.0	0.4	-6.2	0.0	-4.1	-3.5	0.4	-3.1	-1.6	-2.9	-2.8	2.5
2004	0.0	-3.7	1.4	-7.9	-0.2	-3.6	-3.5	-1.2	-1.8	-1.2	-3.3	-2.3	2.3
2005	-2.3	-3.2	1.0	-5.5	1.1	-3.0	-4.2	-0.3	-0.3	-1.6	-6.1	-1.5	2.7
2006	0.2	-1.7	2.9	-2.6	1.8	-2.5	-4.4	0.1	0.6	-1.1	-3.9	-1.4	3.9

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

- 1) The data refer to the Euro 13. Revenue, expenditure and deficit/surplus are based on the ESA 95, but the figures exclude proceeds from the sale of UMTS licences in 2000 (the euro area deficit/surplus including those proceeds is equal to 0.0% of GDP). Transactions involving the EU budget are included and consolidated. Transactions among Member States' governments are not consolidated.
- 2) The fiscal burden comprises taxes and social contributions.
- 3) Comprises total expenditure minus interest expenditure.
- 4) Corresponds to final consumption expenditure (P.3) of general government in the ESA 95.
- 5) Includes proceeds from the sale of UMTS licences and settlements under swaps and forward rate agreements.

6.2 Debt ¹⁾

(as a percentage of GDP)

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

	Total	Financial instruments				Holders				
		Currency and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors ²⁾				Other creditors ³⁾
						Total	MFIs	Other financial corporations	Other sectors	
	1	2	3	4	5	6	7	8	9	10
1997	73.9	2.8	16.0	6.4	48.8	55.5	28.4	13.6	13.5	18.4
1998	72.6	2.7	15.0	5.3	49.6	52.2	26.5	14.5	11.2	20.4
1999	71.8	2.9	14.2	4.2	50.5	48.5	25.3	11.9	11.2	23.3
2000	69.3	2.7	13.0	3.7	49.8	44.0	22.0	11.0	11.0	25.3
2001	68.2	2.8	12.3	4.0	49.2	41.9	20.5	10.3	11.0	26.3
2002	68.0	2.7	11.7	4.5	49.1	40.0	19.3	9.7	11.0	28.0
2003	69.2	2.1	12.3	5.0	49.9	39.3	19.4	10.2	9.8	29.9
2004	69.7	2.2	11.9	5.0	50.6	37.5	18.4	9.9	9.2	32.2
2005	70.5	2.4	11.7	4.7	51.6	35.5	17.3	10.4	7.8	35.0
2006	68.9	2.5	11.4	4.1	51.0	32.8	17.6	7.6	7.5	36.2

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

	Total	Issued by ⁴⁾				Original maturity			Residual maturity			Currencies	
		Central gov.	State gov.	Local gov.	Social security funds	Up to 1 year	Over 1 year	Variable interest rate	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Euro or participating currencies ⁵⁾	Other currencies
	1	2	3	4	5	6	7	8	9	10	11	12	13
1997	73.9	61.9	6.0	5.4	0.6	9.4	64.5	8.4	18.1	25.3	30.6	71.9	2.0
1998	72.6	60.9	6.1	5.3	0.4	8.1	64.5	7.5	15.4	26.4	30.8	70.8	1.8
1999	71.8	60.3	6.0	5.1	0.4	7.3	64.5	6.6	13.6	27.9	30.4	69.7	2.1
2000	69.3	58.1	5.9	4.9	0.4	6.5	62.8	5.8	13.4	27.9	28.0	67.3	1.9
2001	68.2	57.0	6.1	4.8	0.4	7.0	61.3	5.0	13.7	26.8	27.8	66.5	1.7
2002	68.0	56.6	6.3	4.8	0.4	7.6	60.4	5.0	15.3	25.2	27.5	66.6	1.5
2003	69.2	57.0	6.6	5.1	0.6	7.8	61.4	4.9	14.3	26.1	28.8	68.1	1.1
2004	69.7	57.4	6.7	5.1	0.4	7.8	61.8	4.6	14.3	26.5	28.9	68.6	1.1
2005	70.5	57.9	6.8	5.3	0.5	7.9	62.6	4.9	14.4	26.1	30.0	69.3	1.2
2006	68.9	56.3	6.6	5.4	0.6	7.5	61.4	4.6	13.7	25.2	30.0	68.0	0.9

3. Euro area countries

	BE	DE	IE	GR	ES	FR	IT	LU	NL	AT	PT	SI	FI
	1	2	3	4	5	6	7	8	9	10	11	12	13
2003	98.6	63.9	31.2	107.8	48.8	62.4	104.3	6.3	52.0	64.6	56.8	28.6	44.3
2004	94.3	65.7	29.7	108.5	46.2	64.3	103.8	6.6	52.6	63.9	58.2	28.9	44.1
2005	93.2	67.9	27.4	107.5	43.2	66.2	106.2	6.1	52.7	63.5	63.6	28.4	41.4
2006	89.1	67.9	24.9	104.6	39.9	63.9	106.8	6.8	48.7	62.2	64.7	27.8	39.1

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

- 1) The data refer to the Euro 13. Gross general government debt at nominal value and consolidated between sub-sectors of government. Holdings by non-resident governments are not consolidated. Data are partially estimated.
- 2) Holders resident in the country whose government has issued the debt.
- 3) Includes residents of euro area countries other than the country whose government has issued the debt.
- 4) Excludes debt held by general government in the country whose government has issued it.
- 5) Before 1999, this comprises debt in ECU, in domestic currency and in the currencies of other Member States which have adopted the euro.

6.3 Change in debt ¹⁾

(as a percentage of GDP)

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

	Total	Source of change				Financial instruments				Holders			Other creditors ⁷⁾
		Borrowing requirement ²⁾	Valuation effects ³⁾	Other changes in volume ⁴⁾	Aggregation effect ⁵⁾	Currency and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors ⁶⁾	MFIs	Other financial corporations	
	1	2	3	4	5	6	7	8	9	10	11	12	13
1998	1.8	2.2	-0.3	0.0	-0.1	0.1	-0.3	-0.8	2.8	-0.9	-0.7	1.5	2.7
1999	2.0	1.6	0.4	0.0	0.0	0.2	-0.2	-0.9	2.8	-1.8	-0.2	-2.0	3.8
2000	1.0	1.1	0.0	0.0	-0.1	0.0	-0.5	-0.3	1.9	-2.1	-2.0	-0.4	3.1
2001	1.9	1.9	-0.1	0.1	0.0	0.2	-0.2	0.4	1.4	-0.2	-0.6	-0.2	2.1
2002	2.1	2.7	-0.5	0.0	0.0	0.0	-0.2	0.7	1.6	-0.4	-0.5	-0.3	2.6
2003	3.1	3.3	-0.2	0.0	0.0	-0.6	0.9	0.6	2.1	0.4	0.6	0.7	2.7
2004	3.1	3.2	-0.1	0.0	0.0	0.2	0.1	0.1	2.7	-0.3	-0.3	0.1	3.4
2005	3.1	3.1	0.1	-0.1	0.0	0.3	0.3	-0.1	2.6	-0.7	-0.4	0.8	3.8
2006	1.5	1.4	0.1	0.0	0.0	0.2	0.1	-0.4	1.6	-1.2	1.0	-2.3	2.7

2. Euro area – deficit-debt adjustment

	Change in debt	Deficit (-) / surplus (+) ⁸⁾	Deficit-debt adjustment ⁹⁾											Other ¹⁰⁾
			Total	Transactions in main financial assets held by general government						Valuation effects	Exchange rate effects	Other changes in volume		
				Total	Currency and deposits	Loans	Securities ¹¹⁾	Shares and other equity	Privatisations				Equity injections	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998	1.8	-2.3	-0.5	-0.2	0.2	0.0	0.1	-0.4	-0.7	0.2	-0.3	0.0	0.0	0.0
1999	2.0	-1.4	0.6	0.0	0.5	0.1	0.0	-0.5	-0.7	0.1	0.4	0.2	0.0	0.2
2000	1.0	0.0	1.0	1.0	0.7	0.2	0.2	0.0	-0.4	0.2	0.0	0.1	0.0	0.0
2001	1.9	-1.8	0.0	-0.5	-0.6	0.1	0.1	-0.1	-0.3	0.1	-0.1	0.0	0.1	0.6
2002	2.1	-2.6	-0.4	0.1	0.1	0.0	0.0	0.0	-0.3	0.2	-0.5	-0.1	0.0	0.0
2003	3.1	-3.1	0.0	0.1	0.0	0.0	0.0	0.1	-0.2	0.2	-0.2	-0.1	0.0	0.1
2004	3.1	-2.8	0.3	0.3	0.2	0.0	0.1	0.0	-0.4	0.2	-0.1	-0.1	0.0	0.1
2005	3.1	-2.5	0.6	0.7	0.3	0.1	0.2	0.1	-0.2	0.2	0.1	0.1	-0.1	-0.1
2006	1.5	-1.6	-0.1	0.3	0.4	-0.1	0.2	-0.1	-0.4	0.1	0.1	0.0	0.0	-0.5

Source: ECB.

1) The data refer to the Euro 13 and are partially estimated. Annual change in gross nominal consolidated debt is expressed as a percentage of GDP, i.e. $[\text{debt}(t) - \text{debt}(t-1)] \div \text{GDP}(t)$.

2) The borrowing requirement is by definition equal to transactions in debt.

3) Includes, in addition to the impact of foreign exchange movements, effects arising from measurement at nominal value (e.g. premia or discounts on securities issued).

4) Includes, in particular, the impact of the reclassification of units and certain types of debt assumption.

5) The difference between the changes in the aggregated debt, resulting from the aggregation of countries' debt, and the aggregation of countries' change in debt is due to variations in the exchange rates used for aggregation before 2001.

6) Holders resident in the country whose government has issued the debt.

7) Includes residents of euro area countries other than the country whose government has issued the debt.

8) Including proceeds from sales of UMTS licences.

9) The difference between the annual change in gross nominal consolidated debt and the deficit as a percentage of GDP.

10) Mainly composed of transactions in other assets and liabilities (trade credits, other receivables/payables and financial derivatives).

11) Excluding financial derivatives.

6.4 Quarterly revenue, expenditure and deficit/surplus ¹⁾

(as a percentage of GDP)

1. Euro area – quarterly revenue

	Total		Current revenue					Capital revenue		Memo: fiscal burden ²⁾
			Direct taxes	Indirect taxes	Social contributions	Sales	Property income		Capital taxes	
	1	2	3	4	5	6	7	8	9	10
2001 Q1	42.3	41.9	10.5	12.7	15.2	1.8	0.8	0.4	0.2	38.7
Q2	47.0	46.6	13.5	13.0	15.6	2.0	1.7	0.4	0.2	42.3
Q3	43.4	43.1	11.6	12.4	15.5	1.9	0.9	0.4	0.3	39.7
Q4	49.0	48.5	13.5	13.9	16.3	2.9	1.1	0.5	0.3	43.9
2002 Q1	42.0	41.6	10.1	12.8	15.5	1.7	0.8	0.4	0.2	38.6
Q2	45.7	45.2	12.6	12.7	15.5	2.0	1.6	0.5	0.3	41.1
Q3	43.5	43.0	11.2	12.7	15.5	1.9	0.8	0.4	0.3	39.6
Q4	49.1	48.5	13.4	14.1	16.2	2.9	0.9	0.6	0.3	44.0
2003 Q1	42.0	41.6	9.8	12.9	15.6	1.7	0.7	0.5	0.2	38.5
Q2	46.0	44.6	12.1	12.7	15.8	2.0	1.3	1.5	1.2	41.8
Q3	42.9	42.4	10.8	12.7	15.5	1.9	0.7	0.5	0.2	39.3
Q4	49.3	48.2	13.1	14.2	16.2	2.9	0.8	1.0	0.3	43.8
2004 Q1	41.5	41.1	9.6	12.9	15.4	1.7	0.7	0.5	0.3	38.1
Q2	45.2	44.4	12.2	13.1	15.4	2.0	0.9	0.8	0.6	41.2
Q3	42.7	42.2	10.6	12.7	15.4	1.9	0.7	0.5	0.3	39.0
Q4	49.3	48.3	13.0	14.4	16.2	2.9	0.8	1.0	0.4	44.0
2005 Q1	42.1	41.6	10.0	13.0	15.4	1.7	0.6	0.5	0.2	38.6
Q2	45.0	44.4	11.9	13.3	15.3	2.0	1.0	0.6	0.3	40.9
Q3	43.4	42.7	11.0	12.9	15.3	1.9	0.7	0.7	0.3	39.6
Q4	49.5	48.7	13.5	14.4	16.2	2.9	0.9	0.8	0.3	44.3
2006 Q1	42.8	42.4	10.3	13.4	15.4	1.7	0.8	0.5	0.3	39.3
Q2	46.2	45.8	12.7	13.7	15.4	2.0	1.2	0.5	0.3	42.1
Q3	43.7	43.3	11.5	13.0	15.4	1.9	0.8	0.5	0.3	40.0
Q4	50.0	49.3	14.3	14.4	16.0	2.9	0.9	0.7	0.3	45.0
2007 Q1	42.5	42.0	10.3	13.5	15.0	1.6	0.9	0.5	0.3	39.0

2. Euro area – quarterly expenditure and deficit/surplus

	Total	Current expenditure							Capital expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
		Total	Compensation of employees	Intermediate consumption	Interest	Current transfers			Investment	Capital transfers			
							Social benefits	Subsidies					
	1	2	3	4	5	6	7	8	9	10	11	12	13
2001 Q1	45.7	42.3	10.1	4.2	4.0	24.1	20.9	1.3	3.4	1.9	1.5	-3.4	0.6
Q2	46.3	42.8	10.2	4.6	3.9	24.1	20.8	1.3	3.5	2.4	1.1	0.7	4.5
Q3	46.1	42.4	10.0	4.6	3.8	24.0	20.8	1.4	3.7	2.5	1.2	-2.6	1.2
Q4	51.1	46.1	11.0	5.7	3.6	25.9	22.1	1.7	4.9	3.2	1.7	-2.0	1.5
2002 Q1	46.3	42.9	10.3	4.3	3.7	24.6	21.2	1.4	3.5	2.0	1.5	-4.3	-0.6
Q2	46.7	43.3	10.3	4.9	3.5	24.4	21.2	1.3	3.4	2.3	1.1	-1.0	2.5
Q3	46.8	43.1	10.0	4.7	3.5	24.9	21.4	1.4	3.7	2.5	1.2	-3.3	0.2
Q4	50.8	46.4	11.0	5.7	3.3	26.3	22.7	1.6	4.4	2.8	1.6	-1.7	1.6
2003 Q1	47.0	43.5	10.4	4.5	3.5	25.1	21.6	1.3	3.5	1.9	1.6	-5.0	-1.5
Q2	47.4	43.9	10.4	4.8	3.4	25.3	21.8	1.3	3.6	2.4	1.2	-1.4	2.0
Q3	47.0	43.4	10.2	4.8	3.3	25.1	21.6	1.3	3.7	2.5	1.2	-4.2	-0.9
Q4	51.2	46.3	11.0	5.7	3.1	26.5	22.9	1.5	4.8	3.3	1.6	-1.9	1.2
2004 Q1	46.6	43.2	10.3	4.6	3.2	25.1	21.5	1.2	3.4	1.9	1.4	-5.1	-1.8
Q2	46.7	43.4	10.4	4.9	3.1	25.0	21.6	1.2	3.3	2.3	1.0	-1.5	1.6
Q3	46.1	42.7	10.0	4.7	3.2	25.0	21.6	1.3	3.4	2.5	1.0	-3.4	-0.3
Q4	50.7	45.9	11.0	5.7	3.0	26.2	22.7	1.4	4.9	3.1	1.8	-1.4	1.6
2005 Q1	47.1	43.4	10.3	4.7	3.1	25.3	21.5	1.2	3.8	1.9	1.9	-5.0	-1.9
Q2	46.6	43.2	10.3	5.0	3.2	24.7	21.5	1.1	3.4	2.4	1.0	-1.6	1.6
Q3	45.9	42.4	9.9	4.8	2.9	24.8	21.4	1.2	3.4	2.5	0.9	-2.5	0.5
Q4	50.7	45.9	11.1	5.8	2.8	26.2	22.7	1.4	4.8	3.1	1.6	-1.2	1.6
2006 Q1	45.8	42.7	10.1	4.5	3.0	25.1	21.4	1.2	3.2	1.9	1.3	-3.0	0.0
Q2	46.2	42.9	10.3	4.9	3.1	24.5	21.4	1.1	3.4	2.4	1.0	0.0	3.1
Q3	46.3	42.1	9.8	4.7	2.9	24.6	21.2	1.2	4.3	2.5	1.7	-2.6	0.3
Q4	50.8	45.3	10.7	5.8	2.7	26.1	22.4	1.4	5.5	3.3	2.2	-0.8	1.9
2007 Q1	44.9	41.6	9.9	4.5	3.0	24.2	20.7	1.2	3.3	2.0	1.2	-2.4	0.6

Source: ECB calculations based on Eurostat and national data.

1) Revenue, expenditure and deficit/surplus are based on the ESA 95. Transactions between the EU budget and entities outside the government sector are not included. Otherwise, and except for different data transmission deadlines, the quarterly data are consistent with the annual data. The data are not seasonally adjusted.

2) The fiscal burden comprises taxes and social contributions.

6.5 Quarterly debt and change in debt

(as a percentage of GDP)

1. Euro area – Maastricht debt by financial instrument¹⁾

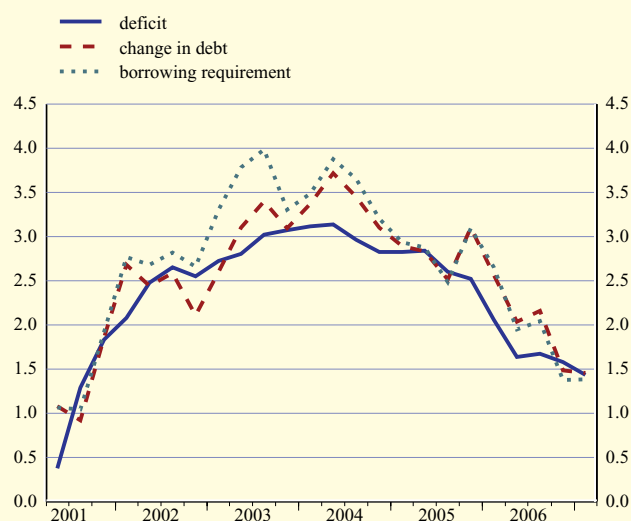
	Total 1	Financial instruments			
		Currency and deposits 2	Loans 3	Short-term securities 4	Long-term securities 5
2004 Q2	71.3	2.2	12.1	5.5	51.5
Q3	71.1	2.3	12.0	5.5	51.4
Q4	69.7	2.2	11.9	5.0	50.6
2005 Q1	71.0	2.2	11.9	5.2	51.7
Q2	71.7	2.3	11.6	5.2	52.6
Q3	71.3	2.4	11.7	5.2	52.0
Q4	70.5	2.4	11.7	4.7	51.6
2006 Q1	70.9	2.5	11.7	4.9	51.8
Q2	71.1	2.5	11.6	4.9	52.0
Q3	70.6	2.5	11.6	4.7	51.7
Q4	68.9	2.5	11.4	4.1	51.0
2007 Q1	69.2	2.4	11.3	4.9	50.6

2. Euro area – deficit-debt adjustment

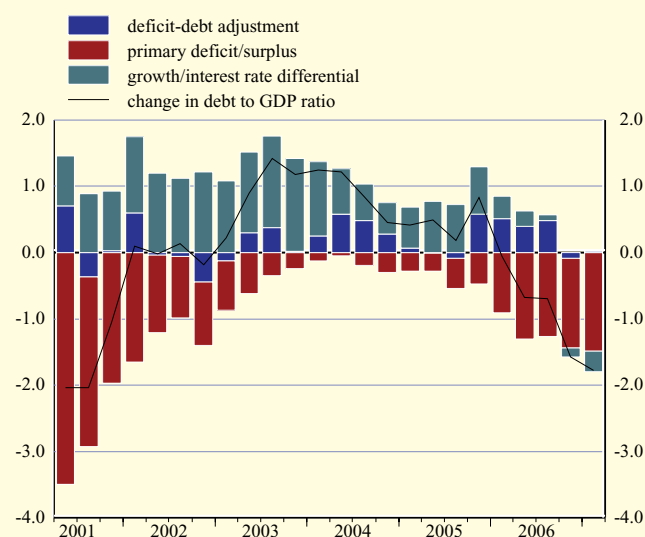
	Change in debt	Deficit (-)/ surplus (+)	Deficit-debt adjustment								Memo: Borrowing requirement
			Total	Transactions in main financial assets held by general government					Valuation effects and other changes in volume	Other	
				Total	Currency and deposits	Loans	Securities	Shares and other equity			
	1	2	3	4	5	6	7	8	9	10	11
2004 Q2	5.8	-1.5	4.3	4.0	3.4	0.1	0.2	0.2	0.0	0.3	5.8
Q3	1.8	-3.4	-1.6	-1.2	-1.4	0.0	0.2	0.1	-0.3	-0.2	2.1
Q4	-3.1	-1.4	-4.5	-3.3	-2.5	0.1	-0.2	-0.6	0.0	-1.2	-3.0
2005 Q1	7.3	-5.0	2.3	2.2	1.3	0.1	0.3	0.5	0.1	0.0	7.2
Q2	5.5	-1.6	3.8	3.5	2.5	0.1	0.4	0.5	0.0	0.4	5.5
Q3	0.6	-2.5	-1.9	-2.5	-2.4	0.0	0.3	-0.3	0.0	0.5	0.5
Q4	-0.6	-1.2	-1.8	-0.5	-0.1	0.0	-0.3	-0.1	-0.1	-1.2	-0.5
2006 Q1	5.0	-3.0	2.0	1.3	1.1	0.1	0.6	-0.5	-0.3	0.9	5.2
Q2	3.3	0.0	3.2	3.2	2.5	0.1	0.4	0.2	0.7	-0.6	2.6
Q3	1.1	-2.6	-1.5	-0.8	-0.7	-0.1	0.0	0.0	0.1	-0.8	1.0
Q4	-3.0	-0.8	-3.8	-2.3	-1.4	-0.6	-0.1	-0.2	-0.1	-1.5	-2.9
2007 Q1	4.7	-2.4	2.3	1.7	1.0	0.1	0.6	0.0	-0.4	0.9	5.0

C28 Deficit, borrowing requirement and change in debt

(four-quarter moving sum as a percentage of GDP)

**C29 Maastricht debt**

(annual change in the debt to GDP ratio and underlying factors)



Source: ECB calculations based on Eurostat and national data.

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



EXTERNAL TRANSACTIONS AND POSITIONS

7.1 Balance of payments

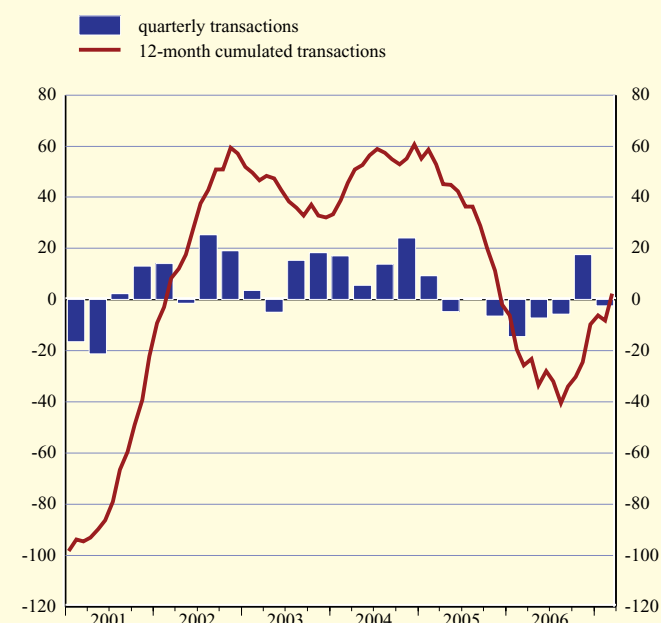
(EUR billions; net transactions)

1. Summary balance of payments

	Current account					Capital account	Net lending/ borrowing to/from rest of the world (columns 1+6)	Financial account						Errors and omissions
	Total	Goods	Services	Income	Current transfers			Total	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004	60.7	100.5	32.6	-13.7	-58.6	16.6	77.3	-18.7	-68.6	72.9	-8.3	-27.1	12.5	-58.6
2005	-1.9	45.4	34.8	-11.6	-70.5	12.1	10.3	25.5	-210.0	146.1	-13.9	85.3	18.0	-35.8
2006	-9.7	28.6	35.8	1.4	-75.5	10.1	0.4	117.1	-158.8	263.5	-1.9	15.5	-1.3	-117.5
2006 Q1	-14.5	-3.5	5.0	4.4	-20.4	1.9	-12.6	72.8	-35.4	23.1	-7.6	86.8	5.9	-60.2
Q2	-7.2	6.8	12.5	-10.6	-15.8	1.3	-5.8	39.1	-20.0	97.6	-2.1	-34.9	-1.5	-33.3
Q3	-5.7	7.5	9.8	0.9	-23.9	2.1	-3.6	51.0	-43.9	22.3	7.9	67.8	-3.2	-47.4
Q4	17.7	17.8	8.5	6.7	-15.4	4.8	22.5	-45.8	-59.4	120.4	-0.1	-104.2	-2.4	23.3
2007 Q1	-2.4	7.6	5.6	5.4	-21.0	5.2	2.8	-12.0	-24.2	122.2	-17.2	-91.4	-1.4	9.2
2006 May	-10.6	0.4	4.1	-9.5	-5.5	0.3	-10.3	25.6	-6.2	37.9	2.5	-6.9	-1.7	-15.3
June	9.1	5.3	5.0	2.9	-4.1	0.7	9.9	1.4	-15.8	68.7	1.8	-54.7	1.4	-11.2
July	-1.2	4.1	4.2	-1.1	-8.4	0.8	-0.4	8.2	-10.8	4.6	3.4	12.3	-1.3	-7.8
Aug.	-5.9	-2.2	1.8	1.5	-7.0	1.0	-4.8	3.7	-5.5	-22.5	-2.5	35.0	-0.8	1.2
Sep.	1.4	5.6	3.8	0.5	-8.5	0.2	1.7	39.1	-27.7	40.2	7.1	20.5	-1.1	-40.7
Oct.	-0.8	5.6	2.6	-0.9	-8.1	0.5	-0.3	5.1	-10.0	30.8	6.3	-22.1	0.1	-4.8
Nov.	4.8	7.2	2.1	2.7	-7.3	0.9	5.7	-11.0	-12.9	58.9	-2.0	-54.4	-0.6	5.3
Dec.	13.7	5.0	3.8	4.9	0.0	3.4	17.1	-39.9	-36.5	30.7	-4.4	-27.7	-1.9	22.8
2007 Jan.	-6.1	-4.4	0.2	-0.3	-1.7	2.3	-3.7	43.1	-7.4	33.5	-4.6	24.5	-3.0	-39.3
Feb.	-5.7	2.3	2.3	1.5	-11.9	1.2	-4.5	-11.0	-11.0	23.0	-8.4	-14.2	-0.5	15.5
Mar.	9.4	9.6	3.1	4.2	-7.4	1.6	11.1	-44.0	-5.9	65.6	-4.2	-101.7	2.2	33.0
Apr.	-4.3	4.3	3.0	-4.3	-7.3	0.6	-3.7	17.7	-24.5	15.6	-4.1	32.5	-1.8	-14.0
May	-14.6	3.6	3.4	-16.5	-5.1	2.0	-12.6	0.7	-11.3	7.3	-2.2	7.6	-0.7	12.0
12-month cumulated transactions														
2007 May	-0.2	46.1	35.4	-4.8	-76.8	15.4	15.2	13.0	-179.2	356.4	-13.8	-142.4	-8.1	-28.2

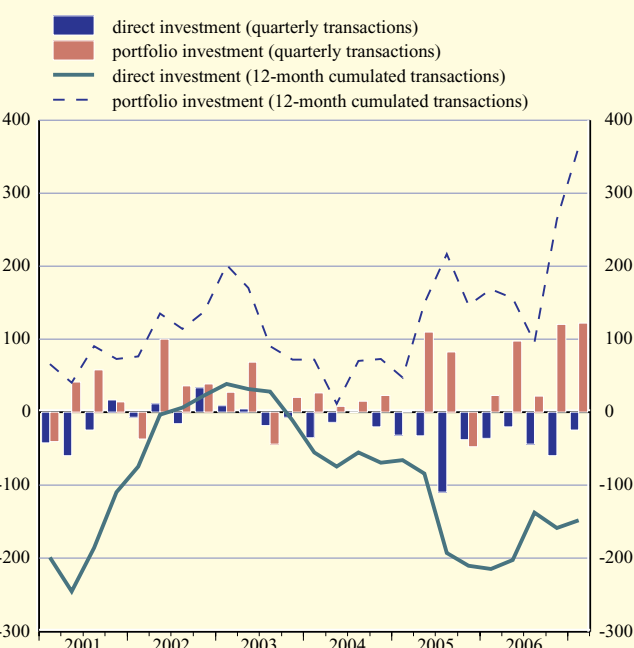
C30 B.o.p. current account balance

(EUR billions)



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

(EUR billions)



Source: ECB.

7.1 Balance of payments

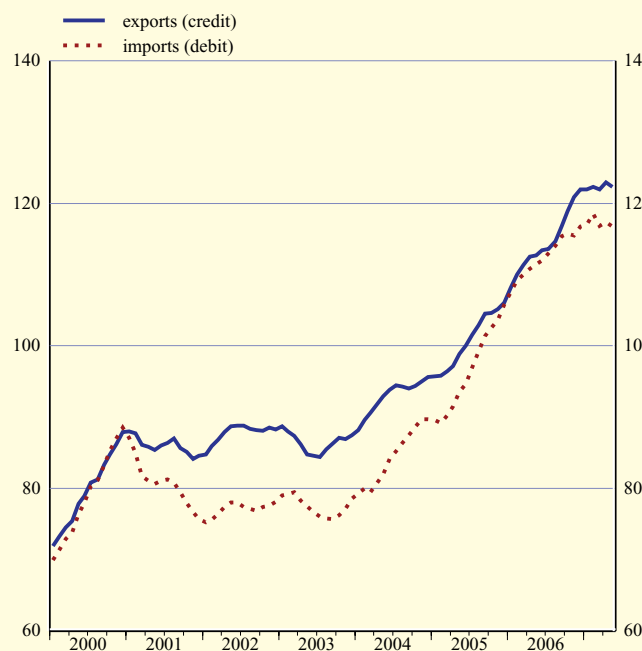
(EUR billions; transactions)

2. Current and capital accounts

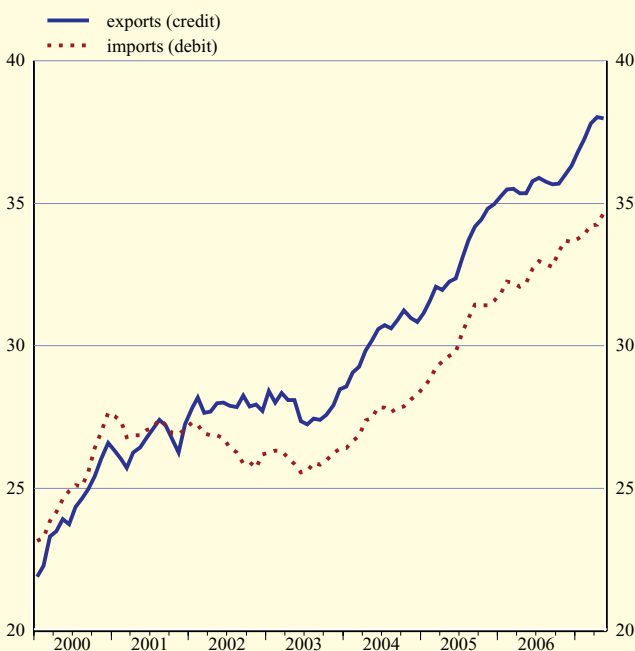
	Current account											Capital account	
	Total			Goods		Services		Income		Current transfers		Credit	Debit
	Credit	Debit	Net	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
	1	2	3	4	5	6	7	8	9	10	11	12	13
2004	1,866.8	1,806.0	60.7	1,129.3	1,028.9	366.4	333.8	288.9	302.7	82.1	140.7	24.6	8.1
2005	2,066.1	2,067.9	-1.9	1,224.2	1,178.9	401.8	367.0	354.7	366.2	85.4	155.9	24.1	12.0
2006	2,343.0	2,352.8	-9.7	1,389.0	1,360.4	429.3	393.6	438.1	436.7	86.6	162.1	23.7	13.6
2006 Q1	545.2	559.7	-14.5	330.3	333.8	97.5	92.5	91.6	87.3	25.8	46.2	5.9	4.0
Q2	584.9	592.1	-7.2	343.5	336.6	107.5	95.1	116.4	127.0	17.5	33.4	4.5	3.2
Q3	575.8	581.4	-5.7	342.1	334.6	114.1	104.3	104.0	103.1	15.5	39.4	4.4	2.4
Q4	637.2	619.5	17.7	373.2	355.4	110.2	101.7	126.1	119.3	27.7	43.1	8.8	4.0
2007 Q1	609.3	611.7	-2.4	359.5	351.9	103.6	98.0	119.4	114.0	26.8	47.8	7.7	2.5
2007 Mar.	218.1	208.7	9.4	130.3	120.7	36.5	33.4	45.8	41.7	5.5	12.9	2.4	0.7
Apr.	200.9	205.2	-4.3	119.2	114.8	35.4	32.4	41.4	45.7	5.0	12.3	1.4	0.7
May	209.3	223.9	-14.6	123.4	119.8	38.0	34.6	41.2	57.7	6.8	11.9	2.6	0.7
	Seasonally adjusted												
2006 Q1	560.4	566.6	-6.2	333.9	330.0	106.5	96.6	98.0	99.8	22.0	40.2	.	.
Q2	576.3	580.8	-4.5	340.4	335.9	107.3	98.1	107.6	109.3	21.0	37.4	.	.
Q3	590.0	594.5	-4.4	350.5	346.2	107.0	98.3	111.1	109.1	21.5	40.8	.	.
Q4	618.5	611.8	6.7	365.7	350.2	109.0	100.9	119.8	117.4	24.0	43.3	.	.
2007 Q1	629.1	624.7	4.4	365.8	350.4	113.4	102.7	128.1	130.8	21.8	40.8	.	.
2006 Sep.	202.5	199.4	3.1	121.1	116.1	35.9	33.1	38.2	36.6	7.4	13.6	.	.
Oct.	200.9	200.1	0.9	119.5	115.3	35.6	34.1	37.6	35.6	8.2	15.1	.	.
Nov.	202.5	203.1	-0.6	122.1	115.0	36.6	33.9	37.9	39.9	5.9	14.2	.	.
Dec.	215.1	208.6	6.5	124.2	119.9	36.8	33.0	44.2	41.9	9.9	13.9	.	.
2007 Jan.	203.8	201.6	2.1	119.7	116.1	37.1	34.5	42.2	41.5	4.8	9.6	.	.
Feb.	213.3	217.1	-3.8	123.0	119.6	37.9	34.4	40.3	44.0	12.1	19.1	.	.
Mar.	212.0	206.0	6.0	123.1	114.8	38.4	33.9	45.5	45.3	5.0	12.1	.	.
Apr.	204.9	206.5	-1.6	122.6	117.9	37.7	34.5	38.7	39.4	5.9	14.6	.	.
May	206.5	215.1	-8.6	121.1	117.7	37.7	35.6	39.1	48.7	8.5	13.2	.	.

C32 B.o.p. goods

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

**C33 B.o.p. services**

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



Source: ECB.

7.1 Balance of payments

(EUR billions)

3. Income account

(transactions)

	Compensation of employees		Investment income											
			Total		Direct investment				Portfolio investment				Other investment	
	Credit	Debit	Credit	Debit	Equity		Debt		Equity		Debt		Credit	Debit
					Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004	15.5	7.9	273.4	294.7	100.6	76.2	13.4	12.8	24.5	56.2	67.7	77.0	67.2	72.4
2005	15.7	9.3	339.0	357.0	121.5	89.1	14.0	13.5	31.3	71.2	78.1	82.4	94.1	100.7
2006	16.1	10.0	421.9	426.7	129.2	72.4	18.4	16.3	38.1	99.5	100.4	89.4	135.8	149.0
2006 Q1	4.0	2.2	87.6	85.1	22.9	12.9	4.2	3.4	8.2	16.0	22.7	21.8	29.6	31.0
Q2	4.0	2.4	112.4	124.6	38.1	18.6	4.5	4.0	13.2	43.0	24.0	23.1	32.5	36.0
Q3	4.0	2.9	100.0	100.1	26.8	15.4	4.5	4.1	8.5	21.4	25.8	21.2	34.4	38.1
Q4	4.2	2.5	121.9	116.8	41.3	25.6	5.2	4.9	8.1	19.1	27.9	23.4	39.4	43.9
2007 Q1	4.0	1.9	115.5	112.1	31.9	18.8	5.0	5.0	9.5	18.7	27.8	25.0	41.3	44.6

4. Direct investment

(net transactions)

	By resident units abroad							By non-resident units in the euro area						
	Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004	-161.0	-171.1	-21.4	-149.8	10.1	0.1	10.0	92.4	95.7	0.7	95.0	-3.3	0.5	-3.8
2005	-301.6	-242.0	-11.0	-230.9	-59.7	-0.2	-59.5	91.6	64.0	0.7	63.2	27.7	-0.3	28.0
2006	-322.6	-265.8	-34.7	-231.1	-56.8	-1.0	-55.8	163.8	136.7	4.2	132.5	27.0	0.3	26.7
2006 Q1	-56.3	-49.6	-1.7	-47.9	-6.8	0.2	-7.0	20.9	17.8	1.6	16.2	3.1	-0.3	3.5
Q2	-112.5	-92.0	-6.5	-85.5	-20.5	-0.6	-19.9	92.5	79.6	0.5	79.1	12.8	1.0	11.9
Q3	-73.5	-65.1	-10.4	-54.6	-8.4	0.2	-8.6	29.6	25.6	1.2	24.4	4.0	-0.3	4.3
Q4	-80.2	-59.1	-16.1	-43.0	-21.1	-0.7	-20.3	20.8	13.7	0.9	12.8	7.1	0.0	7.1
2007 Q1	-76.9	-53.3	-5.0	-48.3	-23.6	2.1	-25.7	52.7	21.3	0.8	20.5	31.4	-0.8	32.3
2006 May	-16.2	-20.4	-3.5	-16.9	4.2	-0.2	4.4	10.0	8.3	0.4	7.9	1.7	0.4	1.3
June	-13.3	-11.4	-1.2	-10.2	-1.9	-0.1	-1.8	-2.5	0.0	0.1	-0.1	-2.4	0.4	-2.8
July	-21.1	-18.1	-1.5	-16.5	-3.1	0.1	-3.1	10.3	7.1	0.4	6.7	3.3	-0.1	3.4
Aug.	-4.3	-7.4	-3.6	-3.8	3.1	0.0	3.1	-1.2	4.6	0.4	4.1	-5.7	-0.1	-5.6
Sep.	-48.0	-39.6	-5.3	-34.3	-8.5	0.1	-8.5	20.4	14.0	0.4	13.6	6.4	-0.1	6.5
Oct.	-20.4	-11.8	-5.8	-6.0	-8.6	0.1	-8.7	10.4	5.1	1.1	4.0	5.3	1.5	3.8
Nov.	-12.8	-17.0	-1.9	-15.1	4.1	-0.2	4.3	-0.1	0.1	-0.2	0.3	-0.2	-1.7	1.5
Dec.	-47.0	-30.3	-8.5	-21.9	-16.6	-0.7	-15.9	10.4	8.5	0.0	8.5	2.0	0.1	1.9
2007 Jan.	-22.7	-22.2	-2.7	-19.5	-0.4	2.3	-2.8	15.3	8.1	0.3	7.8	7.2	-1.0	8.1
Feb.	-30.8	-10.9	5.7	-16.6	-19.9	-0.3	-19.6	19.9	11.6	4.2	7.4	8.3	0.2	8.0
Mar.	-23.4	-20.2	-8.0	-12.2	-3.2	0.1	-3.4	17.6	1.6	-3.7	5.2	16.0	-0.1	16.1
Apr.	-30.1	-19.1	-1.3	-17.8	-11.1	-0.4	-10.7	5.6	4.9	-0.1	5.0	0.7	0.6	0.1
May	-31.0	-28.1	-2.9	-25.2	-2.9	0.1	-3.0	19.8	24.5	0.6	23.9	-4.7	0.5	-5.2

Source: ECB.

7.1 Balance of payments

(EUR billions; transactions)

5. Portfolio investment by instrument and sector of holder

	Equity					Debt instruments									
						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		
				General gov.					General gov.					General gov.	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2004	0.0	-22.4	-84.1	-3.7	126.8	0.6	-81.9	-98.1	-2.1	273.5	0.0	-43.1	-14.9	0.1	16.5
2005	-0.1	-14.4	-119.8	-3.5	263.2	-0.7	-119.6	-142.2	-0.8	248.6	0.1	-14.5	-0.1	0.1	45.6
2006	0.0	-25.2	-110.1	-6.1	289.7	-2.4	-168.7	-123.1	-1.1	464.4	-2.0	-48.6	-14.4	0.1	4.1
2006 Q1	0.0	-19.5	-77.6	-0.8	120.4	-0.2	-53.9	-36.1	-0.2	81.7	0.7	2.5	-10.0	-3.8	15.2
Q2	0.0	11.1	7.2	-2.6	32.8	1.0	-23.4	-25.6	0.1	116.5	-3.2	-7.6	-0.7	-3.2	-10.4
Q3	0.0	-4.7	-23.7	-0.9	53.5	-0.4	-51.9	-15.7	-0.2	80.9	1.9	-25.0	0.7	3.1	6.8
Q4	0.0	-12.0	-16.0	-1.8	83.0	-2.9	-39.6	-45.7	-0.8	185.2	-1.4	-18.5	-4.3	4.0	-7.4
2007 Q1	0.0	-20.8	0.5	-0.8	107.3	-0.7	-50.5	-37.7	-1.2	137.4	0.7	-23.3	-13.3	-5.5	22.7
2006 May	0.0	3.2	12.3	-	-16.4	0.1	-10.8	-12.2	-	65.3	-1.6	-2.2	-2.0	-	2.3
June	0.0	4.5	1.0	-	60.7	0.6	-6.4	-2.7	-	25.9	-0.4	1.7	0.7	-	-16.8
July	0.0	3.2	-11.7	-	42.8	0.2	-13.2	-2.0	-	6.2	0.4	-18.1	-1.1	-	-2.0
Aug.	0.0	-4.7	-7.2	-	-13.6	0.0	-8.9	-9.1	-	15.1	1.0	0.2	1.2	-	3.3
Sep.	0.0	-3.2	-4.8	-	24.2	-0.6	-29.8	-4.6	-	59.6	0.5	-7.1	0.5	-	5.5
Oct.	0.0	-4.9	-5.3	-	23.7	-1.8	-15.4	-21.2	-	53.5	-0.3	-5.8	-6.2	-	14.4
Nov.	0.0	0.1	-10.2	-	26.9	-0.5	-25.5	-11.5	-	71.1	-0.4	-9.6	4.2	-	14.2
Dec.	0.0	-7.3	-0.5	-	32.4	-0.6	1.3	-13.0	-	60.6	-0.8	-3.1	-2.4	-	-36.1
2007 Jan.	0.0	-5.6	-1.3	-	44.2	-0.1	-32.0	-10.1	-	34.3	0.5	-7.7	-7.9	-	19.3
Feb.	0.0	-19.0	-9.2	-	38.3	-0.1	-16.3	-9.7	-	37.7	0.1	-5.2	-2.2	-	8.6
Mar.	0.0	3.8	11.0	-	24.8	-0.6	-2.3	-17.9	-	65.4	0.2	-10.4	-3.2	-	-5.2
Apr.	0.0	1.0	-12.9	-	1.1	0.0	-22.8	-3.4	-	39.5	0.0	-3.2	0.2	-	16.2
May	0.0	-9.2	7.3	-	12.2	-0.2	-29.9	-18.2	-	38.6	0.0	-8.2	-1.9	-	16.8

6. Other investment by sector

	Total		Eurosysteem		General government			MFIs (excluding Eurosysteem)						Other sectors		
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Total		Long-term		Short-term		Assets	Liabilities		
							Assets	Liabilities	Assets	Liabilities	Assets	Liabilities				
															Currency and deposits	Currency and deposits
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
2004	-310.7	283.6	0.4	7.8	-1.6	-2.0	-3.8	-260.1	245.7	6.2	-17.0	-266.3	262.7	-49.3	-9.1	33.8
2005	-569.1	654.3	-0.9	6.7	5.1	-2.4	-2.2	-395.5	483.5	-96.9	55.3	-298.6	428.2	-177.7	-6.0	166.4
2006	-758.3	773.9	-2.9	18.6	3.3	-3.0	1.2	-523.6	492.2	-134.2	84.1	-389.5	408.1	-235.1	25.0	261.8
2006 Q1	-219.2	305.9	-3.2	7.0	7.6	3.8	-2.2	-135.7	222.9	-12.9	13.1	-122.8	209.8	-87.8	-10.5	78.3
Q2	-113.7	78.8	0.9	2.1	-11.0	-12.1	0.3	-57.5	9.0	-15.1	21.6	-42.4	-12.5	-46.0	6.7	67.4
Q3	-144.5	212.3	0.5	4.9	12.3	8.5	6.3	-119.9	161.7	-32.6	21.3	-87.3	140.5	-37.4	10.7	39.4
Q4	-281.0	176.8	-1.1	4.7	-5.5	-3.2	-3.2	-210.6	98.6	-73.6	28.2	-136.9	70.3	-63.8	18.1	76.8
2007 Q1	-414.2	322.8	-5.3	6.1	3.8	5.2	1.4	-290.4	266.7	-76.6	29.7	-213.9	237.0	-122.2	-39.2	48.5
2006 May	-75.7	68.8	0.1	4.4	-4.3	-4.7	-4.7	-45.0	40.4	-3.0	2.5	-42.0	38.0	-26.4	-7.0	28.7
June	48.2	-102.9	0.8	-0.9	-2.2	-2.6	0.7	52.1	-113.0	-11.9	9.0	64.1	-122.0	-2.5	10.8	10.3
July	-58.8	71.1	1.6	1.0	7.2	7.1	2.1	-48.5	64.9	-10.4	8.6	-38.1	56.3	-19.1	8.0	3.1
Aug.	11.1	23.9	-1.5	1.3	0.6	0.0	-0.6	7.3	18.7	-7.1	6.7	14.4	12.0	4.8	0.2	4.5
Sep.	-96.8	117.3	0.5	2.5	4.6	1.5	4.8	-78.6	78.1	-15.1	6.0	-63.5	72.1	-23.2	2.5	31.8
Oct.	-106.9	84.8	-0.5	-1.1	-2.4	-4.1	-2.1	-78.5	64.3	-42.1	5.5	-36.5	58.8	-25.4	3.2	23.7
Nov.	-151.4	97.0	0.5	3.2	-3.8	-4.3	1.6	-106.4	71.3	-10.8	27.9	-95.6	43.4	-41.7	-8.5	21.0
Dec.	-22.7	-5.0	-1.1	2.5	0.7	5.2	-2.7	-25.6	-37.0	-20.8	-5.1	-4.8	-31.9	3.3	23.4	32.1
2007 Jan.	-154.3	178.8	-1.4	3.8	1.0	1.3	-4.8	-100.6	154.6	-31.9	10.4	-68.7	144.2	-53.2	-33.3	25.1
Feb.	-130.7	116.5	-3.6	-0.4	0.1	1.5	4.4	-90.0	81.5	-7.9	8.6	-82.1	72.9	-37.3	-7.7	31.1
Mar.	-129.2	27.4	-0.3	2.7	2.6	2.4	1.7	-99.8	30.6	-36.7	10.8	-63.1	19.8	-31.8	1.8	-7.6
Apr.	-154.2	186.7	0.8	2.1	1.1	-2.3	0.5	-125.6	163.8	-17.0	9.1	-108.6	154.7	-30.4	-6.9	20.2
May	-68.3	75.9	-2.5	-0.8	-4.8	-5.0	-0.3	-27.2	76.5	-25.1	38.1	-2.1	38.3	-33.9	-5.8	0.5

Source: ECB.

7.1 Balance of payments

(EUR billions; transactions)

7. Other investment by sector and instrument

	Eurosystem				General government							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
	1	2	3	4	5	6	7	8	9	10	11	12
2004	0.6	-0.3	7.8	0.0	0.0	-0.4	1.7	-2.0	-1.3	0.0	-3.7	-0.2
2005	-0.9	0.0	6.6	0.0	0.0	6.3	8.8	-2.4	-1.1	0.0	-1.9	-0.3
2006	-2.9	0.0	18.6	0.0	0.0	4.2	7.2	-3.0	-0.8	0.0	1.3	-0.1
2006 Q1	-3.2	0.0	6.9	0.1	0.0	7.7	4.0	3.8	-0.2	0.0	-1.8	-0.4
Q2	0.9	0.0	2.1	0.0	0.0	-10.8	1.4	-12.1	-0.3	0.0	0.2	0.1
Q3	0.5	0.0	4.8	0.0	0.0	12.3	3.7	8.5	0.1	0.0	6.2	0.1
Q4	-1.1	0.0	4.7	0.0	0.0	-5.0	-1.9	-3.2	-0.5	0.0	-3.3	0.0
2007 Q1	-5.3	0.0	6.1	0.1	0.0	3.9	-1.3	5.2	-0.2	0.0	1.5	-0.1

	MFIs (excluding Eurosystem)				Other sectors							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
	13	14	15	16	17	18	19	20	21	22	23	24
2004	-256.2	-4.0	242.8	2.9	-6.2	-39.0	-30.0	-9.1	-4.1	9.5	22.8	1.6
2005	-392.3	-3.2	481.9	1.6	-8.9	-152.2	-146.2	-6.0	-16.7	11.8	148.8	5.8
2006	-519.6	-4.1	489.2	3.0	-6.9	-217.7	-242.7	25.0	-10.6	15.1	239.9	6.8
2006 Q1	-131.8	-3.9	217.0	5.9	-3.8	-75.7	-65.2	-10.5	-8.4	4.4	68.2	5.6
Q2	-58.0	0.5	14.6	-5.6	-3.7	-44.2	-50.9	6.7	1.9	4.1	67.9	-4.7
Q3	-118.8	-1.0	159.5	2.3	2.4	-36.0	-46.8	10.7	-3.8	3.2	33.2	3.0
Q4	-210.9	0.4	98.2	0.4	-1.7	-61.8	-79.8	18.1	-0.3	3.4	70.5	2.9
2007 Q1	-282.2	-8.3	264.7	2.0	-2.4	-111.6	-72.4	-39.2	-8.2	-2.0	45.2	5.3

8. Reserve assets

	Total	Monetary gold	Special drawing rights	Reserve position in the IMF	Foreign exchange							Other claims
					Total	Currency and deposits		Securities			Financial derivatives	
						With monetary authorities and the BIS	With banks	Equity	Bonds and notes	Money market instruments		
	1	2	3	4	5	6	7	8	9	10	11	12
2004	12.5	1.2	0.5	4.0	6.8	-2.9	3.3	0.5	18.3	-12.2	-0.1	0.0
2005	18.0	3.9	-0.2	8.6	5.8	0.2	7.2	0.0	-4.9	3.3	0.0	0.0
2006	-1.3	4.2	-0.5	5.2	-10.4	6.1	-2.8	0.0	-19.4	5.7	0.0	0.2
2006 Q1	5.9	0.8	0.0	3.4	2.2	6.2	-4.8	0.0	-4.1	4.9	0.0	-0.5
Q2	-1.5	1.4	0.0	-0.5	-3.1	0.9	2.4	0.0	-7.2	0.7	0.0	0.7
Q3	-3.2	0.9	-0.3	0.8	-4.6	1.0	-2.9	0.0	-4.1	1.4	0.0	0.0
Q4	-2.4	1.1	-0.2	1.6	-4.9	-2.0	2.5	0.0	-4.0	-1.3	0.0	0.0
2007 Q1	-1.4	0.4	0.0	0.8	-2.6	1.4	-5.0	0.4	-5.5	6.1	0.0	0.0

Source: ECB.

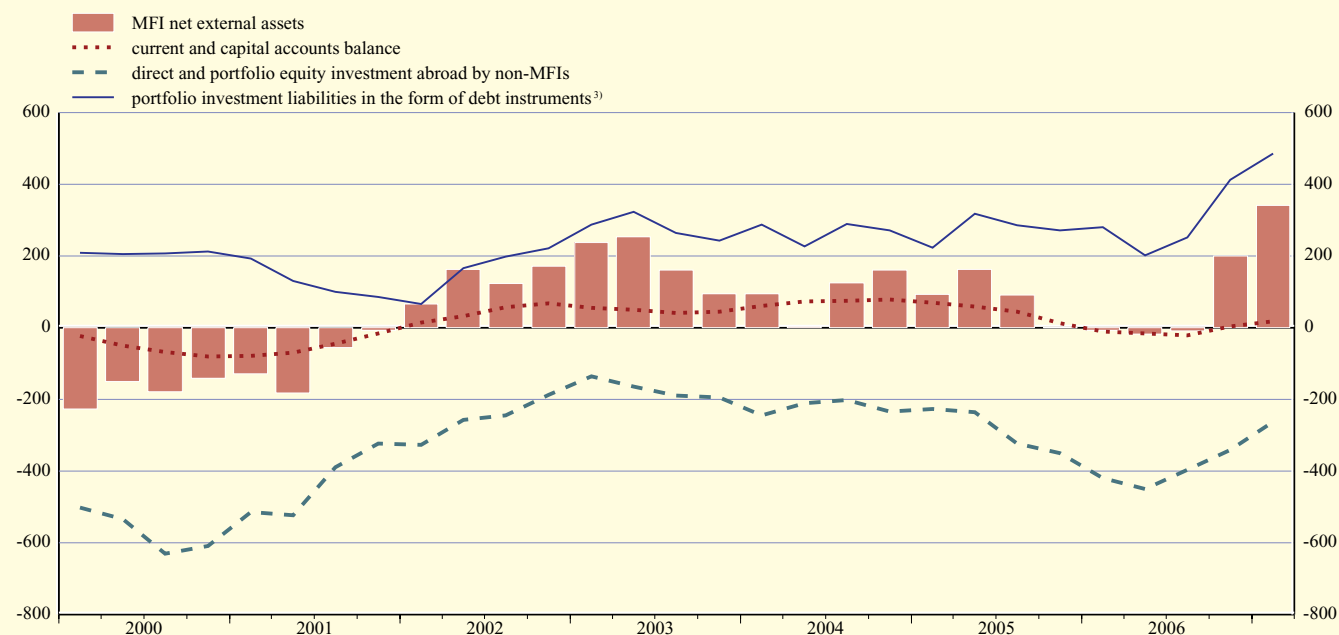
7.2 Monetary presentation of the balance of payments ¹⁾

(EUR billions; transactions)

	B.o.p. items balancing transactions in the external counterpart of M3											Memo: Transactions in the external counterpart of M3
	Current and capital accounts balance	Direct investment		Portfolio investment			Other investment		Financial derivatives	Errors and omissions	Total of columns 1 to 10	
		By resident units abroad (non-MFIs)	By non- resident units in the euro area	Assets Non-MFIs	Liabilities		Assets Non-MFIs	Liabilities Non-MFIs				
					Equity ²⁾	Debt instruments ³⁾						
	1	2	3	4	5	6	7	8	9	10	11	12
2004	79.1	-139.7	91.7	-196.8	116.9	270.5	-51.0	29.7	-8.3	-58.0	134.0	160.8
2005	12.0	-290.5	92.0	-261.6	220.2	270.4	-172.6	164.2	-13.9	-35.8	-15.5	0.5
2006	2.8	-286.9	163.4	-247.1	228.8	413.0	-231.5	262.8	-1.9	-118.6	184.8	200.4
2006 Q1	-11.9	-54.8	21.3	-123.6	115.4	74.7	-80.1	76.1	-7.6	-60.0	-50.7	-38.1
Q2	-5.5	-105.4	91.5	-19.0	26.3	101.5	-56.9	67.7	-2.1	-34.2	63.8	60.2
Q3	-2.9	-63.3	29.8	-38.7	20.2	78.1	-25.1	45.6	7.9	-47.4	4.3	2.1
Q4	23.1	-63.3	20.9	-65.7	66.9	158.7	-69.4	73.4	-0.1	23.0	167.4	176.1
2007 Q1	2.8	-74.1	53.6	-50.5	88.6	147.3	-118.5	49.9	-17.2	9.2	91.1	102.2
2006 May	-10.1	-12.5	9.6	-1.9	-16.7	63.3	-30.7	24.0	2.5	-15.4	12.0	6.4
June	9.9	-12.0	-2.8	-0.9	58.7	18.4	-4.8	11.1	1.8	-11.1	68.2	70.3
July	-0.2	-19.7	10.4	-14.8	24.6	7.6	-11.9	5.2	3.4	-8.0	-3.2	3.9
Aug.	-4.6	-0.7	-1.1	-15.1	-8.4	11.1	5.4	3.8	-2.5	1.2	-11.0	-19.0
Sep.	2.0	-42.9	20.4	-8.9	4.0	59.4	-18.5	36.6	7.1	-40.6	18.6	17.2
Oct.	-0.2	-14.7	8.9	-32.6	13.2	51.6	-27.8	21.5	6.4	-5.5	20.9	25.8
Nov.	5.8	-10.7	1.6	-17.4	31.4	80.3	-45.5	22.5	-2.0	5.1	71.3	69.2
Dec.	17.4	-37.9	10.3	-15.7	22.3	26.8	3.9	29.4	-4.4	23.3	75.3	81.1
2007 Jan.	-3.7	-22.3	16.2	-19.3	34.2	47.2	-52.2	20.3	-4.6	-39.3	-23.5	-22.9
Feb.	-4.5	-36.2	19.6	-21.1	42.9	41.8	-37.2	35.5	-8.4	15.5	48.0	40.6
Mar.	11.1	-15.6	17.7	-10.1	11.5	58.4	-29.1	-5.9	-4.2	33.0	66.6	84.5
Apr.	-3.7	-28.4	5.1	-16.2	-1.2	34.6	-29.3	20.7	-4.1	-14.0	-36.4	-39.4
May	-12.6	-28.2	19.3	-12.8	10.5	41.3	-38.7	0.2	-2.2	12.0	-11.3	-14.3
	12-month cumulated transactions											
2007 May	16.6	-269.3	125.8	-184.8	243.7	478.4	-285.6	200.9	-13.8	-28.5	283.3	296.9

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

(EUR billions; 12-month cumulated transactions)



Source: ECB.

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

2) Excluding money market fund shares/units.

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

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

(EUR billions)

1. Balance of payments: current and capital accounts

(cumulated transactions)

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

2. Balance of payments: direct investment

(cumulated transactions)

	Total	European Union 27 (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2006 Q2 to 2007 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13
Direct investment	-147.6	-60.9	6.8	5.7	-49.5	-24.0	0.1	-10.8	9.5	-12.2	-35.7	26.3	-63.9
Abroad	-343.2	-151.2	-0.1	3.0	-125.6	-28.4	0.0	-16.5	3.7	-16.8	-67.9	-32.8	-61.6
Equity/reinvested earnings	-269.6	-129.7	-0.6	4.6	-106.7	-26.9	0.0	-6.8	6.0	-8.6	-48.4	-28.5	-53.6
Other capital	-73.6	-21.6	0.5	-1.6	-18.9	-1.5	0.0	-9.6	-2.4	-8.2	-19.5	-4.3	-8.0
In the euro area	195.5	90.4	6.9	2.7	76.1	4.5	0.1	5.6	5.8	4.7	32.2	59.2	-2.3
Equity/reinvested earnings	140.2	61.4	7.9	-1.3	53.7	1.0	0.1	0.0	3.0	7.9	13.9	50.4	3.6
Other capital	55.3	28.9	-1.0	4.0	22.4	3.5	0.0	5.7	2.9	-3.2	18.2	8.8	-5.9

Source: ECB.

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

(EUR billions)

3. Balance of payments: portfolio investment assets by instrument

(cumulated transactions)

	Total	European Union 27 (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2006 Q2 to 2007 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13
Portfolio investment assets	-445.7	-101.0	-7.2	-14.2	-80.7	-0.7	1.7	-8.1	0.4	-3.7	-191.7	-96.6	-45.0
Equity	-58.5	2.7	-2.3	-0.9	4.4	1.5	-0.1	0.1	1.4	0.6	-33.9	-34.0	4.7
Debt instruments	-387.2	-103.7	-4.9	-13.3	-85.1	-2.2	1.8	-8.2	-1.0	-4.3	-157.8	-62.6	-49.6
Bonds and notes	-293.1	-79.9	-5.0	-10.0	-65.8	-1.1	2.0	-6.5	-4.6	-1.7	-118.7	-36.7	-45.0
Money market instruments	-94.2	-23.8	0.2	-3.3	-19.3	-1.1	-0.2	-1.7	3.7	-2.6	-39.1	-25.9	-4.6

4. Balance of payments: other investment by sector

(cumulated transactions)

	Total	European Union 27 (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Internat. organisations	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions							
2006 Q2 to 2007 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Other investment	-162.6	-214.3	-16.1	8.4	-192.6	-22.8	8.8	0.4	32.8	-9.9	64.5	-40.2	15.8	-11.7
Assets	-953.3	-701.8	-35.9	-4.3	-623.2	-35.4	-3.0	-0.6	15.4	-46.4	-67.4	-79.6	-3.3	-69.7
General government	-0.5	-8.8	-0.7	0.2	-7.8	0.0	-0.6	0.0	-0.4	0.0	0.0	0.1	-1.1	9.8
MFIs	-683.3	-476.2	-34.9	-1.3	-408.7	-31.2	-0.1	0.5	11.8	-42.2	-65.3	-54.4	-2.3	-55.2
Other sectors	-269.5	-216.8	-0.4	-3.2	-206.7	-4.2	-2.3	-1.0	4.0	-4.2	-2.1	-25.2	0.1	-24.3
Liabilities	790.7	487.4	19.8	12.7	430.6	12.6	11.7	1.0	17.4	36.5	131.9	39.4	19.1	58.0
General government	4.8	5.5	0.0	0.0	0.2	0.0	5.2	0.0	-0.3	-0.6	-0.2	0.1	2.5	-2.1
MFIs	553.8	303.9	19.1	10.4	264.7	9.6	0.0	-0.4	15.3	38.7	98.6	33.4	16.5	47.8
Other sectors	232.1	178.1	0.7	2.2	165.7	3.0	6.5	1.4	2.4	-1.6	33.5	5.9	0.1	12.3

5. International investment position

(end-of-period outstanding amounts)

	Total	European Union 27 (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Internat. organisations	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions							
2005	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Direct investment	324.1	-142.8	0.8	-17.3	-292.9	166.8	-0.2	25.2	4.7	35.3	-1.6	-13.9	-0.3	417.5
Abroad	2,710.3	957.2	33.8	81.0	651.8	190.6	0.0	76.1	68.8	241.8	558.1	316.1	0.0	492.2
Equity/reinvested earnings	2,184.8	753.5	29.7	56.8	502.1	164.9	0.0	64.9	63.6	193.8	419.2	297.1	0.0	392.8
Other capital	525.4	203.7	4.1	24.2	149.6	25.7	0.0	11.2	5.2	48.1	138.9	19.0	0.0	99.4
In the euro area	2,386.2	1,100.0	33.0	98.3	944.7	23.8	0.2	50.9	64.1	206.6	559.6	330.0	0.3	74.6
Equity/reinvested earnings	1,777.9	874.0	26.9	81.9	757.1	8.0	0.1	45.9	53.5	142.2	396.0	199.7	0.0	66.7
Other capital	608.2	226.0	6.1	16.4	187.6	15.8	0.1	5.1	10.7	64.4	163.6	130.2	0.3	8.0
Portfolio investment assets	3,874.9	1,202.7	61.2	119.3	861.3	90.8	70.0	83.4	270.4	122.3	1,308.8	411.5	30.8	445.0
Equity	1,733.6	422.4	10.9	46.5	342.4	22.6	0.0	21.7	182.4	112.1	617.1	155.6	1.4	220.9
Debt instruments	2,141.3	780.3	50.3	72.8	519.0	68.2	70.0	61.7	88.0	10.2	691.7	255.9	29.4	224.1
Bonds and notes	1,826.7	652.8	45.9	61.6	408.2	67.2	69.9	60.2	62.4	7.8	592.5	228.7	28.7	193.7
Money market instruments	314.6	127.5	4.3	11.2	110.8	1.0	0.1	1.5	25.6	2.4	99.2	27.2	0.7	30.5
Other investment	-304.2	-50.7	51.8	15.4	17.8	9.3	-145.0	4.5	9.4	-81.5	-13.0	-216.6	-22.8	66.4
Assets	3,664.7	1,872.1	77.0	62.0	1,618.3	105.1	9.8	21.7	92.6	209.2	510.6	354.2	41.8	562.6
General government	102.2	17.4	0.2	0.3	8.9	0.5	7.5	0.1	0.1	0.1	3.3	1.2	35.8	44.2
MFIs	2,515.2	1,432.7	65.7	44.5	1,243.0	78.5	0.9	11.6	67.1	122.0	316.3	245.0	5.4	315.2
Other sectors	1,047.4	422.0	11.0	17.2	366.4	26.0	1.4	10.0	25.4	87.2	191.0	107.9	0.6	203.2
Liabilities	3,969.0	1,922.8	25.2	46.6	1,600.5	95.8	154.8	17.2	83.1	290.7	523.6	570.7	64.6	496.2
General government	46.5	23.7	0.0	0.3	3.3	0.0	20.1	0.0	0.8	0.1	7.4	0.2	3.3	11.1
MFIs	3,180.6	1,491.7	20.0	26.3	1,270.8	74.0	100.6	12.2	55.5	243.9	400.6	518.2	60.0	398.5
Other sectors	741.9	407.4	5.2	20.0	326.4	21.8	34.0	5.0	26.8	46.7	115.6	52.3	1.4	86.6

Source: ECB.

7.4 International investment position (including international reserves)

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

1. Summary international investment position

	Total	Total as a % of GDP	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
	1	2	3	4	5	6	7
Net international investment position							
2002	-714.9	-9.8	179.5	-940.9	-12.6	-307.1	366.1
2003	-784.9	-10.5	87.4	-916.1	-7.5	-255.4	306.7
2004	-829.9	-10.7	106.7	-996.6	-14.9	-206.2	281.0
2005	-817.1	-10.2	324.1	-1,142.6	-14.4	-304.2	320.1
2006 Q4	-1,059.4	-12.6	385.9	-1,510.3	-14.9	-245.9	325.8
2007 Q1	-1,073.2	-12.6	368.9	-1,594.1	6.9	-186.4	331.5
Outstanding assets							
2002	7,419.6	102.0	2,005.9	2,291.9	133.1	2,622.6	366.1
2003	7,964.9	106.5	2,169.3	2,658.1	160.8	2,670.0	306.7
2004	8,768.7	112.7	2,337.1	3,035.8	174.1	2,940.8	281.0
2005	10,806.1	134.3	2,710.3	3,874.9	236.1	3,664.7	320.1
2006 Q4	12,288.2	146.1	2,959.6	4,376.2	288.6	4,337.8	325.8
2007 Q1	12,995.2	152.4	3,019.3	4,562.3	339.2	4,742.9	331.5
Outstanding liabilities							
2002	8,134.5	111.9	1,826.4	3,232.7	145.7	2,929.7	-
2003	8,749.8	116.9	2,081.9	3,574.2	168.3	2,925.4	-
2004	9,598.6	123.4	2,230.4	4,032.3	189.0	3,147.0	-
2005	11,623.2	144.5	2,386.2	5,017.6	250.5	3,969.0	-
2006 Q4	13,347.5	158.7	2,573.8	5,886.5	303.5	4,583.7	-
2007 Q1	14,068.4	165.0	2,650.4	6,156.4	332.3	4,929.3	-

2. Direct investment

	By resident units abroad						By non-resident units in the euro area					
	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
	Total	MFIs excluding Eurosystème	Non- MFIs	Total	MFIs excluding Eurosystème	Non- MFIs	Total	MFIs excluding Eurosystème	Non- MFIs	Total	MFIs excluding Eurosystème	Non- MFIs
	1	2	3	4	5	6	7	8	9	10	11	12
2002	1,544.6	132.3	1,412.3	461.3	1.6	459.7	1,295.6	42.1	1,253.5	530.8	2.7	528.1
2003	1,726.8	124.4	1,602.4	442.5	2.1	440.4	1,510.1	46.2	1,464.0	571.8	3.2	568.6
2004	1,897.4	144.6	1,752.8	439.7	3.1	436.5	1,661.2	43.9	1,617.4	569.1	8.2	560.9
2005	2,184.8	166.5	2,018.3	525.4	6.6	518.8	1,777.9	45.9	1,732.1	608.2	10.1	598.1
2006 Q4	2,385.7	192.6	2,193.1	574.0	2.8	571.1	1,937.8	47.7	1,890.2	635.9	10.1	625.8
2007 Q1	2,427.1	206.9	2,220.1	592.2	3.4	588.8	1,960.9	45.6	1,915.3	689.5	12.7	676.8

3. Portfolio investment assets by instrument and sector of holder

	Equity				Debt instruments										
					Liabilities	Bonds and notes					Money market instruments				
	Assets			Assets				Liabilities	Assets				Liabilities		
	Eurosystem	MFIs excluding Eurosystem	Non-MFIs			Eurosystem	MFIs excluding Eurosystem		Non-MFIs		Eurosystem	MFIs excluding Eurosystem		Non-MFIs	
			General gov.	Other sectors					General gov.	Other sectors				General gov.	Other sectors
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2002	0.7	43.6	8.3	799.2	1,364.4	7.2	403.1	6.3	784.7	1,660.1	1.3	189.4	1.1	47.1	208.2
2003	1.7	53.5	11.5	1,026.2	1,570.4	9.3	460.2	8.0	846.0	1,755.7	1.1	191.5	0.6	48.5	248.0
2004	2.1	73.9	16.1	1,160.6	1,755.9	7.9	540.7	9.7	938.0	2,041.3	0.9	231.4	0.4	54.2	235.1
2005	3.0	100.8	26.6	1,603.3	2,428.0	8.3	693.0	11.6	1,113.9	2,271.9	0.8	260.5	0.4	52.9	317.6
2006 Q4	2.8	131.4	34.7	1,816.0	2,980.6	10.4	809.1	11.4	1,197.1	2,603.1	0.9	300.8	0.2	61.3	302.7
2007 Q1	2.8	148.5	35.6	1,856.0	3,123.5	10.5	848.4	12.6	1,248.3	2,720.9	0.1	325.3	5.8	68.1	312.0

Source: ECB.

7.4 International investment position (including international reserves)

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

4. Other investment by instrument

	Eurosysteem				General government							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
	1	2	3	4	5	6	7	8	9	10	11	12
2002	4.9	0.3	57.2	0.1	1.4	62.1	57.4	4.7	55.4	0.1	42.6	13.8
2003	5.2	0.7	66.0	0.2	0.2	59.0	53.2	5.8	42.4	0.0	42.3	3.8
2004	4.7	0.3	74.5	0.2	0.2	62.3	54.1	8.3	42.6	0.0	42.4	3.4
2005	5.4	0.4	82.2	0.2	0.1	57.5	45.7	11.8	44.6	0.0	42.8	3.6
2006 Q4	8.4	0.4	100.0	0.2	0.0	56.0	40.7	15.3	45.1	0.0	44.0	3.7
2007 Q1	13.6	0.3	105.9	0.3	0.0	52.0	41.8	10.2	45.0	0.0	46.1	3.9

	MFIs (excluding Eurosysteem)				Other sectors							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
	13	14	15	16	17	18	19	20	21	22	23	24
2002	1,685.1	61.0	2,250.8	48.4	174.4	487.4	199.3	288.1	90.7	104.5	364.3	47.8
2003	1,734.6	38.5	2,241.9	31.0	169.2	535.9	206.7	329.2	84.3	107.2	387.3	45.7
2004	1,950.5	45.4	2,423.0	42.2	172.4	568.8	236.8	332.0	93.5	110.2	401.4	49.7
2005	2,453.1	56.3	3,045.8	52.4	185.1	730.4	374.9	355.5	131.9	125.3	547.5	69.1
2006 Q4	2,879.0	58.7	3,413.8	55.8	173.9	977.8	598.1	379.7	138.5	124.9	749.3	92.1
2007 Q1	3,141.4	70.0	3,657.9	64.4	185.1	1,088.2	650.5	437.8	147.2	131.4	812.0	107.4

5. International reserves

	Reserve assets														Memo	
															Assets	Liabilities
	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			
	1	2	3	4	5	6	With monetary authorities and the BIS	With banks	Total	Equity	Bonds and notes	Money market instruments	13	14	15	16
	Eurosysteem															
2002	366.1	130.4	399.022	4.8	25.0	205.8	10.3	35.3	159.8	1.0	120.2	38.5	0.4	0.0	22.4	-26.3
2003	306.7	130.0	393.543	4.4	23.3	149.0	10.0	30.4	107.9	1.0	80.5	26.5	0.7	0.0	20.3	-16.3
2004	281.0	125.4	389.998	3.9	18.6	133.0	12.5	25.5	94.7	0.5	58.5	35.6	0.4	0.0	19.1	-12.8
2005	320.1	163.4	375.861	4.3	10.6	141.7	12.6	21.4	107.9	0.6	69.6	37.7	-0.2	0.0	25.6	-17.9
2006 Q3	325.1	174.2	367.958	4.5	7.0	139.4	4.5	25.3	109.7	0.5	79.1	30.1	-0.1	0.0	26.8	-21.9
2006 Q4	325.8	176.3	365.213	4.6	5.2	139.7	6.3	22.5	110.7	0.5	79.4	30.8	0.3	0.0	24.6	-21.5
2007 Q1	331.5	180.4	363.108	4.6	4.3	142.2	4.9	27.6	109.4	0.1	84.6	24.7	0.3	0.0	25.1	-22.6
2007 Apr.	330.0	179.9	361.562	4.6	4.1	141.4	4.2	25.7	111.1	-	-	-	0.4	0.0	27.3	-25.0
2007 May	327.4	176.5	360.323	4.7	4.4	141.8	4.4	26.6	110.8	-	-	-	0.1	0.0	27.3	-23.8
2007 June	325.3	172.8	358.767	4.7	4.3	143.5	5.7	27.7	110.1	-	-	-	0.0	0.0	26.6	-24.6
	of which held by the European Central Bank															
2002	45.5	8.1	24.656	0.2	0.0	37.3	1.2	9.9	26.1	0.0	19.5	6.7	0.0	0.0	3.0	-5.2
2003	36.9	8.1	24.656	0.2	0.0	28.6	1.4	5.0	22.2	0.0	14.9	7.3	0.0	0.0	2.8	-1.5
2004	35.1	7.9	24.656	0.2	0.0	27.0	2.7	3.3	21.1	0.0	9.7	11.3	0.0	0.0	2.6	-1.3
2005	41.5	10.1	23.145	0.2	0.0	31.2	5.1	2.5	23.6	0.0	10.6	12.9	0.0	0.0	2.9	-0.9
2006 Q3	40.8	10.1	21.312	0.2	0.0	30.5	1.4	3.8	25.3	0.0	18.4	6.9	0.0	0.0	2.9	-0.7
2006 Q4	39.9	9.9	20.572	0.4	0.0	29.6	1.6	1.5	26.5	0.0	19.1	7.4	0.0	0.0	2.8	-0.3
2007 Q1	40.5	10.3	20.632	0.4	0.0	29.9	1.4	3.3	25.2	0.0	19.5	5.8	0.0	0.0	3.0	-0.6
2007 Apr.	40.5	10.3	20.632	0.4	0.0	29.8	0.8	3.9	25.1	-	-	-	0.0	0.0	3.4	-1.2
2007 May	40.7	10.1	20.632	0.4	0.0	30.2	0.7	3.7	25.7	-	-	-	0.0	0.0	3.1	-0.7
2007 June	40.5	9.4	19.442	0.4	0.0	30.7	1.2	3.0	26.5	-	-	-	0.0	0.0	3.2	-1.6

Source: ECB.

7.5 Trade in goods

(seasonally adjusted, unless otherwise indicated)

1. Values, volumes and unit values by product group

	Total (n.s.a.)		Exports (f.o.b.)					Imports (c.i.f.)						
	Exports	Imports	Total			Memo: Manufactures	Total				Memo:			
			Intermediate	Capital	Consumption		Intermediate	Capital	Consumption	Manufactures	Oil			
												1	2	3
	Values (EUR billions; annual percentage changes for columns 1 and 2)													
2003	-2.3	0.5	1,056.8	499.2	221.3	299.8	915.6	987.7	552.9	164.0	240.0	708.9	109.1	
2004	8.9	9.4	1,142.8	545.7	246.7	314.6	994.9	1,073.3	604.4	183.3	255.4	767.3	129.2	
2005	7.8	13.5	1,237.1	590.0	269.6	334.7	1,068.2	1,223.1	705.0	206.5	275.9	842.4	186.3	
2006	11.2	13.4	1,379.9	662.9	289.0	366.2	1,183.0	1,391.9	825.7	207.7	302.9	938.6	224.8	
2005 Q4	9.8	15.9	321.6	154.4	69.2	86.6	276.4	328.1	189.5	56.1	72.6	222.8	53.8	
2006 Q1	15.9	22.4	331.9	158.6	71.4	89.6	282.6	337.9	198.2	52.9	73.6	224.2	55.2	
Q2	9.4	14.4	340.5	162.5	71.2	90.0	290.7	344.7	204.3	52.2	75.3	231.8	57.3	
Q3	7.9	10.4	346.2	167.4	71.4	91.0	296.5	353.7	212.5	51.3	75.7	236.8	60.0	
Q4	11.8	7.7	361.3	174.4	75.0	95.7	313.2	355.5	210.7	51.4	78.3	245.8	52.4	
2007 Q1	9.5	5.4	366.0	175.4	77.6	96.8	312.3	358.1	211.5	52.5	78.8	250.2	46.7	
2006 Dec.	6.5	2.6	122.6	58.6	24.7	33.0	104.5	120.9	71.2	16.9	26.4	82.4	17.3	
2007 Jan.	12.1	8.3	121.6	58.2	25.8	32.4	102.8	119.8	71.0	18.2	25.8	83.1	16.1	
Feb.	9.9	7.5	121.7	58.2	26.0	32.0	103.4	121.0	71.6	18.0	26.4	84.0	15.4	
Mar.	6.9	0.8	122.7	59.1	25.8	32.4	106.1	117.3	68.9	16.3	26.6	83.1	15.2	
Apr.	10.9	6.0	122.4	58.1	26.1	31.9	104.6	118.7	71.1	16.4	26.1	81.7	17.1	
May	7.5	2.6	123.9	58.7	26.4	33.0	.	120.3	72.2	16.9	26.8	.	.	
	Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2003	1.0	3.6	108.5	105.9	106.8	113.1	108.2	101.9	100.2	97.1	109.7	100.2	103.2	
2004	9.0	6.5	117.5	115.6	119.9	118.4	117.9	107.9	104.2	109.2	117.4	108.2	105.3	
2005	4.9	5.1	123.7	120.2	129.5	123.5	124.0	113.8	107.5	123.7	123.6	116.3	109.9	
2006	7.4	5.7	133.3	129.5	136.2	131.2	133.7	120.8	113.8	124.2	131.0	125.2	109.8	
2005 Q4	5.6	5.4	126.5	123.1	131.9	125.8	127.0	116.9	108.5	133.2	126.8	121.1	110.8	
2006 Q1	10.5	8.6	128.6	124.9	134.1	128.6	128.2	117.4	109.9	124.0	127.1	120.0	105.7	
Q2	5.2	3.8	132.0	127.9	134.7	128.6	132.1	119.2	112.0	124.6	131.0	124.5	106.3	
Q3	5.0	4.6	133.8	130.4	135.3	130.6	134.2	121.8	115.9	123.7	130.6	125.8	115.9	
Q4	9.1	6.1	138.7	134.8	140.7	136.9	140.4	124.7	117.6	124.4	135.4	130.6	111.2	
2007 Q1	7.8	6.3	139.6	134.1	145.2	137.4	139.1	125.3	117.5	128.2	136.0	132.0	100.8	
2006 Dec.	4.3	1.7	141.0	135.9	138.5	141.2	140.6	126.8	118.4	123.6	136.7	131.5	106.0	
2007 Jan.	11.1	9.4	139.7	133.7	145.6	138.4	137.8	126.1	118.4	133.6	133.5	131.7	104.0	
Feb.	7.8	8.3	139.1	133.1	146.4	135.7	138.0	126.9	119.4	130.5	136.8	132.4	101.0	
Mar.	5.1	1.6	140.1	135.4	143.6	138.1	141.5	123.0	114.7	120.5	137.9	131.8	97.3	
Apr.	8.1	6.4	139.0	132.5	145.6	135.7	139.1	123.8	117.2	121.8	134.2	129.5	105.1	
May	4.8	4.3	140.7	133.9	147.9	139.7	.	126.5	120.1	126.3	139.7	.	.	
	Unit value indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2003	-3.2	-3.0	97.6	96.2	96.3	101.1	97.4	94.8	93.6	92.3	99.5	96.0	86.4	
2004	-0.1	2.6	97.5	96.4	95.7	101.4	97.1	97.3	98.4	91.8	98.9	96.3	99.5	
2005	2.8	7.9	100.2	100.2	96.8	103.4	99.1	105.0	111.2	91.2	101.5	98.3	137.5	
2006	3.5	7.4	103.8	104.5	98.7	106.5	101.8	112.8	123.1	91.4	105.1	101.8	166.7	
2005 Q4	4.0	9.9	101.9	102.5	97.6	105.0	100.2	109.8	118.5	92.1	104.1	99.9	157.9	
2006 Q1	4.9	12.8	103.5	103.7	99.0	106.3	101.5	112.7	122.4	93.3	105.3	101.5	170.0	
Q2	4.0	10.2	103.4	103.8	98.3	106.8	101.3	113.2	123.9	91.6	104.6	101.1	175.3	
Q3	2.8	5.7	103.8	104.9	98.1	106.3	101.7	113.6	124.4	90.6	105.5	102.2	168.3	
Q4	2.5	1.6	104.4	105.7	99.2	106.7	102.7	111.6	121.6	90.2	105.1	102.2	153.3	
2007 Q1	1.6	-0.8	105.1	106.9	99.4	107.5	103.4	111.8	122.2	89.5	105.4	103.0	150.8	
2006 Dec.	2.1	0.9	104.5	105.6	99.3	106.9	102.6	112.0	122.4	89.6	105.2	102.2	159.3	
2007 Jan.	1.0	-1.0	104.7	106.6	99.0	107.2	103.0	111.5	122.1	89.1	105.3	102.8	151.0	
Feb.	2.0	-0.7	105.3	107.1	99.1	108.0	103.5	111.9	122.2	90.6	105.4	103.4	148.6	
Mar.	1.7	-0.8	105.3	107.0	100.2	107.4	103.6	112.0	122.3	88.9	105.5	102.7	152.8	
Apr.	2.6	-0.4	105.9	107.6	100.2	107.7	103.8	112.6	123.4	88.4	106.2	102.8	158.7	
May	2.5	-1.7	105.9	107.5	99.6	108.0	.	111.7	122.4	87.5	104.8	.	.	

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

7.5 Trade in goods

(EUR billions, unless otherwise indicated; seasonally adjusted)

2. Geographical breakdown

	Total	European Union 27 (outside the euro area)				Russia	Switzer- land	Turkey	United States	Asia			Africa	Latin America	Other countries
		Denmark	Sweden	United Kingdom	Other EU countries					China	Japan	Other Asian countries			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Exports (f.o.b.)															
2003	1,056.8	24.9	38.6	194.5	125.0	29.1	63.3	24.8	167.0	35.1	31.2	135.3	59.2	37.9	90.9
2004	1,142.8	25.7	42.2	205.4	138.3	35.9	66.2	32.1	172.5	40.3	33.2	150.4	64.2	40.4	96.1
2005	1,237.1	29.0	45.1	203.2	157.9	43.6	70.7	34.8	185.0	43.3	34.0	165.9	72.9	46.9	104.8
2006	1,379.9	31.1	49.6	214.5	193.8	55.4	76.7	38.6	199.5	53.5	34.4	183.2	76.9	54.3	118.3
2005 Q4	321.6	7.5	11.3	51.2	42.5	11.5	17.7	9.5	48.3	11.5	8.5	42.2	19.3	12.5	28.0
2006 Q1	331.9	7.5	11.6	53.1	44.5	12.5	18.0	9.6	49.5	12.7	8.8	43.4	19.3	13.1	28.2
Q2	340.5	7.7	12.3	53.3	47.6	13.0	18.4	9.8	49.6	12.7	8.4	45.2	18.9	13.3	30.1
Q3	346.2	7.8	12.7	54.3	49.5	14.2	19.3	9.6	49.6	13.5	8.6	45.9	19.0	13.7	28.6
Q4	361.3	8.0	13.0	53.8	52.2	15.6	20.8	9.5	50.9	14.6	8.6	48.8	19.8	14.2	31.4
2007 Q1	366.0	8.4	13.5	56.2	53.8	15.8	20.5	10.1	49.0	14.2	8.7	49.0	21.2	14.8	30.8
2006 Dec.	122.6	2.7	4.4	18.0	17.8	5.1	7.0	3.1	17.7	4.9	2.8	16.5	6.7	4.8	11.2
2007 Jan.	121.6	2.8	4.6	18.9	17.8	5.2	7.0	3.5	16.6	4.6	2.9	16.5	7.1	4.9	9.2
Feb.	121.7	2.8	4.4	18.7	17.9	5.2	6.8	3.2	16.3	4.8	2.9	16.2	7.0	5.0	10.5
Mar.	122.7	2.8	4.5	18.6	18.1	5.4	6.7	3.4	16.1	4.7	2.9	16.3	7.1	5.0	11.1
Apr.	122.4	2.8	4.3	18.4	18.2	5.4	6.8	3.3	16.8	4.9	2.9	16.0	7.0	5.1	10.5
May	123.9	.	.	.	.	5.6	6.8	3.3	15.7	5.2	2.9	16.2	7.0	5.1	.
% share of total exports															
2006	100.0	2.3	3.6	15.6	14.0	4.0	5.6	2.8	14.5	3.9	2.5	13.3	5.6	3.9	8.6
Imports (c.i.f.)															
2003	987.7	23.7	36.9	138.6	108.9	47.2	50.4	19.2	110.5	74.4	52.0	141.8	68.8	39.7	75.6
2004	1,073.3	25.4	39.8	145.0	116.6	56.4	53.5	23.2	113.1	92.1	54.4	161.0	72.8	45.2	74.9
2005	1,223.1	26.3	42.2	152.6	129.2	76.7	58.0	25.2	119.9	117.9	53.1	189.8	95.9	53.5	82.8
2006	1,391.9	27.4	47.4	165.6	153.7	94.5	62.1	29.1	128.3	143.7	56.5	212.9	109.4	66.0	95.3
2005 Q4	328.1	6.6	11.0	39.5	34.0	21.1	15.2	6.7	31.1	32.0	13.7	52.9	26.3	14.8	23.4
2006 Q1	337.9	6.7	11.3	41.3	35.2	23.3	15.0	7.0	31.7	33.1	14.1	52.0	26.9	15.5	24.8
Q2	344.7	6.7	11.4	42.7	37.3	24.4	15.4	7.5	31.7	34.8	14.0	53.3	26.9	16.0	22.7
Q3	353.7	7.0	12.0	41.3	39.4	23.8	15.9	7.3	32.2	36.1	14.3	54.7	27.8	16.7	25.1
Q4	355.5	6.9	12.6	40.4	41.8	23.0	15.8	7.3	32.8	39.8	14.0	52.9	27.8	17.8	22.7
2007 Q1	358.1	7.0	12.7	40.4	41.9	22.8	16.7	7.9	33.2	41.6	14.5	51.8	25.8	18.1	23.6
2006 Dec.	120.9	2.4	4.5	13.5	14.3	7.8	5.3	2.5	11.4	13.7	4.7	17.3	9.4	6.2	8.1
2007 Jan.	119.8	2.4	4.3	13.5	14.1	7.6	5.5	2.6	11.1	13.7	5.0	17.5	8.8	6.2	7.4
Feb.	121.0	2.2	4.2	13.6	13.8	7.7	5.6	2.7	11.3	13.9	4.9	18.0	8.8	6.1	8.2
Mar.	117.3	2.3	4.2	13.3	14.0	7.6	5.6	2.6	10.7	14.1	4.6	16.4	8.2	5.8	8.0
Apr.	118.7	2.4	4.2	13.7	14.1	8.0	5.6	2.6	10.8	12.9	4.4	17.5	8.5	5.7	8.3
May	120.3	.	.	.	.	7.7	5.5	2.6	10.9	13.1	4.9	17.5	9.2	5.8	.
% share of total imports															
2006	100.0	2.0	3.4	11.9	11.0	6.8	4.5	2.1	9.2	10.3	4.1	15.3	7.9	4.7	6.8
Balance															
2003	69.1	1.2	1.7	55.9	16.1	-18.1	12.9	5.6	56.5	-39.3	-20.8	-6.4	-9.7	-1.8	15.4
2004	69.5	0.4	2.4	60.4	21.7	-20.5	12.7	8.9	59.5	-51.8	-21.1	-10.6	-8.6	-4.9	21.2
2005	14.0	2.7	2.9	50.6	28.7	-33.1	12.7	9.6	65.1	-74.6	-19.1	-23.9	-23.0	-6.7	22.0
2006	-12.0	3.8	2.2	48.9	40.1	-39.1	14.5	9.5	71.2	-90.2	-22.0	-29.6	-32.5	-11.6	23.0
2005 Q4	-6.6	0.9	0.4	11.8	8.5	-9.6	2.5	2.8	17.2	-20.5	-5.2	-10.6	-7.0	-2.3	4.6
2006 Q1	-6.0	0.8	0.2	11.8	9.4	-10.8	3.0	2.6	17.8	-20.4	-5.3	-8.5	-7.6	-2.4	3.4
Q2	-4.2	1.1	0.8	10.7	10.3	-11.4	3.0	2.3	17.9	-22.0	-5.5	-8.1	-8.0	-2.6	7.4
Q3	-7.5	0.8	0.7	13.0	10.1	-9.6	3.4	2.3	17.3	-22.7	-5.8	-8.8	-8.8	-3.0	3.5
Q4	5.8	1.1	0.5	13.4	10.4	-7.3	5.1	2.2	18.1	-25.1	-5.4	-4.1	-8.1	-3.6	8.7
2007 Q1	7.9	1.4	0.7	15.8	11.9	-7.1	3.8	2.2	15.9	-27.4	-5.8	-2.9	-4.6	-3.2	7.2
2006 Dec.	1.6	0.3	-0.1	4.5	3.5	-2.6	1.6	0.6	6.2	-8.8	-1.8	-0.8	-2.7	-1.4	3.1
2007 Jan.	1.8	0.4	0.2	5.4	3.8	-2.4	1.5	1.0	5.5	-9.1	-2.1	-1.0	-1.8	-1.3	1.8
Feb.	0.7	0.6	0.2	5.1	4.0	-2.4	1.2	0.5	5.0	-9.0	-2.0	-1.8	-1.8	-1.1	2.3
Mar.	5.4	0.5	0.3	5.3	4.1	-2.2	1.1	0.7	5.4	-9.3	-1.7	-0.1	-1.1	-0.8	3.1
Apr.	3.7	0.4	0.1	4.7	4.1	-2.5	1.2	0.7	6.0	-8.0	-1.6	-1.5	-1.5	-0.6	2.2
May	3.6	.	.	.	.	-2.1	1.3	0.7	4.8	-7.9	-2.0	-1.3	-2.3	-0.7	.

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



EXCHANGE RATES

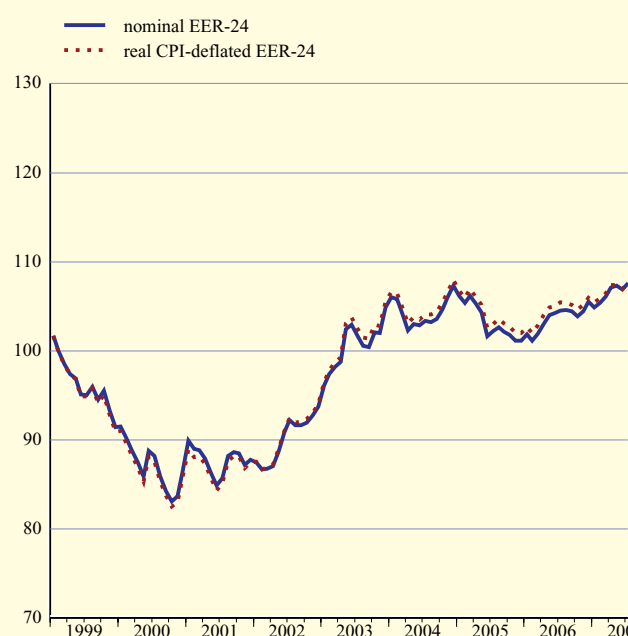
8.1 Effective exchange rates ¹⁾

(period averages; index 1999 Q1=100)

	EER-24						EER-44	
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI
	1	2	3	4	5	6	7	8
2004	104.3	105.1	104.2	103.1	100.1	103.0	111.2	105.6
2005	103.3	104.1	102.5	100.9	97.9	101.3	109.7	103.7
2006	103.6	104.4	102.9	100.7	95.9	100.1	110.0	103.4
2006 Q2	103.8	104.6	103.0	100.8	95.9	100.6	110.1	103.7
Q3	104.5	105.3	103.7	101.4	96.5	100.8	111.2	104.5
Q4	104.6	105.3	104.1	101.4	96.3	100.2	111.3	104.3
2007 Q1	105.5	105.9	104.8	102.2	96.3	100.8	112.0	104.7
Q2	107.1	107.3	106.1	-	-	-	113.5	105.6
2006 July	104.5	105.4	103.8	-	-	-	111.3	104.7
Aug.	104.6	105.4	103.8	-	-	-	111.3	104.6
Sep.	104.4	105.2	103.4	-	-	-	111.1	104.3
Oct.	103.9	104.7	103.4	-	-	-	110.4	103.6
Nov.	104.5	105.2	103.9	-	-	-	111.1	104.2
Dec.	105.5	106.0	104.9	-	-	-	112.3	105.0
2007 Jan.	104.9	105.5	104.4	-	-	-	111.5	104.3
Feb.	105.4	105.9	104.8	-	-	-	111.9	104.5
Mar.	106.1	106.4	105.2	-	-	-	112.7	105.2
Apr.	107.1	107.4	106.3	-	-	-	113.7	106.0
May	107.3	107.4	106.2	-	-	-	113.6	105.7
June	106.9	106.9	105.9	-	-	-	113.1	105.2
July	107.6	107.6	106.5	-	-	-	113.9	105.8
% change versus previous month								
2007 July	0.6	0.6	0.6	-	-	-	0.6	0.6
% change versus previous year								
2007 July	2.9	2.1	2.6	-	-	-	2.3	1.1

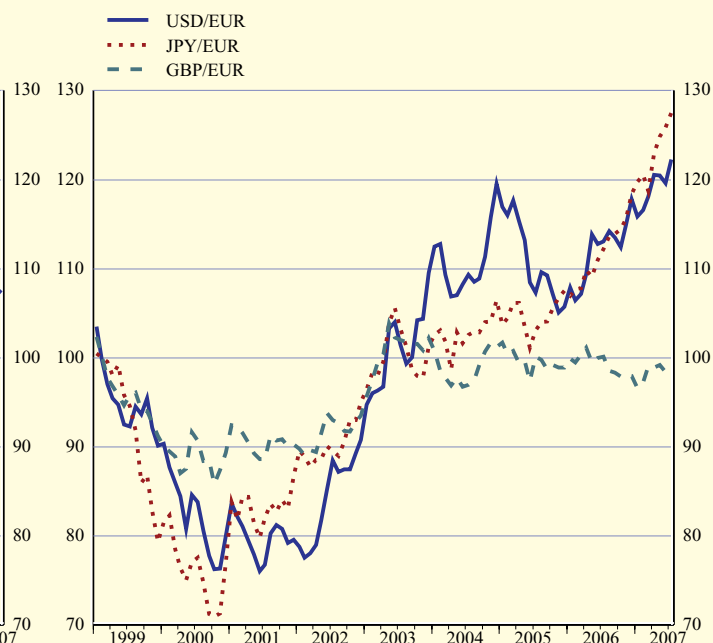
C35 Effective exchange rates

(monthly averages; index 1999 Q1=100)



C36 Bilateral exchange rates

(monthly averages; index 1999 Q1=100)



Source: ECB.

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

8.2 Bilateral exchange rates

(period averages; units of national currency per euro)

	Danish krone	Swedish krona	Pound sterling	US dollar	Japanese yen	Swiss franc	South Korean won	Hong Kong dollar	Singapore dollar	Canadian dollar	Norwegian krone	Australian dollar
	1	2	3	4	5	6	7	8	9	10	11	12
2004	7.4399	9.1243	0.67866	1.2439	134.44	1.5438	1,422.62	9.6881	2.1016	1.6167	8.3697	1.6905
2005	7.4518	9.2822	0.68380	1.2441	136.85	1.5483	1,273.61	9.6768	2.0702	1.5087	8.0092	1.6320
2006	7.4591	9.2544	0.68173	1.2556	146.02	1.5729	1,198.58	9.7545	1.9941	1.4237	8.0472	1.6668
2006 Q4	7.4557	9.1350	0.67314	1.2887	151.72	1.5928	1,209.29	10.0269	2.0091	1.4669	8.2712	1.6740
2007 Q1	7.4524	9.1894	0.67062	1.3106	156.43	1.6162	1,230.80	10.2334	2.0073	1.5357	8.1690	1.6670
Q2	7.4500	9.2573	0.67880	1.3481	162.89	1.6478	1,252.05	10.5372	2.0562	1.4791	8.1060	1.6214
2007 Jan.	7.4539	9.0795	0.66341	1.2999	156.56	1.6155	1,217.83	10.1390	1.9983	1.5285	8.2780	1.6602
Feb.	7.4541	9.1896	0.66800	1.3074	157.60	1.6212	1,225.25	10.2130	2.0049	1.5309	8.0876	1.6708
Mar.	7.4494	9.2992	0.68021	1.3242	155.24	1.6124	1,248.82	10.3464	2.0186	1.5472	8.1340	1.6704
Apr.	7.4530	9.2372	0.67934	1.3516	160.68	1.6375	1,257.99	10.5634	2.0476	1.5334	8.1194	1.6336
May	7.4519	9.2061	0.68136	1.3511	163.22	1.6506	1,253.27	10.5642	2.0581	1.4796	8.1394	1.6378
June	7.4452	9.3290	0.67562	1.3419	164.55	1.6543	1,245.39	10.4854	2.0619	1.4293	8.0590	1.5930
July	7.4410	9.1842	0.67440	1.3716	166.76	1.6567	1,259.70	10.7247	2.0789	1.4417	7.9380	1.5809
	% change versus previous month											
2007 July	-0.1	-1.6	-0.2	2.2	1.3	0.1	1.1	2.3	0.8	0.9	-1.5	-0.8
	% change versus previous year											
2007 July	-0.3	-0.4	-2.0	8.1	13.7	5.6	4.5	8.8	3.5	0.8	0.0	-6.3
	Czech koruna	Estonian kroon	Cyprus pound	Latvian lats	Lithuanian litas	Hungarian forint	Maltese lira	Polish zloty	Slovak koruna	Bulgarian lev	New Roma- nian leu ¹⁾	
	13	14	15	16	17	18	19	20	21	22	23	
2004	31.891	15.6466	0.58185	0.6652	3.4529	251.66	0.4280	4.5268	40.022	1.9533	40,510	
2005	29.782	15.6466	0.57683	0.6962	3.4528	248.05	0.4299	4.0230	38.599	1.9558	3.6209	
2006	28.342	15.6466	0.57578	0.6962	3.4528	264.26	0.4293	3.8959	37.234	1.9558	3.5258	
2006 Q4	28.044	15.6466	0.57748	0.6969	3.4528	260.25	0.4293	3.8478	35.929	1.9558	3.4791	
2007 Q1	28.037	15.6466	0.57915	0.7023	3.4528	252.32	0.4293	3.8863	34.347	1.9558	3.3812	
Q2	28.272	15.6466	0.58272	0.6986	3.4528	248.31	0.4293	3.8005	33.751	1.9558	3.2789	
2007 Jan.	27.840	15.6466	0.57842	0.6975	3.4528	253.88	0.4293	3.8795	34.751	1.9558	3.3922	
Feb.	28.233	15.6466	0.57918	0.7003	3.4528	253.30	0.4293	3.8943	34.490	1.9558	3.3823	
Mar.	28.057	15.6466	0.57985	0.7088	3.4528	249.86	0.4293	3.8859	33.813	1.9558	3.3692	
Apr.	28.015	15.6466	0.58148	0.7036	3.4528	246.00	0.4293	3.8144	33.491	1.9558	3.3338	
May	28.231	15.6466	0.58303	0.6965	3.4528	248.42	0.4293	3.7819	33.736	1.9558	3.2836	
June	28.546	15.6466	0.58352	0.6963	3.4528	250.29	0.4293	3.8074	34.002	1.9558	3.2243	
July	28.359	15.6466	0.58412	0.6969	3.4528	246.90	0.4293	3.7682	33.326	1.9558	3.1345	
	% change versus previous month											
2007 July	-0.7	0.0	0.1	0.1	0.0	-1.4	0.0	-1.0	-2.0	0.0	-2.8	
	% change versus previous year											
2007 July	-0.3	0.0	1.6	0.1	0.0	-11.0	0.0	-5.7	-13.2	0.0	-12.2	
	Chinese yuan renminbi ²⁾	Croatian kuna ²⁾	Icelandic krona	Indonesian rupiah ²⁾	Malaysian ringgit ²⁾	New Zealand dollar	Philippine peso ²⁾	Russian rouble ²⁾	South African rand	Thai baht ²⁾	New Turkish lira ³⁾	
	24	25	26	27	28	29	30	31	32	33	34	
2004	10.2967	7.4967	87.14	11,127.34	4.7273	1.8731	69.727	35.8192	8.0092	50.077	1,777,052	
2005	10.1955	7.4008	78.23	12,072.83	4.7119	1.7660	68.494	35.1884	7.9183	50.068	1.6771	
2006	10.0096	7.3247	87.76	11,512.37	4.6044	1.9373	64.379	34.1117	8.5312	47.594	1.8090	
2006 Q4	10.1339	7.3657	88.94	11,771.01	4.6734	1.9143	64.108	34.2713	9.4458	47.109	1.8781	
2007 Q1	10.1688	7.3656	89.28	11,934.33	4.5842	1.8836	63.609	34.4795	9.4919	44.538	1.8492	
Q2	10.3476	7.3494	85.82	12,082.62	4.6204	1.8188	63.134	34.8589	9.5688	44.011	1.8029	
2007 Jan.	10.1238	7.3711	91.02	11,796.04	4.5596	1.8699	63.552	34.4578	9.3440	45.850	1.8536	
Feb.	10.1326	7.3612	88.00	11,855.46	4.5706	1.8859	63.167	34.4060	9.3797	44.434	1.8260	
Mar.	10.2467	7.3641	88.69	12,144.32	4.6212	1.8952	64.069	34.5680	9.7417	43.320	1.8659	
Apr.	10.4400	7.3967	88.36	12,290.98	4.6449	1.8394	64.421	34.9054	9.6089	44.010	1.8362	
May	10.3689	7.3258	85.12	11,927.80	4.5962	1.8441	63.136	34.8999	9.4855	44.507	1.8029	
June	10.2415	7.3313	84.26	12,056.30	4.6237	1.7738	61.968	34.7739	9.6198	43.492	1.7728	
July	10.3899	7.2947	83.16	12,441.28	4.7184	1.7446	62.418	35.0292	9.5712	41.870	1.7574	
	% change versus previous month											
2007 July	1.4	-0.5	-1.3	3.2	2.0	-1.6	0.7	0.7	-0.5	-3.7	-0.9	
	% change versus previous year											
2007 July	2.5	0.6	-11.8	7.4	1.4	-15.1	-5.8	2.6	6.5	-13.1	-10.8	

Source: ECB.

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

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

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



DEVELOPMENTS OUTSIDE THE EURO AREA

9.1 In other EU Member States

(annual percentage changes, unless otherwise indicated)

1. Economic and financial developments

	Bulgaria	Czech Republic	Denmark	Estonia	Cyprus	Latvia	Lithuania	Hungary	Malta	Poland	Romania	Slovakia	Sweden	United Kingdom
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
HICP														
2005	6.0	1.6	1.7	4.1	2.0	6.9	2.7	3.5	2.5	2.2	9.1	2.8	0.8	2.1
2006	7.4	2.1	1.9	4.4	2.2	6.6	3.8	4.0	2.6	1.3	6.6	4.3	1.5	2.3
2006 Q4	5.7	1.1	1.6	4.5	1.5	6.2	4.2	6.4	1.1	1.3	4.8	3.5	1.4	2.7
2007 Q1	5.3	1.7	1.9	5.1	1.4	7.6	4.4	8.8	0.8	2.0	3.9	2.1	1.7	2.8
Q2	4.7	2.6	1.5	5.8	1.8	8.5	5.0	8.5	-0.9	2.3	3.9	1.7	1.4	2.6
2007 Feb.	4.6	1.7	1.9	4.6	1.2	7.2	4.4	9.0	0.8	1.9	3.9	2.0	1.7	2.8
Mar.	4.4	2.1	1.9	5.6	1.4	8.5	4.8	9.0	0.5	2.4	3.7	2.1	1.6	3.1
Apr.	4.4	2.7	1.7	5.6	1.6	8.8	4.9	8.7	-1.1	2.2	3.8	2.0	1.6	2.8
May	4.5	2.4	1.7	5.9	1.9	7.8	5.0	8.4	-1.0	2.3	3.9	1.5	1.2	2.5
June	5.3	2.6	1.3	6.0	1.7	8.9	5.0	8.5	-0.6	2.6	3.9	1.5	1.3	2.4
General government deficit (-)/surplus (+) as a % of GDP														
2004	2.2	-2.9	2.0	2.3	-4.1	-1.0	-1.5	-6.5	-4.9	-5.7	-1.5	-2.4	0.8	-3.1
2005	1.9	-3.5	4.7	2.3	-2.3	-0.2	-0.5	-7.8	-3.1	-4.3	-1.4	-2.8	2.1	-3.1
2006	3.3	-2.9	4.2	3.8	-1.5	0.4	-0.3	-9.2	-2.6	-3.9	-1.9	-3.4	2.2	-2.8
General government gross debt as a % of GDP														
2004	37.9	30.7	44.0	5.2	70.3	14.5	19.4	59.4	73.9	45.7	18.8	41.5	52.4	40.3
2005	29.2	30.4	36.3	4.4	69.2	12.0	18.6	61.7	72.4	47.1	15.8	34.5	52.2	42.2
2006	22.8	30.4	30.2	4.1	65.3	10.0	18.2	66.0	66.5	47.8	12.4	30.7	46.9	43.5
Long-term government bond yield as a % per annum, period average														
2007 Jan.	4.27	3.84	4.00	-	4.36	4.92	4.28	6.96	4.34	5.17	7.39	4.25	3.90	4.94
Feb.	4.24	3.78	4.05	-	4.42	5.07	4.28	6.96	4.38	5.19	7.52	4.28	3.93	4.97
Mar.	4.22	3.76	3.96	-	4.47	5.14	4.24	6.79	4.38	5.19	7.53	4.24	3.79	4.88
Apr.	4.28	3.92	4.18	-	4.44	5.52	4.18	6.65	4.44	5.28	7.39	4.26	4.04	5.10
May	4.26	4.21	4.34	-	4.44	6.03	4.36	6.53	4.61	5.29	7.39	4.40	4.15	5.20
June	4.57	4.51	4.65	-	4.44	5.62	4.57	6.71	5.12	5.52	7.05	4.66	4.44	5.49
3-month interest rate as a % per annum, period average														
2007 Jan.	4.06	2.58	3.92	3.90	3.82	3.79	8.15	3.85	4.20	6.69	4.50	3.35	5.49	5.49
Feb.	4.09	2.59	3.99	3.94	3.87	5.61	3.87	-	4.10	4.20	7.13	4.60	3.43	5.57
Mar.	4.19	2.56	4.07	4.06	3.97	6.30	4.05	8.10	4.18	4.22	7.49	4.48	3.43	5.55
Apr.	4.30	2.60	4.16	4.42	3.99	9.32	4.41	8.20	4.19	4.31	7.33	4.05	3.51	5.65
May	4.40	2.77	4.28	4.69	3.99	9.99	4.89	-	4.23	4.44	7.62	4.16	3.57	5.77
June	4.53	2.93	4.37	4.74	3.99	8.09	4.91	8.02	4.36	4.52	7.26	4.27	3.67	5.88
Real GDP														
2005	6.2	6.5	3.1	10.5	3.9	10.6	7.6	4.1	3.3	3.6	4.2	6.0	2.9	1.8
2006	6.1	6.4	3.5	11.4	3.8	11.9	7.5	3.9	3.3	6.1	7.7	8.3	4.2	2.8
2006 Q4	5.7	6.1	3.7	10.9	3.6	11.7	7.0	3.3	3.1	6.6	7.7	9.6	4.3	3.1
2007 Q1	6.2	6.2	2.3	9.8	3.8	11.2	8.0	2.9	3.5	.	6.0	9.0	3.3	3.0
Q2	.	.	.	.	.	.	7.7	.	.	.	.	.	.	3.0
Current and capital accounts balance as a % of GDP														
2005	-11.0	-2.4	3.9	-9.5	-5.1	-11.2	-5.9	-6.0	-5.8	-1.4	-7.9	-8.6	7.1	-2.3
2006	-15.1	-3.9	2.4	-12.3	-5.9	-19.9	-9.7	-4.8	-3.5	-1.7	-10.4	-8.4	6.7	-3.6
2006 Q3	-4.4	-5.1	4.2	-12.6	8.6	-22.7	-11.1	-4.1	4.4	-0.7	-9.5	-10.1	7.3	-3.8
Q4	-24.5	-5.3	1.3	-14.5	-19.5	-25.3	-10.0	-2.9	-3.1	-2.7	-10.7	-7.3	7.4	-3.7
2007 Q1	-27.2	2.0	-1.3	-17.1	-13.2	-23.7	-12.2	-4.3	-9.0	-2.2	-14.9	0.1	9.4	-4.0
Unit labour costs														
2005	2.4	-0.7	0.9	2.7	1.3	15.2	3.4	3.1	-0.5	0.3	.	0.5	0.6	.
2006	4.5	1.0	2.2	5.7	0.1	14.0	7.0	.	0.0	.	.	1.2	-0.4	.
2006 Q3	-	0.8	2.6	5.6	-	-	11.1	-	-0.2	-	-	0.3	0.6	.
Q4	-	1.8	3.4	8.3	-	-	10.0	-	0.0	-	-	0.6	0.1	.
2007 Q1	-	3.7	5.0	14.9	-	-	9.2	-	-0.4	-	-	0.3	4.6	.
Standardised unemployment rate as a % of labour force (s.a.)														
2005	10.1	7.9	4.8	7.9	5.2	8.9	8.2	7.2	7.3	17.7	7.1	16.3	7.4	4.8
2006	8.9	7.1	3.9	5.9	4.6	6.9	5.6	7.5	7.3	13.8	7.3	13.3	7.1	5.3
2006 Q4	8.1	6.5	3.6	5.6	4.3	6.2	4.8	7.6	6.9	12.3	7.2	12.4	6.5	5.3
2007 Q1	7.7	5.9	3.9	4.9	4.2	6.2	4.8	7.4	6.6	10.9	6.5	11.3	6.3	5.5
Q2	7.2	5.8	3.5	5.1	4.1	5.8	4.9	7.7	6.4	10.5	7.2	10.8	5.6	.
2007 Feb.	7.7	5.9	4.0	4.8	4.2	6.2	4.8	7.4	6.6	10.9	6.5	11.3	6.3	5.5
Mar.	7.5	5.7	4.0	5.0	4.1	6.1	4.7	7.4	6.6	10.6	6.5	11.1	6.2	5.4
Apr.	7.5	5.9	3.5	5.1	4.1	5.9	5.0	7.6	6.4	10.7	7.2	10.8	5.9	5.4
May	7.2	5.8	3.5	5.2	4.1	5.8	4.9	7.7	6.5	10.5	7.3	10.8	5.8	.
June	7.0	5.7	3.5	5.1	3.9	5.7	4.7	7.7	6.4	10.2	7.3	10.7	5.3	.

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

9.2 In the United States and Japan

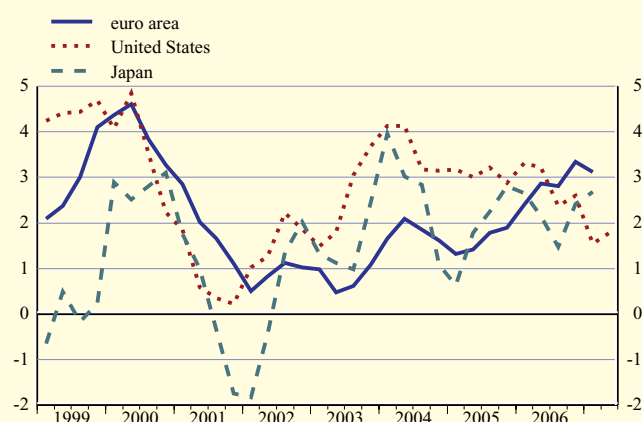
(annual percentage changes, unless otherwise indicated)

1. Economic and financial developments

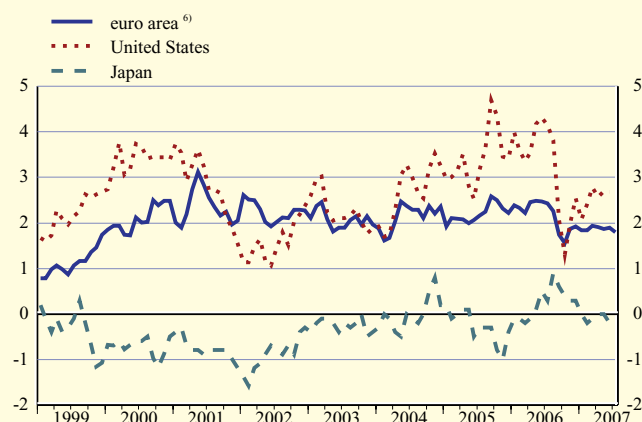
	Consumer price index	Unit labour costs ¹⁾ (manufacturing)	Real GDP	Industrial production index (manufacturing)	Unemployment rate as a % of labour force (s.a.)	Broad money ²⁾	3-month interbank deposit rate ³⁾ as a % per annum	10-year government bond yield ³⁾ as a % per annum	Exchange rate ⁴⁾ as national currency per euro	Fiscal deficit (-)/surplus (+) as a % of GDP	Gross public debt ⁵⁾ as a % of GDP
	1	2	3	4	5	6	7	8	9	10	11
United States											
2003	2.3	0.8	2.5	1.3	6.0	7.0	1.22	4.00	1.1312	-4.8	48.0
2004	2.7	0.1	3.6	3.0	5.5	4.7	1.62	4.26	1.2439	-4.6	48.8
2005	3.4	-0.1	3.1	4.0	5.1	4.3	3.56	4.28	1.2441	-3.7	49.2
2006	3.2	0.1	2.9	5.0	4.6	4.7	5.19	4.79	1.2556	-2.3	48.5
2006 Q2	4.0	0.1	3.2	5.5	4.6	4.8	5.21	5.07	1.2582	-2.3	48.6
Q3	3.3	-2.2	2.4	6.1	4.7	4.6	5.43	4.90	1.2743	-2.6	48.5
Q4	1.9	0.7	2.6	3.6	4.5	4.9	5.37	4.63	1.2887	-1.9	48.5
2007 Q1	2.4	-0.4	1.5	2.3	4.5	5.3	5.36	4.68	1.3106	-2.6	49.4
Q2	2.7	.	1.8	1.7	4.5	6.2	5.36	4.84	1.3481	.	.
2007 Mar.	2.8	-	-	2.5	4.4	5.7	5.35	4.56	1.3242	-	-
Apr.	2.6	-	-	1.7	4.5	6.1	5.35	4.69	1.3516	-	-
May	2.7	-	-	1.9	4.5	6.3	5.36	4.75	1.3511	-	-
June	2.7	-	-	1.6	4.5	6.1	5.36	5.11	1.3419	-	-
July	.	-	-	.	.	.	5.36	5.01	1.3716	-	-
Japan											
2003	-0.2	-3.9	1.5	3.2	5.2	1.7	0.06	0.99	130.97	-7.9	151.4
2004	0.0	-4.9	2.7	5.5	4.7	1.9	0.05	1.50	134.44	-6.2	157.6
2005	-0.3	-0.6	1.9	1.1	4.4	1.8	0.06	1.39	136.85	-6.4	164.2
2006	0.2	-2.6	2.2	4.8	4.1	1.1	0.30	1.74	146.02	.	.
2006 Q2	0.2	-2.4	2.2	4.7	4.1	1.4	0.21	1.90	143.81	.	.
Q3	0.6	-2.8	1.5	5.6	4.1	0.6	0.41	1.80	148.09	.	.
Q4	0.3	-3.6	2.4	5.9	4.1	0.6	0.49	1.70	151.72	.	.
2007 Q1	-0.1	-2.2	2.7	3.0	4.0	1.0	0.62	1.68	156.43	.	.
Q2	-0.1	.	.	2.3	.	1.5	0.69	1.74	162.89	.	.
2007 Mar.	-0.1	-1.6	-	1.9	4.0	1.1	0.71	1.62	155.24	-	-
Apr.	0.0	.	-	2.2	3.8	1.1	0.66	1.67	160.68	-	-
May	0.0	.	-	3.8	3.8	1.5	0.67	1.67	163.22	-	-
June	-0.2	.	-	1.0	.	1.8	0.73	1.89	164.55	-	-
July	.	.	-	.	.	.	0.77	1.89	166.76	-	-

C37 Real gross domestic product

(annual percentage changes; quarterly)

**C38 Consumer price indices**

(annual percentage changes; monthly)



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

1) Data for the United States are seasonally adjusted.

2) Average-of-period values; M2 for US, M2+CDs for Japan.

3) For more information, see Sections 4.6 and 4.7.

4) For more information, see Section 8.2.

5) Gross consolidated general government debt (end of period).

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



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TECHNICAL NOTES

RELATING TO THE EURO AREA OVERVIEW

CALCULATION OF GROWTH RATES FOR MONETARY DEVELOPMENTS

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

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

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

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

RELATING TO SECTIONS 2.1 TO 2.6

CALCULATION OF TRANSACTIONS

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

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

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

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

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

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

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

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

CALCULATION OF GROWTH RATES FOR MONTHLY SERIES

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

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

The base of the index (of the non-seasonally adjusted series) is currently set as December 2006 = 100. Time series of the index of adjusted outstanding amounts are available on the ECB's website (www.ecb.europa.eu) under the "Money, banking and financial markets" subsection of the "Statistics" section.

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

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

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

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

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

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

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 3.5

EQUALITY OF USES AND RESOURCES

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

CALCULATION OF BALANCING ITEMS

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

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

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

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

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

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

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

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

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

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

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

the capital account and the financial account, respectively.

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

Net financial worth (wealth) is calculated as total financial assets minus total liabilities, whereas changes in net financial worth (wealth) are equal to the sum of changes in net financial worth (wealth) due to transactions (lending/ net borrowing from the financial account) and other changes in net financial worth (wealth).

Finally, changes in net financial worth (wealth) due to transactions are computed as total transactions in financial assets minus total transactions in liabilities and other changes in net financial worth (wealth) are calculated as total other changes in financial assets minus total other changes in liabilities.

RELATING TO SECTION 4.3 AND 4.4

CALCULATION OF GROWTH RATES FOR DEBT SECURITIES AND QUOTED SHARES

Growth rates are calculated on the basis of financial transactions and therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. They may be calculated from transactions or from the index of notional stocks. If N_t^M represents the transactions (net issues) in month t and L_t the level outstanding at the end of the month t , the index I_t of notional stocks in month t is defined as:

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

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

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

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

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

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

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

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

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

The calculation formula used for Section 4.3 is also used for Section 4.4 and is likewise based on that used for the monetary aggregates. Section 4.4 is based on market values and the basis for the calculation are financial transactions, which exclude reclassifications, revaluations or any other changes that do not arise from transactions. Exchange rate variations are not included as all quoted shares covered are denominated in euro.

SEASONAL ADJUSTMENT OF SECURITIES ISSUES STATISTICS⁴

The approach used relies on a multiplicative decomposition through X-12-ARIMA. The seasonal adjustment for the securities issues total is carried out indirectly by means of a linear combination of sector and maturity component breakdowns.

The seasonal adjustment procedures are applied to the index of notional stocks. The resulting estimates of the seasonal factors are then applied to the outstanding amounts, from which seasonally adjusted net issues are derived. Seasonal factors are revised at annual intervals or as required.

Similar as depicted in formula 1) and m), the growth rate a_t for month t corresponding to the change in the 6 months ending in month t , may be calculated using either of the following two formulae:

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

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

RELATING TO TABLE I IN SECTION 5.1

SEASONAL ADJUSTMENT OF THE HICP⁴

The approach used relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S78). The seasonal adjustment of the overall HICP for the euro area is carried out indirectly by aggregating the seasonally adjusted euro area series for processed food, unprocessed food, industrial goods excluding energy, and services. Energy is added without adjustment since there is no statistical evidence of seasonality. Seasonal

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

factors are revised at annual intervals or as required.

RELATING TO TABLE 2 IN SECTION 7.1

SEASONAL ADJUSTMENT OF THE BALANCE OF PAYMENTS CURRENT ACCOUNT

The approach relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S78). The raw data for goods, services and income are pre-adjusted to take a working-day effect into account. The working-day adjustment in goods and services is corrected for national public holidays. Data on goods credits are also pre-adjusted for Easter. The seasonal adjustment for these items is carried out using these pre-adjusted series. The seasonal adjustment of the total current account is carried out by aggregating the seasonally adjusted euro area series for goods, services, income and current transfers. Seasonal (and trading day) factors are revised at semi-annual intervals or as required.



GENERAL NOTES

The “Euro area statistics” section of the Monthly Bulletin focuses on statistics for the euro area as a whole. More detailed and longer runs of data, with further explanatory notes, are available in the “Statistics” section of the ECB’s website (www.ecb.europa.eu). This allows user-friendly access to data via the ECB Statistical Data Warehouse (<http://sdw.ecb.int/>), which includes search and download facilities. Further services available under the “Data services” sub-section include the subscription to different datasets and a repository of compressed Comma Separated Value (CSV) files. For further information, please contact us at: statistics@ecb.europa.eu.

In general, the cut-off date for the statistics included in the Monthly Bulletin is the day preceding the first meeting in the month of the ECB’s Governing Council. For this issue, the cut-off date was 1 August 2007.

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

The statistical series referring to the changing composition of the euro area are based on the euro area composition at the time to which the statistics relate. Thus, data prior to 2001 refer to the Euro 11, i.e. the following 11 EU Member States: Belgium, Germany, Ireland, Spain,

France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. Data from 2001 to 2006 refer to the Euro 12, i.e. the Euro 11 plus Greece. Data after 2007 refer to the Euro 13, i.e. the Euro 12 plus Slovenia.

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

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

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

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

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

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

OVERVIEW

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

MONETARY POLICY STATISTICS

Section 1.4 shows statistics on minimum reserve and liquidity factors. Annual and quarterly observations refer to averages of the last reserve maintenance period of the year/quarter. Until December 2003, the maintenance periods started on the 24th calendar day of a month and ran to the 23rd of the following month. On 23 January 2003 the ECB announced changes to the operational framework, which were implemented on 10 March 2004. As a result of these changes, maintenance periods start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is scheduled. A transitional maintenance period was defined to cover the period from 24 January to 9 March 2004.

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

Table 2 in Section 1.4 contains average data for completed maintenance periods. The amount of the reserve requirement of each individual credit institution is first calculated by applying the reserve ratio for the corresponding categories of liabilities to the eligible liabilities, using the

balance sheet data from the end of each calendar month. Subsequently, each credit institution deducts from this figure a lump-sum allowance of €100,000. The resulting required reserves are then aggregated at the euro area level (column 1). The current account holdings (column 2) are the aggregate average daily current account holdings of credit institutions, including those that serve the fulfilment of reserve requirements. The excess reserves (column 3) are the average current account holdings over the maintenance period in excess of the required reserves. The deficiencies (column 4) are defined as the average shortfalls of current account holdings from required reserves over the maintenance period, computed on the basis of those credit institutions that have not fulfilled their reserve requirement. The interest rate on minimum reserves (column 5) is equal to the average, over the maintenance period, of the ECB's rate (weighted according to the number of calendar days) on the Eurosystem's main refinancing operations (see Section 1.3).

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

MONEY, BANKING AND INVESTMENT FUNDS

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

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

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

2.6 shows the securities held by the euro area banking system, by type of issuer.

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

Details of the sector definitions are set out in the "Monetary Financial Institutions and Markets Statistics Sector Manual – Guidance for the statistical classification of customers. Third Edition" (ECB, March 2007). The "Guidance Notes to the Regulation ECB/2001/13 on the MFI Balance Sheet Statistics" (ECB, November 2002) explains practices recommended to be followed by the NCBs. Since 1 January 1999 the statistical information has been collected and compiled on the basis of Regulation ECB/1998/16 of 1 December 1998 concerning the consolidated balance sheet of the Monetary Financial Institutions sector¹, as last amended by Regulation ECB/2003/10².

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

Section 2.9 shows end-of-quarter outstanding amounts for the balance sheet of the euro area investment funds (other than money market funds). The balance sheet is aggregated and therefore includes, among the liabilities, holdings by investment funds of shares/units issued by other investment funds. Total assets/liabilities are also broken down by investment policy (equity funds, bond funds, mixed funds,

1 OJ L 356, 30.12.1998, p. 7.

2 OJ L 250, 2.10.2003, p. 19.

real estate funds and other funds) and by type of investor (general public funds and special investors' funds). Section 2.10 shows the aggregated balance sheet for each investment fund sector as identified by investment policy and type of investor.

EURO AREA ACCOUNTS

Section 3.1 shows quarterly integrated euro area accounts data, which provide comprehensive information on the economic activities of households (including non-profit institutions serving households), non-financial corporations, financial corporations and general government, as well as on the interactions between these sectors and the euro area rest of the world. The non-seasonally adjusted current prices data are displayed for the last available quarter following a simplified sequence of accounts in accordance with the methodological framework of the European System of Accounts 1995 (ESA 95).

In short, the sequence of accounts (transactions) comprises: 1) the generation of income account, which shows how the production activity translates into various categories of income; 2) the allocation of primary income account, which records receipts and expenses relating to various forms of property income (for the economy as a whole, the balancing item of the primary income account is national income); 3) the secondary distribution of income account, which shows how the national income of an institutional sector changes because of current transfers; 4) the use of income account, which shows how disposable income is spent on consumption or saved; 5) the capital account, which shows how savings and net capital transfers are spent in the acquisition of non-financial assets (the balancing item of the capital account is net lending/net borrowing); and 6) the financial account, which records the net acquisitions of financial assets and the net incurrence of liabilities. As each non-financial transaction is mirrored by a financial transaction, the balancing item of the financial account conceptually also equals net lending/net

borrowing as calculated from the capital account.

In addition, opening and closing financial balance sheets are presented which give a picture of the financial wealth of each individual sector at a given point in time. Finally, other changes in financial assets and liabilities (e.g. resulting from the impact of asset price changes) are also shown.

The sector coverage of the financial account and of the financial balance sheets is more detailed for the financial corporations sector, showing a breakdown into MFIs, other financial intermediaries (including financial auxiliaries), and insurance corporations and pension funds.

Section 3.2 shows four-quarter cumulated flows (transactions) for the so-called non-financial accounts of the euro area (i.e. accounts 1 to 5 presented above) also following the simplified sequence of accounts.

Section 3.3 shows four-quarter cumulated flows (transactions and other changes) for households' income, expenditure and accumulation accounts, and outstanding amounts for the financial balance sheet accounts, following a more analytical presentation. Sector-specific transactions and balancing items are arranged in such a way as to more easily depict financing and investment decisions of households, whilst respecting the account identities as presented in Sections 3.1 and 3.2.

Section 3.4 displays four-quarter cumulated flows (transactions) for non-financial corporations' income and accumulation accounts, and outstanding amounts for the financial balance sheet accounts, following a more analytical presentation.

Section 3.5 shows four-quarter cumulated financial flows (transactions and other changes) and outstanding amounts for the financial balance sheets of insurance corporations and pension funds.

FINANCIAL MARKETS

The series on financial market statistics for the euro area cover the EU Member States that had adopted the euro at the time to which the statistics relate (changing composition), with the exception of statistics on securities issues (Tables 4.1 to 4.4), which relate to the Euro 13 (i.e. the Euro 12 plus Slovenia) for the whole time series (fixed composition).

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

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

Section 4.1 shows securities other than shares, by original maturity, residency of the issuer and currency. The section presents outstanding amounts, gross issues and net issues of securities other than shares denominated in euro and securities other than shares issued by euro area residents in euro and in all currencies for total and long-term debt securities. Net issues differ from the changes in outstanding amounts owing to valuation changes, reclassifications and other adjustments. This section also presents seasonally adjusted statistics including annualised six-month seasonally adjusted growth rates for total and long-term debt securities. The latter are calculated from the seasonally adjusted index of notional stocks from which the seasonal effects have been removed. See the Technical notes for details.

Section 4.2 contains a sectoral breakdown of outstanding amounts, gross issues and net issues for issuers resident in the euro area in line with the ESA 95. The ECB is included in the Eurosystem.

The total outstanding amounts for total and long-term debt securities in column 1 of Table 1 in Section 4.2, corresponds to the data on outstanding amounts for total and long-term debt securities issued by euro area residents in column 7 of Section 4.1. The outstanding amounts for total and long-term debt securities issued by MFIs in column 2 of Table 1 in Section 4.2 are broadly comparable with data for debt securities issued as shown on the liabilities side of the aggregated MFI balance sheet in column 8 of Table 2 in Section 2.1. The total net issues for total debt securities in column 1 of Table 2 in Section 4.2 correspond to the data on total net issues by euro area residents in column 9 of Section 4.1. The residual difference between long-term debt securities and total fixed and variable rate long-term debt securities in Table 1 in Section 4.2 consists of zero coupon bonds and revaluation effects.

Section 4.3 shows non-seasonally and seasonally adjusted growth rates for debt

securities issued by euro area residents (broken down by maturity, type of instrument, sector of the issuer and currency), which are based on financial transactions that occur when an institutional unit incurs or redeems liabilities. The growth rates therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. The seasonally adjusted growth rates have been annualised for presentational purposes. See the Technical notes for details.

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

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

Section 4.5 presents statistics on all the interest rates that MFIs resident in the euro area apply to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area. Euro area MFI interest rates are calculated as a weighted average (by corresponding business volume) of the euro area countries' interest rates for each category.

MFI interest rate statistics are broken down by type of business coverage, sector, instrument category and maturity, period of notice or initial period of interest rate fixation. The new MFI interest rate statistics replace the ten transitional

statistical series on euro area retail interest rates that have been published in the ECB's Monthly Bulletin since January 1999.

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

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

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

PRICES, OUTPUT, DEMAND AND LABOUR MARKETS

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

The Harmonised Index of Consumer Prices (HICP) for the euro area (Table 1 in Section 5.1) is available from 1995 onwards. It is based on national HICPs, which follow the same methodology in all euro area countries. The breakdown by goods and services components is derived from the Classification of individual consumption by purpose (Coicop/HICP). The HICP covers monetary expenditure on final consumption by households on the economic territory of the euro area. The table includes seasonally adjusted HICP data and experimental HICP-based estimates of administered prices which are compiled by the ECB.

Industrial producer prices (Table 2 in Section 5.1), industrial production, industrial new orders, industrial turnover and retail sales (Section 5.2) are covered by Council Regulation (EC) No 1165/98 of 19 May 1998 concerning short-term statistics³. The breakdown by end-use of products for industrial producer prices and industrial production is the harmonised sub-division of industry excluding construction (NACE sections C to E) into Main Industrial Groupings (MIGs) as defined by Commission Regulation (EC) No 586/2001 of 26 March 2001⁴. Industrial producer prices reflect the ex-factory gate prices of producers. They include indirect taxes except VAT and other deductible taxes. Industrial production reflects the value added of the industries concerned.

World market prices of raw materials (Table 2 in Section 5.1) measures price changes of euro-denominated euro area imports compared with the base period.

The labour cost indices (Table 3 in Section 5.1) measure the changes in labour costs per hour worked in industry (including construction) and market services. Their methodology is laid down in Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index⁵ and in the implementing Commission Regulation (EC) No 1216/2003 of 7 July 2003⁶. A breakdown of hourly labour costs for the euro area is available by labour cost component (wages and salaries, and employers' social contributions plus employment-related taxes paid by the employer less subsidies received by the employer) and by economic activity. The ECB calculates the indicator of negotiated wages (memo item in Table 3 of Section 5.1) on the basis of non-harmonised, national-definition data.

Unit labour cost components (Table 4 in Section 5.1), GDP and its components (Tables 1 and 2 in Section 5.2), GDP deflators (Table 5 in Section 5.1) and employment statistics (Table 1 in Section 5.3) are results of the ESA 95 quarterly national accounts.

Industrial new orders (Table 4 in Section 5.2) measure the orders received during the reference period and cover industries working mainly on the basis of orders – in particular textile, pulp and paper, chemical, metal, capital goods and durable consumer goods industries. The data are calculated on the basis of current prices.

Indices for turnover in industry and for the retail trade (Table 4 in Section 5.2) measure the turnover, including all duties and taxes with the exception of VAT, invoiced during the

3 OJ L 162, 5.6.1998, p. 1.

4 OJ L 86, 27.3.2001, p. 11.

5 OJ L 69, 13.3.2003, p. 1.

6 OJ L 169, 8.7.2003, p. 37.

reference period. Retail trade turnover covers all retail trade excluding sales of motor vehicles and motorcycles, and except repairs. New passenger car registrations covers registrations of both private and commercial passenger cars.

Qualitative business and consumer survey data (Table 5 in Section 5.2) draw on the European Commission Business and Consumer Surveys.

Unemployment rates (Table 2 in Section 5.3) conform to International Labour Organization (ILO) guidelines. They refer to persons actively seeking work as a share of the labour force, using harmonised criteria and definitions. The labour force estimates underlying the unemployment rate are different from the sum of the employment and unemployment levels published in Section 5.3.

GOVERNMENT FINANCE

Sections 6.1 to 6.5 show the general government fiscal position in the euro area. The data are mainly consolidated and are based on the ESA 95 methodology. The annual euro area aggregates in Sections 6.1 to 6.3 are compiled by the ECB from harmonised data provided by the NCBs, which are regularly updated. The deficit and debt data for the euro area countries may therefore differ from those used by the European Commission within the excessive deficit procedure. The quarterly euro area aggregates in Sections 6.4 and 6.5 are compiled by the ECB on the basis of Eurostat and national data.

Section 6.1 presents annual figures on general government revenue and expenditure on the basis of definitions laid down in Commission Regulation (EC) No 1500/2000 of 10 July 2000⁷ amending the ESA 95. Section 6.2 shows details of general government gross consolidated debt at nominal value in line with the Treaty provisions on the excessive deficit procedure. Sections 6.1 and 6.2 include summary data for the individual euro area countries owing to their importance in the

framework of the Stability and Growth Pact. The deficits/surpluses presented for the individual euro area countries correspond to excessive deficit procedure B.9, as defined by Commission Regulation (EC) No 351/2002 of 25 February 2002 amending Council Regulation (EC) No 3605/93 as regards references to the ESA 95. Section 6.3 presents changes in general government debt. The difference between the change in the government debt and the government deficit – the deficit-debt adjustment – is mainly explained by government transactions in financial assets and by foreign exchange valuation effects. Section 6.4 presents quarterly figures on general government revenue and expenditure on the basis of definitions laid down in Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002⁸ on quarterly non-financial accounts for general government. Section 6.5 presents quarterly figures on gross consolidated government debt, the deficit-debt adjustment and the government borrowing requirement. These figures are compiled using data provided by the Member States under Regulations (EC) No 501/2004 and 1222/2004 and data provided by the National Central Banks.

EXTERNAL TRANSACTIONS AND POSITIONS

The concepts and definitions used in balance of payments (b.o.p.) and international investment position (i.i.p.) statistics (Sections 7.1 to 7.4) are generally in line with the IMF Balance of Payments Manual (fifth edition, October 1993), the ECB Guideline of 16 July 2004 on the statistical reporting requirements of the ECB (ECB/2004/15)⁹ and the amending ECB Guideline of 31 May 2007 (ECB/2007/3)¹⁰, as well as with Eurostat documents. Additional references about the methodologies and sources used in the euro area b.o.p. and i.i.p. statistics can be found in the ECB publication entitled

7 OJ L 172, 12.7.2000, p. 3.

8 OJ L 179, 9.7.2002, p. 1.

9 OJ L 354, 30.11.2004, p. 34.

10 OJ L 159, 20.6.2007, p. 48.

“European Union balance of payments/international investment position statistical methods” (May 2007), and in the following Task Force reports: “Portfolio investment collection systems” (June 2002), “Portfolio investment income” (August 2003) and “Foreign direct investment” (March 2004), which can be downloaded from the ECB’s website. In addition, the report by the ECB/European Commission (Eurostat) Task Force on Quality of balance of payments and international investment position statistics (June 2004) is available on the website of the Committee on Monetary, Financial and Balance of Payments Statistics (www.cmfb.org). The annual quality report on the euro area b.o.p./i.i.p., which is based on the Task Force’s recommendations, is available on the ECB’s website.

The presentation of net transactions in the financial account follows the sign convention of the IMF Balance of Payments Manual: an increase of assets appears with a minus sign, while an increase of liabilities appears with a plus sign. In the current account and capital account, both credit and debit transactions are presented with a plus sign.

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

In Section 7.1, Table 2 contains seasonally adjusted data for the current account. Where appropriate, the adjustment covers also working-day, leap year and/or Easter effects. Table 5 provides a sectoral breakdown of euro area purchasers of securities issued by non-residents of the euro area. It is not yet possible to show a sectoral breakdown of euro area issuers of securities acquired by non-residents. In Tables 6 and 7 the breakdown between “loans” and “currency and deposits” is based on the sector of the non-resident counterpart, i.e.

assets vis-à-vis non-resident banks are classified as deposits, whereas assets vis-à-vis other non-resident sectors are classified as loans. This breakdown follows the distinction made in other statistics, such as the MFI consolidated balance sheet, and conforms to the IMF Balance of Payments Manual.

Section 7.2 contains a monetary presentation of the b.o.p.: the b.o.p. transactions mirroring the transactions in the external counterpart of M3. The data follow the sign conventions of the b.o.p., except for the transactions in the external counterpart of M3 taken from money and banking statistics (column 12), where a positive sign denotes an increase of assets or a decrease of liabilities. In portfolio investment liabilities (columns 5 and 6), the b.o.p. transactions include sales and purchases of equity and debt securities issued by MFIs in the euro area, apart from shares of money market funds and debt securities with a maturity of up to two years. A methodological note on the monetary presentation of the euro area b.o.p. is available in the “Statistics” section of the ECB’s website. See also Box 1 in the June 2003 issue of the Monthly Bulletin.

Section 7.3 presents a geographical breakdown of the euro area b.o.p. (Tables 1 to 4) and i.i.p. (Table 5) vis-à-vis main partner countries individually or as a group, distinguishing between EU Member States outside the euro area and countries or areas outside the European Union. The breakdown also shows transactions and positions vis-à-vis EU institutions (which, apart from the ECB, are treated statistically as outside the euro area, regardless of their physical location) and for some purposes also offshore centres and international organisations. Tables 1 to 4 show cumulative b.o.p. transactions in the latest available four quarters; Table 5 shows a geographical breakdown of the i.i.p. for the latest available end-year. The breakdown does not cover transactions or positions in portfolio investment liabilities, financial derivatives and international reserves. The geographical breakdown is described in the article entitled “Euro area

balance of payments and international investment position vis-à-vis main counterparts” in the February 2005 issue of the Monthly Bulletin.

The data on the euro area i.i.p. in Section 7.4 are based on positions vis-à-vis non-residents of the euro area, considering the euro area as a single economic entity (see also Box 9 in the December 2002 issue of the Monthly Bulletin). The i.i.p. is valued at current market prices, with the exception of direct investment, where book values are used to a large extent. The quarterly i.i.p. is compiled on the basis of the same methodological framework as the annual i.i.p. As some data sources are not available on a quarterly basis (or are available with a delay), the quarterly i.i.p. is partly estimated on the basis of financial transactions and asset prices and foreign exchange developments.

The outstanding amounts of the Eurosystem’s international reserves and related assets and liabilities are shown in Section 7.4, Table 5, together with the part held by the ECB. These figures are not fully comparable with those of the Eurosystem’s weekly financial statement owing to differences in coverage and valuation. The data in Table 5 are in line with the recommendations for the IMF/BIS template on international reserves and foreign currency liquidity. Changes in the gold holdings of the Eurosystem (column 3) are due to transactions in gold within the terms of the Central Bank Gold Agreement of 26 September 1999, which was updated on 8 March 2004. More information on the statistical treatment of the Eurosystem’s international reserves can be found in a publication entitled “Statistical treatment of the Eurosystem’s international reserves” (October 2000), which can be downloaded from the ECB’s website. The website also contains more comprehensive data in accordance with the template on international reserves and foreign currency liquidity.

Section 7.5 shows data on euro area external trade in goods. The main source is Eurostat. The ECB derives volume indices from Eurostat value and unit value indices, and performs

seasonal adjustment of unit value indices, while value data are seasonally and working-day adjusted by Eurostat.

The breakdown by product group in columns 4 to 6 and 9 to 11 of Table 1 in Section 7.5 is in line with the classification by Broad Economic Categories. Manufactured goods (columns 7 and 12) and oil (column 13) are in line with the SITC Rev. 3 definition. The geographical breakdown (Table 2 in Section 7.5) shows main trading partners individually or in regional groups. Mainland China excludes Hong Kong.

Owing to differences in definitions, classification, coverage and time of recording, external trade data, in particular for imports, are not fully comparable with the goods item in the balance of payments statistics (Sections 7.1 to 7.3). The difference for imports has been around 5% in recent years (ECB estimate), a significant part of which relates to the inclusion of insurance and freight services in the external trade data (c.i.f. basis).

EXCHANGE RATES

Section 8.1 shows nominal and real effective exchange rate (EER) indices for the euro calculated by the ECB on the basis of weighted averages of bilateral exchange rates of the euro against the currencies of the euro area’s trading partners. A positive change denotes an appreciation of the euro. Weights are based on trade in manufactured goods with the trading partners in the periods 1995-1997 and 1999-2001, and are calculated to account for third-market effects. The EER indices result from the linking at the beginning of 1999 of the indices based on 1995-1997 weights to those based on 1999-2001 weights. The EER-24 group of trading partners is composed of the 14 non-euro area EU Member States, Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland and the United States. The EER-44 group includes, in addition to the EER-24, the following countries: Algeria, Argentina, Brazil, Chile, Croatia, Iceland,

India, Indonesia, Israel, Malaysia, Mexico, Morocco, New Zealand, the Philippines, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela. Real EERs are calculated using consumer price indices, producer price indices, gross domestic product deflators, unit labour costs in manufacturing and unit labour costs in the total economy.

For more detailed information on the calculation of the EERs, see Box 8 entitled “The effective exchange rates of the euro following the recent euro area and EU enlargements” in the March 2007 issue of the Monthly Bulletin and the ECB’s Occasional Paper No 2 (“The effective exchange rates of the euro” by Luca Buldorini, Stelios Makrydakis and Christian Thimann, February 2002), which can be downloaded from the ECB’s website.

The bilateral rates shown in Section 8.2 are monthly averages of those published daily as reference rates for these currencies.

DEVELOPMENTS OUTSIDE THE EURO AREA

Statistics on other EU Member States (Section 9.1) follow the same principles as those for data relating to the euro area. Data for the United States and Japan contained in Section 9.2 are obtained from national sources.

ANNEXES

CHRONOLOGY OF MONETARY POLICY MEASURES OF THE EUROSISTEM¹



13 JANUARY 2005

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

14 JANUARY 2005

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2005 from €25 billion to €30 billion. This increased amount takes into consideration the higher liquidity needs of the euro area banking system anticipated in 2005. The Eurosystem will however continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2006.

3 FEBRUARY, 3 MARCH, 7 APRIL, 4 MAY, 2 JUNE, 7 JULY, 4 AUGUST, 1 SEPTEMBER, 6 OCTOBER AND 3 NOVEMBER 2005

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

1 DECEMBER 2005

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 0.25 percentage point to 2.25%, starting from the operation to be settled on 6 December 2005. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 0.25 percentage point, to 3.25% and

1.25% respectively, both with effect from 6 December 2005.

16 DECEMBER 2005

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2006 from €30 billion to €40 billion. This increased amount takes two aspects into consideration. First, the liquidity needs of the euro area banking system are expected to increase further in the year 2006. Second, the Eurosystem has decided to increase slightly the share of the liquidity needs satisfied by the longer-term refinancing operations. The Eurosystem will, however, continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2007.

12 JANUARY AND 2 FEBRUARY 2006

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.25%, 3.25% and 1.25% respectively.

2 MARCH 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 2.50%, starting from the operation to be settled on 8 March 2006. In addition, it decides to increase the interest rates on both the

¹ The chronology of monetary policy measures of the Eurosystem taken between 1999 and 2004 can be found on pages 176 to 180 of the ECB's Annual Report 1999, on pages 205 to 208 of the ECB's Annual Report 2000, on pages 219 to 220 of the ECB's Annual Report 2001, on pages 234 to 235 of the ECB's Annual Report 2002, on pages 217 to 218 of the ECB's Annual Report 2003 and on page 217 of the ECB's Annual Report 2004 respectively.

marginal lending facility and the deposit facility by 25 basis points, to 3.50% and 1.50% respectively, both with effect from 8 March 2006.

6 APRIL AND 4 MAY 2006

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.50%, 3.50% and 1.50% respectively.

8 JUNE 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 2.75%, starting from the operation to be settled on 15 June 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 3.75% and 1.75% respectively, both with effect from 15 June 2006.

6 JULY 2006

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.75%, 3.75% and 1.75% respectively.

3 AUGUST 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.0%, starting from the operation to be settled on 9 August 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by

25 basis points, to 4.0% and 2.0%, both with effect from 9 August 2006.

31 AUGUST 2006

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 3.0%, 4.0% and 2.0% respectively.

5 OCTOBER 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.25%, starting from the operation to be settled on 11 October 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 4.25% and 2.25%, both with effect from 11 October 2006.

2 NOVEMBER 2006

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 3.25%, 4.25% and 2.25% respectively.

7 DECEMBER 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.50%, starting from the operation to be settled on 13 December 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 4.50% and 2.50%, both with effect from 13 December 2006.

21 DECEMBER 2006

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2007 from €40 billion to €50 billion. This increased amount takes the following aspects into consideration: the liquidity needs of the euro area banking system have grown strongly in recent years and are expected to increase further in the year 2007. Therefore the Eurosystem has decided to increase slightly the share of the liquidity needs satisfied by the longer-term refinancing operations. The Eurosystem will, however, continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2008.

11 JANUARY AND 8 FEBRUARY 2007

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 3.50%, 4.50% and 2.50% respectively.

8 MARCH 2007

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.75%, starting from the operation to be settled on 14 March 2007. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 4.75% and 2.75%, both with effect from 14 March 2007.

12 APRIL AND 10 MAY 2007

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on

the marginal lending facility and the deposit facility will remain unchanged at 3.75%, 4.75% and 2.75% respectively.

6 JUNE 2007

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 4%, starting from the operation to be settled on 13 June 2007. In addition, it decides to increase by 25 basis points the interest rates on both the marginal lending facility and the deposit facility, to 5% and 3% respectively, with effect from 13 June 2007.

5 JULY AND 2 AUGUST 2007

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.00%, 5.00% and 3.00% respectively.





DOCUMENTS PUBLISHED BY THE EUROPEAN CENTRAL BANK SINCE 2006

This list is designed to inform readers about selected documents published by the European Central Bank since January 2006. For Working Papers, the list only refers to publications released between May and July 2007. Unless otherwise indicated, hard copies can be obtained or subscribed to free of charge, stock permitting, by contacting info@ecb.europa.eu.

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ANNUAL REPORT

"Annual Report 2005", April 2006.

"Annual Report 2006", April 2007.

CONVERGENCE REPORT

"Convergence Report May 2006".

"Convergence Report December 2006".

"Convergence Report May 2007".

MONTHLY BULLETIN ARTICLES

"The predictability of the ECB's monetary policy", January 2006.

"Hedge funds: developments and policy implications", January 2006.

"Assessing house price developments in the euro area", February 2006.

"Fiscal policies and financial markets", February 2006.

"The importance of public expenditure reform for economic growth and stability", April 2006.

"Portfolio management at the ECB", April 2006.

"Monetary and exchange rate arrangements of the euro area with selected third countries and territories", April 2006.

"The contribution of the ECB and the Eurosystem to European financial integration", May 2006.

"The single list in the collateral framework of the Eurosystem", May 2006.

"Equity issuance in the euro area", May 2006.

"Measures of inflation expectations in the euro area", July 2006.

"Competitiveness and the export performance of the euro area", July 2006.

"Sectoral money holding: determinants and recent developments", August 2006.

"The evolution of large-value payment systems in the euro area", August 2006.

"Demographic change in the euro area: projections and consequences", October 2006.

"Integrated financial and non-financial accounts for the institutional sectors in the euro area", October 2006.

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GLOSSARY

This glossary contains selected items that are frequently used in the Monthly Bulletin. A more comprehensive and detailed glossary can be found on the ECB's website (www.ecb.europa.eu/home/glossary/html/index.en.html).

Autonomous liquidity factors: liquidity factors that do not normally stem from the use of monetary policy instruments. Such factors are, for example, banknotes in circulation, government deposits with the central bank and the net foreign assets of the central bank.

Balance of payments (b.o.p.): a statistical statement that summarises, for a specific period of time, the economic transactions of an economy with the rest of the world.

Bank lending survey (BLS): a quarterly survey on lending policies that has been conducted by the Eurosystem since January 2003. It addresses qualitative questions on developments in credit standards, terms and conditions of loans and loan demand for both enterprises and households to a predefined sample group of banks in the euro area.

Borrowing requirement (general government): net incurrence of debt by general government.

Capital account: a b.o.p. account that covers all capital transfers and acquisitions/disposals of non-produced, non-financial assets between residents and non-residents.

Central parity (or central rate): the exchange rate of each ERM II member currency vis-à-vis the euro, around which the ERM II fluctuation margins are defined.

Compensation per employee: the total remuneration, in cash or in kind, that is payable by employers to employees, i.e. gross wages and salaries, as well as bonuses, overtime payments and employers' social security contributions, divided by the total number of employees.

Consolidated balance sheet of the MFI sector: a balance sheet obtained by netting out inter-MFI positions (e.g. inter-MFI loans and deposits) in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. general government and other euro area residents) and vis-à-vis non-euro area residents. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3.

Current account: a b.o.p. account that covers all transactions in goods and services, income and current transfers between residents and non-residents.

Debt (financial accounts): loans, deposit liabilities, debt securities issued and pension fund reserves of non-financial corporations (resulting from employers' direct pension commitments on behalf of their employees), valued at market value at the end of the period. However, due to data limitations, the debt given in the quarterly financial accounts does not include loans granted by non-financial sectors (e.g. inter-company loans) or by banks outside the euro area, whereas these components are included in the annual financial accounts.

Debt (general government): the gross debt (deposits, loans and debt securities excluding financial derivatives) at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.

Debt security: a promise on the part of the issuer (i.e. the borrower) to make one or more payment(s) to the holder (the lender) on a specified future date or dates. Such securities usually carry a specific rate of interest (the coupon) and/or are sold at a discount to the amount that will be repaid at maturity. Debt securities issued with an original maturity of more than one year are classified as long-term.

Debt-to-GDP ratio (general government): the ratio of general government debt to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104(2) of the Treaty establishing the European Community to define the existence of an excessive deficit.

Deficit (general government): the general government's net borrowing, i.e. the difference between total government revenue and total government expenditure.

Deficit-debt adjustment (general government): the difference between the general government deficit and the change in general government debt.

Deficit ratio (general government): the ratio of the general government deficit to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104(2) of the Treaty establishing the European Community to define the existence of an excessive deficit. It is also referred to as the budget deficit ratio or the fiscal deficit ratio.

Deflation: a decline in the general price level, e.g. in the consumer price index.

Deposit facility: a standing facility of the Eurosystem which counterparties may use to make overnight deposits, remunerated at a pre-specified interest rate, at an NCB.

Direct investment: cross-border investment for the purpose of obtaining a lasting interest in an enterprise resident in another economy (assumed, in practice, for ownership of at least 10% of the ordinary shares or voting power). Included are equity capital, reinvested earnings and other capital associated with inter-company operations. The direct investment account records net transactions/positions in assets abroad by euro area residents (as "direct investment abroad") and net transactions/positions in euro area assets by non-residents (as "direct investment in the euro area").

Effective exchange rates (EERs) of the euro (nominal/real): weighted averages of bilateral euro exchange rates against the currencies of the euro area's main trading partners. The ECB publishes nominal EER indices for the euro against two groups of trading partners: the EER-24 (comprising the 14 non-euro area EU Member States and the 10 main trading partners outside the EU) and the EER-44 (composed of the EER-24 and 20 additional countries). The weights used reflect the share of each partner country in euro area trade and account for competition in third markets. Real EERs are nominal EERs deflated by a weighted average of foreign, relative to domestic, prices or costs. They are thus measures of price and cost competitiveness.

EONIA (euro overnight index average): a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates

on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.

Equities: securities representing ownership of a stake in a corporation. They comprise shares traded on stock exchanges (quoted shares), unquoted shares and other forms of equity. Equities usually produce income in the form of dividends.

ERM II (exchange rate mechanism II): the exchange rate arrangement that provides the framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in Stage Three of EMU.

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in euro to another prime bank, computed daily for interbank deposits with different maturities of up to 12 months.

Euro area: the area formed by those EU Member States in which the euro has been adopted as the single currency in accordance with the Treaty establishing the European Community.

European Commission surveys: harmonised surveys of business and/or consumer sentiment conducted on behalf of the European Commission in each of the EU Member States. Such questionnaire-based surveys are addressed to managers in the manufacturing, construction, retail and services industries, as well as to consumers. From each monthly survey, composite indicators are calculated that summarise the replies to a number of different questions in a single indicator (confidence indicators).

Eurosystem: the central banking system made up of the ECB and the NCBs of those EU Member States that have already adopted the euro.

Eurozone Purchasing Managers' Surveys: surveys of business conditions in manufacturing and in services industries conducted for a number of countries in the euro area and used to compile indices. The Eurozone Manufacturing Purchasing Managers' Index (PMI) is a weighted indicator calculated from indices of output, new orders, employment, suppliers' delivery times and stocks of purchases. The services sector survey asks questions on business activity, expectations of future business activity, the amount of business outstanding, incoming new business, employment, input prices and prices charged. The Eurozone Composite Index is calculated by combining the results from the manufacturing and services sector surveys.

External trade in goods: exports and imports of goods with countries outside the euro area, measured in terms of value and as indices of volume and unit value. External trade statistics are not comparable with the exports and imports recorded in the national accounts, as the latter include both intra-euro area and extra-euro area transactions, and also combine goods and services. Nor are they fully comparable with the goods item in b.o.p. statistics. Besides methodological adjustments, the main difference is that imports in external trade statistics are recorded including insurance and freight services, whereas they are recorded free on board in the goods item in the b.o.p. statistics.

Financial account: a b.o.p. account that covers all transactions in direct investment, portfolio investment, other investment, financial derivatives and reserve assets, between residents and non-residents.

Fixed rate tender: a tender procedure in which the interest rate is specified in advance by the central bank and in which participating counterparties bid the amount of money they wish to transact at the fixed interest rate.

General government: a sector defined in the ESA 95 as comprising resident entities that are engaged primarily in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds. Excluded are government-owned entities that conduct commercial operations, such as public enterprises.

Gross domestic product (GDP): the value of an economy's total output of goods and services less intermediate consumption, plus net taxes on products and imports. GDP can be broken down by output, expenditure or income components. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services (including intra-euro area trade).

Harmonised Index of Consumer Prices (HICP): a measure of consumer prices that is compiled by Eurostat and harmonised for all EU Member States.

Hourly labour cost index: a measure of labour costs, including gross wages and salaries (in cash and in kind, including bonuses) and other labour costs (employers' social contributions plus employment-related taxes paid by the employer minus subsidies received by the employer), per hour actually worked (including overtime).

Implied volatility: the expected volatility (i.e. standard deviation) in the rates of change of the price of an asset (e.g. a share or a bond). It can be derived from the asset's price, maturity date and exercise price of its options, as well as from a riskless rate of return, using an option pricing model such as the Black-Scholes model.

Index of negotiated wages: a measure of the direct outcome of collective bargaining in terms of basic pay (i.e. excluding bonuses) at the euro area level. It refers to the implied average change in monthly wages and salaries.

Industrial producer prices: factory-gate prices (transportation costs are not included) of all products sold by industry excluding construction on the domestic markets of the euro area countries, excluding imports.

Industrial production: the gross value added created by industry at constant prices.

Inflation: an increase in the general price level, e.g. in the consumer price index.

Inflation-indexed government bonds: debt securities issued by the general government, the coupon payments and principal of which are linked to a specific consumer price index.

International investment position (i.i.p.): the value and composition of an economy's outstanding net financial claims on (or financial liabilities to) the rest of the world.

International reserves: external assets readily available to and controlled by monetary authorities for directly financing or regulating the magnitude of payments imbalances through intervention in exchange markets. The international reserves of the euro area comprise non-euro denominated claims on non-euro area residents, gold, special drawing rights (SDRs) and the reserve positions in the IMF which are held by the Eurosystem.

Job vacancies: a collective term covering newly created jobs, unoccupied jobs or jobs about to become vacant in the near future, for which the employer has taken recent active steps to find a suitable candidate.

Key ECB interest rates: the interest rates, set by the Governing Council, which reflect the monetary policy stance of the ECB. They are the minimum bid rate on the main refinancing operations, the interest rate on the marginal lending facility and the interest rate on the deposit facility.

Labour force: the sum total of persons in employment and the number of unemployed.

Labour productivity: the output that can be produced with a given input of labour. It can be measured in several ways, but is commonly measured as GDP at constant prices divided by either total employment or total hours worked.

Longer-term refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a monthly standard tender and normally have a maturity of three months.

M1: a narrow monetary aggregate that comprises currency in circulation plus overnight deposits held with MFIs and central government (e.g. at the post office or treasury).

M2: an intermediate monetary aggregate that comprises M1 plus deposits redeemable at a period of notice of up to and including three months (i.e. short-term savings deposits) and deposits with an agreed maturity of up to and including two years (i.e. short-term time deposits) held with MFIs and central government.

M3: a broad monetary aggregate that comprises M2 plus marketable instruments, in particular repurchase agreements, money market fund shares and units, and debt securities with a maturity of up to and including two years issued by MFIs.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Marginal lending facility: a standing facility of the Eurosystem which counterparties may use to receive overnight credit from an NCB at a pre-specified interest rate against eligible assets.

MFI credit to euro area residents: MFI loans granted to non-MFI euro area residents (including general government and the private sector) and MFI holdings of securities (shares, other equity and debt securities) issued by non-MFI euro area residents.

MFI interest rates: the interest rates that are applied by resident credit institutions and other MFIs, excluding central banks and money market funds, to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area.

MFI longer-term financial liabilities: deposits with an agreed maturity of over two years, deposits redeemable at a period of notice of over three months, debt securities issued by euro area MFIs with an original maturity of more than two years and the capital and reserves of the euro area MFI sector.

MFI net external assets: the external assets of the euro area MFI sector (such as gold, foreign currency banknotes and coins, securities issued by non-euro area residents and loans granted to non-euro area residents) minus the external liabilities of the euro area MFI sector (such as non-euro area residents' deposits and repurchase agreements, as well as their holdings of money market fund shares/units and debt securities issued by MFIs with a maturity of up to and including two years).

MFIs (monetary financial institutions): financial institutions which together form the money-issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined in Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.

Minimum bid rate: the lower limit to the interest rates at which counterparties may submit bids in the variable tenders.

Other investment: an item in the b.o.p. and the i.i.p. that covers the financial transactions/positions with non-residents in trade credits, deposits and loans, and other accounts receivable and payable.

Portfolio investment: euro area residents' net transactions and/or positions in securities issued by non-residents of the euro area ("assets") and non-residents' net transactions and/or positions in securities issued by euro area residents ("liabilities"). Included are equity securities and debt securities (bonds and notes, and money market instruments). Transactions are recorded at the effective price paid or received, less commissions and expenses. To be regarded as a portfolio asset, ownership in an enterprise must be equivalent to less than 10% of the ordinary shares or voting power.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the HICP for the euro area of below 2%. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

Purchasing power parity (PPP): the rate at which one currency is converted into another so as to equalise the purchasing power of the two currencies by eliminating the differences in the price levels prevailing in the countries concerned. In their simplest form, PPPs show the ratio of the prices in national currency of the same good or service in different countries.

Reference value for M3 growth: the annual growth rate of M3 over the medium term that is consistent with the maintenance of price stability. At present, the reference value for annual M3 growth is 4½%.

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with the Eurosystem. Compliance is determined on the basis of the average of the daily balances over a maintenance period of around one month.

Survey of Professional Forecasters (SPF): a quarterly survey that has been conducted by the ECB since 1999 to collect macroeconomic forecasts on euro area inflation, real GDP growth and unemployment from a panel of experts affiliated to financial and non-financial organisations based in the EU.

Unit labour costs: a measure of total labour costs per unit of output calculated for the euro area as the ratio of total compensation per employee to labour productivity (defined as GDP at constant prices per person employed).

Variable rate tender: a tender procedure where the counterparties bid both the amount of money they wish to transact with the central bank and the interest rate at which they wish to enter into the transaction.

Write-down: a downward adjustment to the value of loans recorded in the balance sheets of MFIs when it is recognised that the loans have become partly unrecoverable.

Write-off: the removal of the value of loans from the balance sheets of MFIs when the loans are considered to be totally unrecoverable.

Yield curve: a graphical representation of the relationship between the interest rate or yield and the residual maturity at a given point in time for debt securities with the same credit risk but different maturity dates. The slope of the yield curve can be measured as the difference between the interest rates or yield at two selected maturities.

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