EN

EUROPEAN CENTRAL BANK

MONTHLY BULLETIN May 1999

EUROPEAN CENTRAL BANK

ECB EZB EKT BCE EKP

MONTHLY BULLETIN

May 1999

EUROPEAN CENTRAL BANK

MONTHLY BULLETIN

May 1999

Address	**Kaiserstrasse 29**
	D-60311 Frankfurt am Main
	Germany
Postal address	**Postfach 16 03 19**
	D-60066 Frankfurt am Main
	Germany
Telephone	**+49 69 1344 0**
Internet	**http://www.ecb.int**
Fax	**+49 69 1344 6000**
Telex	**411 144 ecb d**

This Bulletin was produced under the responsibility of the Executive Board of the ECB. Translations are prepared and published by the national central banks.

The cut-off date for the statistics included in this issue was 6 May 1999.

ISSN 1561-0136

Contents

Abbreviations

Countries

BE	Belgium
DK	Denmark
DE	Germany
GR	Greece
ES	Spain
FR	France
IE	Ireland
IT	Italy
LU	Luxembourg
NL	Netherlands
AT	Austria
PT	Portugal
FI	Finland
SE	Sweden
UK	United Kingdom
JP	Japan
US	United States

Others

BIS	Bank for International Settlements
BPM4	IMF Balance of Payments Manual (4th edition)
BPM5	IMF Balance of Payments Manual (5th edition)
CDs	certificates of deposit
c.i.f.	cost, insurance and freight at the importer's border
CPI	Consumer Price Index
ECB	European Central Bank
ECU	European Currency Unit
EMI	European Monetary Institute
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
ILO	International Labour Organization
IMF	International Monetary Fund
MFIs	Monetary Financial Institutions
NCBs	national central banks
repos	repurchase agreements
SITC Rev. 3	Standard International Trade Classification (revision 3)

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 meetings held on 22 April and 6 May 1999 the Governing Council of the ECB decided to keep the ECB interest rates unchanged. The rate on the main refinancing operations was maintained at 2.5%, while the interest rates on the marginal lending facility and the deposit facility remain at 3.5% and 1.5% respectively. While the current pace of aggregate demand and economic activity in the euro area remains sluggish, inflationary developments and monetary trends remain, on the whole, compatible with a medium-term outlook for price stability. The most recent assessment of the latest monetary, financial and other economic developments, which are reviewed in more detail below and are analysed in the subsequent sections of this issue of the ECB Monthly Bulletin, clearly suggests that market confidence in the medium-term prospects for price stability has remained strong since the policy move to lower the ECB interest rates on 8 April 1999.

Starting with the first pillar of the Eurosystem's monetary policy strategy, the three-month moving average of M3 growth for the period from January to March 1999 was 5.2%, which was slightly higher than the (revised) value of 5.0% for the three-month period ending in February 1999. The annual growth rates of M3 in January and February 1999 were revised downwards recently to 5.4% and 5.1% respectively. In March 1999 the 12-month growth rate of M3 was unchanged at 5.1%. While the growth rate of overnight deposits declined further, signalling the waning influence of the uncertainties surrounding the launch of the euro, deposits with an agreed maturity of up to two years grew at a stronger pace in March 1999 than in the previous month. The annual rate of growth of total credit was broadly stable at 7.5% in March 1999. Considering the special circumstances related to the changeover to Stage Three of EMU and the fact that the three-month moving average of M3 growth still remained close enough to the reference value of 4½%, the Governing Council confirmed the judgement it had made at previous meetings that current monetary trends should not be seen as a warning signal with regard to future inflationary pressures.

Turning to the broadly based assessment of the outlook for price developments, which constitutes the second pillar of the monetary policy strategy of the Eurosystem, the evidence contained in financial and other economic indicators supports the view of continued price stability in the medium term. In the run-up to the Governing Council meeting on 8 April 1999, financial markets expected a cut in ECB interest rates. The fact that the cut in ECB interest rates proved to be larger than market participants had expected may have contributed to a further slight decrease in long-term interest rates. In early May, however, there was a partial rebound in long-term interest rates following some upward movement in yields in the United States. The spread between euro area and US bond yields widened further, however, indicating that different factors had been affecting bond markets in the euro area and in the United States.

The nominal effective exchange rate of the euro weakened in the course of April, but had recovered by 6 May 1999, the cut-off date for the data contained in this issue of the ECB Monthly Bulletin, standing at around 6% below its level at the beginning of the year. Over the month of April and in early May the military conflict in Kosovo added to the volatility of the exchange rate of the euro. The ECB closely monitors exchange rate developments in the context of the broadly based assessment of the outlook for price developments. In this context, it should be noted that recent exchange rate developments have as yet not indicated any risk for future price stability. Moreover, internal price stability should serve as an anchor for the development of the euro's external value in the medium term.

As expected, the short-term evolution of consumer prices in the euro area in March 1999 was influenced by the recent upturn in oil prices. Consumer price inflation, as measured by the Harmonised Index of Consumer Prices (HICP), increased by 0.2 percentage point to 1.0% in March 1999. This increase was mainly due to the increase in the price index for energy goods. Excluding the more volatile HICP components of unprocessed food and energy, the rate of increase in consumer prices in March remained at 1.1%, i.e. unchanged from the level observed in February and marginally lower than that recorded at the turn of the year. In the coming months a further slight acceleration of the headline HICP is likely to occur as a result of energy price increases. However, in line with available forecasts and surveys, the recent changes in oil prices are not expected to have a lasting effect on the favourable outlook for price stability.

With regard to wage trends, a new indicator of hourly costs recently released by Eurostat confirms the subdued development of wages up to the end of 1998. However, in the light of recent wage agreements, the growth rate of unit labour costs could be expected to increase somewhat in the course of 1999.

With regard to economic activity in the euro area, data available for the first two months of 1999 do not yet indicate that there was a rebound in economic growth. The data on industrial production in February 1999 indicate that the slowdown in output growth recorded in the last quarter of 1998 continued into early 1999. Recent labour market indicators show signs of a somewhat decelerating level of employment growth towards the end of 1998. The rate of unemployment remained unchanged in March 1999, following two consecutive declines in January and February. Meanwhile, the latest figures from the European Commission on confidence indicators point towards some first signs of improvement. While industrial confidence declined further in the first quarter of 1999, preliminary April figures indicate a slight recovery. Given the latest developments up to April, it would appear that consumer confidence reached a peak at the beginning of the year, moderating only slightly thereafter. It is worth mentioning that assessments of forthcoming GDP developments will be complicated by the fact that future data releases will be based on revised figures in accordance with the new concept of the European System of Accounts 1995 (ESA 95).

The external environment of the euro area economy appears to have improved somewhat. While the prospects of economic recovery in Japan remain uncertain, the US economy is continuing to grow at a strong pace. At the same time, growth prospects in several emerging market economies have improved.

Taking all this information together, the outlook for price stability in the medium term is favourable. Although headline HICP inflation is likely to be somewhat higher in the coming months, at this juncture it does not appear that these developments will have a negative impact on the outlook for price stability in the medium term, provided that the subdued path of wage growth continues in the future. At the same time, current monetary developments and other available indicators do not point to risks for price stability in the medium term.

Maintaining the environment of price stability remains the best contribution monetary policy can make to support economic activity in the euro area. Confidence in the stability-oriented monetary policy of the Eurosystem has also contributed to low levels of long-term interest rates in the euro area. With the recent cut in interest rates, the Eurosystem has not only maintained a favourable outlook for price stability, but has also contributed to reducing uncertainty about economic developments. Monetary policy cannot, however, address structural problems, the origin of which lies in other policy areas. The persistently high levels of unemployment indicate that determined efforts to address the large structural problems in labour and goods markets are needed, as well as measures in the area of fiscal policy. This Monthly Bulletin contains an article entitled "The implementation of the Stability and Growth Pact" which focuses on the subject of the progress necessary in fiscal consolidation.

Furthermore, a second article in this Monthly Bulletin – entitled "The operational framework of the Eurosystem: description and first assessment" – analyses the functioning of the operational framework of the single monetary policy in the first few months of the life of the euro.

Economic developments in the euro area

1 Monetary and financial developments

Monetary policy decisions by the Governing Council of the ECB

At its meetings held on 22 April and 6 May 1999 the Governing Council decided to keep the ECB interest rates unchanged. As explained in the "Editorial" section of this Monthly Bulletin, the outlook for increases in the Harmonised Index of Consumer Prices (HICP) over the short and medium term was seen as being in line with the definition of price stability after the reduction in ECB interest rates announced on 8 April. The rate on the main refinancing operations was therefore maintained at 2.5%, and the interest rates on the marginal lending facility and the deposit facility were left at 3.5% and 1.5% respectively (see Chart 1).

Stable growth of broad money

At end-April 1999, when new monetary data were released, the annual growth rates of M3 in January and February 1999 were revised downwards to 5.4% and 5.1%, from previous levels of 5.6% and 5.2% respectively. The annual rate of increase in the broad monetary aggregate M3 in March 1999 was 5.1%, remaining unchanged from the previous month. Reflecting these data, the three-month moving average of the 12-month growth rates of M3, covering the first quarter of 1999, stood at 5.2%. This was 0.2 percentage point higher than the corresponding figure for the previous three-month period covering December 1998 to February 1999 (which was revised downwards from 5.1% to 5.0%). Despite this increase, M3 growth remained relatively close to the reference value of 4½% set by the Governing Council (see Chart 2).

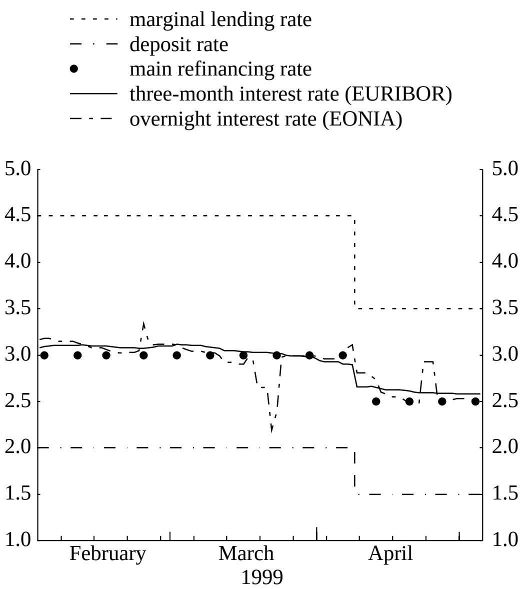
The stable growth of M3 in March 1999 reflected offsetting developments in its components. On the one hand, the growth of overnight deposits continued to slow down after a very pronounced rise in January 1999. In addition, the downward trend of marketable instruments incorporated in M3 continued. On the other hand, the growth rate of other short-term deposits included in M3 increased.

The annual growth of overnight deposits decreased to 13.1% in March 1999, from 14.9% in the previous month and from 17.3% in January 1999. This provided a further indication of the gradually diminishing influence of special factors driving the exceptionally high increase recorded in the first month of Stage Three of EMU, such as uncertainties prevailing among investors. The annual rate of increase in currency in circulation – the other component of the narrow monetary aggregate M1 – rose to 1.2% in March (having been 0.6% in the previous month). This may, in part, have reflected calendar effects. Whereas in 1999 Easter fell at the very beginning of April and therefore stimulated the demand for currency at the end of March, in 1998 Easter was close to mid-April. However, owing to the fall in the growth rate of overnight deposits, the 12-month increase in the narrow monetary aggregate M1 declined to 10.8% in March 1999 from 12.0% in February 1999 and 14.1% in January 1999.

Chart 1

ECB interest rates and money market rates

(percentages per annum; daily data)

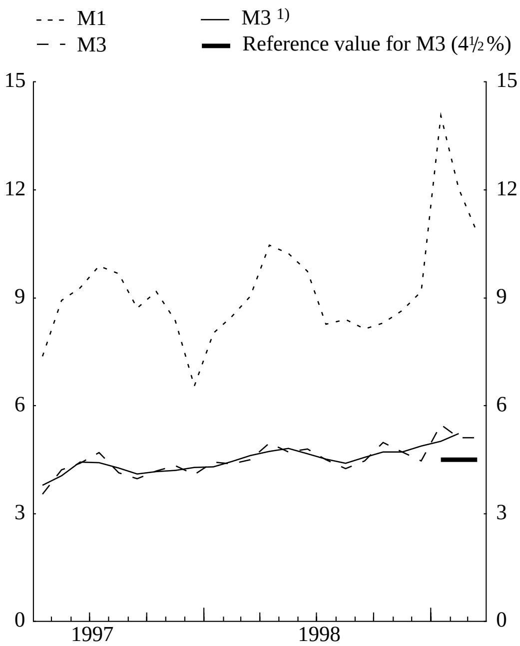


Source: ECB.

Chart 2

Monetary aggregates in the euro area

(annual percentage changes)



Source: ECB.
1) Three-month centred moving average.

The growth rate of other short-term deposits included in M3 increased significantly in March 1999. On aggregate, their 12-month growth rate rose to 3.2%, which was more than twice the rate recorded in the previous month. This result was entirely due to deposits with an agreed maturity of up to two years, the contraction of which was halted. (On an annual basis, the rate of change was -0.1% in March 1999, compared with -4.2% in February 1999.) This development may have been influenced to some extent by substitution effects with regard to both overnight deposits and short-term marketable instruments. At the same time, deposits redeemable with a period of notice of up to three months continued their broadly stable annual increase (recording 5.6% in March 1999, compared with 5.9% in the previous month). The 12-month growth rate of the intermediate monetary aggregate M2 (which comprises financial instruments included in M1 as well as other short-term deposits) rose by 0.5 percentage point to 6.5% in March 1999.

At the same time, the marketable instruments included in M3 resumed the downward trend observed since October 1998. On an annual basis, these instruments declined by 3.6% in March 1999, after a temporary slowing of the pace of contraction in February 1999. The steady reduction in this component of M3 is likely to reflect primarily the low and falling level of short-term market interest rates in the euro area. This was associated, on the one hand, with reduced positive spreads vis-à-vis the return on short-term deposits and, on the other, with an increasingly negative spread vis-à-vis the rates of return on alternative investments in bond and equity markets. The annual increase in money market fund shares and money market paper declined from 11.9% in February 1999 to 9.2% in March 1999; the outstanding amounts of repurchase agreements and debt securities issued with a maturity of up to two years showed in March 1999 annual reductions of 16.4% and 18.7% respectively.

Private sector credit growth remained strong

On the assets side of the consolidated balance sheet of the MFI sector, the annual growth rate of total credit to euro area residents was broadly stable at 7.5% in March 1999. Credit to general government remained subdued, with the annual growth rate falling from 2.2% to 1.7%. This development contrasted with the continued strong pace of growth in credit to the private sector, the annual growth rate of which was 9.7% in March 1999, compared with 9.5% in February 1999.

The rapid expansion of credit to households and firms is obviously related to declining interest rates for bank lending, which have reached very low levels in recent months. In some parts of the euro area this was associated with a considerable rise in real estate prices, which may have increased the nominal value of mortgage loans. Furthermore, national patterns of domestic demand – including inventory formation – may be stimulating credit growth at the current juncture. Other country-specific influences worth mentioning are changes in tax regulations at the turn of the year and the need to finance mergers and acquisitions. In addition, credit to the private sector might have been associated with investments of euro area residents abroad, as the recently published data from the euro area balance of payments show net capital outflows from the euro area.

Among the other counterparts of M3, the 12-month rate of growth of the longer-term financial liabilities of the MFI sector increased slightly in March 1999, to 3.9%, from 3.7% in February 1999. Debt securities issued with a maturity of over two years grew at a relatively high, but broadly stable annual rate of around 7%. By contrast, euro area residents continued to show a low propensity for holding deposits with a maturity of over two years, with the annual growth rate of these deposits standing at only 1.6% in March 1999 (compared with 1.4% in February 1999).

The net external asset position of the euro area Monetary Financial Institutions (MFI) sector improved by €24 billion between end-February and end-March 1999. This constituted a partial reversal of the deterioration in net external assets in the previous month. However, compared with March 1998, the net external asset position of the MFIs deteriorated by €131 billion. This development and the evidence from balance of payments data for the euro area for 1998 and the period from January to February 1999 (see the section on "Exchange rate and balance of payments developments" below) are consistent with a net outflow of funds arising from financial transactions between non-MFI euro area residents and their counterparts outside the euro area.

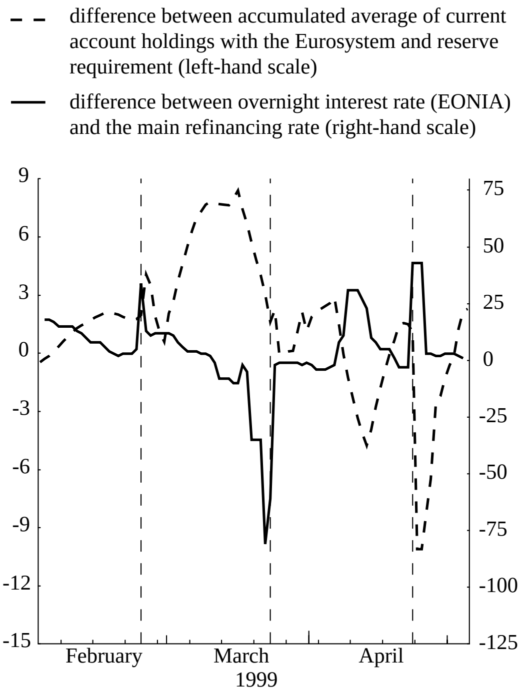
Marked decline in money market interest rates

During April the pattern of money market interest rates was determined by the decision taken by the Governing Council on 8 April 1999 to reduce the interest rates on its main refinancing operations from 3.0% to 2.5% as from the operation to be settled on 14 April 1999. While the overnight interest rate, as measured by the EONIA (the "euro overnight index average"), was just below 3.0% during the first few days of April 1999, the overnight interest rate progressively decreased to the new rate of 2.5% applied to the main refinancing operations of the Eurosystem in the week following the interest rate decision of 8 April (see Chart 1). Towards the end of the third reserve maintenance period (which ran from 24 March to 23 April 1999), the overnight interest rate stood at around 2.5%, with the exception of the last day of this period, when it reached 2.93%, reflecting an increased demand for liquidity in the banking system in order to comply with the minimum reserve requirement (see Chart 3 and Box 1). During the first few days of the fourth reserve maintenance period the EONIA rate again stood close to the main refinancing rate.

Chart 3

The banking system's liquidity and the spread between the overnight interest rate and the main refinancing rate

(EUR billions; daily data)



Source: ECB.
Note: Spread between the overnight interest rate (EONIA) and the main refinancing rate in basis points. Changes in the main refinancing rate are included on the first business day after the date of announcement. The vertical dashed lines indicate the end of a reserve maintenance period.

Box 1

Monetary policy operations and liquidity conditions in the third maintenance period

This Box discusses the Eurosystem's monetary policy operations and developments in the banking system's liquidity position during the third reserve maintenance period, which ran from 24 March to 23 April 1999. A more detailed study focusing on the results of the first three reserve maintenance periods since the start of Stage Three of EMU is provided in a separate article in this ECB Monthly Bulletin entitled "The operational framework of the Eurosystem: description and first assessment".

Open market operations

The Eurosystem conducted four main refinancing operations and one longer-term refinancing operation during the third reserve maintenance period. All the main refinancing operations were again carried out as fixed rate tenders. Against a background of growing expectations of an interest rate cut by the ECB, the amount of bids submitted by counterparties fell considerably in the first two main refinancing operations, which were carried out at a rate of 3.0%. The total amounts of bids submitted in these operations were €118.7 billion on 30 March and €67.4 billion on 6 April, and the number of counterparties was 403 and 302 respectively (compared with an average amount of bids of €720 billion and an average number of counterparties of around 920 in the first two reserve maintenance periods). The resulting allotment ratios were 32.9% and 100% respectively. Moreover, on the occasion of the latter of these two operations, the allotment amount fell short of the liquidity needed for the smooth fulfilment of the credit institutions' reserve requirements, with the result that the counterparties' aggregated reserve holdings on the days following the settlement of the operation were far below the required average. After the Governing Council had decided to lower interest rates on 8 April, the Eurosystem conducted two main refinancing operations, both of which were carried out as fixed rate tenders at a rate of 2.5%. As a result of the low allotment amount in the preceding operation, a considerable liquidity deficit had accumulated by the time of the allotment of the main refinancing operation of 13 April. Against this background, the total amount of bids submitted increased sharply to €781.7 billion and the allotment ratio fell to 8.6%, while the number of counterparties participating in the operations again reached 841. The last main refinancing operation of the reserve maintenance period was conducted under more balanced liquidity conditions. Bids amounting to €612 billion were submitted and an amount of €50.0 billion was allotted (viz. an allotment ratio of 8.2%).

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 March to 23 April 1999

	Liquidity providing	*Liquidity absorbing*	*Net contribution*
(a) Monetary policy operations of the Eurosystem	**175.8**	**0.3**	**+175.5**
Main refinancing operations	130.1	-	+130.1
Longer-term refinancing operations	45.0	-	+45.0
Standing facilities	0.7	0.3	+0.4
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	**338.4**	**412.8**	**-74.4**
Banknotes in circulation	-	331.0	-331.0
Government deposits with the Eurosystem	-	42.9	-42.9
Net foreign assets (including gold)	338.4	-	+338.4
Other factors (net)	-	38.9	-38.9
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) - (b)			**101.1**
(d) Required reserves			**100.1**

In the longer-term refinancing operation that was carried out on 24 March 1999, the multiple rate auction procedure was used for the first time since the start of Stage Three of Economic and Monetary Union. The allotment volume was pre-announced as €15 billion and resulted in a marginal interest rate of 2.97%, leaving the amount of outstanding longer-term refinancing operations unchanged at €45 billion (see the table above). The number of counterparties participating in this operation was 269, compared with 417 in the previous longer-term refinancing operation, which was conducted using the single rate procedure.

Use of standing facilities

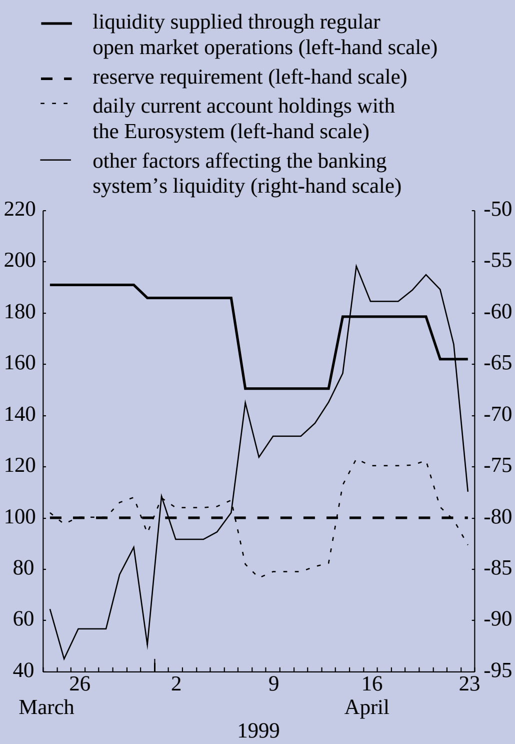
Compared with the previous reserve maintenance period, the average use of the deposit facility declined considerably, from a daily average of €1.4 billion to only €0.3 billion. The use of the marginal lending facility increased somewhat, from a daily average of €0.4 billion to €0.7 billion. However, a considerable part of the recourse to the marginal lending facility took place on the last day of the period (€5.6 billion) and reflected the need of some credit institutions for additional funds to cover their reserve requirement (see the charts below).

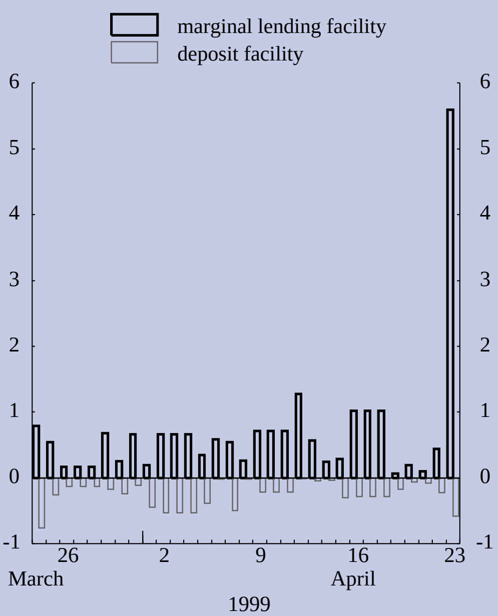
Liquidity factors not related to monetary policy

The sum of other factors affecting the banking system's liquidity (item (b) in the table above) – the "autonomous factors" – was -€74.4 billion on average, the negative sign indicating that in net terms these factors absorbed liquidity. This amount was, in absolute terms, €3.8 billion lower than during the previous reserve maintenance period. The sum of autonomous factors fluctuated between -€55.4 billion and -€93.7 billion, with the most volatile item being the balances of government accounts with central banks, which ranged from €31.5 billion to €63.6 billion. Reflecting normal seasonal patterns, the amount of banknotes in circulation reached a peak of €335.4 billion during late March and early April in connection with Easter.

Factors contributing to the banking system's liquidity during the third maintenance period

(EUR billions; daily data)





Source: ECB.

Current account holdings of counterparties

During the third reserve maintenance period the average current account holdings were €101.1 billion and the required reserves amounted to €100.1 billion. Compared with the second reserve maintenance period, the difference between average current account holdings and reserve requirements declined from €1.6 billion to €1.0 billion. The current account holdings of counterparties which do not effectively have to hold minimum reserves declined from €0.7 billion to €0.4 billion and the excess reserve holdings of counterparties subject to positive reserve requirements declined from €0.9 billion to €0.6 billion (see pages 12 and 13 of the April 1999 issue of the ECB Monthly Bulletin for a detailed analysis of the sources of these differences between current account holdings and reserve requirements).

The three-month EURIBOR interest rate fell by almost 40 basis points between the end of March and 5 May 1999 (the cut-off date for financial market data contained in this issue of the ECB Monthly Bulletin), when it stood at around 2.6%. The reduction of short-term market interest rates in the euro area was determined by the decision of the Governing Council on 8 April 1999 to lower the main refinancing rate by 50 basis points. Between the end of March and 8 April 1999, the three-month EURIBOR had already fallen by 7 basis points, reflecting a market anticipation of the decision to reduce the ECB interest rates. The three-month EURIBOR then declined by a further 24 basis points on 9 April, following the announcement of the decision. The fact that the immediate response of the three-month interest rate was so large indicates that the cut in the main refinancing rate was only partly anticipated by the market.

A similar picture can be observed in the euro futures market. On 8 April, prior to the announcement of the cut in ECB interest rates, the three-month EURIBOR interest rate implied in euro futures contracts with delivery dates in June and September 1999 stood below the then prevailing three-month spot rate. Immediately after the announcement of the Eurosystem's monetary policy decisions, the three-month interest rate on euro futures contracts with a delivery date in late April, June and September 1999 declined by 24, 17 and 13 basis points respectively. This contributed to a considerable flattening of the yield curve at the short end. In the days between 9 April and 5 May 1999 three-month interest rates declined a little further, in line with the aforementioned stabilisation of the overnight interest rate at levels close to the rate on the main refinancing operation.

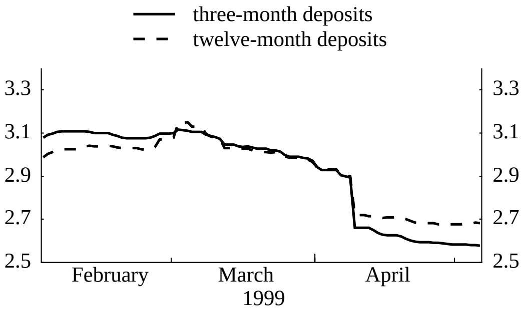
The interbank deposit rate with a maturity of 12 months fell in parallel with spot and futures money market interest rates, but stabilised at a slightly higher level than the three-month interest rate (see Chart 4). This mirrored the fact that the money market yield curve was more or less flat for maturities of up to seven months, but rising moderately for longer maturities.

With regard to the three-month interest rate on futures, it is notable that the rate implied in contracts with delivery in late December 1999 (which, on 5 May, was equal to 2.82%) stood not only above those of earlier

Chart 4

Short-term interest rates in the euro area

(percentages per annum; daily data)



Source: ECB.
Note: Three-month and twelve-month EURIBOR.

maturities, but also above the futures rate for contracts with delivery in March 2000. A plausible explanation for this anomaly is that the millennium problem in computer systems is perceived by market participants as having the potential to disrupt the flow of liquidity in the money market at the turn of this year.

On 29 April the Eurosystem settled its monthly longer-term refinancing operation. This operation was conducted as a variable rate tender using the multiple rate allotment procedure. The weighted average rate on this operation was 2.54%, while the marginal rate of allotment was 2.53%. Since the volume of the allotment was pre-announced, these interest rates reflected market conditions at the time of the operation and should not be seen as implying any monetary policy signal. As has also been observed in the past, the rates were slightly lower than the three-month EURIBOR interest rate prevailing on the date of execution of the operation. This may be attributed to the fact that the supply of liquidity in the refinancing operations of the Eurosystem is secured, while EURIBOR transactions are carried out without collateral and can therefore be expected to incorporate a higher risk premium.

Long-term interest rate levels fell in April

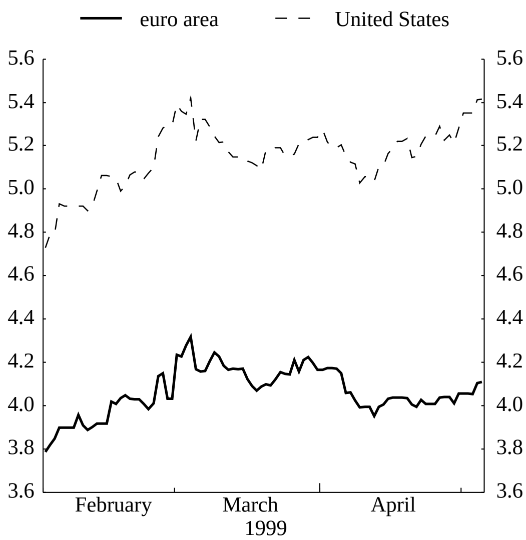
In euro area capital markets 10-year government bond yields dropped by around 15 basis points over the period from end-March 1999 to reach 4.06% on 30 April (see Chart 5). This was close to the levels observed towards the end of 1998, although still slightly above the troughs that were seen in early 1999. The almost continuous decline in euro area bond yields during April initially reflected mounting expectations of a cut in ECB interest rates in the early part of the month. Later, the fact that the cut in ECB interest rates proved to be larger than market participants had expected, together with the release of some economic indicators for the euro area, contributed to a further slight decline in long-term bond yields. By contrast with earlier months of 1999, overall developments in the euro area bond markets during April appeared primarily to reflect the influence of these domestic factors, while global factors played a largely innocuous role. As a result, long-term interest rate developments in the euro area decoupled somewhat from those in the United States during April. As long-term yields in the United States remained broadly stable during most of April, the decline in euro area bond yields was reflected in a widening of the differential between US 10-year bond yields and comparable yields in the euro area.

The declines in long-term interest rates observed in the euro area during April appear to have been more a reflection of a decline in real yields than of a change in perception concerning the outlook for price developments in the longer term. One indication of this is that the level of 10-year real yields available from French index-linked bonds dropped by an amount similar to the decline in nominal yields with a comparable maturity during April. This would tend to

Chart 5

Long-term government bond yields in the euro area and the United States

(percentages per annum; daily data)



Sources: ECB, national data and Reuters.

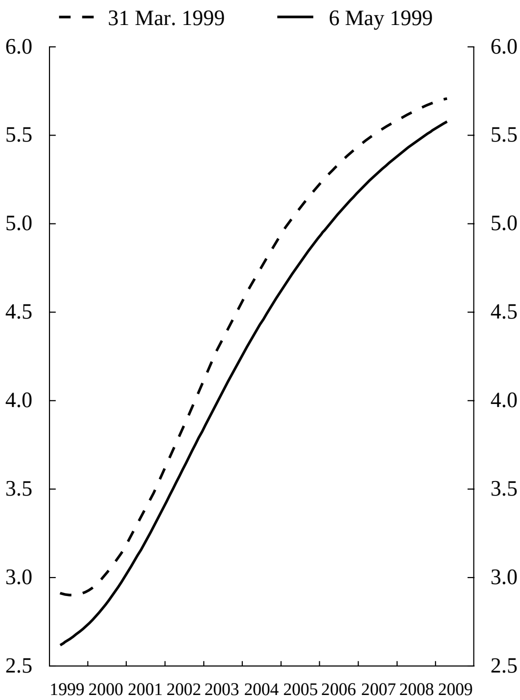
Note: Long-term government bond yields refer to 10-year bonds or to the closest available bond maturity.

suggest that financial market expectations concerning the longer-term outlook for price developments may not have been significantly altered in the course of April. The aforementioned downward revisions to earlier rates of M3 growth and the unchanged rate of M3 growth in March may have supported the financial perception that the longer-term outlook for price developments remained favourable. In addition, the slight increase in euro area HICP inflation recorded in March 1999 had little influence on euro area bond markets, as it had largely been anticipated by financial market participants. In the light of the above-mentioned developments in euro area bond markets, the euro area yield curve, measured using euro-denominated swap and interbank rates, shifted downwards at all maturities (see Chart 6).

Chart 6

Implied forward euro area overnight interest rates

(percentages per annum; daily data)



Source: ECB estimation. The implied forward yield curve, which is derived from the market observed term structure of interest rates, reflects the market expectation of future levels for short-term interest rates. The method used to compute these implied forward yield curves was outlined on page 26 of the January 1999 issue of the Monthly Bulletin. The data used in the estimation are derived from swap contracts.

All in all, these developments in euro area bond markets, taken together with developments in short-term interest rates, indicate that financial markets expect the level of short-term interest rates to remain low for the remainder of 1999. At the same time, the cut in ECB rates did not seem to change the favourable outlook for price stability over the longer term.

As mentioned above, there was little noticeable influence on euro area bond yields during April from developments in the United States. Long-term interest rate levels in the United States remained broadly stable for much of April 1999, reflecting the perception in the market that the US economy could continue to grow at a rapid pace without generating significant inflationary pressures. At the end of April 1999, however, national accounts information for the first quarter of 1999 altered this perception, placing subsequent upward pressure on US long-term interest rates. This may have led to some spillover to euro area long-term interest rates, which edged up slightly to over 4.1% in early May. At the same time, a decline in Japanese long-term bond yields of around 25 basis points between 30 March and 5 May 1999 may have been a contributory global factor in the decline in euro area long-term interest rates. The decline in long-term interest rates in Japan occurred against the background of a lack of evidence of inflationary pressures.

Stock prices increased

Stock prices in the euro area as measured by the broad Dow Jones EURO STOXX index increased by around 4% over the period from end-March to 5 May 1999 (see Chart 7). This increase brought euro area stock prices to more than 7% above end-1998 levels. However, stock prices still remained around 4% below the peak level seen in mid-July 1998, just before global stock markets experienced significant declines. The developments in euro area stock prices during April 1999 reflected both the buoyancy of international stock markets and domestic factors.

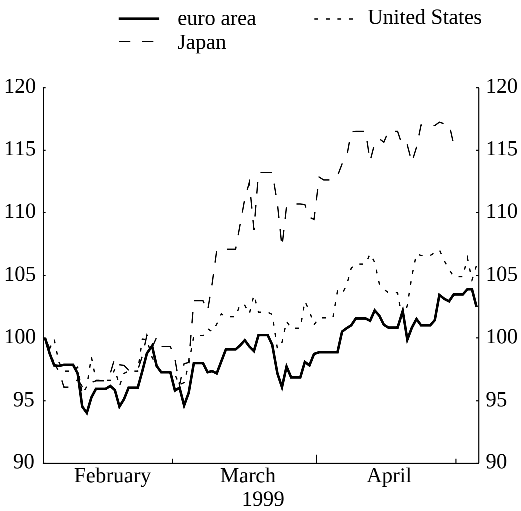
In the United States, despite some volatility in the course of April, the Standard & Poor's 500 index increased by almost 5% over the period from end-March to 5 May. The continued strength of the stock market in the United States during April and early May seemed primarily to be related to the continued robust US economic growth, which was reflected in the strength of corporate earnings growth in the first quarter of 1999. In Japan, following the sizable increase observed in March 1999, stock prices as measured by the Nikkei 225 index increased by more than 5 % over the period from end-March to 30 April (the Japanese stock market was closed in early May). The decline in Japanese long-term interest rates appeared to play an important role in the further rise in stock prices during April, while the increase in stock prices may also have reflected a change in market sentiment concerning the likelihood of a future recovery in the pace of economic activity.

For the euro area stock markets, developments in international stock markets provided a supportive environment, whereas the situation in Kosovo may have been a subduing influence. Among the domestic factors that played an important role in euro area stock price developments was the decline in long-term euro area bond yields during April. In addition, as has so far been the case for much of 1999, expectations that moves towards mergers in certain sectors would have a beneficial influence on corporate earnings also appeared to support the rise in euro area stock prices. Finally,

Chart 7

Stock price indices in the euro area, the United States and Japan

(1 February 1999 = 100; daily data)



Sources: Reuters for the euro area; national data for the United States and Japan.
Note: Dow Jones EURO STOXX broad (stock price) index for the euro area, Standard and Poor's 500 for the United States and Nikkei 225 for Japan.

financial market expectations about prospects for future export and corporate earnings growth in some sectors of the economy seem to have improved. This is reflected, in particular, in the relatively strong performance of the Dow Jones EURO STOXX 50 index. This index is composed of large, internationally diversified firms, which tend to have earnings that are more sensitive both to the international environment and to exchange rate developments than those of smaller companies. This index increased by more than 4% over the period from end-March to 5 May and, by contrast with the broader index, on 5 May 1999 it stood above the peak levels observed in mid-July 1998, following an increase of more than 11% since end-1998.

2 Price developments

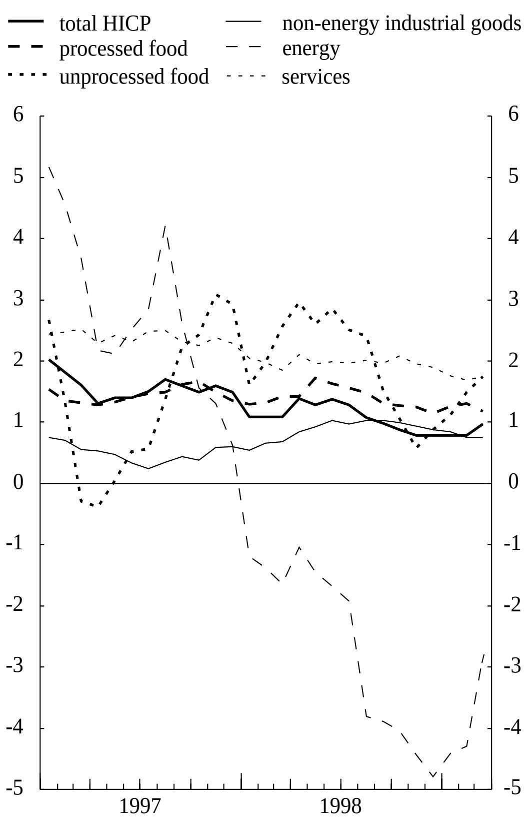
Consumer price increases rise due to oil prices

The annual increase in the euro area headline Harmonised Index of Consumer Prices (HICP) rose to 1.0% in March 1999, up from 0.8% in the previous four months (see Table 1). As expected, this increase was primarily caused by developments in energy prices, reflecting the recovery in the world market price of oil from €9.4 per barrel in February to €11.8 per barrel in March. While energy prices in March 1999 were still 2.8% lower than a year earlier, they were clearly up from February, when energy prices were 4.3% lower than a year earlier (see Chart 8). In April the world market price of oil rose further to €14.4, which is likely to have a further upward effect on the area-wide HICP energy component. The consumer price of energy will also be affected by an increase in German energy taxation in April 1999. However, at the level of headline HICP this upward effect is expected to be broadly neutralised in the coming months owing to the disappearance of the effect of the German VAT increase of April last year.

Chart 8

Breakdown of HICP inflation in the euro area by components

(annual percentage changes; monthly data)



Source: Eurostat.

Food prices increased at an unchanged rate of 1.4% in March 1999. A slightly higher increase in unprocessed food prices (1.7% in March, compared with 1.5% in February) was offset by a slightly lower increase in processed food prices (1.2%, as opposed to 1.3%). The year-on-year increase in unprocessed food prices has risen markedly since November 1998, when it stood at 0.6%, due to fruit and vegetable prices. However, this is not unusual since unprocessed food prices, together with energy prices, are the most volatile components of the HICP.

Focusing on the remaining and generally less volatile components of the HICP, the year-on-year rates of increase in the prices of non-energy industrial goods and in services remained unchanged from February to March, at 0.7% and 1.7% respectively. These latest data confirm the tendency observed over 1998 of broadly stable or slightly decreasing rates of change for these items, which account for two-thirds and thereby the bulk of total HICP.

In terms of other price indices, too, there is no indication of a general upward movement in prices. However, the turnaround in the prices of oil and other commodities in recent months could be expected to feed slowly into their development in the course of 1999. Therefore, while industrial producer prices continued to fall by 2.7% in February 1999, unchanged from January, the fall might decelerate in the near future. The main contribution could be expected to come from price developments in the intermediate goods industry, where producer prices were significantly influenced by the strong decline in the world market prices of non-energy commodities in the course of 1998.

Table 1

Price and cost developments in the euro area

(annual percentage changes, unless otherwise indicated)

	1996	1997	1998	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.
Harmonised Index of Consumer Prices (HICP) and its components													
Overall index	2.2	1.6	1.1	1.3	1.1	0.8	0.8	0.8	0.8	0.8	0.8	1.0	.
of which:													
Goods	1.8	1.1	0.6	1.0	0.7	0.2	0.3	0.2	0.1	0.2	0.2	0.5	.
Food	1.9	1.4	1.6	2.1	1.7	1.1	1.3	1.0	1.0	1.2	1.4	1.4	.
Processed food	1.9	1.4	1.4	1.6	1.4	1.2	1.2	1.2	1.1	1.3	1.3	1.2	.
Unprocessed food	1.8	1.4	2.0	2.8	2.1	0.8	1.4	0.6	0.9	1.1	1.5	1.7	.
Industrial goods	1.8	1.0	0.1	0.4	0.1	-0.2	-0.2	-0.2	-0.4	-0.3	-0.4	0.0	.
Non-energy industrial goods	1.6	0.5	0.9	0.9	1.0	0.9	0.8	0.9	0.9	0.8	0.7	0.7	.
Energy	2.6	2.8	-2.6	-1.4	-3.2	-4.4	-3.8	-4.4	-4.8	-4.4	-4.3	-2.8	.
Services	2.9	2.4	2.0	2.0	2.0	2.0	1.7	2.0	1.9	1.8	1.7	1.7	.
Other price and cost indicators													
Industrial producer prices [1]	0.4	1.1	-0.8	-0.2	-1.3	-2.3	.	-2.4	-2.6	-2.7	-2.7	.	.
Unit labour costs [2]	1.8	0.4	.	-0.6	-0.6	.	.	-	-	-	-	-	-
Labour productivity [2]	1.6	2.3	.	1.8	1.8	.	.	-	-	-	-	-	-
Compensation per employee [2]	3.4	2.6	.	1.2	1.3	.	.	-	-	-	-	-	-
Total hourly labour costs [3]	2.8	2.3	1.4	1.6	1.7	1.1	.	-	-	-	-	-	-
Oil prices (EUR per barrel) [4]	15.9	17.1	12.0	12.8	11.7	10.0	10.3	10.2	8.8	9.5	9.4	11.8	14.4
Commodity prices [5]	-6.9	13.0	-12.5	-10.7	-18.2	-20.5	-16.0	-18.4	-19.4	-17.2	-16.1	-14.7	-12.6

Sources: Eurostat, national data, HWWA-Institut für Wirtschaftsforschung (Hamburg) and ECB calculations.

1) *Excluding construction.*
2) *Whole economy.*
3) *Whole economy (excluding agriculture, education and health).*
4) *Brent Blend (for one-month forward delivery). ECU up to December 1998.*
5) *Excluding energy. In euro; ECU up to December 1998.*

Finally, Eurostat has released initial estimates for the fourth quarter of 1998 for a new hourly labour cost indicator which is based on national data and is a measure of the cost per hour of labour input. These data indicate a lower annual rate of increase in total hourly labour costs in the whole economy (excluding agriculture, education and health), declining from 1.7% in the third quarter to 1.1% in the fourth quarter of 1998, thereby confirming subdued developments up to the end of 1998. In the light of recent wage agreements and the fact that the effects of the Italian tax reform in 1998 have come to an end, the growth rate of labour costs could, however, be expected to increase somewhat in the course of 1999.

Overall, recent data on price developments are broadly in line with earlier expectations of a rise in the annual increase in the HICP, mainly as a reflection of the recovery in oil and non-energy commodity prices. Such a trend may also become visible in other price indices, such as producer prices, as new data become available in the coming months, and it could generally predominate in the more immediate future. However, on the basis of current information, these trends do not appear to alter expectations of a continuation of the subdued developments in the non-energy HICP components, which are typically less directly affected by price changes of this nature. Consequently, headline HICP is expected to remain in line with the Eurosystem's definition of price stability in the short and medium term.

3 Output, demand and labour market developments

National accounts data for the euro area will in the near future be based on the European System of Accounts 1995 (ESA 95). These data will include revised historical data for a number of earlier years. The limited national data already available on this basis suggest that there may be significant changes to both the historical level and the growth rate of euro area GDP arising from the use of the new statistical framework. While these revisions might affect the results for years prior to 1999, it is not yet apparent whether or not they will also affect the quarterly pattern observed over the more recent past, in particular developments over the course of 1998. For the time being, the latest revised data from Eurostat (dated 12 April 1999) confirm the picture of slower growth at the turn of the year due, to a large extent, to the decline in net trade, while activity has primarily been supported by private consumption (see Table 2).

The slowdown in activity extended into the first two months of 1999

In the absence of GDP data for the first quarter of 1999, attention has focused on additional industrial production data, which are now available up to February 1999 (see Table 3). Figures for both January and February have been released since the last issue of the ECB Monthly Bulletin, but it should be noted that the data for recent months are to a notable extent based on estimates.

The figures released by Eurostat provide little evidence of a turnaround in production in the very early part of the year. Measured on the basis of three-month moving averages, in order to take account of the volatility of monthly industrial production statistics, production excluding construction in the period from December 1998 to February 1999 was 0.8% lower than in the previous three months (i.e. the period from September 1998 to November 1998). Production in February 1999 declined in comparison with

Table 2

Composition of real GDP growth in the euro area

(percentage changes, unless otherwise indicated; seasonally adjusted)

	Annual rates [1]								Quarterly rates [2]				
	1996	1997	1998	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
Real gross domestic product *of which:*	1.7	2.5	2.9	3.1	3.7	2.9	2.8	2.3	0.7	0.8	0.6	0.7	0.2
Domestic demand	1.1	2.0	3.5	2.7	4.1	3.2	3.7	3.1	1.2	1.6	0.4	0.5	0.6
Private consumption	2.0	1.6	2.9	2.2	2.7	2.3	3.1	3.2	0.8	0.9	0.5	0.9	0.9
Government consumption	1.2	-0.1	1.1	-0.7	0.9	1.3	1.0	1.1	-0.9	1.7	0.4	-0.2	-0.7
Gross fixed capital formation	0.8	2.1	4.0	2.7	5.7	3.2	4.1	3.1	1.2	1.9	-0.8	1.7	0.2
Changes in inventories [3]	-0.5	0.6	0.7	0.9	1.0	0.9	0.7	0.3	0.5	0.4	0.2	-0.4	0.1
Net exports [3]	0.6	0.5	-0.5	0.5	-0.3	-0.3	-0.8	-0.7	-0.5	-0.7	0.2	0.2	-0.4
Exports [4]	4.7	9.8	5.4	11.2	10.0	7.8	3.8	0.7	0.9	-0.4	2.4	0.8	-2.1
Imports [4]	3.2	8.9	7.5	10.6	11.8	9.2	6.5	2.8	2.3	1.6	2.1	0.4	-1.2

Sources: Eurostat and ECB calculations.

1) *Annual rates: percentage change over the same period a year earlier.*

2) *Quarterly rates: percentage change over the previous quarter.*

3) *As a contribution to real GDP growth; in percentage points.*

4) *Exports and imports cover goods and services and include internal cross-border trade in the euro area. Intra-euro area trade is not cancelled out in import and export figures used in national accounts. Consequently, these data are not fully comparable with balance of payments data.*

both the previous month and the same month a year earlier, after the data for January 1999 had suggested a positive rate of growth. The decline in manufacturing production continued in the period up to February 1999, also falling by 0.8% in the period from December 1998 to February 1999 compared with the previous three months, which was slightly less than the rate of decline in each of the two preceding three-month periods. A breakdown of manufacturing production into the main industrial groupings shows that the non-durable goods industries have shown a somewhat less negative trend than the capital and intermediate goods industries. The decline in intermediate goods in the three-month period to February 1999 was 0.7%, i.e. more than twice the decline recorded in the corresponding three-month period to January 1999. Production in the consumer durable goods industry has fallen most strongly in recent months.

Preliminary survey data for capacity utilisation in the manufacturing sector for April 1999, conducted on a quarterly basis and released by the European Commission on 6 May 1999, were reported to be unchanged, at 81.9%, from the level in January 1999 (see Table 4). Calculating the quarterly figures as the average of two successive survey results shows a further slight decline in capacity utilisation in the first quarter of 1999 compared with the fourth quarter of 1998. The latest data indicate that the cumulative decline in capacity utilisation since the second quarter of 1998 – when it reached a peak of 83.6% – is 1.7 percentage points. However, capacity utilisation remains close to its long-term average.

If retail sales data for the last three months (including January) are taken together, with a view to taking account of short-term volatility in the series, they point to the continued resilience of consumption in the euro area. Retail sales are estimated to have risen by around 2% compared with the same three months a year earlier. In addition, no significant slowdown is apparent in recent figures for new passenger car registrations, which rose by just over 7% in the year to the first quarter of 1999, i.e. the third consecutive quarter in which annual increases in registrations have exceeded 7%.

Table 3

Industrial production in the euro area

(annual percentage changes, unless otherwise indicated)

	1997	1998	1998 Dec.	1999 Jan.	1999 Feb.	1998 Dec.	1999 Jan.	1999 Feb.	1998 Sep.	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan.
						month-on-month			3-month moving averages				
Total industry	3.6	3.6	-0.8	1.8	0.0	-1.2	1.9	-0.8	-0.1	-0.1	-0.6	-0.3	-0.2
Construction	-1.0	0.3	-1.5	.	.	0.0	.	.	-1.0	-1.1	-1.0	.	.
Total industry excl. construct.	4.3	4.0	-0.8	1.6	-0.2	-0.7	0.4	-0.4	-0.1	0.0	-0.4	-0.5	-0.8
Manufacturing	4.8	4.4	-1.3	0.7	-0.8	-1.2	1.5	-0.9	-0.1	-0.4	-1.0	-1.0	-0.8
by main industrial groupings:													
Intermediate goods	5.4	3.9	-1.6	0.5	-1.4	-1.2	1.3	-1.1	-0.5	-0.1	-0.5	-0.3	-0.7
Capital goods	4.8	6.6	1.7	4.1	1.4	-1.6	2.5	-1.4	0.3	0.3	-0.1	-0.2	-0.5
Consumer goods	2.6	3.0	-1.1	2.4	0.9	-1.0	1.8	-0.4	-0.3	-0.2	-0.8	-0.6	-0.4
Durable consumer goods	2.0	6.2	0.7	2.9	0.7	-2.4	1.8	0.0	0.2	0.7	-0.6	-1.6	-2.1
Non-durable consumer goods	2.3	1.2	-1.9	1.3	1.0	-0.3	0.5	0.0	-0.1	-0.1	-0.2	0.0	0.1

Sources: Eurostat and ECB calculations.
Note: Annual percentage changes are calculated by using data adjusted for variations in the number of working days; percentage changes on the previous month and three-month centred moving averages against the corresponding average three months earlier are calculated by using seasonally and working day adjusted data.

Survey data could indicate preliminary signs of some improvement

Since the April issue of the ECB Monthly Bulletin, the European Commission has released both the March and the April 1999 results of its Business and Consumer Surveys (see Table 4). For March, the EC survey results were not encouraging in terms of the prospects for a turnaround in activity. They indicated a further decline in industrial confidence, bringing the indicator to its lowest level since January 1997, and, at the same time, a slight fall in consumer confidence, which had reached a record high in January and February 1999. Consistent with this, lower confidence was also recorded in retail industries.

However, while consumer confidence declined slightly in April, industrial confidence improved somewhat (for the first time since June 1998). Retail confidence also improved in April. Looking more closely at the series underlying the industrial confidence indicator, responses to the survey questions on the assessment of order books suggest that the situation for both export and domestic orders improved slightly in April. In addition, production expectations in the April survey results were also higher.

There has been a slight rise in construction confidence since the start of the year, having improved sharply over a prolonged period between 1996 and 1998. However, the clear improvement in confidence in this sector is not reflected in the data on actual construction, which are not yet showing signs of a sustained upturn in activity.

Overall, taking into account the current state of information (whereby some series are only available with a lag of several months), there is little evidence to suggest that the slowdown in the euro area economy came to an end in the first two months of 1999. However, more recently, indicators derived from the EC surveys have provided some tentative support for a stabilisation or even a slight improvement in coming months. In particular, there has been a small improvement in industrial confidence, while the slight reduction in consumer confidence might be considered to reflect more the case that confidence levels are returning to normal than to signal a weakening in consumption growth. Nevertheless, it is too early to say whether or not the survey data constitute a firm indication of a stabilisation in activity. Moreover, as indicated above, there is a possibility of further revision of past national accounts data, which will need to be examined closely.

Table 4

Results from EC Business and Consumer Surveys for the euro area

(seasonally adjusted data)

	1996	1997	1998	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.
Economic sentiment index [1]	-2.7	2.5	3.1	4.4	3.0	1.5	0.7	2.0	1.4	1.5	0.8	-0.2	-0.4
Consumer confidence indicator [2]	-8	-3	7	7	7	10	12	10	11	12	12	11	9
Industrial confidence indicator [2]	-8	4	7	10	7	1	-3	0	-1	-1	-3	-4	-3
Construction confidence indicator [2]	-13	-10	4	1	10	8	14	9	9	14	14	14	15
Retail confidence indicator [2]	-5	-3	4	2	5	3	3	2	2	6	2	0	5
Capacity utilisation (%) [3]	80.3	81.5	83.0	83.6	83.3	82.4	81.9	-	-	81.9	-	-	81.9

Source: European Commission Business and Consumer Surveys.
1) *Annual percentage changes; index 1985 = 100.*
2) *Percentage balances; data shown are calculated as deviations from the average over the period since January 1985.*
3) *Data are collected in January, April, July and October of each year. The quarterly figures shown are the average of two successive surveys, i.e. the surveys conducted at the beginning of the quarter in question and at the beginning of the following quarter. Annual data are quarterly averages.*

Unemployment continued to decline gradually

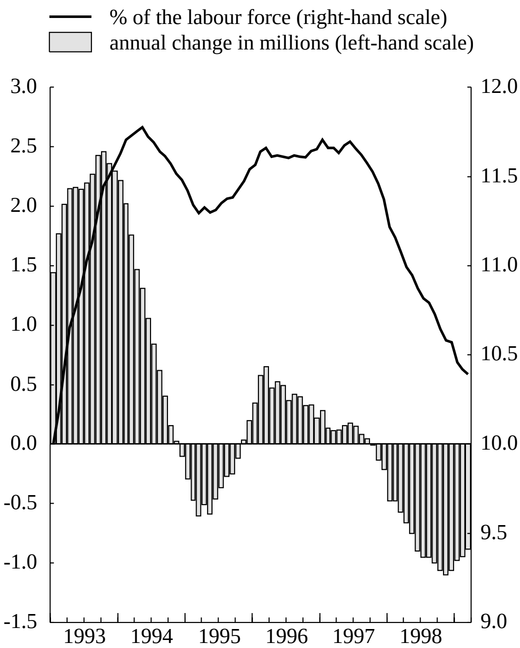
In March 1999 the standardised rate of unemployment stood at 10.4%, unchanged from the rate for the previous month, which has been revised downwards from 10.5% (see Table 5). This unchanged rate of unemployment in March followed two consecutive declines in January and February. However, it is worth noting that the rate of unemployment among those over 25 years of age, representing around three-quarters of total unemployment, virtually stalled around the turn of the year, indicating that the decline in unemployment has now become less broadly based. The evidence provided by national developments also supports this impression, since further progress was recorded only in a few countries. In some contrast, the rate of unemployment among those under 25 years of age continued to decline at a broadly unchanged pace. This might reflect preferences among employers for recruiting, in particular, younger people. However, this development might also reflect the impact of a number of employment schemes which were recently set up or enhanced in several countries to the benefit of specifically targeted groups, notably young people.

In the absence of more recent data on employment developments, the evidence available from unemployment rates suggests that net job creation continued in the first quarter of this year, despite a weakening in economic activity. However, firms in those sectors most exposed to international developments started to adjust their staffing levels downwards from the last quarter of 1998 onwards, as reflected in the Eurostat data (see Table 6). According to these data, employment in total industry excluding construction declined by 0.3% in the fourth quarter of 1998 compared with the previous quarter, and by 0.1% in the manufacturing sector. By contrast, employment in the construction sector increased very strongly

Chart 9

Unemployment in the euro area

(monthly data; seasonally adjusted)



Source: Eurostat.

Table 5

Unemployment in the euro area

(as a percentage of the labour force; seasonally adjusted)

	1996	1997	1998	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.
Total	11.6	11.6	10.9	10.9	10.8	10.6	10.4	10.6	10.6	10.6	10.5	10.4	10.4
Under 25 years 1)	23.9	23.1	20.9	21.1	20.7	20.4	20.0	20.5	20.4	20.2	20.2	20.0	19.9
25 years and over 2)	9.8	9.9	9.4	9.5	9.4	9.2	9.1	9.2	9.2	9.2	9.1	9.1	9.1

Source: Eurostat.

1) *In 1998 this category represented 24.4% of total unemployment.*

2) *In 1998 this category represented 75.6% of total unemployment.*

Table 6

Employment growth in the euro area

(annual percentage changes, unless otherwise indicated)

	1997	1998	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1998 Oct.	1998 Nov.	1998 Dec.
							Quarterly rates 1)						
Whole economy 2)	0.3	1.3	1.0	1.1	1.4	1.5	0.4	0.4	0.5	0.3	-	-	-
Total industry	-1.4	0.1	0.0	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.3	0.2	0.0
Construction	-0.5	-0.1	-0.1	-1.4	-0.4	1.5	-0.1	-0.5	0.6	1.5	1.4	1.6	1.4
Total industry excl. construct.	-1.4	0.4	0.3	0.6	0.6	0.1	0.3	0.1	0.0	-0.3	0.3	0.1	-0.1
Manufacturing	-1.0	0.7	0.6	1.0	0.9	0.5	0.3	0.3	0.0	-0.1	0.7	0.4	0.3

Sources: National data and Eurostat.
1) Quarterly rates: percentage change over the previous quarter; seasonally adjusted.
2) Excluding Belgium and Ireland; seasonally adjusted.

in the second half of 1998, in particular in the fourth quarter (1.5%), thus more than compensating for the net job losses recorded in the preceding months. No area-wide indicator for employment in the services sector is available as yet. The release of the ESA 95 should soon improve the situation regarding data availability. However, partial information based on limited national statistics suggests that employment growth in this sector continued, notably owing to the high level of part-time job creation.

In summary, the downward trend in unemployment rates appears to have continued in the first few months of 1999. Hence it seems likely that employment creation will have remained positive despite the slowdown in economic activity. However, there are some signs that progress towards more robust employment creation may have slowed around the turn of the year. While positive influences might be expected from a recovery in economic activity in the course of the current year, both reductions in unemployment rates and employment growth may be weaker in 1999 than in 1998.

4 Exchange rate and balance of payments developments

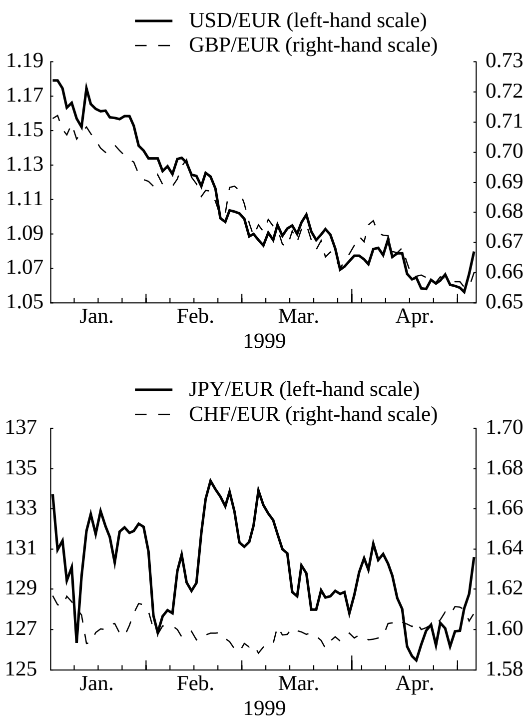
Contrasting exchange rate developments in April and early May

In April the euro weakened against the US dollar, reaching a level of USD 1.06 at the end of the month (see Chart 10). This weakening continued to be driven, as in earlier months, by data releases that showed continued strong growth in the United States and only limited signs of a pick-up of economic activity in the euro area, while the Eurosystem's decision on 8 April to lower the interest rates had little effect on the euro exchange rate. The military conflict in the Balkans also contributed to the weakening of the euro owing to the general uncertainties in the markets stemming from the Balkan conflict. The rate of depreciation of the euro in April was, however, slower than in the first three months of 1999. In early May the euro appreciated against the dollar, reversing the weakening that had taken place in April. This turnaround occurred mainly against the background of more positive market sentiment, supported by expectations of some progress towards ending the Kosovo conflict. On 6 May the euro was quoted at USD 1.08, i.e. the same level as at the beginning of April.

Chart 10

Patterns in exchange rates

(daily data)



Source: ECB.

The Japanese yen continued to fluctuate significantly in April and strengthened against the euro and other major currencies. The yen's appreciation was primarily caused by market expectations of an improvement in the economic outlook and, in particular, in the earnings outlook for a number of Japanese corporate sectors. These expectations contributed to significant capital inflows to Japan and tended to support the yen. In early May, however, the euro strengthened against the yen and was quoted at JPY 131 on 6 May, i.e. similar to the level recorded in early April.

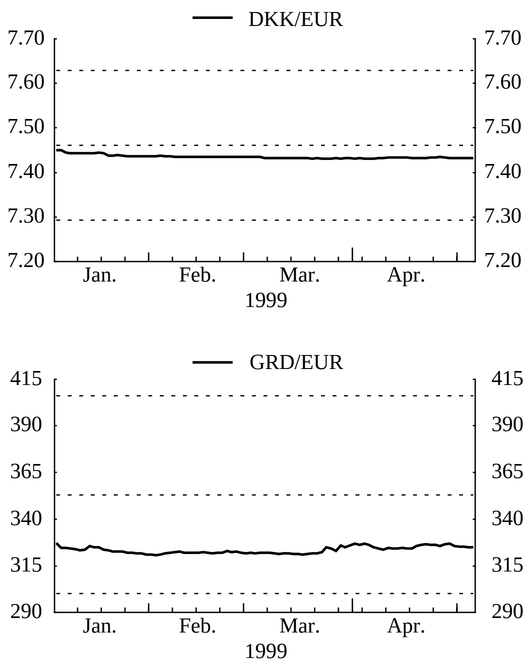
In addition, the euro weakened against the pound sterling in April and subsequently strengthened in early May. The fact that the latter movement was less pronounced than the USD/EUR movement implied a slight appreciation of sterling vis-à-vis the US dollar which was attributable to the improved outlook for the UK economy and rising oil prices. On 6 May the euro was quoted at GBP 0.66. Against the Swiss franc, the euro remained broadly stable during April and early May at around CHF 1.60.

The currencies within ERM II were broadly stable against the euro (see Chart 11). The Danish krone has remained within a very narrow range of DKK 7.43–7.45 since 4 January 1999, about 0.3% stronger than the central parity. With regard to the Greek drachma, the fluctuations have been somewhat larger, i.e. within a range of GRD 321–327, owing to a wider fluctuation band and a higher variability in Greece's economic outlook, interest rates and equity prices relative to the euro area. On average, the Greek drachma has been about 9% stronger than the central parity since 4 January 1999.

Chart 11

Patterns of exchange rates within ERM II

(daily data)



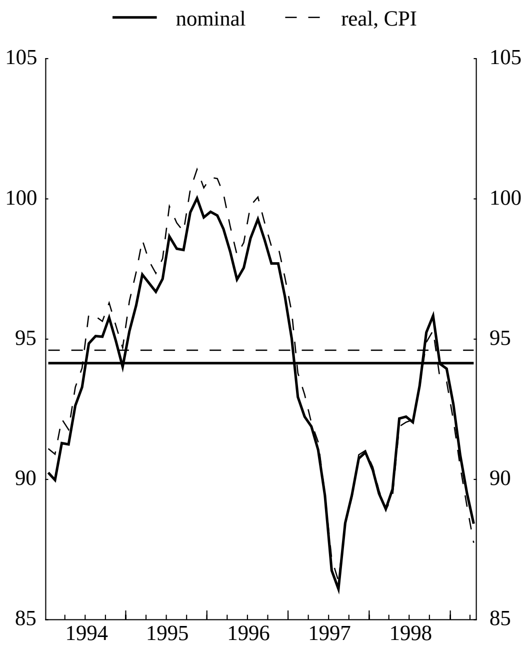
Source: ECB.
Note: The horizontal lines indicate the central parity and the respective fluctuation bands (±2.25% for DKK and ±15% for GRD).

As far as other trading partners' currencies are concerned, it is worth noting that the improved outlook for the Asian region, excluding Japan, led to a significant appreciation of the currencies of the region, and that the rise in the price of oil and some

Chart 12

Effective exchange rates of the euro area [1)]

(monthly averages; index 1990 = 100)



Source: BIS.

1) Data are BIS calculations; for information on the methodology used, see Table 10 in the "Euro area statistics" section of this Bulletin. An upward movement of the index represents an appreciation for the euro area. Horizontal lines are averages over the period shown.

commodities contributed to a strengthening of the Australian dollar, the Canadian dollar and the Norwegian krone.

In nominal effective terms, the euro eased by 1.4% in April and rose by 1.3% in early May. On 6 May the euro effective exchange rate was around 6% below its level at the time of the euro's launch on 4 January 1999 (see Chart 12). The slowdown in the pace of depreciation of the euro during April and the subsequent pick-up in early May might suggest that the divergences in the cyclical outlook for the euro area and its main partner countries have weighed less strongly in more recent exchange rate developments.

Ongoing current account surplus

New monthly balance of payments data for the euro area became available in April 1999. These statistics are compiled by the ECB on the basis of data on extra-euro area external transactions reported by euro area NCBs. The data currently available cover monthly items for 1998 and the first two months of 1999 (see Box 2).

According to these data, in 1998 the current account of the euro area recorded a surplus of ECU 67.0 billion or 1.2% of GDP. The surplus resulted from a combination of surpluses in the goods and services balances amounting to ECU 122.1 billion and ECU 3.1 billion respectively, and deficits of the income and current transfers balances amounting to ECU 12.6 billion and ECU 45.5 billion respectively (see Table 7).

In January and February 1999 taken together the current account surplus of the euro area amounted to €3.7 billion, i.e. around €3.3 billion higher compared with the corresponding months of 1998. This was mainly due to a lower deficit in the current transfers balance.

In the first two months of 1999 the surplus of the balance on goods of the euro area amounted to €11.2 billion, i.e. about €1.7 billion lower than in the same period of 1998, and was almost equally distributed between January and February. Over the same period the value of exports amounted to €111.2 billion (about 8.0% lower than in the corresponding months of 1998), confirming the decline in exports already observed in late 1998 according to trade statistics data (see Table 9 in the "Euro area statistics" section of this Bulletin). Weak export performance mainly reflected lower foreign demand for euro area exports. The value of euro area imports decreased by about €8 billion or 7.4% from January/February 1999 compared with a year earlier, mostly as a result of falling oil and commodity prices in January and February 1999.

The euro area external balance on services recorded a deficit of €1.9 billion in the first two months of 1999, i.e. about €1 billion lower than the deficit in the same period of 1998. Net income flows reported a deficit of €1.5 billion, i.e. about €1.1 billion lower than in the same period a year earlier. Current transfers vis-à-vis non-residents constitute the largest deficit item, which partly offset the surpluses achieved in goods trade. In January and February 1999 the deficit in current transfers was €4.1 billion, about €2.8 billion lower than in the corresponding period of 1998. Net lending to the rest of the world, which is the sum total of the current and capital accounts, increased by about € 2.6 billion, compared with the same period in 1998, to reach €6.4 billion.

Table 7

Balance of payments of the euro area [1)]

(EUR billions, compared with ECU billions for 1998 (not seasonally adjusted))

	1998	1999 Jan.	1999 Feb.	1999 Jan. + Feb.	1999 Jan.	1999 Feb.	1999 Jan. + Feb.
					Absolute difference from previous period		
Current account (a)	67.0	-0.2	3.9	3.7	2.2	1.1	3.3
Credit	1277.8	94.3	93.7	188.0	-10.3	-7.2	-17.6
Debit	1210.7	94.5	89.8	184.4	-12.5	-8.3	-20.8
Goods	122.1	4.0	7.2	11.2	-0.9	-0.8	-1.7
Credit	779.4	53.0	58.1	111.2	-5.6	-4.2	-9.7
Debit	657.3	49.0	50.9	99.9	-4.6	-3.4	-8.0
Services	3.1	-1.3	-0.6	-1.9	1.0	-0.0	1.0
Credit	247.6	14.5	16.0	30.5	-4.0	-1.6	-5.6
Debit	244.4	15.8	16.6	32.4	-5.0	-1.6	-6.6
Income	-12.6	-1.3	-0.2	-1.5	0.6	0.6	1.1
Credit	190.2	14.2	14.3	28.4	-0.4	-0.8	-1.3
Debit	202.9	15.5	14.4	29.9	-1.0	-1.4	-2.4
Current transfers	-45.5	-1.6	-2.6	-4.1	1.6	1.3	2.8
Credit	60.6	12.6	5.3	18.0	-0.4	-0.6	-1.0
Debit	106.1	14.2	7.9	22.1	-1.9	-1.9	-3.8
Capital account (b)	12.6	2.7	0.0	2.7	-0.1	-0.6	-0.6
Credit	17.6	3.1	0.5	3.6	0.0	-0.4	-0.4
Debit	5.0	0.5	0.5	1.0	0.1	0.2	0.3
Net lending to the rest of the world (a) + (b)	79.7	2.5	3.9	6.4	2.1	0.5	2.6
Financial account	7.9	11.8	6.7	18.6	-1.7	24.4	22.6
Direct investment	-100.2	-5.2	-2.0	-7.2	-0.1	2.5	2.5
Assets	-177.9	-11.6	-5.4	-17.0	-1.8	9.6	7.8
Liabilities	77.7	6.3	3.4	9.8	1.7	-7.0	-5.4
Portfolio investment	-90.8	8.1	-16.8	-8.7	10.1	6.0	16.1
Assets	-307.1	-17.2	-19.8	-37.0	3.5	31.3	34.8
Liabilities	216.3	25.3	3.0	28.2	6.6	-25.3	-18.8
Financial derivatives	-8.3	-2.1	-0.2	-2.4	-0.4	-1.0	-1.3
Other investment	198.9	13.6	21.2	34.7	-6.4	8.3	1.8
Assets	-37.0	-59.2	20.4	-38.8	-44.9	34.5	-10.3
Liabilities	235.8	72.8	0.7	73.5	38.4	-26.3	12.1
Reserve assets	8.3	-2.4	4.6	2.2	-4.9	8.6	3.6
Errors and omissions	-87.6	-14.3	-10.6	-24.9	-0.4	-24.8	-25.3

Source: ECB.
1) Figures may not add up due to rounding.

Box 2

The balance of payments of the euro area and international reserves of the Eurosystem: methodological issues

Monthly balance of payments statistics for the euro area, compiled by the ECB, are published for the first time in this issue of the ECB Monthly Bulletin (see Tables 8.1 to 8.5 in the "Euro area statistics" section). A press release containing the same statistics was published by the ECB on 30 April 1999. The statistics cover monthly key items for the complete balance of payments of the euro area from 1998 onwards.

From July 1999 the ECB will also publish a quarterly balance of payments of the euro area with a more detailed breakdown of the main items of the financial account (direct investment, portfolio investment, financial derivatives, other investment and reserve assets), as well as investment income.

Euro area balance of payments statistics are compiled by aggregating gross cross-border transactions of euro area residents vis-a-vis non-euro area residents as reported by the 11 participating countries. Transactions between residents of the participating Member States are not considered. For statistical purposes, the European Union institutions (but not the ECB itself) are treated as non-residents of the euro area. The euro area balance of payments aggregates could, in principle, be compiled by adding up the net balances of payments of the individual participating Member States. In practice, however, as set out in the first issue of the ECB Monthly Bulletin, this would exclude all gross figures and would give rise to significant discrepancies at the euro area level.

The concepts and definitions used in euro area balance of payments and international investment position statistics (the latter are to be published next autumn, for end-1998 stocks) are based on current international and European standards, notably the 5th edition of the IMF Balance of Payments Manual (October 1993) and the operational methodological rules adopted by the ECB (ECB Guideline of 1 December 1998 (ECB/1998/17)) and by the European Commission (Eurostat); these have been widely harmonised among national compilers. The following provides a brief description of the individual items.

In the current account, transactions are recorded when economic value is created, exchanged, transferred or extinguished. *Goods* are recorded according to the date of change in ownership; it should be noted that the goods item in the euro area balance of payments (Tables 8.1 and 8.2) is not fully comparable with that in the external trade statistics (see Table 9 in the "Euro area statistics" section of this Bulletin) owing to differences in the definition, coverage and time of recording. *Services* are recorded according to their actual delivery; *income* is usually recorded at the time it is accrued. Income is composed of the compensation of employees and investment income. *Current transfers* are recorded as of the date of occurrence of the underlying transactions; they consist of all transfers that are not transfers of capital, which are recorded in the (new) *capital account.*

In the financial account, *direct and portfolio investment* and *other investment* are compiled on the basis of net inflows/outflows in assets and liabilities with non-residents of the euro area. In addition, the net changes in the intra-ESCB balances with the NCBs of the non-participating Member States, which are generally the result of cross-border transfers executed via TARGET, are included on a net basis on the assets side of the Eurosystem's sub-item in the other investment account as from 1999. *Financial derivatives* are recorded on a net basis and presented in a separate category outside the portfolio investment account. Net flows associated with interest rate derivatives are recorded as financial derivatives, not as interest flows, in line with recent international agreement.

The international *reserve assets* of the euro area consist of highly liquid, marketable claims held by the ECB and the participating NCBs on non-residents of the euro area and denominated in foreign currency (i.e. in currencies other than the euro and its national denominations) plus gold, special drawing rights and the reserve positions in the IMF of the participating NCBs.

This definition of the Eurosystem's reserve assets complies with IMF guidelines, which may differ from accounting standards used in the Eurosystem's consolidated financial statement (as shown in Table 1.1). The Eurosystem's reserves are compiled on a gross basis without any netting-off of reserve-related liabilities. Positions shown in Table 8.6 are valued on a market basis.

The pre-1999 data for the euro area balance of payments statistics published by the ECB are also based on extra-euro area transactions and are expressed in ECU. The split between intra-transactions and extra-transactions of the MFI sector within the other investment account was partly estimated; thus other investment flows of the euro area MFI sector for 1998 are not fully comparable with those for 1999.

Euro area reserve asset flows before 1999 are aggregates of national data and include instruments issued by other residents of the euro area; they are therefore not comparable with the figures which relate to the Eurosystem's reserve assets from 1999 onwards. Comparability problems arising from the compilation method also apply to pre-1999 data on portfolio investment and financial derivatives.

Further information on the balance of payments data is provided on the ECB's Web site.

Movements in the financial account

In 1998 the financial account of the euro area balance of payments showed net capital exports for both direct and portfolio investment amounting to ECU 100.2 billion and ECU 90.8 billion respectively. Bonds and notes transactions accounted for most of the total net portfolio investment outflow. By contrast, a strong net inflow of capital was recorded in the other investment account, worth ECU 198.9 billion, and was mainly accounted for by an increase in the external liabilities of the euro area Monetary Financial Institutions (MFIs) (excluding the Eurosystem). The underrecording of outflows, mainly in portfolio and other investment, may have contributed to substantial errors and omissions, totalling a negative ECU 87.6 billion in 1998, in monthly data.

Financial flows in the first two months of 1999 were characterised by contrasting developments. In January 1999 portfolio investment recorded a net inflow of €8.1 billion, which was mainly related to strong net purchases of bonds and notes by non-resident investors. This is consistent with the "flight to quality" flows reported at the time of the Brazilian crisis and the relatively strong euro exchange rate that prevailed during the first half of January.

During February and in strong contrast to January, portfolio investment recorded a net outflow of €16.8 billion. The relatively high portfolio outflows were related to the purchase of bonds and notes issued by non-residents in February, which coincided with a relatively wide nominal interest rate differential between US and euro area long-term government bonds. Equity flows were almost in balance in January and February. The other investment account showed a significant inflow, which reflected a further deterioration in the net external position of the euro area MFIs other than the Eurosystem. Net outflows of direct investment were limited in the first two months of 1999 (€5.2 billion in January and €2.0 billion in February).

The operational framework of the Eurosystem: description and first assessment

In the first issues of the ECB Monthly Bulletin several articles were published explaining the monetary policy strategy which the Eurosystem pursues in order to fulfil its mandate of maintaining price stability in the euro area. This strategy consists of two pillars. The first pillar is a prominent role for money with a quantitative reference value for money growth and the second consists of a broadly based assessment of the outlook for price developments and the risks to price stability. The operational framework governs the implementation of the measures necessary to enact monetary policy decisions. The core elements of the operational framework of the Eurosystem are open market operations, standing facilities and a minimum reserve system. The main characteristics of the framework are described in this Article, together with an initial assessment of its implementation during the first three reserve maintenance periods since the start of Monetary Union, which together ran from 1 January to 23 April 1999.

The experience gained so far shows that the operational framework of the Eurosystem is an effective tool for steering money market interest rates, limiting their volatility and enabling the European Central Bank (ECB) to send appropriate monetary policy signals. The main refinancing operations have fulfilled the envisaged role of signalling the monetary policy stance, steering money market interest rates and providing the bulk of liquidity to the banking system. The longer-term refinancing operations have provided the banking system with an additional, stable liquidity flow with a maturity of three months. The standing facilities have effectively bound overnight market interest rates. The averaging provision of the minimum reserve system has helped to smooth the daily liquidity fluctuations, making the execution of fine-tuning operations unnecessary. These developments, together with low recourse to the standing facilities on most days, indicate that participants in the euro area money market have adapted well to the new environment.

1 The main components of the operational framework

The role of the operational framework in the conduct of monetary policy

The operational framework can be defined as the set of instruments which a central bank uses to manage liquidity and steer interest rates prevailing in the money market. In this market it is possible for credit institutions running a liquidity surplus to exchange funds with institutions running a liquidity deficit at terms that range from one day (overnight) to – normally – one year. Overall, the euro area banking system has an aggregate liquidity deficit and is reliant on refinancing by the Eurosystem. In this environment the Eurosystem acts as a marginal supplier of liquidity and can thereby steer money market interest rates and transmit monetary policy impulses along the yield curve. This action should be seen in the context of the monetary policy strategy of the Eurosystem, including the reference value for money growth.

A crucial factor in the transmission of monetary policy impulses is the homogeneity of the conditions prevailing in the money market. For this reason, it is important for market participants to be in a position to conduct transactions with counterparties located across the entire euro area, so as to be able to exploit potential arbitrage opportunities and avoid any existing euro area rate differentials. Hence efficient and secure area-wide payment systems are essential for the smooth and effective conduct of the single monetary policy (see the description of the role of TARGET in Box 1).

All decisions related to the conduct of monetary policy are taken by the decision-making bodies of the ECB. However, the practical aspects, such as the execution of open market operations and the administration of the standing facilities and the minimum reserve system, are carried out in a decentralised manner by the national central banks.

Recourse to the instruments comprising the operational framework is evidenced in the consolidated balance sheet, which is published by the Eurosystem every week. The assets side of the balance sheet displays, among other items, the instruments through which the central bank provides liquidity to the banking system, whereas the liabilities side lists the instruments which drain liquidity from the system. Those balance sheet items that are beyond the direct control of monetary policy authorities, but which also influence the liquidity of the system, are usually referred to as "autonomous factors" (e.g. government deposits with the Eurosystem and banknotes in circulation). Their assessment is particularly important for a correct understanding of the use of the monetary policy instruments. Therefore, the weekly publication of the Eurosystem's consolidated balance sheet plays a relevant role in informing the public about monetary policy.

This section reviews the main characteristics of the instruments forming the operational framework of the Eurosystem. A detailed presentation of these instruments can be found in the ECB report entitled "The single monetary policy in Stage Three: General documentation on ESCB monetary policy instruments and procedures" (September 1998).

Open market operations

In the context of the monetary policy strategy, open market operations play an important role in steering interest rates and managing the provision of liquidity to the market. The Eurosystem provides the bulk of liquidity to the banking system through the *main refinancing operations*. These are open market operations conducted regularly by means of tenders, with a weekly frequency and a maturity of two weeks. Additional liquidity is provided through the *longer-term refinancing operations* that are conducted regularly by means of tenders, with a monthly frequency and a maturity of three months. For the sake of simplicity, these operations will also be referred to as the *weekly tenders* and the *monthly tenders* respectively.

Both weekly and monthly tenders are executed through *standard tenders*. In the context of the operational framework of the Eurosystem, this term indicates those tenders executed within a period of 24 hours from their announcement to the communication of the results, in accordance with a schedule published in advance. All institutions fulfilling the counterparty eligibility criteria may participate in these operations. The Eurosystem may execute standard tenders in the form of either *fixed rate* or *variable rate auctions*. In the former, the interest rate is specified in advance by the Eurosystem and participating counterparties bid the amount of money they wish to transact at the fixed interest rate; in the latter, counterparties bid both the amount of money they wish to transact and the interest rate at which they wish to enter into the transaction. A further distinction applies to variable rate auctions. In auctions conducted through a *single rate procedure*, the marginal interest rate, i.e. the lowest accepted rate, is applied to all satisfied bids. By contrast, if a *multiple rate procedure* is adopted, the allotment interest rate applied to each individual bidder is the interest rate it offered in its bid.

The Eurosystem effectively retains the option of using either fixed rate or variable rate auctions in the case of weekly tenders, while it normally conducts all monthly tenders in the form of variable rate auctions. In addition, it normally pre-announces the intended volume of the operation for monthly tenders, but not for weekly tenders. This means that in a weekly tender the Eurosystem either explicitly sets the interest rate applicable (if it conducts a fixed rate auction) or else it can influence the interest rate by determining the volume of funds allotted to the bids submitted by credit institutions (if it conducts a variable rate auction). Hence weekly tenders are designed to play a pivotal role in steering interest rates. In a monthly tender, by contrast, the Eurosystem normally acts as a rate taker, as it accepts the rate resulting from the variable rate auction, namely the rate at which the bids submitted by credit institutions cover the pre-announced allotment amount.

The Eurosystem may also carry out *fine-tuning operations* on an ad hoc basis to smooth interest rate movements, in particular if these are caused by unexpected liquidity fluctuations. Given their purpose, fine-tuning operations are conducted, when deemed necessary, through *quick tenders* (which take one hour from their announcement to the communication of the allotment results) or through *bilateral procedures*. A limited number of selected counterparties may participate in such operations. Furthermore, the Eurosystem may conduct *structural operations* to modify its net position vis-à-vis the banking system over a longer period. These operations can be conducted using reverse transactions, outright operations or the issuance of debt certificates.

Standing facilities

The Eurosystem also implements monetary policy by setting the interest rates on its standing facilities. These have the function of providing or absorbing liquidity with an overnight maturity. Counterparties may use the *marginal lending facility* to obtain overnight liquidity against eligible assets from the national central banks, whereas they may use the *deposit facility* to make overnight deposits with the national central banks. All institutions fulfilling the counterparty eligibility criteria may access the standing facilities. There is no limit on recourse to the standing facilities, although the ECB may impose restrictions or adapt the conditions connected to their use in particular circumstances. Moreover, in the case of the marginal lending facility, counterparties must post an adequate amount of collateral. The interest rates on the standing facilities normally provide a ceiling and a floor for the overnight market interest rate and may be used to signal the medium-term orientation of monetary policy.

Minimum reserve system

The Eurosystem imposes reserve requirements on credit institutions established in the euro area. These requirements have to be fulfilled on average over a one-month maintenance period (this is referred to as *averaging*), which runs from the 24th day of one month to the 23rd day of the following month. As a transitional measure, however, the first maintenance period of Monetary Union started on 1 January and ended on 23 February 1999.

A first key function of the minimum reserve system is to stabilise money market interest rates. The averaging provision allows credit institutions to smooth out daily liquidity fluctuations, since daily reserve surpluses (amounts of reserve holdings in excess of the reserve requirements) can be offset by daily reserve deficits throughout the same maintenance period. This implies that institutions can profit from lending in the market and run a reserve deficit whenever the overnight interest rate is above that expected to prevail for the remainder of the maintenance period, and to borrow and run a reserve surplus in the opposite case. In theory, at the level of the banking system this should ensure equality between the current level and the corresponding expected level of the overnight interest rate, since any difference between the two rates would offer a corresponding profit opportunity. Thus, the option to offset reserve surpluses by reserve deficits is often referred to as "intertemporal arbitrage". This arbitrage stabilises the overnight interest rate during the maintenance period and makes it unnecessary for the central bank to intervene frequently in the money market. If such intervention were to be conducted with a high frequency and for different purposes, this could undermine the operational efficiency of monetary policy, as central bank signals could become blurred.

A second relevant function assigned to the minimum reserve system is the enlargement of the banking system's liquidity deficit. Although a central bank can also operate in an environment of a liquidity surplus, practical experience has shown that the existence of a liquidity deficit enhances its ability to steer money market interest rates. The need for credit institutions to hold reserves with national central banks contributes to increasing the demand for central bank refinancing and is consistent with the prominent role assigned to regular liquidity-providing instruments in the operational framework of the Eurosystem.

Reserve requirements are determined after deducting a lump-sum allowance of €100,000 from the amount resulting from the application of a 2% reserve ratio to certain balance sheet items of credit institutions. Holdings of required reserves are remunerated at a level corresponding to the average rate of the weekly tenders over the maintenance period. This rate of remuneration should normally be close to money market interest rates and should thus substantially mitigate the burden which a minimum reserve system imposes on the private sector, as well as the effects it might have on the competitiveness of credit institutions located in the euro area.

Box 1

Participation in and the settlement of monetary policy operations

Eligible counterparties

Counterparties to monetary policy operations of the Eurosystem (standing facilities and open market operations) must fulfil certain general eligibility criteria. In particular, only institutions subject to the minimum reserve system are eligible to be counterparties. The eligibility criteria are uniform throughout the euro area and are defined with a view to giving a broad range of institutions access to these operations, thus enhancing the equal treatment of institutions across the euro area and ensuring that certain operational and prudential requirements are fulfilled.

According to Article 19.1 of the Statute of the ESCB, all credit institutions located in the euro area (as defined in Article 1 of the First Banking Co-ordination Directive) are subject to reserve requirements. The ECB may, however, exempt institutions undergoing winding-up proceedings or reorganisation measures from their obligations under the minimum reserve system, as well as classes of other institutions, on a non-discriminatory basis, if the purposes of the minimum reserve system would not be met by imposing reserve requirements on those particular institutions. As at 23 April 1999 no credit institution was exempt from the reserve requirements.

The ECB makes available to the public on its Internet Web site (www.ecb.int) a monthly list of the euro area Monetary Financial Institutions (MFIs), which is updated on the last working day of every month. The definition of MFIs encompasses credit institutions as well as other financial institutions, the business of which is to receive deposits and/or close substitutes for deposits from the public and which, for their own account (at least in economic terms), grant credit and/or invest in securities. This list specifies which MFIs are credit institutions and thus subject to reserve requirements, as well as any exempt institutions. Counterparties may rely on this list in deciding whether their liabilities are owed to another institution which is itself subject to the reserve requirements, and therefore not subject to the 2% reserve ratio.

As at end-March 1999 the total number of MFIs was 10,833, of which 8,249 were credit institutions. Just over one-third of these institutions satisfied all the criteria for participation in monetary policy operations. Given that, on average, the number of credit institutions which participated in the weekly tenders was around 800, it follows that roughly one in three eligible counterparties effectively took advantage of the possibility to participate directly.

Eligible assets

All credit operations of the Eurosystem have to be based on adequate collateral. With the aim of ensuring both the equal treatment of counterparties and operational efficiency, certain harmonised criteria need to be met by collateral in order to be eligible. At the same time, due attention has to be paid to existing differences in financial structures across Member States. A distinction is therefore made, essentially for purposes internal to the Eurosystem, between two categories of assets eligible for monetary policy operations. “Tier one” consists of marketable debt instruments which fulfil uniform area-wide eligibility criteria specified by the ECB. “Tier two” consists of additional assets, both marketable and non-marketable, which are of particular importance for national financial markets and banking systems and for which eligibility criteria are established by the national central banks, subject to the minimum eligibility criteria established by the ECB. No distinction is made between the two tiers with regard to the quality of the assets or their eligibility for the various types of Eurosystem monetary policy operations (although, under normal circumstances, only tier one assets are intended for use in the execution of outright operations). Furthermore, counterparties may use all tier one and tier two assets on a cross-border basis (see below).

The ECB makes available to the public on its Internet Web site a list of euro area eligible assets, which comprises all tier one assets as well as all marketable tier two assets. This list is updated on a weekly basis. At the end of March 1999 marketable tier one and tier two assets worth approximately €5.2 trillion were available for monetary policy operations and payment systems purposes. Of this amount, the greatest proportion (over 97%) consisted of tier one collateral. As regards the composition of the collateral, 76% of the marketable collateral was made up of government paper; securities issued by credit institutions represented approximately 18% of the total amount, while corporate sector and central bank paper together accounted for the remainder (less than 6%). With regard to their type, 91% of the instruments were bonds or medium-term notes, short-term paper represented approximately 8%, while equity and other types of assets were negligible in amount (0.2% for each category).

TARGET: an area-wide payment system

A single monetary policy for the euro area requires that uniform interest rates prevail in the money market. In order to achieve this, credit institutions need to have both the incentive and the capability to manage their liquidity efficiently, and it must be possible to execute arbitrage operations easily and swiftly throughout the euro area. This, in turn, requires the existence of an integrated area-wide payment system to ensure that liquidity can be transferred from one participant to another in a safe and timely fashion.

To achieve this, an area-wide system for euro payments has been designed and developed. It is called TARGET (an acronym for “Trans-European Automated Real-time Gross settlement Express Transfer”). This system consists of 15 national real-time gross settlement systems plus the ECB payment mechanism, all of which are interlinked so as to provide a uniform platform for processing cross-border payments. It is intended mainly for the settlement of monetary policy operations and large-value interbank payments, but can also handle customer payments including smaller cross-border retail transactions. The ECB has published a brochure on its Web site explaining the functioning of the TARGET system in detail.

Cross-border use of eligible assets

One feature of the implementation of the single monetary policy is that it enables counterparties to submit eligible assets irrespective of their location in the euro area. For this purpose, the Eurosystem has developed a mechanism called the correspondent central banking model (CCBM) that enables assets eligible for monetary policy operations to be used on a cross-border basis. When using the mechanism, the counterparties may obtain funds from the national central bank of the Member State in which they are established by making use of assets located in another Member State. The ECB has published a brochure on its Web site explaining the way in which the CCBM functions.

2 Experience with the operational framework in the first few months of Monetary Union

Decisions on interest rates

On 22 December 1998 the Governing Council of the ECB set the interest rates to be applied to the monetary policy operations of the Eurosystem as from the first day of Monetary Union. The interest rate to be applied to the weekly tenders, which were to be offered in the form of fixed rate auctions, was set at 3.00%, a level deemed to be appropriate for the maintenance of price stability in the euro area and in line with key central bank rates prevailing in the participating Member States at the end of Stage Two. In addition, the interest rate on the marginal lending facility was set at 4.50% and that on the deposit facility at 2.00%. However, as a transitional measure, a narrow "corridor" was adopted for the standing facilities between 4 January (the first business day of Monetary Union) and 21 January 1999: the interest rate on the marginal lending facility was set at 3.25% and that on the deposit facility at 2.75%. This measure was aimed at facilitating the adaptation of market participants to the integrated euro money market during the first few weeks of Monetary Union (see Box 2). The Governing Council also decided that the first monthly tender would be conducted in the form of a variable rate auction, using the single rate procedure, as this was considered to be simpler and better suited to help the adaptation process of the banking system.

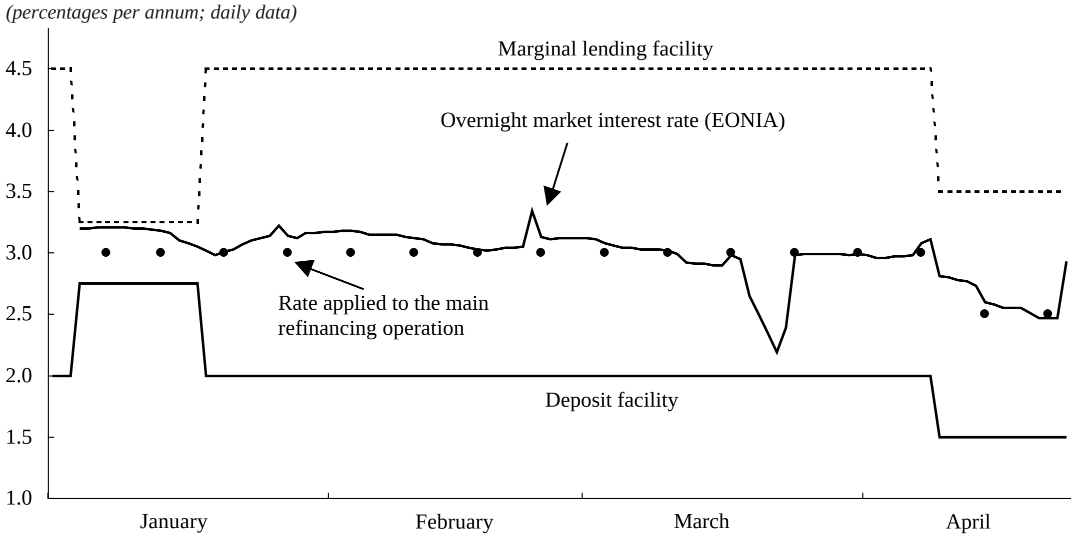
Confirming its earlier assessments, the Governing Council decided, at its subsequent meetings in January, February and March 1999, to keep the conditions at which the weekly tenders were offered unchanged, i.e. that fixed rate auctions would continue to be conducted at an interest rate of 3.00%, and the interest rates applied to the two standing facilities as from 22 January 1999 would remain at 2.00% and 4.50% respectively (see Chart 1).

On 8 April 1999 the Governing Council decided to set the interest rate on the weekly tenders of the ECB at 2.50% as from the operation to be settled on 14 April 1999. In addition, the interest rate on the marginal lending facility was lowered to 3.50% and that on the deposit facility to 1.50%, with effect from 9 April 1999. The decision to lower the interest rates was taken in a forward-looking perspective, focusing on the medium-term outlook for inflation and its

Chart 1

ECB interest rates and the overnight market interest rate (EONIA): 1 January to 23 April 1999

(percentages per annum; daily data)



Source: ECB.

Box 2

The transition from Stage Two to Stage Three of EMU

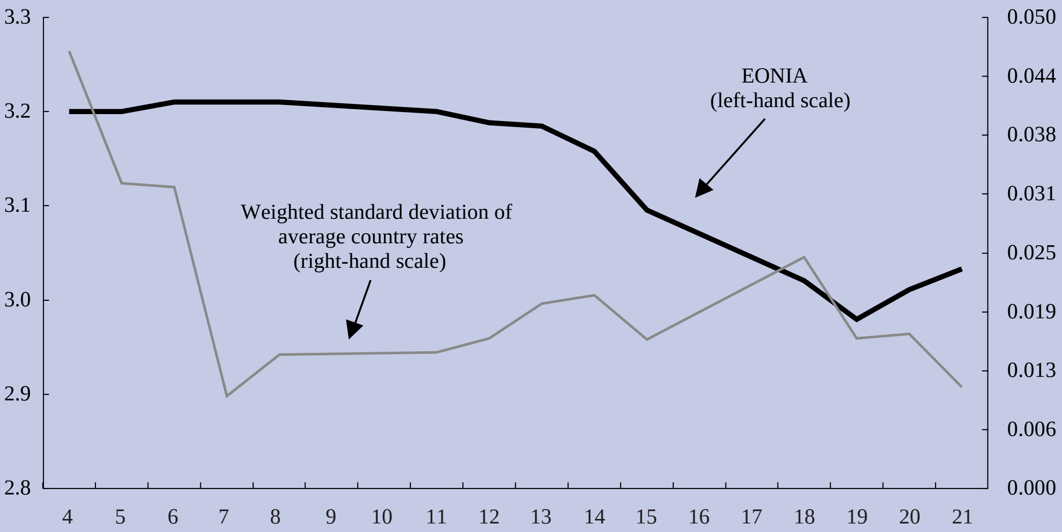
The temporary application of a narrow interest rate corridor

The decision to reduce the width of the "corridor" formed by the interest rates applied to the two standing facilities at 50 basis points (50 hundredths of a percentage point) for the period from 4 to 21 January 1999 took into account the fact that euro money market participants would require some time to familiarise themselves with the new environment.

Experience has shown that the decision was justified, and that an interim period of three weeks was adequate. Between 4 and 13 January 1999 the overnight interest rate, as measured by EONIA (euro overnight index average, i.e. the weighted average of the rates on unsecured overnight contracts reported by a panel of major institutions in the euro area), stood at around 3.2%, a level close to the then applicable interest rate of 3.25% on the marginal lending facility, but showed very limited day-to-day volatility. Furthermore, the dispersion among the interest rates reported by credit institutions included in the EONIA panel (as measured by the weighted standard deviation of the average country rates) was relatively high on 4, 5 and 6 January 1999, but stabilised at a lower level thereafter.

The overnight market interest rate (EONIA) and its dispersion: 4 to 21 January 1999

(interest rates as a percentage per annum; daily data)

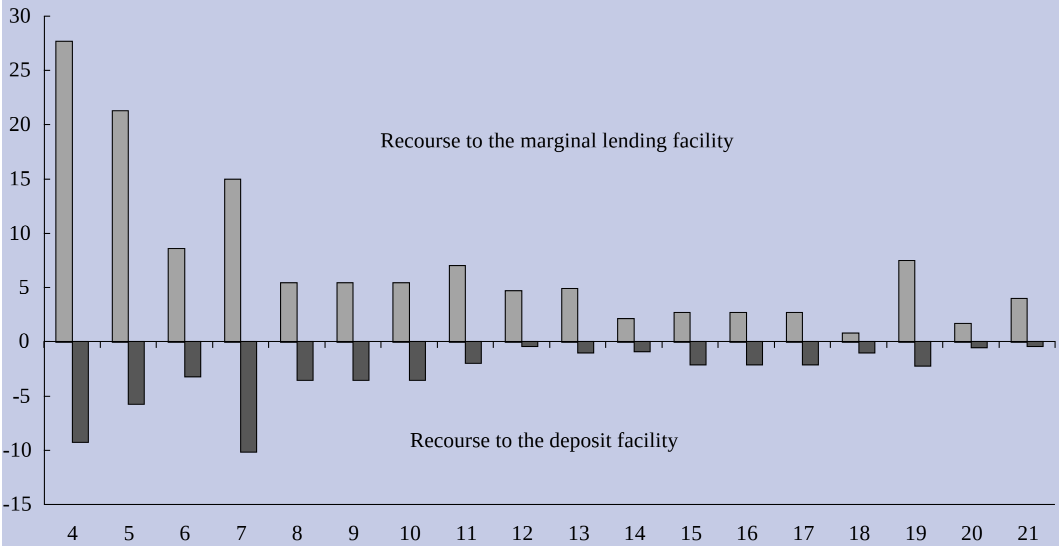


Source: ECB, elaboration based on data provided by credit institutions included in the EONIA panel.

In addition, recourse to both standing facilities was sizable during the first business week of Monetary Union, which suggests that credit institutions may have preferred to pay a premium to transact with the Eurosystem rather than entering into a transaction in the money market. However, recourse to the standing facilities already declined in the second week, stabilising at lower levels as from the third week. As a further temporary measure, the ECB decided to extend the final closing times of the TARGET system by one hour, from 6 p.m. to 7 p.m., from 11 to 29 January 1999 in order to contribute to smooth end-of-day settlement activity. (See the chart on the following page.)

Recourse to the standing facilities: 4 to 21 January 1999

(EUR billions; daily data)



Source: ECB.

The phasing-out of monetary policy operations initiated by national central banks in Stage Two

The credit to the euro area banking system granted by national central banks through open market operations in Stage Two and still outstanding at the start of Stage Three was equal to €182 billion, excluding outright operations and the issuance of debt certificates. These operations gradually matured during the first few weeks of January 1999. On average they provided the banking system with €53 billion per day in January 1999 and €31 billion per day over the course of the entire first maintenance period, which started on 1 January and ended on 23 February 1999.

The gradual substitution of the refinancing provided by the Eurosystem for that provided by individual national central banks was aimed at contributing to orderly conditions in the euro money market during its transition to Monetary Union. In particular, this meant that the Eurosystem did not need to intervene in the open market on the first three business days of 1999, namely before the planned settlement date of the first weekly tender. In addition, in a phase when there were still uncertainties with regard to the degree of integration of the euro money market, this made it possible for national banking systems to be granted an amount of liquidity in line with their refinancing needs at the start of Monetary Union.

compatibility with the Eurosystem's definition of price stability.

The results of tender auctions

Different patterns can be distinguished in the results of the 16 main refinancing operations conducted during the first three reserve maintenance periods of Monetary Union. In the first 10 operations, i.e. until the one settled on 10 March 1999, the number of counterparties was around 1,000 (see Table 1). Moreover, the ratio between the total amount allotted and the total amount bid (the "allotment ratio") declined steadily from around 15% in the first weekly tender to a level around 6-7%. The high participation and the low and decreasing allotment ratios were consistent with the significant positive spread between the money market interest rate and the 3.00% rate applied to the weekly tenders at that time, which made it profitable for credit institutions to borrow from the Eurosystem rather than from the market.

Table 1

Main refinancing operations: 1 January to 23 April 1999

(EUR billions; interest rates as a percentage per annum)

Date of settlement of the operation	Total number of counterparties	Total amount of bids (a)	Total amount allotted (b)	(b) ÷ (a) × 100	Interest rate applied %	Memorandum item: EONIA [1] %
7 Jan.	944	481.6	75.0	15.6	3.00	3.20
13 Jan.	1068	563.4	48.0	8.5	3.00	3.19
20 Jan.	966	593.4	59.0	9.9	3.00	2.98
27 Jan.	1038	689.5	69.0	10.0	3.00	3.22
3 Feb.	998	757.7	62.0	8.2	3.00	3.18
10 Feb.	1041	911.3	65.0	7.1	3.00	3.13
17 Feb.	914	896.1	62.0	6.9	3.00	3.04
24 Feb.	983	991.1	78.0	7.9	3.00	3.34
3 Mar.	965	1,100.8	67.0	6.1	3.00	3.11
10 Mar.	928	950.4	75.0	7.9	3.00	3.03
17 Mar.	665	335.2	44.0	13.1	3.00	2.90
24 Mar.	554	372.6	102.0	27.4	3.00	2.39
31 Mar.	403	118.7	39.0	32.9	3.00	2.98
7 Apr.	302	67.4	67.4	100.0	3.00	2.98
14 Apr.	841	781.7	67.0	8.6	2.50	2.73
21 Apr.	713	612.3	50.0	8.2	2.50	2.47
Average	833	639.0	64.3	10.1	2.94	2.99

Source: ECB.

1) All EONIA rates refer to the day on which the bids were submitted.

In the next three weekly tenders, by contrast, the number of bids declined steadily, reaching 403 on 31 March 1999. The allotment ratio, which had reached a minimum of 6.1% in the operation settled on 3 March 1999, initially increased to 13.1% on 17 March and then to 32.9% in the operation settled on 31 March 1999. The change in bidding behaviour was a consequence of the policy of providing ample liquidity that the Eurosystem enacted in the course of the second reserve maintenance period. Owing to this policy, the spread between the overnight market interest rate and the 3.00% rate applied to the weekly tenders declined and eventually changed sign. In addition, the expectation of a decision by the Governing Council to cut interest rates in the near future led to a further relevant change in bidding behaviour when, for the weekly tender settled on 7 April 1999, the total amount of bids was for the first time lower than the liquidity injection that had been foreseen by the ECB (see also the section on liquidity management). All bids in that operation were thus allotted in full. This bidding behaviour clearly signalled counterparties' anticipation of a lower cost of central bank refinancing in the following week. On the occasion of the following two tenders, offered at the fixed rate of 2.50%, the allotment ratio stabilised around a level of 8%.

All monthly tenders have been conducted in the form of variable rate auctions, in accordance with the general principle that the Eurosystem does not intend to send signals to the market through these operations and therefore normally acts as a rate taker. To phase in the amount of liquidity to be provided through monthly tenders, the first three of these operations, all of which were settled on 14 January 1999, were conducted with a maturity of 42, 70 and 105 days respectively (see Table 2). Each of the operations amounted to €15 billion, with the result that the volume of €45 billion was already achieved in the course of the first month of Monetary Union.

The single rate procedure was adopted for the monthly tenders settled on 14 January

Table 2

Longer-term refinancing operations: 1 January to 23 April 1999

(EUR billions; interest rates as a percentage per annum)

Date of settlement of the operation (maturity in days)	Total number of counterparties	Total amount of bids (a)	Total amount allotted (b)	(b) ÷ (a) × 100	Interest rate applied		Memorandum item: money market rate [1)] %
					marginal rate %	weighted rate %	
14 Jan. (42 days)	466	79.8	15.0	18.8	3.13	—	3.21
14 Jan. (70 days)	311	39.3	15.0	38.2	3.10	—	3.20
14 Jan. (105 days)	329	46.2	15.0	32.5	3.08	—	3.19
25 Feb. (91 days)	417	77.3	15.0	19.4	3.04	—	3.08
25 Mar. (98 days)	269	53.7	15.0	27.9	2.96	2.97	3.01
Average	358	59.3	15.0	25.3	3.06	2.97	3.14

Source: ECB.

1) *One-month EURIBOR for the operation settled on 14 January 1999 and a maturity of 42 days; two-month EURIBOR for the operation settled on 14 January 1999 and a maturity of 70 days; three-month EURIBOR for the operation settled on 14 January 1999 and a maturity of 105 days and for the operations settled on 25 February and 25 March 1999. All rates refer to the day on which the bids were submitted.*

and 25 February 1999. The multiple rate procedure was used instead, starting from the monthly tender settled on 25 March 1999, because its market orientation was assumed to be higher and it appeared that the euro area banking system had adapted well to the new environment.

The bidding behaviour of the banking system also showed a certain variability in the case of the monthly tenders. However, no clear patterns could be detected. The number of counterparties, which was just above 350 on average, fluctuated in a range between 269 and 466. The total amount bid fluctuated between €39 billion and €80 billion, while the total amount allotted remained constant at a level of €15 billion.

In the monthly tenders executed so far, the resulting marginal interest rate has been between 4 and 11 basis points lower than the reference market rate (the euro interbank offered rate, EURIBOR) at similar maturities. This margin may reflect market trading spreads as well as credit and other risk premia, the existence of which tends to move money market interest rates to a level higher than that at which counterparties are willing to conduct transactions with the central bank.

Liquidity management

General framework

Liquidity management and the associated steering of money market interest rates are at the short end of the chain of transmission of monetary policy impulses. The technical aspects of liquidity management are influenced by the specific characteristics of the operational framework. In the case of the Eurosystem, the existence of a monthly maintenance period and the conduct of weekly tenders are two crucial features of liquidity management. The decisions on the volumes of weekly tenders are taken so as to ensure that these operations close the liquidity deficit of the banking system and thus effectively steer money market interest rates. This implies that an assessment of liquidity conditions over the entire maintenance period must be carried out, taking into consideration various factors jointly: the reserve requirement, the aggregate current account holdings of the banking system as from the beginning of the reserve maintenance period, the refinancing undertaken through monthly tenders and other monetary policy operations, the information available to the Eurosystem on the likely pattern of the "autonomous factors" and, finally, the demand for reserves other than those relating to reserve requirements.

Two main aspects can be highlighted in the general framework for the liquidity management of the Eurosystem. First, the impact on liquidity conditions of a given allotment decision cannot be judged solely on the basis of the specific volume of the weekly tender or by comparing it with the corresponding maturing operation. Rather, it depends on the overall liquidity conditions. Second, the central bank acts under conditions of uncertainty: owing to unforeseen shocks, forecasts of different liquidity factors inevitably contain an element of error. Ex post, the liquidity profile deviates, sometimes significantly, from that projected when the decision on the weekly tender is taken. However, within the operational framework of the Eurosystem such deviations normally have little impact on the overnight interest rate, as the averaging provision included in the minimum reserve system allows unforeseen liquidity shocks to be absorbed before they can be corrected in the subsequent weekly tender. They may nevertheless contribute to a higher volatility of the overnight interest rate in the last days of the maintenance period, after the last weekly tender has taken place.

The conduct of liquidity management

In the first reserve maintenance period, which started on 1 January and ended on 23 February 1999, the provision of liquidity, as measured in terms of the accumulated reserve holdings from the beginning of the period, showed some moderate fluctuations around the level of the aggregate reserve requirements of the banking system (see Chart 2). In the very first days of Stage Three these fluctuations were due to the elimination of the liquidity deficit accumulated as a consequence of the replacement of reserve requirements and monetary policy operations implemented by individual national central banks towards the end of Stage Two with the corresponding requirements and operations enacted by the Eurosystem. In the following days these fluctuations reflected movements in "autonomous factors" which had not been anticipated by the Eurosystem. Overall, the daily average of the accumulated reserve holdings fluctuated between –€1 billion and +€4 billion of the aggregate reserve requirements, excluding the very first days of January 1999. EONIA which on average was equal to 3.13% in this maintenance period (i.e. 13 basis points above the rate applied to the weekly tenders at that time), fluctuated between 3.0% and 3.2% on most days, and reached a peak of 3.34% on 23 February 1999, the last day of the reserve maintenance period, reflecting a shortage of liquidity in the banking system in order to comply with reserve requirements.

In the second reserve maintenance period (from 24 February to 23 March 1999) the provision of liquidity was aimed at allowing counterparties to accumulate ample surplus reserve positions early in the maintenance period: such a liquidity policy is often referred to as "frontloading". The daily average of the accumulated reserve holdings was between €0 and +€3 billion of the aggregate reserve requirements in the first calendar week; this difference increased to around +€7 billion in the days following the weekly tender settled on 3 March 1999. As a result of this liquidity policy, in the first 10 days of March 1999 EONIA gradually decreased towards the 3.00% rate applied to the weekly tenders. In the following week, from 11 to 18 March, EONIA stood at between 2.9% and 3.0%, to close at around 2.5% on the last three business days of the maintenance period. In the second maintenance period the average EONIA rate was equal to 2.94%.

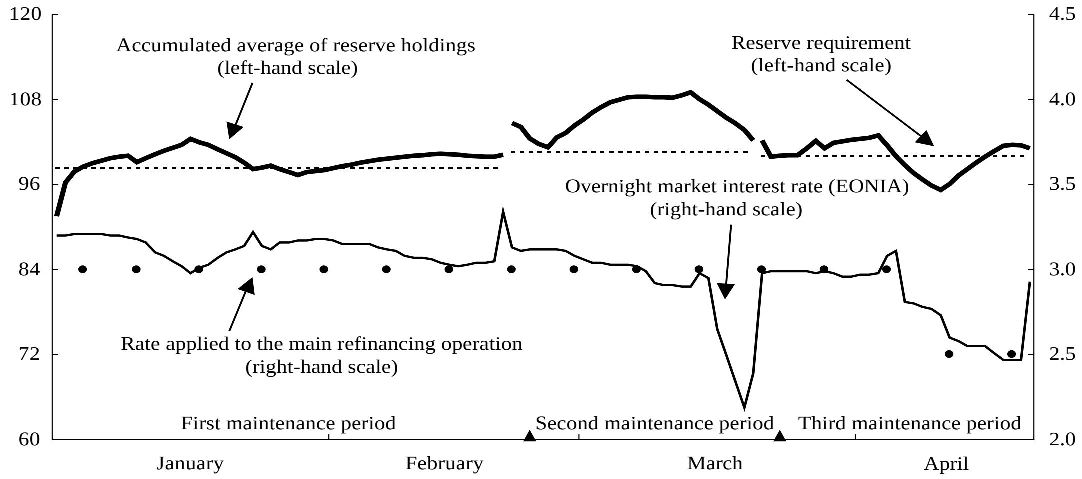
A policy of mild liquidity frontloading was also adopted in the third reserve maintenance period (between 24 March and 23 April 1999). A level of EONIA close to and slightly lower than the 3.00% rate of the weekly tender occurred during the first part of this period, in a context of a moderate accumulation of reserve holdings, the daily average of which did not exceed reserve requirements by more than +€3 billion. This pattern, which prevailed until 6 April 1999, may have reflected market expectations of a lowering of the ECB interest rates prior to the end of the reserve maintenance period. In addition, in this period market participants may have discounted a systematic abundance of liquidity, which was not anticipated in the previous period. Against a background of heightened expectations of an interest rate decision by the Governing Council at its meeting on 8 April, the total amount of bids submitted for the tender settled on 7 April was, as noted above, relatively low. The immediate impact of this bidding behaviour was to produce fairly tight liquidity conditions until 14 April, the settlement date of the next weekly tender, with EONIA increasing to around 3.1% before the interest rate cut, and adjusting only gradually to the new level of 2.50% thereafter. On the last day of the maintenance period, EONIA surged to 2.93%, reflecting a shortage of liquidity in the market. In the third maintenance period the average EONIA rate was equal to 2.82%.

As mentioned above, intertemporal arbitrage tends to equalise the current overnight interest rate with its expected level over the remainder of the maintenance period, and this level should be in line with the rate applied to the weekly tender. In practice, however, the overnight interest rate may deviate from the tender rate, irrespective of market expectations, owing to a number of factors. First, credit institutions are generally averse to risk. They may thus try to accelerate the fulfilment of their reserve requirements throughout the maintenance period, even if this implies borrowing at a relatively high level at the beginning of the maintenance period in the event that the central bank does not frontload liquidity. Second, credit institutions, even the largest ones, eventually face a constraint in their market activity owing to the credit lines set by their counterparties. This implies that they

Chart 2

The banking system's liquidity, the overnight market interest rate and the rate applied to the main refinancing operation: 1 January to 23 April 1999

(EUR billions; interest rates as a percentage per annum; daily data)



Source: ECB.

are generally unwilling to let their accumulated reserve position drift markedly from their reserve requirements, regardless of potential arbitrage profits. Finally, an additional factor may have been at work, especially in the first few weeks of Monetary Union, when credit institutions were adapting to the new environment, and in the period following an incident involving a national component of TARGET on 29 January 1999. In these conditions credit institutions may have been reluctant to operate in the money market, owing to uncertainties relating to the behaviour of their counterparties and to the settlement of the transactions. This may have hampered the circulation of funds in the banking system, leading to higher overnight interest rates.

Fine-tuning and structural operations

In the first few months of 1999 the Eurosystem did not find it necessary to conduct fine-tuning or structural operations. The decision not to conduct fine-tuning operations reflected the broadly smooth pattern of overnight interest rates, with only some moderate volatility occurring at the end of the maintenance periods (see Box 3). The latter finding is easy to explain in a monetary framework such as that of the Eurosystem, since at the end of the maintenance period credit institutions cannot further defer the fulfilment of their reserve requirements. However, any such volatility tends to disappear with the start of the new maintenance period and thus does not generally have a relevant impact on longer maturities along the yield curve.

These considerations also suggest that the minimum reserve system successfully fulfilled one of its functions, namely that of stabilising money market interest rates. This result was due to a sufficiently high level of reserve requirements as well as to the fact that credit institutions effectively used the averaging provision as from the first weeks of Monetary Union.

Structural operations were not needed, given the structural liquidity deficit position of the euro area banking system (i.e. its position vis-à-vis the Eurosystem net of monetary policy operations) at the end of Stage Two and the deficit enlargement induced by the reserve requirements of the Eurosystem. Indeed, as confirmed by experience gained during the first few months of Monetary Union, the deficit was large enough to make the banking system consistently dependent on the execution of liquidity-providing open market operations. The Eurosystem did not therefore find it necessary to enact additional measures to enlarge the liquidity deficit.

Discrepancies between current account holdings and reserve requirements

In theory, there should not be any difference between the daily average, over the maintenance period, of the holdings of credit institutions on current accounts with the Eurosystem and their reserve requirements. This is due to the fact that there is no remuneration of current account balances not contributing to the fulfilment of reserve requirements, while funds transferred to the deposit facility are remunerated at the deposit rate. In practice, however, a discrepancy between these two aggregates was recorded in each of the three reserve maintenance periods under review. Over the first period, the daily average of current account holdings was equal to €100.2 billion, €2.0 billion in excess of the reserve requirements of €98.2 billion. Over the second period this excess was €1.6 billion (the difference between €102.2 and €100.6 billion) and, finally, over the third period it was €1.0 billion (the difference between €101.1 and €100.1 billion).

As explained on pages 12 and 13 of the April issue of the ECB Monthly Bulletin, around half of the difference between the average current account holdings and the reserve requirements can be explained by a series of elements: (i) current account holdings of counterparties which effectively do not have

Box 3

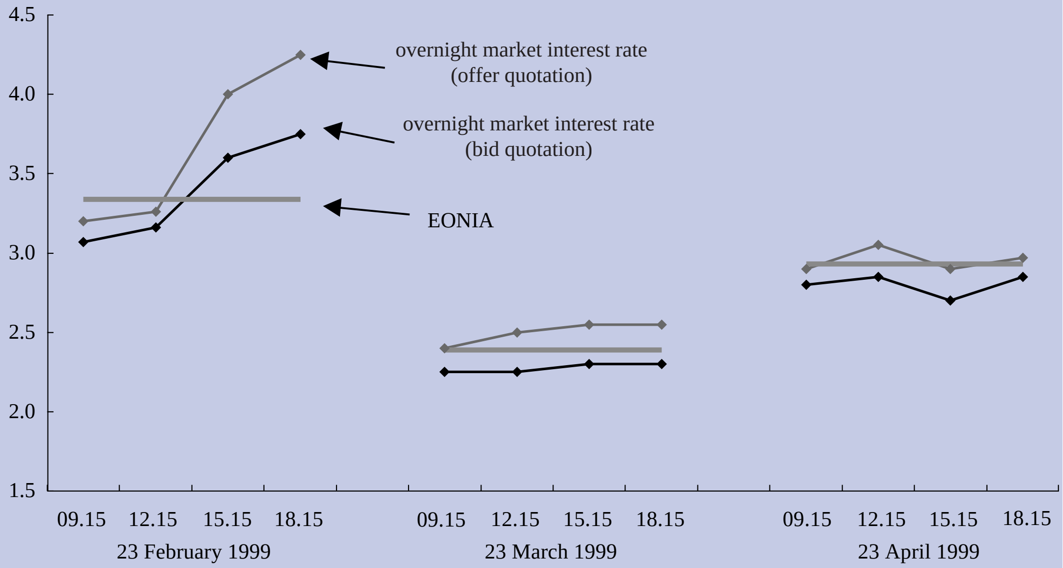
The behaviour of the money market on the last day of the maintenance period

On the last day of any maintenance period the averaging provision can no longer fulfil its stabilisation function vis-à-vis the overnight interest rate, which may therefore display an increased volatility. This may take two forms. First, the average level of the overnight interest rate on the last day of the maintenance period may differ considerably from that prevailing on the other days of the maintenance period. Second, in the course of the last day, the overnight interest rate gradually approaches the rate on the standing facility that is needed by the banking system as a whole to fulfil the reserve requirements. The former has already been described in the main text; it is interesting here to focus on the intraday form of volatility in order to assess how quickly information on the net liquidity needs of the banking system spreads in the euro money market on the last day of a maintenance period.

The chart below shows the bid and offer quotations of overnight market interest rates at various times on the last business day of the first three maintenance periods (23 February, 23 March and 23 April 1999 respectively), as well as EONIA for those days. The bid and offer quotations shown in the chart only represent proposed terms, i.e. they do not necessarily correspond to actual rates negotiated by counterparties.

Overnight market interest rates: EONIA and intraday bid and offer quotations on the last day of the maintenance period

(percentages per annum)



Source: ECB and Reuters.

At the end of the first reserve maintenance period the banking system proved, ex post, to be in a liquidity deficit position (on 23 February 1999 the net recourse to the marginal lending facility was €22.3 billion). However, in the course of the morning overnight interest rate quotations stood at around 3.1-3.2%. Only in the afternoon did they increase, to reach 4.25% at 6.15 p.m., suggesting that the money market had become aware rather late of the existence of a liquidity deficit. The circulation of information in the market appears therefore to have been relatively slow.

By contrast, on 23 March 1999, against the background of an overall liquidity surplus (at the end of the day the net recourse to the deposit facility was equal to €11.8 billion), market quotations stood relatively stable at around 2.3-2.5%. This pattern – which followed two business days on which the overnight interest rate had come close to the 2.00% deposit facility rate – signalled that the banking system as a whole had already become aware early in the morning of the liquidity surplus. Despite these liquidity conditions, on 23 March market quotations did not converge, however, to the 2.00% level. This may suggest that those credit institutions which were running a liquidity surplus were unwilling to lend their funds in the money market, thus incurring transaction costs as well as credit and liquidity risks, unless they were offered a level of remuneration significantly higher than the rate paid on the deposit facility.

Finally, on 23 April 1999, the last day of the third reserve maintenance period, an overall liquidity deficit was recorded (at the end of the day the net recourse to the marginal lending facility was equal to €5.0 billion). This was already broadly apparent at the beginning of the day, with overnight interest rates standing at around 2.9% when the market opened, i.e. well above the 2.50% rate applied to the weekly tender. Prevailing rates then remained around this mark throughout the whole day without reaching the 3.50% rate of the marginal lending facility. This could signal that some uncertainty about the sign of the net liquidity imbalance of the banking system remained in the money market until the very last moment.

On all three occasions on the following business day (the first day of a new reserve maintenance period) the overnight interest rate returned to levels closer to the rate applied to the weekly tender.

to hold minimum reserves because their reserve requirement falls below the lump-sum allowance of €100,000; (ii) current account holdings of remote participants in the Euro Access Frankfurt (EAF) payment system; and (iii) current account holdings of counterparties which hold their reserves indirectly through another institution, but which still have a current account with the central bank for payment purposes. The remaining discrepancy can be attributed to excess reserves, i.e. balances that counterparties hold on their current accounts after they have fulfilled their reserve requirements.

At present, given the environment of low interest rates, the opportunity cost of maintaining such balances on a current account overnight is modest. Individual credit institutions may therefore prefer not to transfer very small amounts of funds to the deposit facility. However, the aggregate impact of such a behaviour may well not be negligible, especially considering the large number of institutions currently subject to minimum reserves in the Eurosystem. In line with the pattern already observed in the course of the first three reserve maintenance periods of Monetary Union, the discrepancy between the current account holdings and the reserve requirements is expected to continue to decrease somewhat over time, although without disappearing completely.

3 Concluding remarks

Overall, the experience gained so far with the operational framework of the Eurosystem has been positive. The decision to facilitate the transition to Monetary Union – by setting the width of the "corridor" of the interest rates applied to the standing facilities at 50 basis points for a limited number of days in January 1999 – proved to be justified. By the end of this transitional period counterparties appeared to have acquired an adequate awareness of the functioning of the new environment. The main refinancing operations have fulfilled the envisaged role of providing the bulk of liquidity to the banking system and steering short-term interest rates. Moreover, overnight interest rates have been bound by the rates applied to the standing facilities and reacted smoothly to the cut in the ECB interest rates on 8 April 1999. Finally, the averaging provision of the minimum reserve system has helped to smooth daily liquidity fluctuations, thus making the execution of fine-tuning operations unnecessary.

The implementation of the Stability and Growth Pact

Sound government finances are a means of strengthening the conditions for price stability and for strong, sustainable growth conducive to employment creation. The Treaty establishing the European Community as amended by the Treaty of Amsterdam (the "Treaty") and the Stability and Growth Pact signed in Amsterdam in June 1997 provide countries in the EU, and in particular those which have adopted the euro, with a common code of fiscal conduct that is expected to uphold discipline in the management of government finances. Budgetary positions close to balance or in surplus will enable all Member States to deal with normal cyclical fluctuations while keeping the government deficit below the reference value of 3% of GDP. Low deficits, along with steadily declining debt burdens, would contribute to keeping inflationary expectations low, thus facilitating the Eurosystem's task of maintaining price stability. Between late 1998 and early 1999 all EU countries submitted stability and convergence programmes informing the ECOFIN Council and the European Commission about their current budgetary positions and their fiscal plans for the future. Although they were found to comply in broad terms with the norm of fiscal discipline established in the Stability and Growth Pact, no additional safety margins appear to have been incorporated into the programmes presented by a number of countries to provide for unforeseen contingencies, to speed up the pace at which debt levels are being worked down, or to prepare government finances for the great strains expected as a result of imminent demographic developments.

1 Introduction

Attaining and preserving a macroeconomic balance as a prerequisite for economic and social progress has been the foremost objective guiding European economic and monetary integration in the 1990s. The aim both to buttress the mandate of the European System of Central Banks (ESCB) to safeguard price stability and to apply the principle of subsidiarity to non-monetary policies of participating governments figured high on the agenda of the founders of Economic and Monetary Union (EMU). At the same time they held the belief that sound government finances are an indispensable requisite for macroeconomic stability, and that financial stability is also rooted in disciplined fiscal policies. Hence an EU-wide commitment to sound public finances, such as that laid down in the Treaty and further developed in the Stability and Growth Pact, commands respect and constitutes a permanent guarantee that a responsible course of fiscal policy will be pursued.

The experience accumulated in past decades has shown that increased debt ratios – as well as the implicit debt associated with social security systems in ageing societies – cast a permanent shadow over economic prospects and, together with large deficits, constantly limit the scope for fiscal policy to act as a stabilising instrument. Long-term real interest rates are higher, private investment is lower and physical capital formation is at least partially crowded out. This reduces production, output suffers a permanent loss and consumption possibilities are diminished in the long run. Indeed, empirical evidence points to a significant negative relationship between fiscal imbalances and total gross domestic investment, and between deficits and income per capita over the medium term.

Moreover, fiscal laxity also appears to reduce the flexibility with which fiscal structures respond to economic fluctuations and help to dampen their effects on aggregate income. Fiscal structures have become more rigid over the past few decades. This has been partly due to discretionary policies to increase government employment or implement high replacement ratios and early retirement dates for pensioners, and has been partly a budgetary by-product of adverse demographic trends which have increased the proportion of retirees in populations. Far from facilitating the smoothing of income through the different phases of the cycle, growing structural deficits have systematically impeded the policy-makers' response to severe recession, even when endogenous spending and tax adjustments were most needed.

Inflation is a monetary phenomenon in the medium to long term. Since the long-run association between the monetary financing of fiscal deficits and inflation is well established, a credible and definitive prohibition of this, along with an institutional framework that assigns the monetary authority a credible and lasting mandate to pursue an objective of price stability, are essential preconditions for the maintenance of price stability over the medium term. However, the task of a stability-oriented monetary policy can also be affected by the stance of fiscal policies. In the short run regulated prices and indirect taxes have a direct impact on HICP inflation. Over an extended period of time, unbalanced public finances have a negative impact on economic efficiency and hence on the process of price formation. High structural deficits tend to divert resources from private capital formation and to increase the gap between aggregate demand and supply. This tends to alter the composition of aggregate supply and creates rigidities and bottlenecks that contribute to heightened pressures on prices. In this way, persistent deficits might force monetary authorities to keep short-term rates higher than would otherwise be necessary. By contrast, an institutional framework that guarantees sound government finances fosters macroeconomic stability conducive to sustained growth in output and employment, and supports the maintenance of price stability as well as a steady improvement in living standards.

In certain circumstances, fiscal policies might also affect expectations and exacerbate the effects of economic and financial shocks. If market participants perceive fiscal structures to be overly exposed to economic fluctuations or changes in interest rates (e.g. because of insufficient safety margins built into primary balances to withstand adverse contingencies) such shocks might lead to increases in risk premia and long-term interest rates.

In a monetary union among sovereign states the case is strengthened for a responsible policy course with regard to fiscal choices. A newly established monetary union eliminates long-standing interest rate differentials which used to compensate investors for differences in inflation and depreciation prospects across the range of previously existing currencies. In this way, borrowers lose an element – a depreciating national currency – which used to signal market distress over misguided policies, not least on the fiscal front. At the same time, as national financial markets become more integrated, sovereign issuers can draw on a larger and more liquid capital market than was possible under monetary autonomy. For those member countries that had been penalised in relative terms in the market for government loans, vanishing risk and liquidity premia may consequently make borrowing a more attractive policy option than non-deficit spending as a means of financing public expenditure. This feature, in turn, tends to lend a deficit bias to the area as a whole, which, again, provides a major incentive for an economic constitution which discourages unsound fiscal practices.

When the fiscal authority is dispersed, errant fiscal choices pursued by individual members of a monetary union can have negative repercussions on their neighbouring economies. These negative external effects are generally transmitted via long-term interest rates, as fiscal laxity in one country and the drain that this exerts on union-wide private savings both put pressure on the cost of long-term finance for the area as a whole. In principle, market forces could act as an effective deterrent against deviant policies. Indeed, even in the absence of explicit institutional constraints on fiscal deficits, the possibility of country-specific default premia penalising excessive borrowing could discourage deviation from fiscal discipline by individual governments. However, in practice there seems to be no firm evidence that the discipline exerted by financial markets has been sufficient to induce governments always to take heed of long-term budget constraints. Under such circumstances, unfettered fiscal regimes at the national level are inevitably conducive to tensions, and there is an obvious argument for supplementing market forces with commonly shared rules of fiscal restraint. These induce national policy-makers to internalise the area-wide impact of their decisions. In so doing, supranational rules improve co-ordination and inspire mutual trust among members.

2 The Treaty and the Stability and Growth Pact: institutional and procedural aspects

The budgetary rules of the Treaty

In Stage Three of EMU budgetary policy remains an exclusive competence of the Member States. This contrasts with the existence not only of a single monetary policy, but also of common policies in the areas of agriculture, trade and competition. Within the framework of the Treaty, the budgetary autonomy of Member States is, in formal terms, absolute. However, the conduct of national budgetary policies is subject to rules of budgetary discipline and co-ordinating procedures at the Community level laid down in the Treaty (Title VII, Chapter 1 on "Economic policy"). (In this article all references to provisions of the Treaty are taken from the consolidated version provided by the Treaty of Amsterdam, which came into force on 1 May 1999.) The basic rule of budgetary policy enshrined in the Treaty is that Member States shall avoid excessive government deficits. This norm is developed in Article 104 (ex Article 104c) and in Protocol No. 5 on the excessive deficit procedure annexed to the Treaty. Article 104 (ex Article 104c) comes after general guidelines and rules for economic (non-monetary) policy co-ordination, as well as a set of restrictions on the financing of public sector borrowing requirements. These guidelines and restrictions are established in Articles 98 to 100 (ex Articles 102a to 103a) and Articles101 to 103 (ex Articles 104 to 104b), respectively.

The general guidelines and rules provide that Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community (see Annex 1). According to Article 2 (ex Article 2) of the Treaty, these objectives are

> "to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States".

Moreover, they must regard their economic policies as a matter of common concern, on the basis of the close co-ordination of Member States' economic policies within the ECOFIN Council. The latter body is composed of the Ministers of Finance and Economy of the Member States. The guiding principles set out in Article 4 (ex Article 3a) of the Treaty are stable prices, sound public finances and monetary conditions, and a sustainable balance of payments. The ECOFIN Council is required to formulate broad guidelines for the economic policies of the Member States and to monitor economic developments within a multilateral surveillance framework. For this purpose, Member States must forward, inter alia, information about important measures they have taken in the field of their economic policy responsibilities. Should the economic policy conduct of a Member State be inconsistent with the broad guidelines or risk jeopardising the proper functioning of EMU, the Council may address a recommendation to the Member State concerned and decide to make this recommendation public.

The restrictions on the financing of public sector borrowing requirements establish a prohibition on overdraft facilities or any other type of credit facility with the ECB or with national central banks in favour of any public sector institution at the national or the Community level (see Annex 2). They also prohibit the ECB and the national central banks from purchasing debt instruments directly from these institutions and the Member States from granting them privileged access to financial institutions, unless this is based on prudential considerations. Moreover, the Treaty stipulates that the debts of public sector institutions of any Member State shall not be assumed by the Community or by any other Member State. This provision, which is generally known as the "no bail-out clause", means that, in the event of the insolvency of any of these institutions, neither the Community nor the other countries will be held responsible for the debt of the insolvent institution.

With regard to budgetary policy, the rule is that Member States shall avoid excessive deficits (see Annex 3, Article 104 (1) (ex Article 104c (1)). Compliance with budgetary discipline is to be examined on the basis of reference values for the general government deficit and gross debt in relation to GDP, whereby a number of qualifications can be applied. In particular, only an exceptional and temporary excess of the deficit over the reference value can be exempt from being considered excessive, and then only if it remains close to the reference value. In assessing the budgetary position, further information can also be taken into account, e.g. the level of public investment in relation to the government deficit. The decision as to whether a Member State is in an excessive deficit position lies with the ECOFIN Council, acting upon a recommendation by the European Commission.

The budgetary rules of the Stability and Growth Pact

The European Council decided to provide clarification of the Treaty's budgetary rules in 1997 by implementing the Stability and Growth Pact, which lays down the rules for economic policy co-ordination and defines the conditions under which to apply the excessive deficit procedure in Stage Three of EMU. The Pact mainly aims at (a) ensuring lasting compliance of fiscal policies with the requirement of budgetary prudence, and (b) monitoring fiscal developments with a view to releasing early warnings in the event of budgetary slippage. In this context, the European Council underlines the importance of safeguarding sound government finances as a means of strengthening the conditions for price stability and strong sustainable growth conducive to employment creation. The Stability and Growth Pact, which provides for both prevention and deterrence, consists of a Resolution of the European Council (Amsterdam, 17 June 1997), in which the commitments of the Member States, the European Commission and the European Council itself are specified, and two ECOFIN Council Regulations. Council Regulation (EC) No. 1467/97 of 7 July 1997 brings forward and clarifies the implementation of the excessive deficit procedure. Council Regulation (EC) No. 1466/97 of 7 July 1997 deals with the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies and defines the content of the stability and convergence programmes.

As the main provision to ensure sound budgetary policies on a permanent basis, the Resolution of the European Council on the Stability and Growth Pact incorporates the Member States' commitment to respect the medium-term budgetary objective of positions close to balance or in surplus (see Annex 4). This objective will allow all Member States to deal with normal cyclical fluctuations, while keeping the government deficit at or below the reference value of 3% of GDP. Deficits of above 3% of GDP will be regarded as excessive, unless they are expected to be temporary and have occurred under exceptional circumstances. In any case, the deficit has to remain close to the reference value. Circumstances are qualified as temporary and exceptional if the deficit overshoot is driven either by an unusual event beyond the control of the Member State or by a severe recession. An excess over the reference value resulting from a severe economic downturn will, as a rule, only be considered to be exceptional by the European Commission if there is an annual fall in real GDP of at least 2%. A smaller decline in real GDP can only be considered as exceptional by the ECOFIN Council, on the initiative of the Member State concerned, when this is suggested by supporting evidence, related in particular to the abruptness of the downturn or the accumulated loss of output relative to past trends. In evaluating whether or not an economic downturn is severe, as a rule Member States will take as a reference point an annual fall in real GDP of at least 0.75%. The temporary nature of a deficit exceeding the 3% level will be apparent from budgetary forecasts as provided by the European Commission indicating that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn (see Annex 5).

If a Member State's government deficit is considered excessive, the ECOFIN Council will formulate recommendations for the correction of this budgetary imbalance. Effective measures to this effect have to be taken by the Member State concerned within four months. If, in the ECOFIN Council's judgement, such effective action is not taken, the Council can impose sanctions. These initially take the form of a non-interest-bearing deposit quantified in relation to the Member State's GDP, which may be converted into a fine should the excessive deficit persist for more than two years.

In order to monitor budgetary developments and to receive signals of any potential budgetary slippage, as well as to facilitate the co-ordination of economic policies, an early warning mechanism has also been established in the context of the Stability and Growth Pact. For this purpose, Member States shall submit to the ECOFIN Council and the European Commission annual stability programmes (if they have adopted the single currency) or convergence programmes (if they have not adopted the single currency) specifying their medium-term budgetary objectives. The content and format of stability programmes follow an agreed pattern (see Annex 6). The requirements for convergence programmes are similar. The Council shall deliver an opinion on the programmes and request adjustments, should it consider a strengthening of the objectives and contents to be necessary. Moreover, the implementation of the programmes shall be monitored by the Council and a recommendation shall be made to the Member State concerned if the Council identifies any significant divergence of the budgetary position from the medium-term budgetary objectives laid down in the programme.

The implementation of the excessive deficit procedure

The different steps to be followed in the process of implementing the excessive deficit procedure (EDP) are summarised in Diagram 1 (page 52), which deals with the decision of the ECOFIN Council on the existence of an excessive deficit, and in Diagram 2 (page 53), which describes the follow-up procedure.

- Step 1 is preliminary and refers to the notification of budgetary data by Member States to the European Commission by 1 March and 1 September of each year.

- In Step 2, the European Commission examines the compliance of Member States with budgetary discipline on the basis of the criteria set out in Article 104 (2) (ex Article 104c (2)) of the Treaty. If Member States fulfil the requirements under both criteria on budgetary discipline (a government deficit of below 3% of GDP and a government debt of below 60% of GDP unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace) and if the European Commission is of the opinion that there is no risk of an excessive deficit, the excessive deficit procedure is not initiated. In other cases, or whenever the planned or actual government deficit of a Member State exceeds the reference value of 3% of GDP (see Annex 3, Article 104 (3) (ex Article 104c (3)), and Annex 4, commitment 3 of the European Commission), the European Commission shall prepare a report triggering the application of the EDP.

- In Step 3, within two weeks of the preparation of the European Commission's report, the Economic and Financial Committee – in which representatives of the governments and the ESCB participate – shall formulate an opinion on this report and submit it to the ECOFIN Council (Article 104 (4) (ex Article 104c (4)). Taking this opinion fully into account, the European Commission shall address an opinion to the

ECOFIN Council (Article 104 (5) (ex Article 104c (5)) together with a recommendation if it considers that an excessive deficit exists. If the European Commission finds that a deficit exceeding 3% of GDP is not excessive and if this opinion differs from that of the Economic and Financial Committee, the European Commission is committed to present the reasons for its position to the ECOFIN Council in writing.

- Step 4 is the decision of the ECOFIN Council on whether an excessive deficit exists in a Member State, after an overall assessment, acting by a qualified majority on a recommendation from the European Commission, and having considered any observations which the Member State concerned may wish to make (Article 104 (6) (ex Article 104c (6)). The decision should be taken within three months of the notification of budgetary data to the European Commission by Member States.

- In Step 5, if the ECOFIN Council decides that there is no excessive deficit, the excessive deficit procedure is concluded. However, if the decision is that an excessive deficit does exist in a Member State, the ECOFIN Council shall at the same time make recommendations to the Member State under Article 104 (7) (ex Article 104c (7)). These recommendations are adopted on a recommendation of the European Commission, by a qualified majority excluding the votes of the representative of the Member State concerned, and are not made public. The ECOFIN Council shall recommend that excessive deficits be corrected as quickly as possible after their emergence (see Annex 4), and shall establish two deadlines. One deadline is of a maximum of four months for effective action to be taken by the Member State concerned. The other deadline is for the correction of the excessive deficit, which should be completed in the year following its identification, unless there are special circumstances.

- Step 6 (in Diagram 2) initiates the follow-up to the ECOFIN Council decision that an excessive deficit exists in a Member State. The ECOFIN Council will consider whether effective action has been taken in response to the recommendations it made in accordance with Article 104 (7) (ex Article 104c (7)), and will base its decision on publicly announced decisions made by the government of the Member State concerned. The decision is taken on a recommendation of the European Commission by a qualified majority excluding the votes of the representative of the Member State concerned.

- If, in Step 7, the ECOFIN Council decides that no effective action has been taken, it may make its recommendations public under Article 104 (8) (ex Article 104c (8)) immediately after the expiry of the deadline set previously (a maximum of four months). In that case, for participating Member States only and within one month of the decision, the ECOFIN Council may decide – under Article 104 (9) (ex Article 104c (9)) – to give notice to the participating Member State concerned to take, within a specified time limit, measures to reduce the deficit. This decision and the subsequent decisions within the procedure shall be taken on a recommendation of the European Commission by a qualified majority excluding the votes of the representative of the Member State concerned. However, if the ECOFIN Council decides that the Member State concerned has taken effective action in compliance with its recommendations under Article 104 (7) (ex Article 104c (7)), the excessive deficit procedure shall be held in abeyance. The European Commission and the ECOFIN Council shall monitor the implementation of the action taken.

- In Step 8, if – in the view of the ECOFIN Council – the excessive deficit has been corrected, it shall abrogate some or all of its decisions on recommendations and notices given. If the recommendations have been made public, the ECOFIN Council shall make a public statement that an excessive deficit no longer exists in the Member State concerned. However, if a participating Member State fails to act in compliance with the successive decisions of the ECOFIN Council giving recommendations and notices, the Council shall impose sanctions in accordance with Article 104 (11) (ex Article 104c (11)), no later than two months after the decision giving notice to the Member State concerned and within 10 months of the reporting dates for submitting budgetary data to the European Commission. Moreover, an expedited procedure can be used in the case of a deliberately planned deficit that the ECOFIN Council considers to be excessive. Another possibility is that, while the excessive deficit procedure is held in abeyance, action by a participating Member State is not being implemented or actual data regularly notified by Member States to the European Commission by 1 March and 1 September of each year indicate that the excessive deficit has not been corrected by a participating Member State within the time limits specified in the recommendations issued under Article 104 (7) (ex Article 104c (7)). In such a case, the ECOFIN Council shall immediately take a decision to give notice to the participating Member State concerned to take, within a specified time limit, measures to reduce the deficit.

- In Step 9, if the participating Member State acts in compliance with the notices issued by the ECOFIN Council in accordance with Article 104 (9) (ex Article 104c (9)), the excessive deficit procedure shall be held in abeyance. The period for which the procedure is held in abeyance shall be included neither in the two-month period nor in the 10-month period mentioned in Step 8 as deadlines for the imposition of sanctions. The European Commission and the ECOFIN Council shall monitor the implementation of the action taken.

- In Step 10, if – in the view of the ECOFIN Council – the excessive deficit has been corrected, the procedure will be concluded as described in Step 8. However, if the action taken by the participating Member State is proving, in the view of the ECOFIN Council, to be inadequate or if actual data regularly notified by Member States to the European Commission by 1 March and 1 September of each year indicate that the excessive deficit has not been corrected by a participating Member State within the time limits specified in the notices issued under Article 104 (9) (ex Article 104c (9)), the ECOFIN Council shall immediately take a decision to impose sanctions in accordance with Article 104 (11) (ex Article 104c (11)). The sanctions will consist, as a rule, in a non-interest-bearing deposit and the ECOFIN Council may decide to supplement this deposit with the measures provided for in the first and second indents of Article 104 (11) (ex Article 104c (11)). When the excessive deficit results from non-compliance with the deficit criterion, the amount of the first deposit shall comprise a fixed component equal to 0.2% of GDP and a variable component equal to one-tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3% of GDP. In each following year, Step 10 is repeated until the decision on the existence of an excessive deficit is abrogated. In its annual assessment, the ECOFIN Council shall decide to intensify the sanctions unless the participating Member State has complied with the Council's notice. If a decision is taken in favour of an additional deposit, it shall be equal to one-tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3% of GDP, without exceeding the upper limit of 0.5% of GDP. A deposit shall, as a rule, be converted into a fine if, two years after the decision requiring the participating Member State concerned to make a deposit, the excessive deficit has not been corrected. These fines shall be distributed among those participating Member States not running an excessive deficit, in proportion to their share in the total GNP of the eligible Member States. In accordance with Article 104 (12) (ex Article 104c (12)), the ECOFIN Council shall abrogate the sanctions referred to in the first and second indents of Article 104 (11) (ex Article 104c (11)) depending on the significance of the progress made by the

Diagram 1

The ECOFIN Council decision on the existence of an excessive deficit

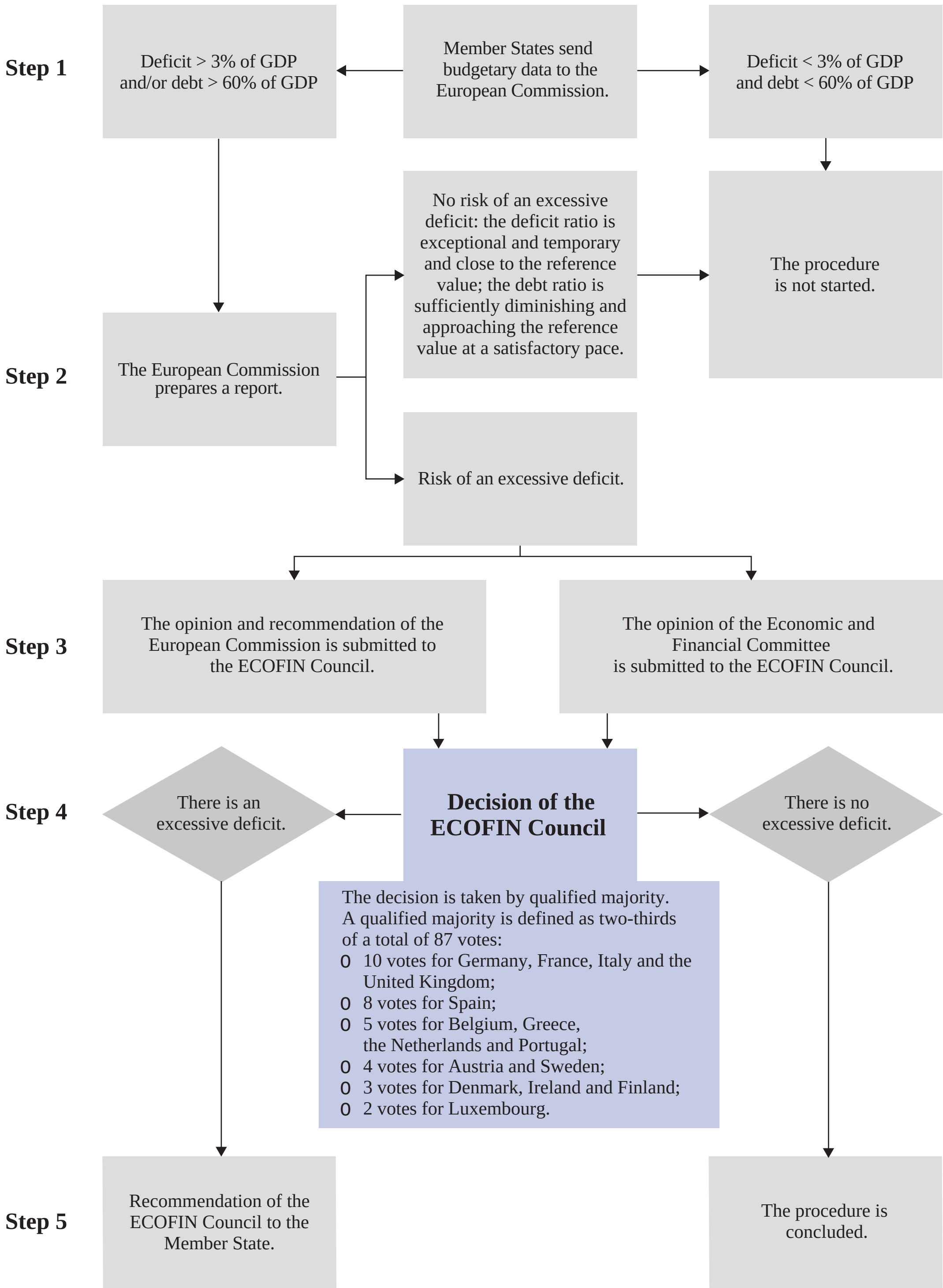
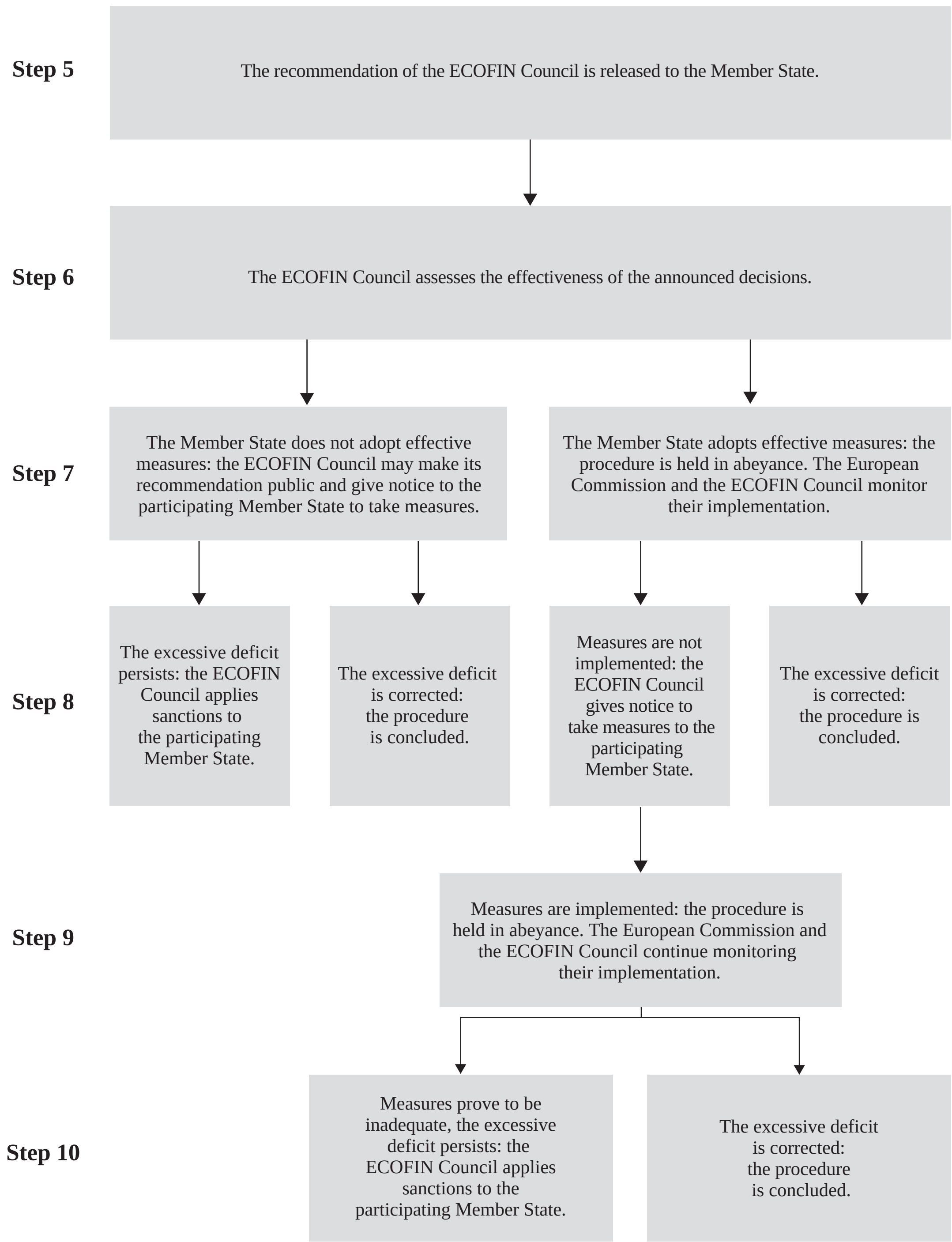


Diagram 2
Follow-up of the ECOFIN Council decision that an excessive deficit exists



participating Member State concerned in correcting the excessive deficit, and all outstanding sanctions shall be abrogated if the decision on the existence of an excessive deficit is abrogated. However, fines will not be reimbursed.

3 The implementation of the Stability and Growth Pact

The procedure for the implementation of the Stability and Growth Pact starts with the presentation of the stability and convergence programmes by Member States. After that, the European Commission has to adopt a recommendation on each programme. This recommendation will constitute the basis on which the ECOFIN Council will elaborate an opinion, after consulting the Economic and Financial Committee, within two months of submission. The ECB participates in the Economic and Financial Committee, where its members have the opportunity to discuss in depth the programmes presented by Member States. If the ECOFIN Council considers that the objectives announced in the programme should be strengthened, it invites the Member State concerned to do so. In the event of significant divergence from the objectives set in previous programmes being detected, the ECOFIN Council has the prerogative to issue a recommendation urging the Member State concerned to adopt offsetting measures. Annual updates of the programmes shall provide a detailed account of plans to offset deficit overruns in the short term. This latter requirement is aimed at preventing the medium-term objective of a budget in balance or in surplus from being deferred indefinitely.

In view of the fundamental role of the stability and convergence programmes in the process of multilateral surveillance, it was considered important for their information content to be appropriate and to allow for comparison across Member States. Since Member States had to draw up their programmes for submission before the end of 1998, as agreed by the ministers in their joint declaration of 1 May 1998, the Monetary Committee (now the Economic and Financial Committee), drawing upon useful contributions from European Commission staff, discussed possible complementary guidelines and agreed upon an Opinion addressed to the ECOFIN Council. This Opinion was endorsed at the ECOFIN meeting in Luxembourg (12 October 1998). This section first presents this Opinion, which established a code of conduct on the format and content of the stability and convergence programmes. It then describes formal compliance with this code of conduct in the steps taken to date to ensure implementation of the Pact. Finally, three key issues of substance are stressed which, in accordance with the Opinion of the former Monetary Committee, were addressed by the ECOFIN Council when examining the medium-term budgetary objective of positions close to balance or in surplus proposed in the stability and convergence programmes.

A code of conduct on the stability and convergence programmes

The former Monetary Committee considered that the essential requirements of the stability and convergence programmes set out in Council Regulation (EC) No. 1466/97 might usefully be complemented by a number of guidelines on the content and format of the programmes, building upon the previous "code of conduct" presented in the former Monetary Committee's report of 14 February 1994. The experience gathered so far with the "old" convergence programmes showed, according to the Opinion of the former Monetary Committee, that such guidelines not only assist the Member States in drawing up their programmes, but also facilitate their examination by the European Commission, the former Monetary Committee and the ECOFIN Council. The agreed guidelines and suggestions on the format and content of the stability and convergence programmes (see Annex 7), acknowledging the fact that the programmes are the responsibility of national authorities and that possibilities and practices differ from one country to another, are of an indicative nature.

The main considerations included in the Opinion of the former Monetary Committee can be summarised as follows:

- A fundamental element of the stability and convergence programmes is the medium-term objective for the budgetary position to be close to balance or in surplus. It was therefore clear, according to the Opinion of the former Monetary Committee, that the assessment of the appropriateness of Member States' medium-term objectives and the examination of their fulfilment had to take explicit account of the cyclical position and its effect on the budget. The time frame, in terms of the interpretation of "medium term", would therefore be the length of the business cycle. In practice, an approximate approach has to be adopted when assessing how actual and expected budgetary developments compare with the requirement of medium-term budgetary positions close to balance or in surplus. In particular, the likely impact of cyclical effects on current and future developments in budgets must be assessed. This exercise requires the adoption of an appropriate method.

- Obviously, each method has its strengths and weaknesses and therefore the results need to be interpreted with caution. Bearing this in mind, the former Monetary Committee adopted the present European Commission services' cyclical adjustment method which was considered to be a useful approach for assessing budgetary developments. Further analysis, taking into account other relevant factors including country-specific circumstances, would be needed to arrive at more firmly based judgements. In making such judgements, where appropriate, results from other methods may also be considered.

- On the basis of their cyclical adjustment method, European Commission staff examined for each Member State which underlying (cyclically adjusted) budget balance would allow it to deal with adverse cyclical developments while respecting the government deficit reference value. Clearly, other considerations are also of major importance in setting an appropriate medium-term objective which observes the requirements of the Stability and Growth Pact, such as the need to take account of other sources of variability and uncertainty in budgets, to ensure a rapid decline in high debt ratios and to cater for the costs associated with population ageing. In line with this, Member States that wish to make use of discretionary policy should create the necessary room for manoeuvre.

- It is important to prevent the medium-term budgetary position of close to balance or in surplus from becoming a moving target. The former Monetary Committee considered that the stability and convergence programmes to be submitted at the latest by the end of 1998 should show the medium-term objective of the Stability and Growth Pact as being achieved as quickly as possible. Furthermore, the former Monetary Committee held, on the basis of the European Commission's analysis, that this objective should be achieved by the end of 2002 at the latest.

Compliance with the code of conduct

In conformity with the Council Regulation on the Stability and Growth Pact referred to above, all EU countries submitted their stability and convergence programmes to the ECOFIN Council and the European Commission before the deadline of 1 March 1999. Most programmes arrived before the end of 1998, as had been agreed by the ministers in their joint declaration of 1 May 1998.

Stability and convergence programmes were generally found to comply formally with the code of conduct outlined above with regard to the length of the time horizon covered, the breadth of the information provided and the depth of the commitment to stability-oriented policies manifested by governments. Some countries went beyond the minimum standards agreed, by providing far-reaching accounts of the evolution of important expenditure items in the longer run.

However, a few formal shortcomings were also identified during the discussions held by the Economic and Financial Committee. Four programmes did not extend the planning horizon beyond 2001, thus failing to provide valuable information on the end of the time span recommended by the guidelines. While generally deemed realistic, external and domestic macroeconomic assumptions were sometimes found to be either outdated or even slightly optimistic in view of the uncertainties surrounding medium-term economic forecasting. Great determination with regard to the policy action needed to achieve the targets was often affirmed, but this was not always substantiated in detailed sets of measures. Nor was it always possible to clearly discern trend or planned developments in the primary budgetary components. In addition, given that government investment in most countries was subject to a disproportionate adjustment in the years up to 1997, it was felt that more attention should probably be given to this expenditure component in future updates of the programmes. Finally, in a few instances the Economic and Financial Committee lamented recourse to highly aggregated projections or an outright lack of evidence on key economic variables as clouding the transparency of the underlying scenarios. In some cases, the scant information provided – and the absence of sound indications as to the sensitivity of the official targets to changes in macroeconomic assumptions – were seen as preventing a fully grounded judgement within the context of the mutual surveillance exercise.

The notion of a budgetary position close to balance

In addition to the criteria for formal compliance outlined above, a comprehensive judgement on individual countries' programmes needs to be supported by more substantive considerations. The question arose as to whether the pace of deficit reduction envisaged in the programmes could be considered adequate to place the countries on the sound footing recommended by the Stability and Growth Pact. In general terms, this issue can be considered from at least three angles.

- First, one aspect which can be explored is whether the targets set by the Member States not yet in compliance with the rules of the Stability and Growth Pact are consistent with the requirement to avoid excessive deficits in the face of normal cyclical fluctuations. As already highlighted above, a country could be considered to have reached a position sufficiently "close to balance" provided that its economic structure is comfortably resistant to macroeconomic shocks or that its fiscal structure is relatively non-reactive to cyclical swings.

- Second, the time span chosen for the completion of the process of fiscal consolidation can also be questioned. In particular, it should be clear whether the time profiles indicated by the programmes for achieving full compliance with the deficit objectives conform to the Opinion of the former Monetary Committee, as endorsed by the ECOFIN Council, which requested that the programmes "should show the medium-term objective of the Stability and Growth Pact as being achieved as quickly as possible".

- Third, there is the question of whether current plans build into budgets sufficient room for manoeuvre to enable countries to withstand events not necessarily related to the cyclical position of the economy without contravening the Stability and Growth Pact. Unforeseen shocks to interest rates, for instance, and expected demographic developments can greatly impinge on budgetary positions and divert countries from previously prepared plans. Both sources of disturbance can be totally unrelated to short-term macroeconomic developments. In this connection, the former Monetary Committee acknowledged the need to ensure a rapid decline in high debt ratios and to cater for the costs associated with population ageing as considerations of major importance in setting the appropriate medium-term objectives in line with the requirements of the Stability and Growth Pact.

The European Commission observed its mandate to assess the adequacy of Member States' programmes, taking due account of national differences and diverse starting conditions. On the basis of the European Commission's recommendations, the ECOFIN Council judged that budgetary strategies, as detailed in the programmes, were in broad compliance with the requirement to bring public finances to positions that are sufficiently resistant to the budgetary effects of normal economic fluctuations. In this sense, the ECOFIN Council considered that countries are currently moving towards the medium-term objective recommended by the Pact. In some cases, however, the ECOFIN Council called for more ambitious budgetary targets, and it advised certain countries to continue their consolidation efforts beyond the horizon covered in order to be in a position to cope adequately with the consequences of population ageing. For high debt countries, in particular, it stressed the importance of maintaining high primary surpluses in order to reduce government debt ratios.

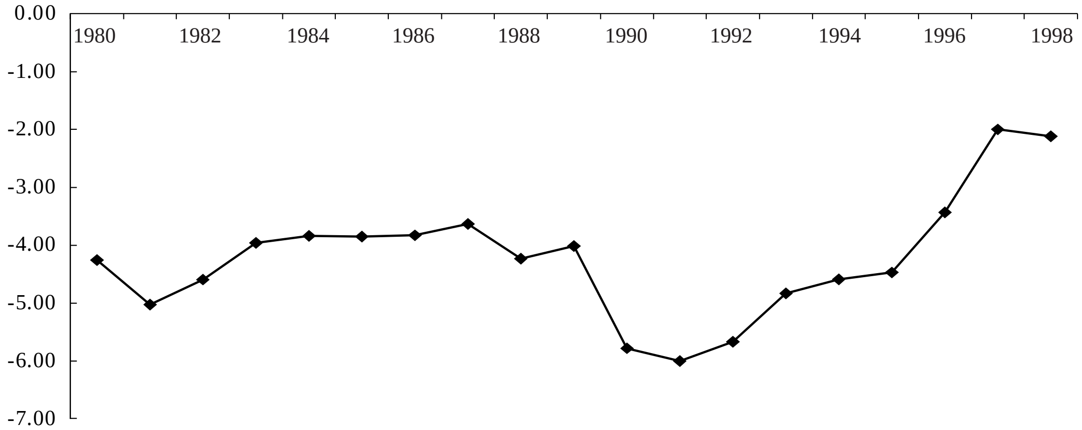
4 Assessment of the implementation of the budgetary rules of the Treaty and the Stability and Growth Pact

Fiscal performance in the very recent past and budgetary plans for the near future need to be set in the context of the considerable adjustments made since the beginning of the decade. Following the sharp deterioration in underlying fiscal positions that accompanied the cyclical upswing of the late 1980s, countries in the EU embarked on a large-scale turnaround in budgetary policy which marked an improvement in structural fiscal positions of almost 4 percentage points of GDP over the five years from 1992. Prospective participants in EMU, in particular, found in the Treaty's framework for sound macroeconomic conduct a decisive impulse towards fiscal consolidation (see Chart 1). Some of these countries, by decidedly embracing the stability culture imposed by the Treaty, were able to prevent impending confidence crises from developing into fully-fledged financial turmoil of unpredictable dimensions.

Chart 1

Cyclically adjusted budget balance in the euro area

(as a percentage of GDP)



Source: European Commission.

The trend towards fiscal discipline accelerated after the hiatus in 1995. In the 11 Member States that adopted the single currency on 1 January 1999 the uncompromising remit to meet the qualifying criteria for participation in EMU from its outset imposed the adoption of fiscal measures of an unprecedented scale. In some countries the magnitude of the required adjustment suggested that recourse to ad hoc provisions with a limited political backlash would be necessary as a useful complement to more substantive and lasting interventions. Government investment cutbacks and adjustments of a temporary nature were thus implemented on the understanding that, after the start of Stage Three of EMU, a more favourable economic environment would permit a prompt replacement of temporary corrections with sustainable and definitive improvements in the underlying positions.

1998 offered a unique opportunity to fulfil this promise. Economic activity was robust in a large proportion of the EU, to an extent that had not been observed since the beginning of the 1990s. A rapid convergence towards the new key interest rate decided in December for the euro area brought substantial cuts in the cost of servicing short-term liabilities for many Member States, at a time when vanishing exchange rate risks were driving long-term interest rate differentials to historical lows. This favourable scenario could have assisted governments in bringing to fruition those tasks which had yet to be completed.

However, the opportunity was largely forgone. Only six EU countries (Denmark, Ireland, Luxembourg, Finland, Sweden and the United Kingdom) literally fulfilled, on the basis of 1998 accounts, the Stability and Growth Pact requirement of a budget close to balance or in surplus. It is remarkable that only three of the six countries mentioned (Ireland, Luxembourg and Finland) figure among the Member States already participating in the euro area. All the remaining EU Member States were still relatively far from the targets that they had indicated in their programmes. Of those countries now participating in Stage Three of EMU, five (Germany, France, Italy, Austria and Portugal) recorded deficits of 2% of GDP or more. The two largest (Germany and France), while both operating close to potential output, posted imbalances not sufficiently far from the value of 3% of GDP set as a reference for deficits at the trough of an economic downturn.

The envisaged strategy for the future provides inadequate reassurance. Plans generally confirm countries' resolve to continue along the path of fiscal prudence seen in the recent past. Indeed, the determination expressed by some to earmark tax windfalls from unexpected spurts of growth for further debt reduction should, in some cases, insure against the historical proclivity to loosen the fiscal stance in prosperous times. Nonetheless, the scant safety margins built into budgets so far and the time profile of the adjustment envisaged do not augur well for the capability of public finances in the euro area to withstand a serious turnaround in economic prospects.

Only the stability programmes of Belgium and Spain, of those presented by the Member States not yet in line with the norms of the Stability and Growth Pact, explicitly incorporate balanced accounts by the end of the period covered (see Table 1). The remaining euro area countries (Germany, France, Italy, the Netherlands, Austria and Portugal) implicitly consider a net borrowing of around 1% of GDP by 2001 or 2002 as the conclusion of their consolidation efforts. The three larger economies aim for a primary adjustment, between 1998 and 2001 or 2002, falling short of one percentage point of GDP on average. Two other countries expect their primary surpluses either to virtually stabilise at current levels (Austria) or even to decline (the Netherlands).

Table 1

Macroeconomic assumptions and fiscal targets contained in Member States' stability and convergence programmes

Country	Real GDP growth				Government balance ratio (% of GDP)				Debt ratio (% of GDP)			
	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
Belgium	2.4	2.3	2.3	2.3	-1.3	-1.0	-0.7	-0.3	114.5	112.2	109.6	106.8
Denmark	1.7	2.0	2.0	-	2.5	2.8	2.6	-	56	51	49	-
Germany	2	2½			-2	-2	-1½	-1	61	61	60½	59½
Greece	3.7	3.9	4.5	-	-2.1	-1.7	-0.8	-	105.8	102.5	99.8	-
Spain	3.8	3.3			-1.6	-1.0	-0.4	0.1	66.4	64.3	61.9	59.3
France	2.7	3.0			-2.3			-0.8	58.7			57.1
Ireland	6.7	6.4	5.8	-	1.7	1.4	1.6	-	52	47	43	-
Italy	2.5	2.8	2.9	-	-2.0	-1.5	-1.0	-	114.6	110.9	107.0	-
Luxembourg	3.4	3.7			1.1	1.2	1.3	1.7	- 1)	- 1)	- 1)	- 1)
Netherlands	2.9	2¼ (1999-2002)			-1.3	-	-	-1.1	66.4	-	-	64½
Austria	2.8	2.6	2.1	2.2	-2.0	-1.7	-1.5	-1.4	63.5	62.2	61.2	60.0
Portugal	3.5	3.5	3.2	3.3	-2.0	-1.5	-1.2	-0.8	56.8	55.8	54.7	53.2
Finland	4.0	2.7	2.6	2.6	2.4	2.2	2.1	2.3	48.5	46.4	44.8	43.2
Sweden	2.2	2.6	2.5	-	0.3	1.6	2.5	-	71.4	66.7	58.0	-
United Kingdom 2)	1	2½	2¾	2½	-0.3	-0.3	-0.1	0.2	46.7	45.4	43.7	42.0

1) *According to Luxembourg's stability programme, general government debt, which in total represented 6.7% of GDP in 1998, will not increase in the forecasting period.*
2) *Presented on a financial-year basis.*

While broadly – sometimes only vaguely – respecting minimum benchmark positions that would allow them to absorb normal fluctuations without breaching the Treaty's reference value for deficits, countries have been regrettably unambitious. The prevailing minimalist approach to fiscal stability is not satisfactory for a number of reasons.

First, it seems to reflect the concept of a trade-off between consolidation and structural reform. Some programmes build on the notion that the structure of the adjustment should be regarded as a priority, the magnitude of the necessary correction being less important. This stance is not warranted. Focusing policy plans, to an extent unprecedented in the recent past, on tax reductions rather than tax increases is certainly critical for the compensation of efficiency losses that have been accumulated through decades of unrelenting growth in the size of governments. In addition, the aim expressed by countries with mature welfare systems to rebalance government expenditure away from current transfers and in favour of public investment can be an instrument to revitalise the growth potential of their economies. However, deficit correction is an indispensable part of the same policy of structural reform. Those countries within the EU which have been front runners in redressing fiscal imbalances, while at the same time implementing wide-ranging structural measures, give the lie to the idea that the two policy lines should be seen as alternative options. They should rather be pursued as complementary and mutually reinforcing aspects of the same strategy.

Second, governments in a large proportion of the EU Member States have no substantial policies to reduce cyclically adjusted deficits. The deficit correction targeted entails very limited discretionary action and will only be brought about if growth is maintained in a context of financial stability. In the most optimistic scenario, at the beginning of the next century a number of important countries in the EU will be brought to a position from which it will be barely possible for them to withstand normal macroeconomic fluctuations without some risk of breaching the reference value for deficits. No additional scope will be available in their accounts to counteract shocks originating in the financial markets or to respond to unforeseeable events. EMU itself could add to the latter strains. Heightened tax bases and factor mobility within the euro area could undermine the taxation-related power of those Member States imposing larger tax burdens on the gross return from labour and capital services. This will not fail to erode the revenue assumptions on which budgetary plans are currently based. Prospective reductions in the transfer of EU structural funds to countries that are currently net recipients could lead to the same shortfalls in trend receipts. Some countries could also find themselves in need of additional budgetary freedom to provide for an active fiscal policy, as a substitute for the lost exchange rate lever, in order to be in a position to deal with asymmetric shocks. Early budgetary provision against all these contingencies could avoid possibly disruptive measures that would need to be engineered at a later date, when the risks may finally materialise.

Third, planned measures are generally postponed towards the end of the forecasting horizon. The tendency to backload convergence to the target adds political uncertainty – with regard to the priorities of the governments which will be in power two or three years hence – to the risks already implicit in the underlying scenarios. Thus, stepping up the pace of adjustment would have removed at least one source of risk.

Finally, and perhaps most importantly, very little has been done to prepare budgets for the strains that are expected to emerge after the middle of the next decade. It has been calculated that demographic transition will add some seven percentage points of GDP to pension and health expenditure in the euro area by the end of the third decade of the next century. Recent studies have estimated the scale of the immediate fiscal correction that would be needed in Europe both to absorb the cumulative impact of these implicit commitments and to keep the debt ratios from rising. With minor exceptions, if countries were to observe this additional prudential margin, they would have to move from their current positions to balanced accounts immediately. Some of them would have to do more.

Early provision for the budgetary impact of these extraordinary developments has at least two aspects. One is, of course, to aim for an accelerated improvement in the net liability positions of governments in order to provide scope to deal with spending pressures when these finally intensify. Strict compliance with the letter of the Stability and Growth Pact norm of at least balancing the accounts over the medium term (i.e. over the length of the business cycle, as interpreted by the former Monetary Committee, see Annex 7) would accelerate the decline in public liabilities as a fraction of output. This is calculated to free a significant amount of resources in debt servicing costs, which could usefully be directed towards partial financing of the growing spending exigencies. The second aspect, an early and thorough reform of benefit programmes, would make provision for the remaining portion of the anticipated increase in transfers to the elderly.

5 Concluding remarks

Progress towards fiscal consolidation has been made in the EU in the recent past. Government deficits, a constant drain on private savings and a net subtraction from productive resources, have been cut. Debt burdens, while still sizable, have been diverted from previously ever-increasing trajectories.

The code of conduct on fiscal policy, to which governments anchored their policies when signing the Treaty and adopting the Stability and Growth Pact, is a useful instrument to safeguard sound government finances in the new policy regime. The stability and convergence programmes presented between late 1998 and early 1999 have reasserted political commitment to the continuation of the policies pursued in the recent past. Governments appear determined to ensure that fiscal retrenchment is durable, by compensating for past one-off measures the beneficial effects of which, in terms of curbing deficits, diminish over time. It is also reassuring that the targets previously set for 1999 have been reaffirmed in the notification submitted by Member States to the European Commission.

Fiscal consolidation is, however, an ongoing progress that requires additional input. The prevailing attitude towards the scale and timing of consolidation is to aim for the least ambitious targets consistent with formal compliance with the Stability and Growth Pact. Some countries have prepared their programmes on the basis of predictions of a relatively favourable macroeconomic and financial environment that could, ex post, prove to be over-optimistic. In addition, while determined to overhaul their economic structures in a commendable way, some countries seem to believe that attempts to address structural issues could, at times, justify a more relaxed timetable for completing consolidation. This attitude is not warranted in the light of the most recent experience of those Member States that have taken the lead in redressing both fiscal imbalances and long-standing structural problems.

In the event of a sudden worsening of domestic and international prospects, it is not totally clear precisely what the policy response is intended to be. It is also unclear as to whether, under such circumstances, the established horizon for full convergence with the target would be observed or whether it would be allowed to slide forward. These uncertainties are aggravated by the diffuse practice of back-loading the envisaged adjustment, whereby action is postponed until the more distant and thus more uncertain future. A lack of early provisions against adversities can leave fiscal structures vulnerable to sudden reversals of macroeconomic conditions. Lack of ambition, more generally, is bound to leave government finances in a number of countries unprepared to face the more fundamental challenges that lie ahead.

Sound fiscal policies and low tax burdens not only tend to contribute to lower long-term real interest rates, reduced uncertainty and increased private capital formation, but thereby also to higher real growth and employment in the medium term. They also facilitate the task of monetary policy to maintain price stability. The maintenance of price stability over the medium term is the best contribution that monetary policy can make to improved growth and employment prospects in the long run. This is the case regardless of fiscal developments. However, unsound fiscal policies tend to increase inflation expectations and force monetary policy to keep short-term rates relatively high, thereby reducing the net benefits associated with price stability.

Annexes

1. The co-ordination of economic policies in Stage Three of EMU (excerpts from the Treaty)

Article 98 (ex Article 102a)

Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community, as defined in Article 2, and in the context of the broad guidelines referred to in Article 99 (2). The Member States and the Community shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 4.

Article 99 (ex Article 103)

1. Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 98.

2. The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council.

The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Community.

On the basis of this conclusion, the Council shall, acting by a qualified majority, adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation.

3. In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, the Council shall, on the basis of reports submitted by the Commission, monitor economic developments in each of the Member States and in the Community as well as the consistency of economic policies with the broad guidelines referred to in paragraph 2, and regularly carry out an overall assessment.

For the purpose of this multilateral surveillance, Member States shall forward information to the Commission about important measures taken by them in the field of their economic policy and such other information as they deem necessary.

4. Where it is established, under the procedure referred to in paragraph 3, that the economic policies of a Member State are not consistent with the broad guidelines referred to in paragraph 2 or that they risk jeopardizing the proper functioning of economic and monetary union, the Council may, acting by a qualified majority on a recommendation from the Commission, make the necessary recommendations to the Member State concerned. The Council may, acting by a qualified majority on a proposal from the Commission, decide to make its recommendations public.

The President of the Council and the Commission shall report to the European Parliament on the results of the multilateral surveillance. The President of the Council may be invited to appear before the competent committee of the European Parliament if the Council has made its recommendations public.

5. The Council, acting in accordance with the procedure referred to in Article 252, may adopt detailed rules for the multilateral surveillance procedure referred to in paragraphs 3 and 4 of this Article.

Article 100 (ex Article 103a)

1. Without prejudice to any other procedures provided for in this Treaty, the Council may, acting unanimously on a proposal from the Commission, decide upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products.

2. Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by exceptional occurrences beyond its control, the Council may, acting unanimously on a proposal from the Commission, grant, under certain conditions, Community financial assistance to the Member State concerned. Where the severe difficulties are caused by natural disasters, the Council shall act by qualified majority. The President of the Council shall inform the European Parliament of the decision taken.

2. Restrictions on the financing of the public sector (excerpts from the Treaty)

Article 101 (ex Article 104)

1. Overdraft facilities or any other type of credit facility with the ECB or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments.

2. Paragraph 1 shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the ECB as private credit institutions.

Article 102 (ex Article 104a)

1. Any measure, not based on prudential considerations, establishing privileged access by Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States to financial institutions, shall be prohibited.

2. The Council, acting in accordance with the procedure referred to in Article 252, shall, before 1 January 1994, specify definitions for the application of the prohibition referred to in paragraph 1.

Article 103 (ex Article 104b)

1. The Community shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.

2. If necessary, the Council, acting in accordance with the procedure referred to in Article 252, may specify definitions for the application of the prohibition referred to in Article 101 and in this Article.

3. Budgetary discipline rules and the excessive deficit procedure (excerpts from the Treaty, Article 104 (ex Article 104c) and the annexed Protocol (No. 5))

Article 104 (ex Article 104c)

1. Member States shall avoid excessive government deficits.

2. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:

(a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless:

– either the ratio has declined substantially and continuously and reached a level that comes close to the reference value;

– or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;

(b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

The reference values are specified in the Protocol on the excessive deficit procedure annexed to this Treaty.

3. If a Member State does not fulfil the requirements under one or both of these criteria, the Commission shall prepare a report. The report of the Commission shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State.

The Commission may also prepare a report if, notwithstanding the fulfilment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State.

4. The Committee provided for in Article 114 shall formulate an opinion on the report of the Commission.

5. If the Commission considers that an excessive deficit in a Member State exists or may occur, the Commission shall address an opinion to the Council.

6. The Council shall, acting by a qualified majority on a recommendation from the Commission, and having considered any observations which the Member State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists.

7. Where the existence of an excessive deficit is decided according to paragraph 6, the Council shall make recommendations to the Member State concerned with a view to bringing that situation to an end within a given period. Subject to the provisions of paragraph 8, these recommendations shall not be made public.

8. Where it establishes that there has been no effective action in response to its recommendations within the period laid down, the Council may make its recommendations public.

9. If a Member State persists in failing to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State to take, within a specified time-limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation.

In such a case, the Council may request the Member State concerned to submit reports in accordance with a specific timetable in order to examine the adjustment efforts of that Member State.

10. The rights to bring actions provided for in Articles 226 and 227 may not be exercised within the framework of paragraphs 1 to 9 of this Article.

11. As long as a Member State fails to comply with a decision taken in accordance with paragraph 9, the Council may decide to apply or, as the case may be, intensify one or more of the following measures:

- to require the Member State concerned to publish additional information, to be specified by the Council, before issuing bonds and securities;

- to invite the European Investment Bank to reconsider its lending policy towards the Member State concerned;

- to require the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Community until the excessive deficit has, in the view of the Council, been corrected;

- to impose fines of an appropriate size.

The President of the Council shall inform the European Parliament of the decisions taken.

12. The Council shall abrogate some or all of its decisions referred to in paragraphs 6 to 9 and 11 to the extent that the excessive deficit in the Member State concerned has, in the view of the Council, been corrected. If the Council has previously made public recommendations, it shall, as soon as the decision under paragraph 8 has been abrogated, make a public statement that an excessive deficit in the Member State concerned no longer exists.

13. When taking the decisions referred to in paragraphs 7 to 9, 11 and 12, the Council shall act on a recommendation from the Commission by a majority of two thirds of the votes of its members weighted in accordance with Article 205 (2), excluding the votes of the representative of the Member State concerned.

14. Further provisions relating to the implementation of the procedure described in this Article are set out in the Protocol on the excessive deficit procedure annexed to this Treaty.

The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the ECB, adopt the appropriate provisions which shall then replace the said Protocol.

Subject to the other provisions of this paragraph, the Council shall, before 1 January 1994, acting by a qualified majority on a proposal from the Commission and after consulting the European Parliament, lay down detailed rules and definitions for the application of the provisions of the said Protocol.

Protocol (No. 5) on the excessive deficit procedure

Article 1

The reference values referred to in Article 104 (2) of this Treaty are:

- 3% for the ratio of the planned or actual government deficit to gross domestic product at market prices;

- 60% for the ratio of government debt to gross domestic product at market prices.

Article 2

In Article 104 of this Treaty and in this Protocol:

- government means general government, that is central government, regional or local government and social security funds, to the exclusion of commercial operations, as defined in the European System of Integrated Economic Accounts;

- deficit means net borrowing as defined in the European System of Integrated Economic Accounts;
- investment means gross fixed capital formation as defined in the European System of Integrated Economic Accounts;
- debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government as defined in the first indent.

Article 3

In order to ensure the effectiveness of the excessive deficit procedure, the governments of the Member States shall be responsible under this procedure for the deficits of general government as defined in the first indent of Article 2. The Member States shall ensure that national procedures in the budgetary area enable them to meet their obligations in this area deriving from this Treaty. The Member States shall report their planned and actual deficits and the levels of their debt promptly and regularly to the Commission.

Article 4

The statistical data to be used for the application of this Protocol shall be provided by the Commission.

4. The commitments of Member States, the European Commission and the European Council (excerpts from the Resolution of the European Council of 17 June 1997)

The Member States

1. commit themselves to respect the medium-term budgetary objective of positions close to balance or in surplus set out in their stability or convergence programmes and to take the corrective budgetary action they deem necessary to meet the objectives of their stability or convergence programmes, whenever they have information indicating actual or expected significant divergence from those objectives;

2. are invited to make public, on their own initiative, the Council recommendations made to them in accordance with Article 103 (4);

3. commit themselves to take the corrective budgetary action they deem necessary to meet the objectives of their stability or convergence programmes once they receive an early warning in the form of a Council recommendation issued under Article 103 (4);

4. will launch the corrective budgetary adjustments they deem necessary without delay on receiving information indicating the risk of an excessive deficit;

5. will correct excessive deficits as quickly as possible after their emergence; this correction should be completed no later than the year following the identification of the excessive deficit, unless there are special circumstances;

6. are invited to make public, on their own initiative, recommendations made in accordance with Article 104c (7);

7. commit themselves not to invoke the benefit of Article 2 (3) of the Council Regulation on speeding up and clarifying the excessive deficit procedure unless they are in severe recession; in evaluating whether the economic downturn is severe, the Member States will, as a rule, take as a reference point an annual fall in real GDP of at least 0.75%.

The Commission

1. will exercise its right of initiative under the Treaty in a manner that facilitates the strict, timely and effective functioning of the Stability and Growth Pact;

2. will present, without delay, the necessary reports, opinions and recommendations to enable the Council to adopt decisions under Article 103 and Article 104 c; this will facilitate the effective functioning of the early warning system and the rapid launch and strict application of the excessive deficit procedure;

3. commits itself to prepare a report under Article 104c (3) whenever there is the risk of an excessive deficit or whenever the planned or actual government deficit exceeds the reference value of 3% of GDP, thereby triggering the procedure under Article 104c (3);

4. commits itself, in the event that the Commission considers that a deficit exceeding 3% of GDP is not excessive and this opinion differs from that of the Economic and Financial Committee, to present in writing to the Council the reasons for its position;

5. commits itself, following a request from the Council under Article 109d, to make, as a rule, a recommendation for a Council decision on whether an excessive deficit exists under Article 104c (6).

The Council

1. is committed to a rigorous and timely implementation of all elements of the Stability and Growth Pact in its competence; it will take the necessary decisions under Article 103 and Article 104c as is practicable;

2. is urged to regard the deadlines for the application of the excessive deficit procedure as upper limits; in particular, the Council, acting under Article 104c (7), shall recommend that excessive deficits be corrected as quickly as possible after their emergence, no later than the year following their identification, unless there are special circumstances;

3. is invited always to impose sanctions if a participating Member State fails to take the necessary steps to bring the excessive deficit situation to an end as recommended by the Council;

4. is urged always to require a non-interest-bearing deposit, whenever the Council decides to impose sanctions on a participating Member State in accordance with Article 104c (11);

5. is urged always to convert a deposit into a fine after two years of the decision to impose sanctions in accordance with Article 104c (11), unless the excessive deficit has in the view of the Council been corrected;

6. is invited always to state in writing the reasons which justify a decision not to act if at any stage of the excessive deficit or surveillance of budgetary positions procedures the Council did not act on a Commission recommendation and, in such case, to make public the votes cast by each Member State.

5. The excessive deficit procedure in Stage Three of EMU (excerpts from Council Regulation (EC) No. 1467/97 of 7 July 1997, Section 1: Definitions and Assessments)

Article 1

1. This Regulation sets out the provisions to speed up and clarify the excessive deficit procedure, having as its objective to deter excessive general government deficits and, if they occur, to further their prompt correction.

2. For the purpose of this Regulation 'participating Member States' shall mean those

Member States which adopt the single currency in accordance with the Treaty and 'non-participating Member States' shall mean those which have not adopted the single currency.

Article 2

1. The excess of a government deficit over the reference value shall be considered exceptional and temporary, in accordance with Article 104c (2) (a), second indent, when resulting from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government, or when resulting from a severe economic downturn.

In addition, the excess over the reference value shall be considered temporary if budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

2. The Commission when preparing a report under Article 104c (3) shall, as a rule, consider an excess over the reference value resulting from a severe economic downturn to be exceptional only if there is an annual fall of real GDP of at least 2%.

3. The Council when deciding, according to Article 104c (6), whether an excessive deficit exists, shall in its overall assessment take into account any observations made by the Member State showing that an annual fall of real GDP of less than 2% is nevertheless exceptional in the light of further supporting evidence, in particular on the abruptness of the downturn or on the accumulated loss of output relative to past trends.

6. The content of the stability and convergence programmes in Stage Three of EMU (excerpts from Council Regulation (EC) No. 1466/97 of 7 July 1997)

Section 1: Purpose and definitions

Article 1

This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies.

Article 2

For the purpose of this Regulation 'participating Member States' shall mean those Member States which adopt the single currency in accordance with the Treaty and 'non-participating Member States' shall mean those which have not adopted the single currency.

Section 2: Stability programmes

Article 3

1. Each participating Member State shall submit to the Council and Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 103 of the Treaty in the form of a stability programme, which provides an essential basis for price stability and for strong sustainable growth conducive to employment creation.

2. A stability programme shall present the following information:

(a) the medium-term objective for the budgetary position of close to balance or in surplus and the adjustment path towards this objective for the general government surplus/deficit and the expected path of the general government debt ratio;

(b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the stability programme such as government investment expenditure, real gross domestic product (GDP) growth, employment and inflation;

(c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget;

(d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position.

3. The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions referred to in paragraph 2(a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

Article 4

1. Stability programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually. A Member State adopting the single currency at a later stage shall submit a stability programme within six months of the Council Decision on its participation in the single currency.

2. Member States shall make public their stability programmes and updated programmes.

Article 5

1. Based on assessments by the Commission and the Committee set up by Article 109c of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 103, examine whether the medium-term budget objective in the stability programme provides for a safety margin to ensure the avoidance of an excessive deficit, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term budgetary objective.

The Council shall furthermore examine whether the contents of the stability programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.

2. The Council shall carry out the examination of the stability programme referred to in paragraph 1 within at most two months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Committee set up by Article 109c, shall deliver an opinion on the programme. Where the Council, in accordance with Article 103, considers that the objectives and contents of a programme should be strengthened, the Council shall, in its opinion, invite the Member State concerned to adjust its programme.

3. Updated stability programmes shall be examined by the Committee set up by Article 109c on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure set out in paragraphs 1 and 2 of this article.

Article 6

1. As part of multilateral surveillance in accordance with Article 103(3), the Council shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Committee set up by Article 109c, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path

towards it, as set in the programme for the government surplus/deficit.

2. In the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, it shall, with a view to giving early warning in order to prevent the occurrence of an excessive deficit, address, in accordance with Article 103(4), a recommendation to the Member State concerned to take the necessary adjustment measures.

3. In the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is persisting or worsening, the Council shall, in accordance with Article 103(4), make a recommendation to the Member State concerned to take prompt corrective measures and may, as provides in that Article, make its recommendation public.

7. The format and content of the stability and convergence programmes (Appendix to the Opinion of the former Monetary Committee on this issue, endorsed by the ECOFIN Council and published after its 12 October 1998 meeting in Luxembourg)

Status of guidelines

The Commission proposes that the guidelines set out in this report should be adopted as a code of good practice and check-list to be used by Member States in preparing stability or convergence programmes. This will facilitate the examination and discussion of the programmes.

The Committee does not suggest that the guidelines be made obligatory, but any departure would have to be justified by the Member States concerned.

Political commitment

In accordance with the provisions of Council Regulation 1466/97, the Member States will submit stability or convergence programmes. It is therefore clear that the governments assume responsibility for them. Each programme might usefully indicate the extent to which it has received support at other levels, notably in the national parliament. In particular, the state of implementation of the measures presented in the programme should be indicated.

Status of data

The status of the quantitative information in the programmes should be clearly established. In order to facilitate assessment, the concepts used should be in line with the standards established at European level, notably in the context of the European System of Accounts. This information may be complemented by a presentation of specific accounting concepts that are of particular importance to the country concerned.

Content

Articles 3 and 7 set out the basic information to be covered by stability and convergence programmes.

Objectives

The programmes should present the medium-term objective for the budgetary position of close to balance or in surplus and, where appropriate, the adjustment path to it, as well as the projected path for the debt ratio (Articles 3 (2a) and 7 (2a)). The time frame for interpreting the medium-term would be the length of the business cycle. The medium-term budgetary position has to take account of the possibility to deal with adverse cyclical developments whilst respecting the government deficit reference value. Obviously, other considerations are also of major importance in setting the appropriate medium-term objective which respects the requirements of the Stability and Growth Pact, such as the need to take account of other sources of variability and uncertainty in budgets, the need to ensure a rapid decline in high debt ratios and the need to cater for the costs associated to population ageing. In line with this, Member States that would wish to make use of discretionary policy should make the necessary room for this.

Member States should specify and explain the factors underpinning their choice of the medium-term budgetary objectives. Where appropriate, government investment objectives might be specified. Convergence programmes shall also present the medium-term monetary policy objectives and their relationship to price and exchange rate stability.

To permit a fuller understanding of the paths of the government balance and the debt ratio and of the budgetary strategy in general, complementary information should be provided on expenditure and revenue ratios, with interest payments separately identified, and on privatisation receipts and other factors influencing the debt ratio. Obviously, the further forward the year considered, the less accurate the information will be.

The budget balances should be broken down by sub-sector of general government (central government, local authorities, social security) where this breakdown is significant.

Assumptions

The programmes should present the main assumptions about expected economic developments and important economic variables which are relevant to their realization such as government investment expenditure, real GDP growth, employment and inflation (Articles 3 (2b) and 7 (2b)). The assumptions on real GDP growth should be underpinned by an indication of the expected sources of growth. Furthermore, the programmes should provide sufficient information about GDP developments to allow an analysis of the cyclical position of the economy. Where these are particularly important to public finances, technical assumptions on interest rates should also be presented.

While there was considerable support in principle in the Committee for the use of a common set of macroeconomic projections, the practical difficulty of arriving at an agreed set of projections was acknowledged. Accordingly, the use of a common set of macroeconomic projections for all programmes is not recommended. However, the macroeconomic projections for the domestic and the world economy underlying the programmes should be clearly specified and the Commission should draw attention to any significant differences from their own projections, the Member State concerned standing ready to justify its assumptions.

Reflecting the general point made above on the standardisation of quantitative information presented, inflation assumptions should be presented in terms of the GDP deflator and, if a Member State considers it useful, the Harmonised Index of Consumer Prices (HICP).

Measures

The programmes should describe the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget (Articles 3 (2c) and 7 (2c)). The measures should be consistent with the broad economic policy guidelines. Measures having significant "one-off" effects should be explicitly identified. Member States have committed themselves to take the corrective action they deem necessary to meet the objectives of their stability or convergence programmes, whenever they have information indicating actual or expected significant divergence from those objectives. Structural reforms should be covered where they could contribute to the achievement of objectives of the programmes. Spill-over effects on other Member States should be dealt with by the Commission in its analysis, which does not preclude the Member States from dealing with these effects in their programmes. The programmes could also usefully describe changes introduced to improve expenditure control, tax collection efficiency, and so on. Where appropriate, the programmes should also indicate other possible institutional reforms especially in the budget process.

Sensitivity analysis

The programmes shall provide an analysis of how changes in the main economic assumptions would affect the budgetary and debt position (Articles 3 (2d) and 7 (2d)). This analysis should be complemented by a sensitivity analysis of the impact of different interest-rate assumptions on the budgetary and debt position.

Time horizon

The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions shall be on an annual basis and shall cover, as well as the current and preceding year, at least the three following years (Articles 3 (3) and 7 (3)); leaving it open to Member States to cover a longer period if they so wish.

Updating of programmes

Annual updates of stability and convergence programmes should show how developments have compared with the programme objectives. When substantial deviations occur, the update should include the steps to be taken to rectify the situation.

Euro area statistics

Contents

Statistics

I Monetary policy statistics

Table 1.1

Consolidated financial statement of the Eurosystem [1)]

(EUR millions)

1. Assets

	Gold and gold receivables	Claims on non-euro area residents in foreign currency	Claims on euro area residents in foreign currency	Claims on non-euro area residents in euro	Lending to financial sector counterparties in the euro area			
						Main refinancing operations	Longer-term refinancing operations	Fine-tuning reverse operations
	1	2	3	4	5	6	7	8
1999 1 Jan.	99,598	230,342	6,704	8,939	185,120	144,924	24,698	6,680
8	99,598	234,128	5,255	8,786	174,769	145,067	22,230	49
15	99,589	235,398	6,541	8,110	173,146	122,898	44,998	0
22	99,589	235,387	7,277	7,238	155,287	106,918	44,998	0
29	99,589	233,019	7,385	9,094	182,912	127,967	44,998	0
5 Feb.	99,589	231,709	7,454	6,702	177,831	130,994	44,993	0
12	99,589	231,409	8,104	6,176	173,248	126,879	44,993	0
19	99,589	232,211	8,448	5,277	173,527	126,830	44,993	0
26	99,589	228,797	9,338	4,430	186,437	139,938	45,001	0
5 Mar.	99,589	228,538	8,591	4,890	190,857	144,836	45,001	0
12	99,589	227,441	9,834	3,990	188,013	141,819	45,001	0
19	99,589	228,150	9,027	4,445	165,292	119,020	45,001	0
26	99,589	228,549	8,925	3,780	192,221	146,030	45,005	0
2 Apr.	105,323	242,761	10,618	3,492	187,687	140,975	44,994	0
9	105,323	243,199	10,331	3,789	152,226	105,607	44,994	0
16	105,323	241,250	11,488	4,146	180,495	133,600	44,994	0
23	105,323	240,702	11,963	4,033	168,543	117,043	44,994	0
30	105,323	240,747	11,683	4,002	174,322	128,023	44,999	0

2. Liabilities

	Banknotes in circulation	Liabilities to financial sector counterparties in the euro area in euro						Debt certificates issued
			Current accounts (covering the minimum reserves system)	Deposit facility	Fixed-term deposits	Fine-tuning reverse operations	Deposits related to margin calls	
	1	2	3	4	5	6	7	8
1999 1 Jan.	341,708	87,308	84,437	973	1,886	0	12	13,835
8	336,551	106,002	102,518	3,475	0	0	9	11,651
15	330,796	109,936	107,824	2,110	0	0	2	11,651
22	326,555	87,970	87,733	234	0	0	3	11,651
29	326,534	85,353	84,632	709	0	0	12	11,650
5 Feb.	328,262	109,138	108,127	1,010	0	0	1	11,650
12	327,341	106,048	105,821	226	0	0	1	11,650
19	324,490	97,297	95,419	1,870	0	0	8	11,650
26	325,207	99,970	99,261	705	0	0	4	11,650
5 Mar.	328,763	115,173	114,900	210	0	0	63	11,650
12	328,646	108,092	107,621	436	0	0	35	11,650
19	327,281	87,857	84,427	3,410	0	0	20	11,650
26	327,128	100,416	100,274	130	0	0	12	11,650
2 Apr.	335,331	104,850	104,298	536	0	0	16	10,158
9	333,367	79,332	79,117	213	0	0	2	10,158
16	330,839	120,752	120,462	283	0	0	7	10,158
23	328,984	90,190	89,605	580	0	0	5	10,158
30	332,280	104,395	104,241	119	0	0	35	10,158

Source: ECB.

1) Discrepancies may arise from rounding.

Structural reverse operations 9	Marginal lending facility 10	Credits related to margin calls 11	Other lending 12	Securities of euro area residents in euro 13	General government debt in euro 14	Other assets 15	Total 16	
0	6,372	26	2,420	21,650	60,125	84,683	697,160	1999 1 Jan.
0	5,434	24	1,966	20,914	60,125	81,554	685,128	8
0	2,655	58	2,537	21,335	60,130	82,743	686,992	15
0	2,111	80	1,180	21,794	60,183	80,867	667,622	22
0	8,700	127	1,120	22,096	60,185	80,358	694,638	29
0	592	101	997	22,549	60,185	81,428	687,447	5 Feb.
0	210	102	1,064	23,255	60,185	78,270	680,236	12
0	592	95	1,017	23,868	60,185	78,786	681,891	19
0	423	102	973	24,281	60,185	79,584	692,641	26
0	97	62	861	24,638	60,185	80,785	698,073	5 Mar.
0	161	95	937	25,365	60,185	78,637	693,054	12
0	188	118	965	25,036	60,185	76,559	668,283	19
0	171	149	866	26,107	60,185	80,040	699,396	26
0	665	178	875	26,640	60,186	81,041	717,748	2 Apr.
0	710	72	843	26,511	60,186	77,903	679,468	9
0	1,019	128	754	25,871	60,186	76,831	705,590	16
0	5,591	138	777	26,181	60,186	74,786	691,717	23
0	500	47	753	26,088	60,186	75,945	698,296	30

Liabilities to other euro area residents in euro 9	Liabilities to non-euro area residents in euro 10	Liabilities to euro area residents in foreign currency 11	Liabilities to non-euro area residents in foreign currency 12	Counterpart of special drawing rights allocated by the IMF 13	Revaluation accounts 14	Capital and reserves 15	Other liabilities 16	Total 17	
61,477	9,969	595	3,314	5,765	59,931	52,567	60,690	697,160	1999 1 Jan.
32,203	11,538	1,051	3,929	5,765	59,681	52,807	63,950	685,128	8
33,020	10,899	1,529	4,068	5,767	59,681	51,197	68,448	686,992	15
43,442	9,148	1,297	4,344	5,767	59,681	51,275	66,492	667,622	22
56,652	14,049	1,618	4,325	5,767	59,658	51,279	77,753	694,638	29
44,017	8,161	810	5,827	5,767	59,658	51,279	62,878	687,447	5 Feb.
43,556	7,840	733	6,395	5,767	59,658	51,279	59,969	680,236	12
54,905	8,052	746	7,172	5,767	59,658	51,279	60,875	681,891	19
62,143	7,739	777	6,385	5,767	59,658	51,280	62,065	692,641	26
49,724	7,141	778	6,910	5,767	59,658	51,280	61,229	698,073	5 Mar.
53,503	7,820	828	6,860	5,767	59,658	51,281	58,949	693,054	12
49,493	8,100	856	6,729	5,767	59,658	51,281	59,611	668,283	19
64,280	7,663	856	7,780	5,767	59,658	51,281	62,917	699,396	26
48,234	8,468	917	7,381	6,043	78,685	54,146	63,535	717,748	2 Apr.
39,644	7,936	940	7,684	6,043	78,479	54,147	61,738	679,468	9
38,048	7,830	930	7,389	6,043	78,479	54,147	50,975	705,590	16
57,279	7,617	969	7,629	6,043	78,479	54,638	49,731	691,717	23
44,993	7,207	994	7,931	6,043	78,479	54,639	51,177	698,296	30

Table 1.2

ECB interest rates on standing facilities

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

	Deposit facility		Marginal lending facility	
	Level	Change	Level	Change
	1	2	3	4
1999 1 Jan.	2.00	-	4.50	-
4 [1]	2.75	0.75	3.25	-1.25
22	2.00	-0.75	4.50	1.25
9 Apr.	1.50	-0.50	3.50	-1.00

Source: ECB.

1) *On 22 December 1998 the ECB announced that, as an exceptional measure between 4 January 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 regime by market participants.*

Table 1.3

Eurosystem monetary policy operations allotted through tenders [1]

(EUR millions; interest rates in percentages per annum)

Main refinancing operations

Date of settlement	Bids	Allotment	Fixed rate tenders	Variable rate tenders		
	(amount)	(amount)	Fixed rate	Marginal rate	Weighted average rate	Running for [...] days
	1	2	3	4	5	6
1999 7 Jan.	481,625	75,000	3.00			13
13	563,409	48,000	3.00			14
20	593,418	59,000	3.00			14
27	689,467	69,000	3.00			14
3 Feb.	757,724	62,000	3.00			14
10	911,302	65,000	3.00			14
17	896,138	62,000	3.00			14
24	991,109	78,000	3.00			14
3 Mar.	1,100,797	67,000	3.00			14
10	950,369	75,000	3.00			14
17	335,249	44,000	3.00			14
24	372,647	102,000	3.00			14
31	118,683	39,000	3.00			14
7 Apr.	67,353	67,353	3.00			14
14	781,721	67,000	2.50			14
21	612,275	50,000	2.50			14
28	754,825	78,000	2.50			14
5 May	655,789	42,000	2.50			14

Longer-term refinancing operations

Date of settlement	Bids	Allotment	Fixed rate tenders	Variable rate tenders		
	(amount)	(amount)	Fixed rate	Marginal rate	Weighted average rate	Running for [...] days
	1	2	3	4	5	6
1999 14 Jan.	79,846	15,000		3.13		42
14	39,343	15,000		3.10		70
14	46,152	15,000		3.08		105
25 Feb.	77,300	15,000		3.04		91
25 Mar.	53,659	15,000		2.96	2.97	98
29 Apr.	66,911	15,000		2.53	2.54	91

Other tender operations

Date of settlement	Type of operation	Bids	Allotment	Fixed rate tenders	Variable rate tenders		
		(amount)	(amount)	Fixed rate	Marginal rate	Weighted average rate	Running for [...] days
	1	2	3	4	5	6	7
1999							

Source: ECB.

1) *The amounts shown may differ slightly from those in Table 1.1 (Assets), columns 6 to 8, due to operations allotted but not executed.*

Table 1.4

Minimum reserve statistics

1. Reserve base of credit institutions subject to reserve requirements [1) 2)]

(EUR billions; end of period)

Reserve base as at:		Total	Liabilities to which a 2% reserve coefficient is applied			Liabilities to which a 0% reserve coefficient is applied		
			Deposits (overnight, up to 2 years' agreed maturity and notice period)	Debt securities up to 2 years' agreed maturity	Money market paper	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
		1	2	3	4	5	6	7
1999	Jan.	8,694.1	4,834.4	83.7	145.0	1,196.8	510.6	1,923.6
	Feb.	8,730.4	4,800.9	86.9	148.8	1,203.5	543.8	1,946.5
	Mar. (p)	8,775.0	4,804.3	88.6	150.1	1,218.4	550.5	1,963.2

Source: ECB.

1) *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. If a credit institution cannot provide evidence of the amount of its issues of debt securities with a maturity up to 2 years and of money market paper held by the institutions mentioned above, it may deduct 10% of these liabilities from its reserve base.*

2) *Maintenance periods start on the 24th of the month and run to the 23rd of the following month; the required reserve is calculated from the reserve base as at the end of the preceding month.*

2. Reserve maintenance [1)]

(EUR billions; interest rates as annual percentages)

Maintenance period ending in:		Required reserves [2)]	Actual reserves [3)]	Excess reserves [4)]	Deficiencies [5)]	Interest rate on minimum reserves [6)]
		1	2	3	4	5
1999	Feb.	98.3	99.3	1.1	0.1	3.00
	Mar.	100.6	101.5	0.9	0.1	3.00
	Apr.	100.1	100.7	0.6	0.0	2.84
	May (p)	100.1	.	.	.	.

Source: ECB.

1) *This table contains full data for completed maintenance periods and required reserves for the current maintenance period. Discrepancies may arise from rounding.*

2) *The amount of 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 as at the end of each calendar month; subsequently, each credit institution deducts from this figure a lump-sum allowance of EUR 100,000. The resulting reserve requirements are then aggregated at the euro area level.*

3) *Aggregate average daily holdings of credit institutions required to hold a positive amount of reserves on their reserve accounts over the maintenance period.*

4) *Average actual reserve holdings over the maintenance period in excess of the required reserves, computed on the basis of those credit institutions that have fulfilled the reserve requirement.*

5) *Average shortfalls of actual reserve holdings from required reserves over the maintenance period, computed on the basis of those credit institutions that have not fulfilled the reserve requirement.*

6) *This rate equals 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 Table 1.3).*

Table 1.5

Banking system's liquidity position [1]

(EUR billions; period averages of daily positions)

Maintenance period ending in:	Liquidity-providing factors					Liquidity-absorbing factors				Credit institutions' current accounts [4]	Base money [5]
		Monetary policy operations of the Eurosystem									
	Eurosystem's net assets in gold and foreign currency	Main refinancing operations	Longer-term refinancing operations	Other operations [2]	Marginal lending facility	Deposit facility	Banknotes in circulation	Central government deposits with the Eurosystem	Other factors (net) [3]		
	1	2	3	4	5	6	7	8	9	10	11
1999 Feb.	328.2	104.6	34.2	30.6	3.8	1.3	329.3	41.1	29.5	100.2	430.8
Mar.	323.6	136.4	45.0	0.0	0.4	1.4	326.9	49.9	25.0	102.2	430.5
Apr.	338.4	130.1	45.0	0.0	0.7	0.3	331.0	42.9	38.9	101.1	432.4

Source: ECB.

1) *The banking system's liquidity position is defined as the current account holdings in euro of credit institutions in the euro area with the Eurosystem. Amounts are derived from the consolidated financial statement of the Eurosystem. Discrepancies may arise from rounding.*
2) *Includes monetary policy operations initiated by national central banks in Stage Two and outstanding at the start of Stage Three (excluding outright operations and the issuance of debt certificates).*
3) *Remaining items in the consolidated financial statement of the Eurosystem.*
4) *Equal to the difference between the sum of liquidity-providing factors (items 1 to 5) and the sum of liquidity-absorbing factors (items 6 to 9).*
5) *Calculated as the sum of the deposit facility (item 6), banknotes in circulation (item 7) and credit institutions' current account holdings (item 10) or, alternatively, as the difference between the sum of liquidity-providing factors (items 1 to 5) and the sum of government deposits (item 8) and other factors (net) (item 9).*

2 Monetary and financial developments in the euro area

Table 2.1

Aggregated balance sheet of the Eurosystem [1] [2]

(EUR billions (not seasonally adjusted; end of period))

1. Assets

		Loans to euro area residents	MFIs	General govern-ment	Other euro area residents	Holdings of securities other than shares issued by euro area residents	MFIs	General govern-ment	Other euro area residents	Holdings of shares/ other equity issued by euro area residents	MFIs	Other euro area residents	External assets [3]	Fixed assets	Remaining assets	Total assets
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1998	Jan.	234.9	213.3	21.2	0.4	111.7	1.0	109.3	1.5	2.9	0.3	2.6	294.3	7.2	43.0	694.0
	Feb.	257.7	235.9	21.2	0.7	108.2	1.0	105.8	1.5	2.9	0.4	2.5	294.6	7.3	44.4	715.1
	Mar.	242.7	221.3	21.2	0.2	106.6	1.2	104.2	1.3	3.0	0.4	2.6	294.0	7.5	41.3	695.1
	Apr.	237.2	215.6	21.2	0.4	102.5	1.4	100.2	0.9	3.0	0.4	2.6	298.4	7.6	45.8	694.5
	May	239.3	217.8	21.2	0.3	101.9	1.6	99.4	0.9	3.0	0.4	2.6	301.7	7.7	48.8	702.4
	June	325.0	303.7	21.1	0.2	105.4	4.8	99.7	0.8	3.2	0.6	2.6	288.4	7.8	49.9	779.7
	July	338.2	316.9	21.1	0.2	87.8	1.1	85.9	0.8	4.8	2.1	2.8	292.5	8.0	52.0	783.3
	Aug.	339.9	318.5	21.1	0.2	88.1	0.9	86.3	0.9	4.8	2.0	2.8	290.4	8.0	56.9	788.1
	Sep.	326.8	305.5	21.1	0.2	82.7	1.0	81.0	0.7	4.8	2.0	2.8	288.0	8.0	52.1	762.4
	Oct.	326.6	305.3	21.1	0.2	73.3	0.9	71.7	0.7	4.8	1.9	2.9	297.9	8.1	51.6	762.3
	Nov.	322.2	300.7	21.1	0.4	78.0	1.0	76.3	0.6	4.8	1.9	2.9	305.1	8.1	53.3	771.5
	Dec.	225.1	204.5	20.4	0.1	87.8	1.1	86.2	0.5	5.5	1.8	3.6	317.2	8.0	48.9	692.5
1999	Jan.	451.0	430.4	20.4	0.2	89.2	1.3	87.3	0.7	8.2	4.1	4.1	416.7	9.8	56.4	1,031.3
	Feb.	504.5	483.9	20.4	0.2	90.7	1.5	88.6	0.5	8.3	4.2	4.1	364.6	9.9	56.3	1,034.3
	Mar. (p)	512.4	491.8	20.4	0.2	94.1	1.5	92.0	0.6	8.4	4.2	4.1	425.5	9.4	50.1	1,099.9

2. Liabilities

		Currency in circulation	Deposits of euro area residents	MFIs	Central government	Other general government/ other euro area residents	Money market paper	Debt securities issued	Capital and reserves	External liabilities [3]	Remaining liabilities	Total liabilities
		1	2	3	4	5	6	7	8	9	10	11
1998	Jan.	339.9	136.3	83.4	50.7	2.2	13.9	16.3	109.2	16.1	62.3	694.0
	Feb.	339.9	159.2	93.7	61.5	4.0	13.3	16.5	107.4	15.1	63.7	715.1
	Mar.	340.5	137.9	88.4	46.8	2.7	11.3	17.2	106.6	15.3	66.3	695.1
	Apr.	343.8	131.3	84.8	44.3	2.2	12.0	16.9	105.6	16.4	68.5	694.5
	May	346.1	141.8	90.9	47.0	4.0	13.1	15.3	105.3	15.9	64.9	702.4
	June	345.4	208.0	149.3	54.2	4.5	13.5	14.1	113.4	20.8	64.5	779.7
	July	350.4	199.9	132.8	64.0	3.0	13.9	14.3	112.1	24.0	68.7	783.3
	Aug.	344.6	208.8	135.5	69.7	3.5	12.4	13.5	112.0	21.6	75.2	788.1
	Sep.	341.5	195.9	124.4	67.1	4.5	11.2	12.8	108.2	23.2	69.6	762.4
	Oct.	342.3	198.2	129.2	64.7	4.3	11.7	11.8	108.5	22.6	67.2	762.3
	Nov.	344.1	210.5	147.3	56.8	6.4	12.5	11.6	105.1	20.0	67.7	771.5
	Dec.	359.0	146.8	89.0	54.9	2.9	7.2	6.7	97.0	18.6	57.2	692.5
1999	Jan.	343.7	383.2	326.7	50.3	6.2	6.3	5.3	123.4	99.3	70.1	1,031.3
	Feb.	342.3	451.5	389.8	55.0	6.7	6.3	5.3	123.0	49.9	56.0	1,034.3
	Mar. (p)	345.3	454.3	391.4	55.1	7.9	4.9	5.3	137.9	97.7	54.5	1,099.9

Source: ECB.

1) *The ECB was established on 1 June 1998. The data shown for the Eurosystem relate to the ECB (as from June 1998) and the national central banks of Member States in the euro area.*

2) *Data have been revised in the light of new information. Discrepancies may arise from rounding.*

3) *From January 1999 including temporary gross positions of the Eurosystem with the national central banks of Member States not participating in the euro area related to the operation of the TARGET system. These positions amounted to approximately EUR 75 billion at end-January, EUR 27 billion at end-February, and EUR 77 billion at end-March.*

Table 2.2

Aggregated balance sheet of the euro area MFIs, excluding the Eurosystem [1)]

(EUR billions (not seasonally adjusted; end of period))

1. Assets

		Loans to euro area residents	MFIs	General government	Other euro area residents	Holdings of securities other than shares issued by euro area residents	MFIs	General government	Other euro area residents	Money market paper	Holdings of shares/ other equity issued by euro area residents	MFIs	Other euro area residents	External assets	Fixed assets	Remaining assets	**Total assets**
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Jan.	8,501.3	2,974.4	806.4	4,720.6	1,911.0	648.2	1,074.0	188.9	104.8	351.2	102.2	249.0	1,597.3	236.4	826.4	13,528.4
	Feb.	8,538.7	2,986.8	807.9	4,744.0	1,932.1	651.8	1,086.2	194.1	106.3	363.7	106.6	257.1	1,623.6	236.7	831.4	13,632.5
	Mar.	8,561.6	2,979.8	806.0	4,775.8	1,957.2	654.9	1,103.7	198.6	105.1	384.4	110.9	273.5	1,676.7	238.0	811.4	13,734.4
	Apr.	8,617.1	2,999.7	810.9	4,806.5	1,978.1	664.3	1,114.8	199.1	105.7	396.1	114.0	282.1	1,634.0	238.2	830.9	13,800.1
	May	8,618.2	2,994.0	799.7	4,824.4	2,000.0	670.8	1,126.5	202.7	105.7	404.0	116.4	287.7	1,632.9	247.0	845.7	13,853.5
	June	8,752.6	3,070.5	805.8	4,876.4	2,014.5	681.3	1,137.6	195.5	104.1	401.0	118.2	282.8	1,674.8	240.2	736.3	13,923.5
	July	8,732.2	3,013.8	801.4	4,917.0	2,035.7	697.5	1,137.2	201.0	104.0	392.2	117.2	275.1	1,632.7	235.3	779.8	13,911.9
	Aug.	8,756.1	3,035.8	803.9	4,916.4	2,041.4	703.8	1,136.1	201.6	103.7	386.4	118.2	268.3	1,641.1	236.3	769.0	13,934.0
	Sep.	8,820.5	3,049.0	806.9	4,964.6	2,047.5	709.6	1,135.8	202.2	102.2	379.7	109.6	270.1	1,624.9	237.0	782.1	13,993.9
	Oct.	8,943.6	3,131.9	812.8	4,998.9	2,070.4	709.9	1,154.6	205.9	101.9	386.8	115.7	271.1	1,621.2	239.0	782.2	14,145.1
	Nov.	9,072.1	3,209.2	819.6	5,043.3	2,071.8	719.4	1,151.8	200.6	108.9	401.2	116.7	284.5	1,666.1	241.2	795.3	14,356.6
	Dec.	9,048.4	3,130.8	821.3	5,096.3	2,033.3	731.4	1,107.5	194.3	102.6	423.0	121.8	301.2	1,587.8	243.8	794.6	14,233.5
1999	Jan.	9,267.8	3,345.8	818.3	5,103.8	2,062.2	739.1	1,116.7	206.4	103.8	431.3	102.1	329.2	1,632.7	244.0	947.5	14,689.3
	Feb.	9,166.0	3,234.2	821.7	5,110.1	2,079.6	747.0	1,129.5	203.1	108.3	442.5	107.7	334.8	1,586.9	242.9	968.6	14,594.8
	Mar. (p)	9,166.1	3,185.5	817.7	5,162.8	2,098.8	759.0	1,134.3	205.5	104.9	468.9	114.6	354.2	1,618.3	243.7	906.2	14,606.9

2. Liabilities

		Currency in circulation	Deposits of euro area residents	MFIs	Central government	Other general government/ other euro area residents	Overnight	With agreed maturity	Redeemable at notice	Repurchase agreements	Money market fund shares/ units	Debt securities issued	Money market paper	Capital and reserves	External liabilities	Remaining liabilities	**Total liabilities**
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Jan.	0.4	7,782.1	3,029.5	95.9	4,656.6	1,179.8	1,917.8	1,341.8	217.1	253.7	1,946.6	145.2	690.8	1,436.0	1,273.6	13,528.4
	Feb.	0.4	7,829.7	3,066.1	98.4	4,665.2	1,181.7	1,922.1	1,345.1	216.3	255.7	1,969.9	147.2	696.0	1,469.8	1,263.8	13,632.5
	Mar.	0.4	7,836.4	3,077.0	92.8	4,666.7	1,210.8	1,897.2	1,346.4	212.2	255.5	1,987.2	149.5	710.3	1,521.2	1,273.9	13,734.4
	Apr.	0.4	7,867.3	3,079.7	97.2	4,690.3	1,225.3	1,912.4	1,346.0	206.6	258.3	2,001.5	156.3	702.6	1,492.4	1,321.3	13,800.1
	May	0.4	7,890.0	3,092.8	88.2	4,709.0	1,242.3	1,910.6	1,347.9	208.2	261.2	2,014.1	150.9	712.2	1,485.2	1,339.5	13,853.5
	June	0.4	7,999.4	3,174.8	94.0	4,730.5	1,289.8	1,890.8	1,346.5	203.4	259.8	2,043.2	145.9	718.7	1,496.1	1,260.0	13,923.5
	July	0.4	7,961.8	3,163.3	92.4	4,706.1	1,250.8	1,893.9	1,345.9	215.5	259.8	2,063.8	152.8	720.1	1,472.9	1,280.3	13,911.9
	Aug.	0.4	7,982.1	3,183.7	95.4	4,702.9	1,241.8	1,905.4	1,347.6	208.2	264.7	2,074.7	152.9	720.1	1,475.8	1,263.3	13,934.0
	Sep.	0.4	8,013.6	3,212.6	96.3	4,704.7	1,260.9	1,889.5	1,346.6	207.7	260.3	2,074.8	153.2	718.4	1,484.9	1,288.3	13,993.9
	Oct.	0.4	8,105.1	3,285.9	97.0	4,722.2	1,266.2	1,887.8	1,349.8	218.3	258.4	2,077.7	160.2	722.5	1,532.4	1,288.4	14,145.1
	Nov.	0.4	8,213.4	3,370.6	98.2	4,744.6	1,306.2	1,887.6	1,352.5	198.3	259.6	2,093.6	168.6	724.3	1,600.1	1,296.6	14,356.6
	Dec.	0.4	8,233.4	3,283.2	101.3	4,848.9	1,379.2	1,907.0	1,384.7	178.0	244.2	2,091.0	165.3	727.5	1,516.1	1,255.6	14,233.5
1999	Jan.	0.4	8,369.7	3,427.5	87.5	4,854.7	1,399.9	1,881.1	1,401.2	172.5	273.5	2,125.5	174.1	738.3	1,603.4	1,404.4	14,689.3
	Feb.	0.4	8,270.9	3,339.4	91.2	4,840.3	1,372.9	1,878.8	1,403.9	184.7	293.2	2,150.5	179.1	742.9	1,600.7	1,357.1	14,594.8
	Mar. (p)	0.5	8,263.0	3,320.2	86.1	4,856.7	1,383.3	1,985.5	1,309.0	179.0	286.8	2,174.5	178.6	749.9	1,614.8	1,338.8	14,606.9

Source: ECB.

1) Data have been revised in the light of new information. Discrepancies may arise from rounding.

Table 2.3

Consolidated balance sheet of the euro area MFIs, including the Eurosystem [1] [2]

(EUR billions (not seasonally adjusted; end of period))

1. Assets: levels outstanding

		Loans to euro area residents	General government	Other euro area residents	Holdings of securities other than shares issued by euro area residents	General government	Other euro area residents	Holdings of shares/other equity issued by other euro area residents	External assets [4]	Fixed assets	Remaining assets	**Total assets**
		1	2	3	4	5	6	7	8	9	10	11
1998	Jan.	5,548.5	827.5	4,721.0	1,373.6	1,183.2	190.4	251.6	1,891.6	243.6	840.5	10,149.4
	Feb.	5,573.8	829.1	4,744.7	1,387.6	1,192.0	195.6	259.6	1,918.2	244.0	847.1	10,230.3
	Mar.	5,603.2	827.2	4,776.0	1,407.7	1,207.9	199.8	276.1	1,970.7	245.5	823.5	10,326.7
	Apr.	5,639.0	832.1	4,806.9	1,414.9	1,215.0	199.9	284.7	1,932.4	245.8	847.1	10,363.9
	May	5,645.6	820.9	4,824.7	1,429.4	1,225.9	203.5	290.3	1,934.6	254.7	865.1	10,419.7
	June	5,703.4	826.9	4,876.6	1,433.7	1,237.3	196.4	285.4	1,963.3	248.0	755.8	10,389.6
	July	5,739.7	822.5	4,917.2	1,424.9	1,223.1	201.8	277.9	1,925.2	243.3	801.5	10,412.5
	Aug.	5,741.6	825.0	4,916.7	1,424.8	1,222.4	202.4	271.1	1,931.5	244.3	795.6	10,408.9
	Sep.	5,792.8	828.0	4,964.8	1,419.6	1,216.7	202.9	272.9	1,912.9	245.0	804.3	10,447.5
	Oct.	5,833.1	833.9	4,999.1	1,432.9	1,226.3	206.6	273.9	1,919.1	247.1	804.3	10,510.4
	Nov.	5,884.4	840.7	5,043.7	1,429.4	1,228.1	201.3	287.4	1,971.2	249.3	818.4	10,640.1
	Dec.	5,938.1	841.6	5,096.5	1,388.6	1,193.7	194.9	304.9	1,905.0	251.8	807.9	10,596.3
1999	Jan.	5,942.6	838.7	5,103.9	1,411.0	1,204.0	207.1	333.3	2,049.4	253.9	973.2	10,963.4
	Feb.	5,952.4	842.2	5,110.3	1,421.8	1,218.2	203.6	338.9	1,951.5	252.7	995.1	10,912.4
	Mar. (p)	6,001.2	838.2	5,163.0	1,432.3	1,226.3	206.1	358.4	2,043.8	253.1	925.3	11,014.1

2. Liabilities: levels outstanding

		Currency in circulation	Deposits of central government	Deposits of other general government/other euro area residents	Over-night	With agreed maturity	Redeemable at notice	Repurchase agreements	Money market fund shares/units and money market paper	Debt securities issued	Capital and reserves	External liabilities [4]	Remaining liabilities	Excess of inter-MFI liabilities	**Total liabilities**
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998	Jan.	311.4	146.6	4,658.8	1,182.1	1,917.8	1,341.8	217.1	308.0	1,313.8	697.5	1,452.0	1,336.1	-74.8	10,149.4
	Feb.	311.7	160.0	4,669.2	1,185.6	1,922.1	1,345.1	216.3	309.8	1,333.7	696.5	1,484.9	1,327.4	-62.9	10,230.3
	Mar.	311.8	139.6	4,669.4	1,213.6	1,897.2	1,346.4	212.2	311.2	1,348.3	705.7	1,536.6	1,339.9	-35.8	10,326.7
	Apr.	314.8	141.6	4,692.5	1,227.5	1,912.4	1,346.0	206.6	320.9	1,352.7	693.8	1,508.8	1,389.6	-50.8	10,363.9
	May	317.2	135.1	4,713.0	1,246.3	1,910.6	1,347.9	208.2	319.4	1,357.1	700.8	1,501.2	1,404.1	-28.2	10,419.7
	June	315.5	148.2	4,735.0	1,294.3	1,890.8	1,346.5	203.4	315.1	1,371.1	713.4	1,516.9	1,324.5	-50.1	10,389.6
	July	320.6	156.4	4,709.1	1,253.8	1,893.9	1,345.9	215.5	322.3	1,379.5	713.1	1,496.9	1,349.2	-34.6	10,412.5
	Aug.	314.9	165.2	4,706.4	1,245.3	1,905.4	1,347.6	208.2	326.2	1,383.4	712.0	1,497.4	1,338.5	-35.1	10,408.9
	Sep.	311.9	163.3	4,709.2	1,265.4	1,889.5	1,346.6	207.7	322.5	1,377.0	715.0	1,508.1	1,358.1	-17.6	10,447.5
	Oct.	313.4	161.7	4,726.5	1,270.5	1,887.8	1,349.8	218.3	328.5	1,378.6	713.3	1,555.0	1,355.6	-22.2	10,510.4
	Nov.	314.3	155.0	4,751.0	1,312.5	1,887.6	1,352.5	198.4	331.8	1,384.8	710.7	1,620.1	1,364.4	8.0	10,640.1
	Dec.	323.7	156.2	4,851.8	1,382.1	1,907.0	1,384.7	178.0	314.0	1,365.1	700.9	1,534.7	1,313.1	36.8	10,596.3
1999	Jan.	313.5	137.9	4,860.9	1,406.1	1,881.1	1,401.2	172.5	350.2	1,390.5	755.6	1,702.7	1,474.1	-22.0	10,963.4
	Feb.	313.0	146.2	4,847.0	1,379.7	1,878.8	1,403.9	184.7	370.3	1,407.3	754.0	1,650.6	1,413.0	11.0	10,912.4
	Mar. (p)	314.8	141.2	4,864.6	1,391.2	1,985.5	1,309.0	179.0	365.3	1,419.2	769.0	1,712.5	1,393.3	34.2	11,014.1

Source: ECB.

1) *The ECB was established on 1 June 1998. The data shown for the Eurosystem relate to the ECB (as from June 1998) and the national central banks of Member States in the euro area.*
2) *Data have been revised in the light of new information. Discrepancies may arise from rounding.*
3) *Calculated from monthly differences in levels adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.*
4) *From January 1999 including temporary gross positions of the Eurosystem with the national central banks of Member States not participating in the euro area related to the operation of the TARGET system. These positions amounted to approximately EUR 75 billion at end-January, EUR 27 billion at end-February, and EUR 77 billion at end-March.*

(EUR billions (not seasonally adjusted))

3. Assets: flows [3)]

		Loans to euro area residents	General government	Other euro area residents	Holdings of securities other than shares issued by euro area residents	General government	Other euro area residents	Holdings of shares/other equity issued by other euro area residents	External assets [4)]	Fixed assets	Remaining assets	**Total assets**
		1	2	3	4	5	6	7	8	9	10	11
1998	Feb.	26.3	1.6	24.7	14.0	8.8	5.3	8.1	33.1	0.4	6.3	88.2
	Mar.	29.5	-1.9	31.5	19.2	15.1	4.2	16.5	40.3	1.5	-23.6	83.4
	Apr.	38.5	5.0	33.5	7.8	7.4	0.3	8.6	-6.1	0.3	23.1	72.2
	May	7.2	-11.1	18.4	14.7	11.1	3.7	5.6	14.8	9.0	17.6	68.9
	June	65.4	5.9	59.5	2.9	10.7	-7.8	-6.0	9.6	-6.7	-104.5	-39.3
	July	39.2	-4.3	43.5	-11.7	-17.3	5.6	-6.8	-16.8	-4.7	46.1	45.3
	Aug.	1.0	2.4	-1.4	-0.4	-0.9	0.5	-6.8	-3.3	1.0	-5.6	-14.1
	Sep.	57.1	3.3	53.8	-4.7	-5.6	0.9	1.8	48.4	0.6	8.6	111.8
	Oct.	39.2	5.9	33.3	12.0	8.5	3.5	0.9	-0.1	2.1	0.2	54.3
	Nov.	52.6	6.7	45.9	-3.7	1.7	-5.5	13.5	24.4	2.2	13.4	102.4
	Dec.	57.4	1.1	56.3	-39.9	-33.4	-6.4	17.4	-56.0	2.5	-10.0	-28.6
1999	Jan.	61.0	4.3	56.7	11.5	12.3	-0.8	9.4	108.0	-0.4	152.0	341.5
	Feb.	7.4	3.1	4.3	8.7	13.9	-5.2	5.6	-137.7	-1.1	21.6	-95.5
	Mar. (p)	46.7	-4.1	50.8	10.0	7.8	2.2	19.5	59.6	0.4	-71.4	64.8

4. Liabilities: flows [3)]

		Currency in circulation	Deposits of central government	Deposits of other general government/other euro area residents	Over-night	With agreed maturity	Redeemable at notice	Repurchase agreements	Money market fund shares/units and money market paper	Debt securities issued	Capital and reserves	External liabilities [4)]	Remaining liabilities	Excess of inter-MFI liabilities	**Total liabilities**
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998	Feb.	0.4	13.3	10.9	3.7	4.7	3.2	-0.8	1.8	20.5	-0.9	38.2	-7.8	11.8	88.2
	Mar.	0.0	-20.4	-0.9	27.5	-25.6	1.3	-4.1	1.3	14.7	11.1	41.9	8.5	27.2	83.4
	Apr.	3.0	2.0	25.8	14.8	16.9	-0.4	-5.6	10.1	8.0	-11.8	-2.3	52.5	-15.1	72.2
	May	2.4	-6.5	21.5	19.2	-1.2	1.9	1.6	-1.5	6.7	6.8	1.6	15.4	22.5	68.9
	June	-1.7	13.1	20.8	47.4	-20.4	-1.4	-4.8	-4.3	14.5	14.9	4.3	-77.1	-23.8	-39.3
	July	5.2	8.2	-23.8	-39.7	4.3	-0.6	12.1	7.4	11.4	-1.5	-2.7	24.1	17.0	45.3
	Aug.	-5.7	8.8	-3.7	-8.9	10.8	1.7	-7.3	4.2	2.4	-0.7	-8.2	-10.7	-0.5	-14.1
	Sep.	-3.1	-1.8	8.8	22.2	-12.1	-0.8	-0.4	-2.9	-0.1	3.2	67.0	23.4	17.3	111.8
	Oct.	1.5	-1.6	16.3	4.6	-2.1	3.2	10.6	6.0	-1.9	-2.0	44.1	-3.2	-4.9	54.3
	Nov.	0.9	-6.7	22.3	41.2	-1.6	2.6	-19.9	2.9	4.4	-2.5	41.0	9.9	30.2	102.4
	Dec.	9.4	1.2	103.3	70.2	21.4	32.2	-20.5	-17.0	-20.0	-9.1	-74.5	-49.7	27.8	-28.6
1999	Jan.	-9.4	-6.3	28.1	22.2	-3.0	16.0	-7.2	13.1	26.6	12.4	158.4	156.0	-37.4	341.5
	Feb.	-0.6	8.3	-23.8	-27.6	-11.1	2.7	12.2	19.5	13.2	-1.7	-88.3	-61.9	39.8	-95.5
	Mar. (p)	1.9	-5.0	14.7	10.6	13.5	-3.7	-5.7	-6.3	8.8	13.5	35.4	-21.4	23.2	64.8

Table 2.4

Monetary aggregates[1) 2)]

(EUR billions (not seasonally adjusted) and annual percentage changes)

1. Levels outstanding at the end of the period

		M2								Repurchase agreements	Money market fund shares/units and money market paper	Debt securities up to 2 years
		M1				Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total	Annual percentage change 3)			
		Currency in circulation	Overnight deposits	Total	Annual percentage change 3)							
		1	2	3	4	5	6	7	8	9	10	11
1998	Jan.	311.4	1,253.2	1,564.6	8.1	908.4	1,177.5	3,650.5	4.0	217.1	308.0	74.8
	Feb.	311.7	1,253.7	1,565.5	8.6	905.1	1,181.6	3,652.1	4.2	216.3	309.8	79.7
	Mar.	311.8	1,283.4	1,595.2	9.1	878.8	1,183.4	3,657.4	4.4	212.2	311.2	85.9
	Apr.	314.8	1,295.6	1,610.4	10.6	892.6	1,185.1	3,688.1	5.1	206.6	320.9	86.4
	May	317.2	1,312.7	1,629.9	10.3	888.8	1,189.2	3,707.9	5.2	208.2	319.4	89.5
	June	315.5	1,361.3	1,676.8	9.8	871.2	1,189.0	3,737.1	5.2	203.4	315.1	88.7
	July	320.6	1,321.4	1,642.0	8.3	872.5	1,189.7	3,704.2	4.4	215.5	322.3	94.3
	Aug.	314.9	1,312.3	1,627.2	8.4	879.3	1,192.9	3,699.4	4.3	208.2	326.2	88.9
	Sep.	311.9	1,331.0	1,642.8	8.0	864.6	1,192.9	3,700.3	4.5	207.7	322.5	81.2
	Oct.	313.4	1,334.9	1,648.3	8.2	867.0	1,196.4	3,711.7	4.4	218.3	328.5	84.6
	Nov.	314.3	1,376.7	1,690.9	8.5	870.9	1,198.9	3,760.8	4.9	198.4	331.8	81.8
	Dec.	323.7	1,448.0	1,771.7	9.2	884.8	1,230.5	3,887.0	5.7	178.0	314.0	68.8
1999	Jan.	313.5	1,469.8	1,783.4	-	881.5	1,246.6	3,911.4	-	172.5	350.2	54.3
	Feb.	313.0	1,440.8	1,753.8	-	867.4	1,251.5	3,872.7	-	184.7	370.3	58.1
	Mar. (p)	314.8	1,453.5	1,768.4	-	879.0	1,250.0	3,897.4	-	179.0	365.3	56.1

2. Flows[4)]

		M2								Repurchase agreements	Money market fund shares/units and money market paper	Debt securities up to 2 years
		M1				Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total	Annual percentage change 4)			
		Currency in circulation	Overnight deposits	Total	Annual percentage change 4)							
		1	2	3	4	5	6	7	8	9	10	11
1998	Feb.	0.4	0.7	1.1	-	-3.1	4.1	2.1	-	-0.8	1.8	4.9
	Mar.	0.0	29.3	29.4	-	-26.9	1.8	4.3	-	-4.1	1.9	6.2
	Apr.	3.0	13.0	16.0	-	15.0	1.8	32.8	-	-5.6	9.8	0.9
	May	2.4	17.5	19.9	-	-3.2	4.1	20.7	-	1.6	-1.9	3.3
	June	-1.7	48.1	46.4	-	-18.1	-0.2	28.1	-	-4.8	-4.5	-1.0
	July	5.2	-39.2	-34.1	-	2.3	0.7	-31.1	-	12.1	7.2	5.9
	Aug.	-5.7	-9.4	-15.1	-	6.3	3.2	-5.7	-	-7.3	3.7	-5.6
	Sep.	-3.1	20.8	17.7	-	-11.8	0.1	6.0	-	-0.4	-3.0	-7.1
	Oct.	1.5	3.5	5.0	-	2.0	3.5	10.6	-	10.6	6.2	3.1
	Nov.	0.9	40.9	41.8	-	2.8	2.5	47.1	-	-19.9	2.1	-2.9
	Dec.	9.4	71.9	81.3	-	15.6	31.2	128.1	-	-20.5	-17.0	-13.0
1999	Jan.	-9.4	20.1	10.7	14.1	-6.1	15.6	20.3	7.2	-7.2	13.1	-0.5
	Feb.	-0.6	-30.2	-30.8	12.0	-15.6	4.9	-41.4	6.0	12.2	19.5	2.8
	Mar. (p)	1.9	11.7	13.6	10.8	10.3	-1.6	22.3	6.5	-5.7	-6.3	-2.2

Source: ECB.

1) *Monetary aggregates comprise monetary liabilities of MFIs and central government (Post Office, Treasury) vis-à-vis non-MFI euro area residents excluding central government.*
2) *Data have been revised in the light of new information. Discrepancies may arise from rounding.*
3) *Calculated from amounts outstanding adjusted for incomplete coverage of the data before September 1997.*
4) *Calculated from monthly differences in levels adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.*

M3 Total	M3 Annual percentage change [3]	M3 3-month moving average (centered)	Memo: Non-monetary liabilities of MFIs: Deposits	Deposits: With agreed maturity over 2 years	Deposits: Redeemable at notice over 3 months	Debt securities over 2 years	Capital and reserves	Total		
12	13	14	15	16	17	18	19	20		
4,250.5	4.6	4.5	1,227.7	1,010.0	217.7	1,239.0	697.5	3,164.2	1998	Jan.
4,257.9	4.5	4.6	1,235.2	1,017.7	217.5	1,254.0	696.5	3,185.7		Feb.
4,266.7	4.6	4.7	1,235.8	1,019.1	216.8	1,262.5	705.7	3,203.9		Mar.
4,302.0	5.1	4.9	1,235.2	1,020.5	214.7	1,266.2	693.8	3,195.2		Apr.
4,325.0	4.9	4.9	1,235.3	1,022.3	213.0	1,267.5	700.8	3,203.6		May
4,344.3	4.8	4.8	1,232.2	1,020.2	212.0	1,282.5	713.4	3,228.0		June
4,336.4	4.6	4.6	1,232.6	1,021.8	210.8	1,285.2	713.1	3,230.9		July
4,322.7	4.3	4.4	1,236.5	1,026.6	209.9	1,294.6	712.0	3,243.0		Aug.
4,311.7	4.2	4.4	1,234.7	1,025.3	209.3	1,295.8	715.0	3,245.5		Sep.
4,343.1	4.7	4.5	1,230.4	1,021.3	209.1	1,294.1	713.3	3,237.8		Oct.
4,372.8	4.5	4.5	1,226.7	1,017.2	209.5	1,302.9	710.7	3,240.3		Nov.
4,447.8	4.4	4.8	1,237.4	1,022.8	214.6	1,296.3	700.9	3,234.6		Dec.
4,488.4	-	-	1,214.8	1,000.4	214.4	1,336.2	755.6	3,306.5	1999	Jan.
4,485.8	-	-	1,225.3	1,012.2	213.2	1,349.2	754.0	3,328.5		Feb.
4,497.9	-	-	1,228.1	1,107.2	120.9	1,363.1	769.0	3,360.2		Mar. (p)

M3 Total	M3 Annual percentage change [4]	M3 3-month moving average (centered)	Memo: Non-monetary liabilities of MFIs: Deposits	Deposits: With agreed maturity over 2 years	Deposits: Redeemable at notice over 3 months	Debt securities over 2 years	Capital and reserves	Total		
12	13	14	15	16	17	18	19	20		
8.0	-	-	7.6	7.8	-0.2	15.6	-0.9	22.3	1998	Feb.
8.3	-	-	0.5	1.2	-0.8	8.5	11.1	20.1		Mar.
38.0	-	-	-0.1	1.9	-2.0	7.1	-11.8	-4.8		Apr.
23.7	-	-	0.2	1.9	-1.7	3.4	6.8	10.5		May
17.9	-	-	-3.3	-2.3	-1.0	15.4	14.9	27.0		June
-5.9	-	-	0.7	1.9	-1.2	5.5	-1.5	4.7		July
-14.9	-	-	3.6	4.5	-0.9	7.9	-0.7	10.9		Aug.
-4.5	-	-	-0.9	-0.4	-0.6	7.0	3.2	9.3		Sep.
30.4	-	-	-4.4	-4.2	-0.2	-5.0	-2.0	-11.4		Oct.
26.5	-	-	-4.0	-4.4	0.4	7.3	-2.5	0.8		Nov.
77.6	-	-	11.4	5.9	5.5	-7.1	-9.1	-4.8		Dec.
25.7	5.4	5.0	3.0	3.3	-0.3	27.1	12.4	42.5	1999	Jan.
-6.9	5.1	5.2	3.3	4.5	-1.2	10.4	-1.7	12.0		Feb.
8.1	5.1	-	2.4	3.2	-0.9	11.0	13.5	26.9		Mar. (p)

Table 2.5

MFI loans to households and non-financial corporations by type and maturity at issue [1) 2)]

(EUR billions (not seasonally adjusted; end of period))

	Non-financial corpora-tions [3)]				House-holds [3)]	Consumer credit [4)]			Lending for house purchase [4)]			Non-profit institu-tions serving house-holds [3)]
		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	10	11	12
1998 Dec. [(p)]	2,270.6	825.6	333.7	1,111.3	2,505.1	82.9	128.7	212.7	28.4	45.8	1,405.7	41.4

Source: ECB.

1) *Discrepancies may arise from rounding.*
2) *The outstanding amounts include some estimations as data for one Member State are not yet available.*
3) *Corresponding ESA 95 sector codes: non-financial corporations, S11; households, S14; non-profit institutions serving households, S15.*
4) *The definitions of consumer credit and lending for house purchase are not fully consistent across the euro area. Column 5 includes other lending to households.*

Table 2.6

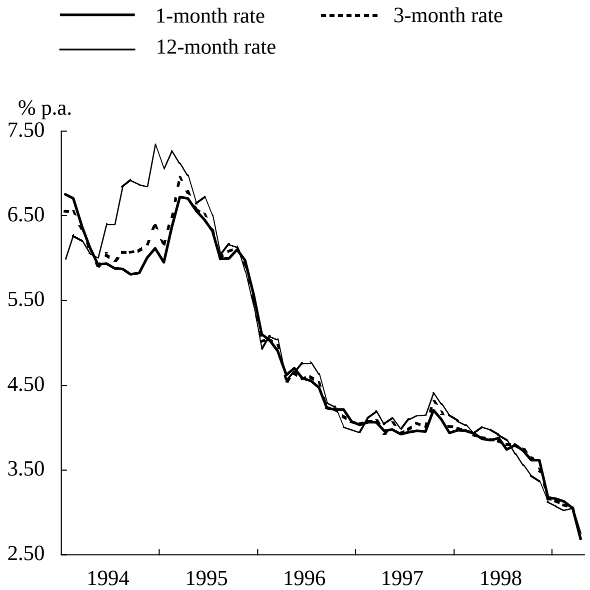
Money market interest rates[1]

(percentages per annum)[2]

		Euro area[3) 4)]					United States[5)]	Japan[5)]
		Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits	3-month deposits	3-month deposits
		1	2	3	4	5	6	7
1994		5.24	6.12	6.38	6.83	7.34	6.37	2.34
1995		5.62	5.57	5.49	5.62	5.42	5.44	0.50
1996		4.04	4.08	4.08	4.06	3.98	5.43	0.31
1997		3.98	3.94	4.01	4.05	4.15	5.62	0.36
1998		3.09	3.18	3.17	3.14	3.13	5.00	0.18
1998	Apr.	3.76	3.86	3.89	3.93	4.01	5.60	0.45
	May	3.79	3.85	3.86	3.89	3.98	5.59	0.37
	June	3.76	3.88	3.84	3.85	3.91	5.59	0.43
	July	3.77	3.74	3.80	3.82	3.85	5.56	0.34
	Aug.	3.78	3.80	3.81	3.72	3.69	5.50	0.37
	Sep.	3.81	3.73	3.73	3.64	3.55	5.20	0.12
	Oct.	3.66	3.61	3.63	3.53	3.44	5.12	0.68
	Nov.	3.40	3.62	3.51	3.43	3.36	5.12	0.68
	Dec.	3.09	3.18	3.17	3.14	3.13	5.00	0.18
1999	Jan.	3.14	3.16	3.14	3.10	3.07	4.99	0.35
	Feb.	3.12	3.13	3.09	3.04	3.03	5.00	0.38
	Mar.	2.93	3.05	3.05	3.02	3.05	4.99	0.20
	Apr.	2.71	2.69	2.70	2.70	2.76	4.97	0.18
1999	2 Apr.	2.96	2.95	2.93	2.91	2.93	4.98	0.25
	9	2.81	2.66	2.66	2.68	2.72	4.98	0.18
	16	2.55	2.62	2.63	2.64	2.71	4.93	0.18
	23	2.93	2.58	2.59	2.61	2.68	5.00	0.12
	30	2.53	2.57	2.58	2.60	2.68	4.99	0.13

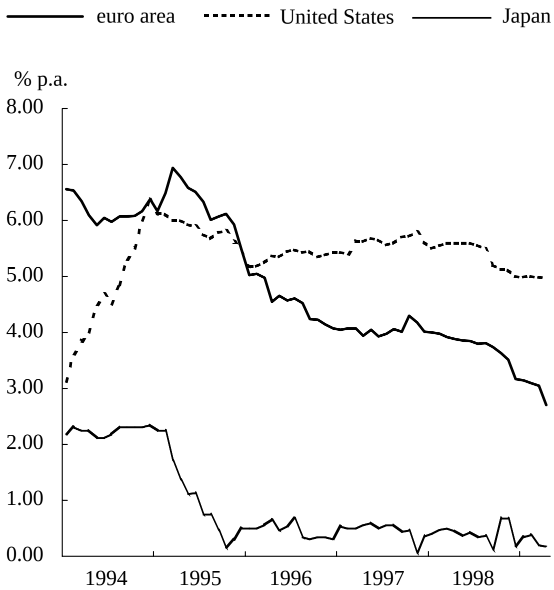
Euro area money market rates

(monthly)



3-month money market rates

(monthly)



Source: Reuters and ECB.

1) *Interbank deposit bid rates to December 1998; offered rates thereafter.*
2) *End-of-period rates to December 1998; period averages thereafter.*
3) *Prior to January 1999 synthetic euro area rates were calculated on the basis of national rates weighted by GDP.*
4) *From January 1999 column 1 shows the euro overnight interest average (EONIA); other euro area money market rates from January 1999 are euro interbank offered rates (EURIBOR).*
5) *From February 1999, London interbank offered rate (LIBOR).*

Table 2.7

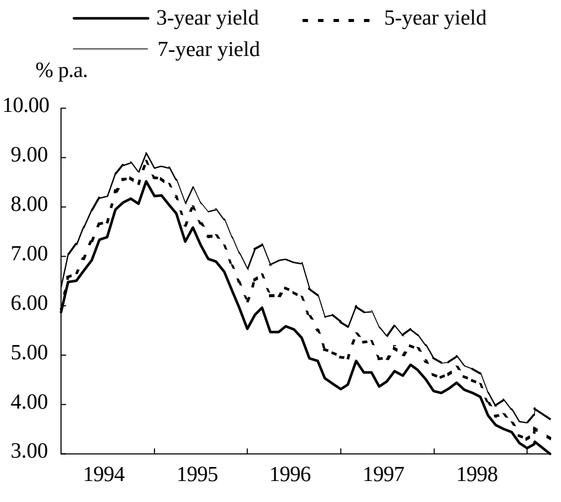
Government bond yields [1)]

(percentages per annum)

		Euro area [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
1994		8.08	8.52	8.91	9.08	8.18	7.21	4.24
1995		5.69	5.97	6.48	7.06	8.73	6.69	3.32
1996		4.17	4.41	5.06	5.82	7.23	6.54	3.03
1997		4.33	4.51	4.87	5.20	5.99	6.45	2.15
1998		3.16	3.22	3.38	3.67	4.71	5.33	1.30
1998	Apr.	4.26	4.44	4.75	4.97	5.00	5.72	1.57
	May	4.13	4.30	4.58	4.79	5.06	5.73	1.30
	June	4.08	4.24	4.50	4.73	4.91	5.58	1.22
	July	4.04	4.16	4.41	4.62	4.82	5.53	1.36
	Aug.	3.68	3.78	4.01	4.24	4.59	5.41	1.17
	Sep.	3.55	3.58	3.77	3.98	4.27	4.87	0.88
	Oct.	3.39	3.51	3.77	4.09	4.25	4.58	0.82
	Nov.	3.33	3.44	3.62	3.90	4.24	4.89	0.89
	Dec.	3.16	3.22	3.38	3.67	3.95	4.69	1.39
1999	Jan.	2.98	3.11	3.30	3.64	3.82	4.78	2.07
	Feb.	3.05	3.19	3.43	3.78	3.98	4.99	2.09
	Mar.	3.08	3.25	3.53	3.92	4.18	5.23	1.72
	Apr.	2.83	3.00	3.31	3.70	4.04	5.18	1.55
1999	2 Apr.	2.93	3.11	3.42	3.84	4.17	5.19	1.64
	9	2.82	2.99	3.28	3.65	3.99	5.04	1.53
	16	2.83	3.02	3.32	3.70	4.04	5.21	1.61
	23	2.76	2.93	3.24	3.64	4.01	5.25	1.54
	30	2.78	2.94	3.25	3.68	4.06	5.36	1.41

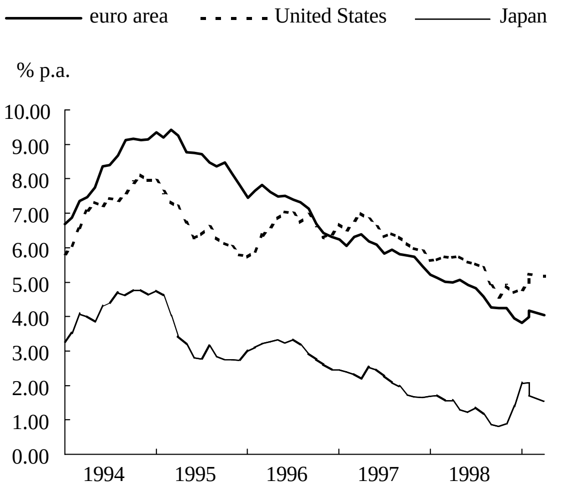
Euro area government bond yields

(monthly)



10-year government bond yields

(monthly)



Sources: Reuters, ECB, Federal Reserve and Bank of Japan.

1) *To December 1998, 2, 3, 5, and 7-year euro area yields are end-of-period values and 10-year yields are period averages. Therafter, all yields are period averages.*

2) *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.*

Table 2.8

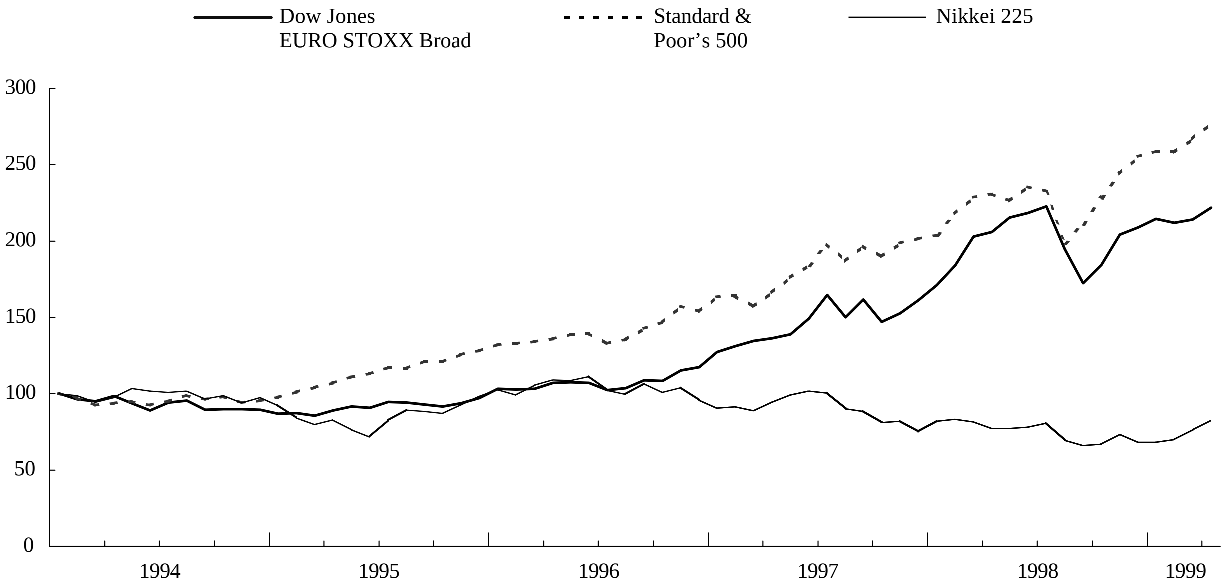
Stock market indices

(index levels, in points) [1)]

	Dow Jones EURO STOXX indices											United States	Japan
	Benchmark		Main economic sector indices										
	Broad	50	Basic materials	Consumer cyclical	Consumer non-cyclical	Energy	Financial	Conglom-erates	Industrial	Techno-logy	Utilities	Standard & Poor's 500	Nikkei 225
	1	2	3	4	5	6	7	8	9	10	11	12	13
1994	127.33	1,320.59	145.88	107.82	143.90	125.92	109.29	125.91	132.31	128.66	122.60	455.19	19,299.47
1995	138.37	1,506.82	137.78	111.06	181.13	145.46	117.66	133.05	136.18	145.57	152.09	614.57	19,417.95
1996	167.75	1,850.32	145.11	120.25	274.94	180.64	137.84	156.11	171.05	153.17	192.40	743.25	20,147.27
1997	229.86	2,531.99	166.33	159.82	324.06	249.22	188.87	210.33	204.75	248.37	225.11	962.37	15,917.07
1998	298.37	3,342.32	147.10	156.74	485.39	232.87	250.29	218.78	283.76	353.38	329.50	1,229.23	13,842.17
1998 Apr.	293.96	3,195.43	204.90	202.37	386.70	270.47	266.59	238.17	276.74	354.64	275.98	1,112.20	15,941.29
May	307.44	3,357.77	211.08	207.22	401.14	280.40	276.07	248.87	302.71	378.82	285.79	1,108.42	15,514.28
June	311.58	3,406.82	198.55	204.62	430.65	275.47	270.69	244.59	299.67	387.80	294.99	1,108.39	15,231.29
July	318.06	3,480.63	182.52	195.81	436.13	255.90	291.41	226.39	301.26	417.31	305.08	1,156.58	16,370.17
Aug.	277.73	3,050.59	151.13	167.11	413.58	217.55	240.10	194.28	262.30	360.33	279.30	1,074.62	15,243.98
Sep.	246.31	2,670.97	131.62	137.37	379.55	230.22	187.86	182.29	240.51	279.90	277.86	1,020.64	14,140.69
Oct.	263.49	2,887.11	138.21	147.48	419.19	223.71	206.17	197.45	250.98	300.39	295.80	1,098.67	13,564.51
Nov.	291.73	3,232.44	147.95	153.01	442.91	237.51	236.66	208.39	270.40	339.22	306.30	1,176.46	14,883.70
Dec.	298.37	3,342.32	147.10	156.74	485.39	232.87	250.29	218.78	283.76	353.38	329.50	1,229.23	13,842.17
1999 Jan.	306.01	3,486.40	146.59	152.92	498.08	226.40	254.13	229.20	301.23	367.41	339.23	1,246.89	13,859.26
Feb.	302.69	3,450.87	149.74	152.16	496.17	225.01	246.99	229.33	312.25	366.43	330.00	1,244.93	14,168.83
Mar.	305.52	3,524.19	153.81	155.94	480.73	254.11	249.73	229.77	311.75	374.45	318.57	1,284.56	15,459.81
Apr.	316.39	3,671.80	172.06	162.67	493.62	276.64	257.18	238.42	334.72	403.94	306.87	1,335.79	16,689.65
1999 2 Apr.	308.97	3,573.60	159.65	159.39	489.85	267.69	252.17	230.87	322.16	391.55	316.17	1,293.72	16,290.19
9	317.36	3,689.61	162.16	159.51	512.66	264.29	256.73	240.75	337.37	408.92	320.35	1,348.35	16,855.63
16	315.08	3,655.15	182.90	163.73	479.75	279.91	256.54	230.00	330.99	401.94	295.49	1,319.00	16,851.58
23	315.69	3,662.31	179.06	163.75	479.48	280.30	256.86	238.13	328.67	411.30	296.75	1,356.85	16,923.25
30	323.37	3,757.87	183.21	168.20	488.81	298.90	262.96	247.99	350.03	416.85	299.17	1,335.18	16,701.53

Dow Jones EURO STOXX Broad, Standard & Poor's 500 and Nikkei 225 re-based

(base month: January 1994 = 100; monthly)



Source: Reuters.

1) *End-of-period values to December 1998; period averages thereafter.*

Table 2.9

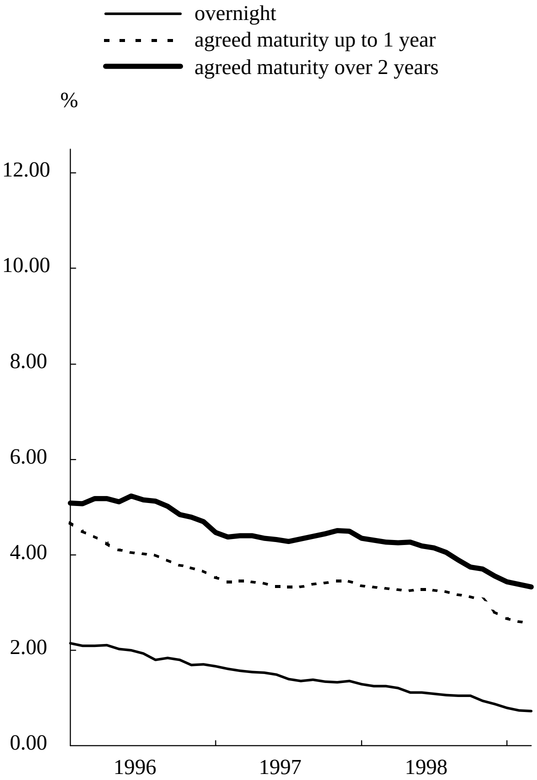
Retail bank interest rates

(percentages per annum; period averages)

		Deposit interest rates						Lending interest rates			
		Overnight	With agreed maturity			Redeemable at notice		To enterprises		To households	
			Up to 1 year	Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	Up to 1 year	Over 1 year	Consumer lending	For house purchase
		1	2	3	4	5	6	7	8	9	10
1996		1.94	4.09	4.69	5.04	3.05	3.16	8.84	.	11.57	7.54
1997		1.46	3.41	3.63	4.40	2.80	3.09	7.56	6.67	10.61	6.68
1998		1.10	3.20	3.22	4.06	2.61	3.25	6.68	5.81	10.05	5.89
1998	Mar.	1.25	3.30	3.34	4.26	2.74	3.32	7.00	6.07	10.30	6.21
	Apr.	1.20	3.28	3.30	4.26	2.71	3.30	6.89	5.99	10.12	6.08
	May	1.12	3.24	3.26	4.27	2.71	3.33	6.80	5.95	10.07	6.07
	June	1.12	3.27	3.28	4.18	2.58	3.34	6.72	5.91	10.06	6.01
	July	1.08	3.26	3.26	4.15	2.56	3.29	6.60	5.85	10.03	5.88
	Aug.	1.05	3.23	3.24	4.05	2.55	3.30	6.55	5.77	10.03	5.81
	Sep.	1.05	3.17	3.18	3.88	2.53	3.21	6.54	5.66	10.01	5.67
	Oct.	1.04	3.12	3.13	3.74	2.49	3.14	6.46	5.53	9.81	5.50
	Nov.	0.94	3.06	3.05	3.70	2.48	3.12	6.33	5.44	9.69	5.45
	Dec.	0.87	2.81	2.81	3.56	2.44	3.03	6.16	5.12	9.62	5.30
1999	Jan.	0.79	2.67	2.67	3.43	2.36	2.86	6.00	5.04	9.62	5.12
	Feb.	0.74	2.60	2.60	3.38	2.33	2.78	5.91	5.00	9.55	5.04
	Mar.	0.73	2.56	2.56	3.32	2.30	2.79	5.82	4.99	9.51	5.08

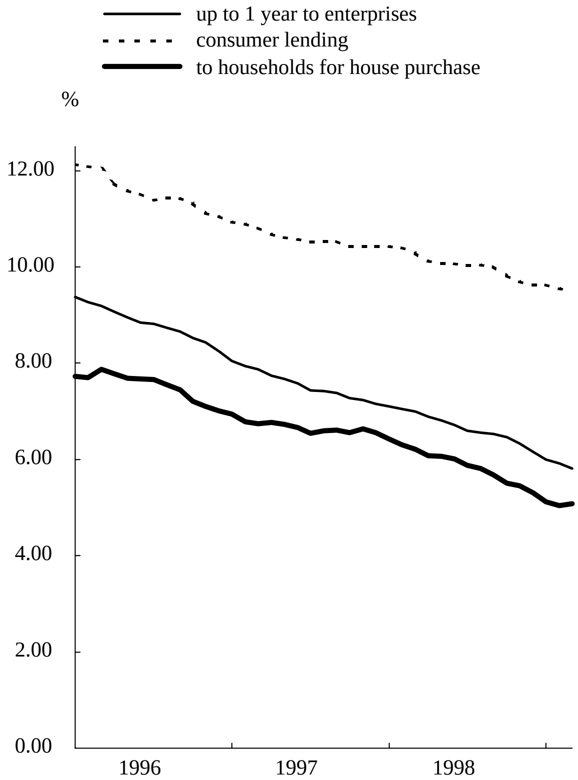
Deposit interest rates

(monthly)



Lending interest rates

(monthly)



Source: ECB.

These euro area retail bank interest rates should be used with caution and for statistical purposes only, primarily to analyse their development over time rather than their level. They are calculated as the weighted average of national interest rates provided by the national central banks. The national rates represent those rates that are currently available from national sources and which are judged to fit the standard categories. These national rates have been aggregated to derive information for the euro area, in some cases relying on proxies and working assumptions due to the heterogeneity observed in the national financial instruments across MU Member States. Furthermore, the national interest rates are not harmonised in terms of their coverage (new business and/or outstanding amounts), the nature of the data (nominal or effective) or the compilation method. The country weights for the euro area retail bank interest rates are derived from MFI balance sheet statistics or close proxies. The weights reflect the country-specific proportions of the relevant instruments within the euro area, measured as outstanding amounts. The weights are adjusted monthly, so that interest rates and weights always refer to the same month. Data have been revised in the light of new information.

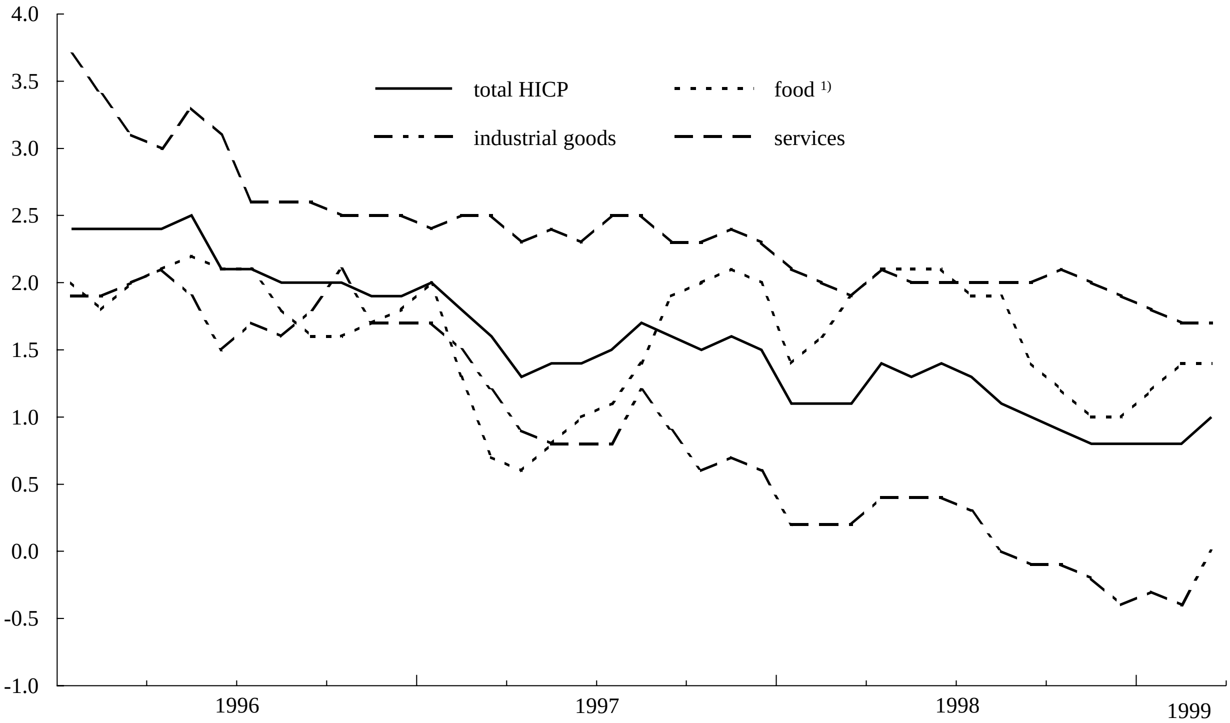
4 HICP and other prices in the euro area

Table 4.1

Harmonised Index of Consumer Prices

(annual percentage changes, unless otherwise indicated)

	Total (index, 1996 = 100)	Total	Goods	Food [1]	Processed food [1]	Unprocessed food	Industrial goods	Non-energy industrial goods	Energy	Services
Weight in the total (%) [2]	100.0	100.0	63.7	22.4	13.4	9.0	41.3	32.5	8.8	36.3
	1	2	3	4	5	6	7	8	9	10
1995	97.9	-	-	-	-	-	-	-	-	-
1996 [3]	100.0	2.2	1.8	1.9	1.9	1.8	1.8	1.6	2.6	2.9
1997	101.6	1.6	1.1	1.4	1.4	1.4	1.0	0.5	2.8	2.4
1998	102.7	1.1	0.6	1.6	1.4	2.0	0.1	0.9	-2.6	2.0
1998 Q1	102.2	1.1	0.7	1.6	1.3	2.0	0.2	0.6	-1.4	2.0
Q2	102.8	1.3	1.0	2.1	1.6	2.8	0.4	0.9	-1.4	2.0
Q3	102.9	1.1	0.7	1.7	1.4	2.1	0.1	1.0	-3.2	2.0
Q4	102.8	0.8	0.2	1.1	1.2	0.8	-0.2	0.9	-4.4	2.0
1999 Q1	103.1	0.8	0.3	1.3	1.2	1.4	-0.2	0.8	-3.8	1.7
1998 Mar.	102.4	1.1	0.8	1.9	1.4	2.6	0.2	0.7	-1.6	1.9
Apr.	102.6	1.4	1.0	2.1	1.4	3.0	0.4	0.8	-1.0	2.1
May	102.8	1.3	1.0	2.1	1.7	2.6	0.4	0.9	-1.4	2.0
June	102.9	1.4	1.0	2.1	1.6	2.9	0.4	1.0	-1.7	2.0
July	102.9	1.3	0.9	1.9	1.6	2.5	0.3	1.0	-1.9	2.0
Aug.	102.9	1.1	0.6	1.9	1.5	2.4	0.0	1.0	-3.8	2.0
Sep.	102.9	1.0	0.4	1.4	1.3	1.5	-0.1	1.0	-3.9	2.0
Oct.	102.8	0.9	0.3	1.2	1.3	1.1	-0.1	1.0	-4.0	2.1
Nov.	102.8	0.8	0.2	1.0	1.2	0.6	-0.2	0.9	-4.4	2.0
Dec.	102.9	0.8	0.1	1.0	1.1	0.9	-0.4	0.9	-4.8	1.9
1999 Jan.	102.8	0.8	0.2	1.2	1.3	1.1	-0.3	0.8	-4.4	1.8
Feb.	103.1	0.8	0.2	1.4	1.3	1.5	-0.4	0.7	-4.3	1.7
Mar.	103.4	1.0	0.5	1.4	1.2	1.7	0.0	0.7	-2.8	1.7



Source: Eurostat.
1) *Including alcoholic beverages and tobacco.*
2) *Referring to index period 1999.*
3) *Annual percentage changes in 1996 include France for the overall index, but do not cover France for all components of the HICP.*

Table 4.2

Selected other price and cost indicators

(annual percentage changes, unless otherwise indicated)

1. Industry and commodity prices

		Industrial producer prices									World market prices of raw materials 1)	
		Total excluding construction (index, 1995 = 100)	Total excluding construction	Manufacturing	Intermediate goods	Capital goods	Consumer goods	Durable consumer goods	Non-durable consumer goods	Construction 2)	Total	Total excluding energy
		1	2	3	4	5	6	7	8	9	10	11
1995		100.0	3.6	3.9	5.0	1.8	2.2	1.9	2.4	.	0.3	2.1
1996		100.4	0.4	1.0	-1.1	1.2	1.7	1.7	1.7	1.2	6.4	-6.9
1997		101.4	1.1	0.6	1.1	0.2	0.8	0.1	1.2	1.4	10.0	13.0
1998		100.6	-0.8	-0.6	-2.0	0.4	0.4	0.0	0.6	0.3	-21.2	-12.5
1998	Q1	101.4	0.5	0.6	-0.1	0.3	1.0	-0.2	1.6	0.4	-14.1	-0.1
	Q2	101.0	-0.2	0.0	-0.9	0.4	0.5	0.0	0.9	0.4	-16.6	-10.7
	Q3	100.4	-1.3	-1.1	-2.6	0.6	0.3	0.2	0.4	0.0	-24.3	-18.2
	Q4	99.5	-2.3	-2.1	-4.2	0.2	-0.2	0.1	-0.3	0.3	-30.0	-20.5
1999	Q1	.	.	.	.	.	.	.	.	.	-17.5	-16.0
1998	Apr.	101.2	0.1	0.4	-0.5	0.3	0.7	0.0	1.1	-	-12.2	-6.0
	May	101.1	-0.2	-0.1	-0.9	0.4	0.5	0.0	0.7	-	-18.6	-12.8
	June	100.8	-0.5	-0.3	-1.3	0.4	0.5	0.0	0.8	-	-18.9	-13.3
	July	100.6	-0.8	-0.6	-1.9	0.6	0.6	0.3	0.7	-	-21.1	-14.4
	Aug.	100.4	-1.4	-1.2	-2.9	0.6	0.4	0.3	0.4	-	-26.3	-19.0
	Sep.	100.2	-1.6	-1.5	-3.1	0.4	0.0	0.0	0.0	-	-25.4	-20.9
	Oct.	99.8	-2.0	-1.8	-3.7	0.3	-0.1	0.0	-0.2	-	-30.6	-23.6
	Nov.	99.5	-2.4	-2.1	-4.2	0.2	-0.2	0.1	-0.4	-	-28.6	-18.4
	Dec.	99.1	-2.6	-2.2	-4.6	0.2	-0.2	0.1	-0.3	-	-30.8	-19.4
1999	Jan.	98.8	-2.7	-2.2	-4.9	0.1	.	0.1	.	-	-23.2	-17.2
	Feb.	98.7	-2.7	-2.1	-4.9	0.1	.	0.1	.	-	-20.6	-16.1
	Mar.	.	.	.	.	.	.	.	.	-	-8.3	-14.7
	Apr.	.	.	.	.	.	.	.	.	-	0.3	-12.6

2. Deflators of gross domestic product and indicators of labour costs

		Deflators of GDP 3) (s.a.)					Unit labour costs in whole economy	Compensation per employee in whole economy	Earnings per employee in manufacturing
		GDP (index, 1995 = 100)	GDP	Private consumption	Government consumption	Gross fixed capital formation			
		12	13	14	15	16	17	18	19
1995		100.0	2.8	2.6	3.0	2.1	1.7	3.5	3.7
1996		102.0	2.0	2.3	2.5	0.7	1.8	3.4	3.5
1997		103.4	1.4	1.8	2.1	1.0	0.4	2.6	3.0
1998		105.1	1.6	1.2	1.8	0.3	.	.	.
1996	Q2	101.8	2.2	2.6	2.3	0.7	2.0	3.3	3.2
	Q3	102.2	1.8	2.3	2.2	0.4	1.7	3.5	3.6
	Q4	102.6	1.6	2.1	2.3	0.2	1.5	3.3	2.8
1997	Q1	102.9	1.5	2.0	2.1	0.6	1.8	2.9	3.1
	Q2	103.2	1.3	1.6	2.4	0.8	0.3	2.9	3.4
	Q3	103.6	1.3	1.8	2.0	1.2	-0.1	2.3	2.7
	Q4	104.1	1.4	1.7	2.0	1.2	-0.4	2.2	2.8
1998	Q1	104.5	1.5	1.4	1.6	0.7	-2.2	1.0	2.2
	Q2	104.8	1.6	1.4	1.6	0.4	-0.6	1.2	2.8
	Q3	105.1	1.5	1.1	2.1	-0.2	-0.6	1.3	2.6
	Q4	105.6	1.5	1.0	1.7	-0.4	.	.	.

Sources: Eurostat, except columns 10 and 11 (HWWA - Institut für Wirtschaftsforschung, Hamburg), columns 12 to 16 (ECB calculations based on deflators in national currency) and columns 17 to 19 (ECB calculations based on non-harmonised national data).
1) To December 1998, in ECU; from January 1999, in euro.
2) Residential buildings, based on non-harmonised data.
3) ESA 95 data were not available in time for inclusion in this issue.

5 Real economy indicators in the euro area

Table 5.1

Output and demand indicators

1. Gross domestic product and its components [1)]

(ECU billions, seasonally adjusted, at 1990 prices)

	GDP	Domestic demand	Private consumption	Government consumption	Gross fixed capital formation	Exports [2)]	Imports [2)]
	1	2	3	4	5	6	7
1995	4,487.2	4,392.7	2,748.9	710.1	914.8	1,522.7	1,428.2
1996	4,561.4	4,440.6	2,803.4	718.3	921.7	1,594.1	1,473.4
1997	4,676.1	4,530.4	2,848.5	717.5	940.8	1,749.8	1,604.1
1998	4,811.8	4,690.6	2,929.7	725.2	978.6	1,845.0	1,723.8
1997 Q4	1,183.2	1,146.2	718.6	178.2	239.3	455.2	418.2
1998 Q1	1,193.0	1,164.3	724.9	181.3	243.9	453.5	424.8
Q2	1,200.2	1,169.2	728.3	182.0	242.0	464.5	433.6
Q3	1,208.1	1,175.0	735.1	181.6	246.1	468.5	435.3
Q4	1,210.5	1,182.1	741.5	180.3	246.6	458.5	430.1

(annual percentage changes)

	GDP	Domestic demand	Private consumption	Government consumption	Gross fixed capital formation	Exports [2)]	Imports [2)]
	8	9	10	11	12	13	14
1995	2.1	2.0	1.8	0.1	3.0	8.0	8.1
1996	1.7	1.1	2.0	1.2	0.8	4.7	3.2
1997	2.5	2.0	1.6	-0.1	2.1	9.8	8.9
1998	2.9	3.5	2.9	1.1	4.0	5.4	7.5
1997 Q4	3.1	2.7	2.2	-0.7	2.7	11.2	10.6
1998 Q1	3.7	4.1	2.7	0.9	5.7	10.0	11.8
Q2	2.9	3.2	2.3	1.3	3.2	7.8	9.2
Q3	2.8	3.7	3.1	1.0	4.1	3.8	6.5
Q4	2.3	3.1	3.2	1.1	3.1	0.7	2.8

2. Selected other real economy indicators

(annual percentage changes, unless otherwise indicated)

	Industrial production [3)]								Retail sales at constant prices	New passenger car registrations
	Total excluding construction (index (s.a.), 1995 = 100)	Total excluding construction	Manu-facturing	Intermediate goods	Capital goods	Durable consumer goods	Non-durable consumer goods	Construction		
	15	16	17	18	19	20	21	22	23	24
1995	100.0	3.4	3.5	2.5	7.3	-1.3	1.7	-0.4	2.0	0.3
1996	100.3	0.3	-0.1	-0.2	1.5	0.0	-0.6	-2.5	1.1	6.6
1997	104.6	4.3	4.8	5.4	4.8	2.0	2.3	-1.0	0.8	3.9
1998	108.9	4.0	4.4	3.9	6.6	6.2	1.2	0.3	2.6	7.7
1998 Q1	108.4	6.5	7.2	7.6	9.0	6.9	1.4	4.1	2.7	12.8
Q2	109.1	4.7	5.3	4.7	7.1	6.7	2.2	0.1	1.7	3.3
Q3	109.2	3.9	4.2	3.2	6.6	6.5	1.9	-0.5	2.8	7.4
Q4	108.8	1.3	1.3	0.4	4.0	4.9	-0.4	-2.0	3.1	7.5
1999 Q1	.	.	.	.	.	.	.	.	.	7.1
1998 Mar.	109.1	7.1	7.2	7.5	10.6	9.9	0.9	0.3	3.1	16.6
Apr.	109.0	3.6	4.1	4.0	5.9	4.1	1.0	-2.3	0.8	-1.8
May	109.3	7.0	7.9	6.6	10.4	11.2	4.3	2.9	1.8	6.9
June	109.1	3.6	4.0	3.7	5.3	5.2	1.5	-0.3	2.6	5.3
July	109.4	4.2	4.6	3.5	7.3	6.2	2.5	0.3	3.4	7.2
Aug.	109.0	4.2	4.8	3.6	6.9	8.1	2.2	0.3	2.3	7.1
Sep.	109.3	3.3	3.4	2.5	5.7	6.0	1.0	-1.9	2.6	7.9
Oct.	109.2	2.4	3.1	1.3	5.9	8.8	0.2	-2.0	1.8	1.2
Nov.	109.1	2.1	2.0	1.4	4.5	4.7	0.2	-2.3	4.1	15.3
Dec.	108.2	-0.8	-1.3	-1.6	1.7	0.7	-1.9	-1.5	3.5	7.3
1999 Jan.	108.6	1.6	0.7	0.5	4.1	2.9	1.3	.	0.5	5.1
Feb.	108.2	-0.2	-0.8	-1.4	1.4	0.7	1.0	.	1.9	5.6
Mar.	.	.	.	.	.	.	.	.	.	10.0

Sources: Eurostat, except column 23 (ECB calculation based on non-harmonised national data) and column 24 (ACEA/A.A.A. - European Automobile Manufacturers' Association).

1) Components exclude changes in inventories. ESA 95 data were not available in time for inclusion in this issue.

2) Exports and imports cover goods and services and include internal cross-border trade in the euro area.

3) Adjusted for variations in the number of working days.

Table 5.2

Labour market indicators

(seasonally adjusted)

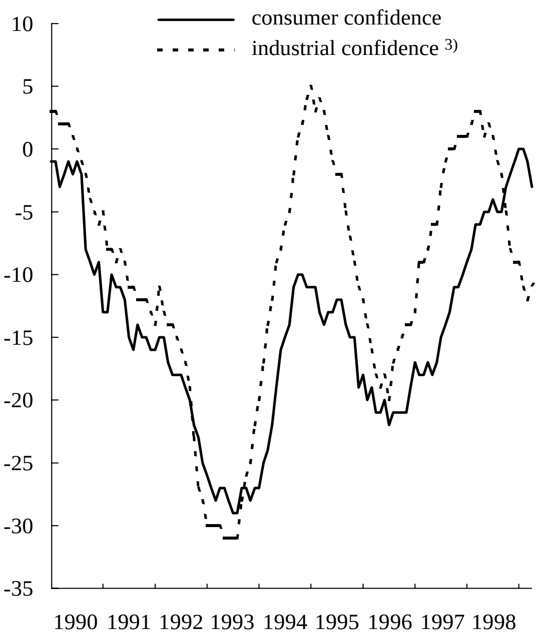
	Employment				Unemployment 2)		Labour productivity	
	Whole economy 1)		Manufacturing		Millions	% of labour force	Whole economy 1) (annual percentage changes)	Manufacturing (annual percentage changes)
	Index, 1995 = 100	Annual percentage changes	Index, 1995 = 100	Annual percentage changes				
	1	2	3	4	5	6	7	8
1995	100.0	0.4	100.0	-1.1	14.382	11.4	1.8	4.7
1996	100.2	0.2	98.1	-1.9	14.808	11.6	1.6	1.9
1997	100.5	0.3	97.1	-1.0	14.888	11.6	2.3	5.9
1998	101.7	1.3	97.8	0.7	14.053	10.9	.	3.7
1998 Q1	101.1	1.0	97.6	0.6	14.414	11.2	3.4	6.6
Q2	101.5	1.1	97.9	1.0	14.147	10.9	1.8	4.3
Q3	102.0	1.4	97.9	0.9	13.946	10.8	1.8	3.3
Q4	102.3	1.5	97.8	0.5	13.707	10.6	.	0.9
1999 Q1	.	.	.	.	13.466	10.4	.	.
1998 Mar.	-	-	97.7	0.7	14.329	11.1	-	6.4
Apr.	-	-	97.8	0.9	14.221	11.0	-	3.3
May	-	-	97.9	1.0	14.160	10.9	-	6.8
June	-	-	98.0	1.0	14.060	10.9	-	2.9
July	-	-	97.9	0.9	13.994	10.8	-	3.6
Aug.	-	-	97.9	0.9	13.967	10.8	-	3.8
Sep.	-	-	97.9	0.9	13.877	10.7	-	2.6
Oct.	-	-	97.9	0.7	13.767	10.6	-	2.5
Nov.	-	-	97.8	0.4	13.684	10.6	-	1.5
Dec.	-	-	97.7	0.3	13.670	10.6	-	-1.6
1999 Jan.	-	-	.	.	13.516	10.5	-	.
Feb.	-	-	.	.	13.463	10.4	-	.
Mar.	-	-	.	.	13.418	10.4	-	.

Chart 5.3

Opinion surveys

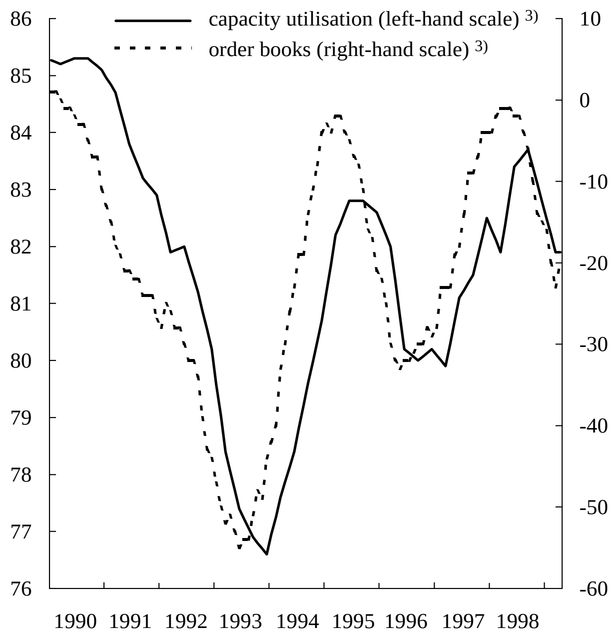
Consumer and industrial confidence indicators

(percentage balances; monthly, seasonally adjusted)



Capacity utilisation and order books

(capacity utilisation, percentages, quarterly; order books, percentage balances, monthly; seasonally adjusted)



Sources: ECB calculations based on available national non-harmonised data (columns 1, 2, 7), Eurostat (columns 3 to 6, 8) and European Commission Business and Consumer Surveys (chart data).

1) *Quarterly results are based on available data from those countries which compile monthly or quarterly statistics.*
2) *Calculated according to ILO recommendations.*
3) *Manufacturing; data on capacity utilisation are collected in January, April, July and October.*

6 Saving, investment and financing in the euro area

Table 6

Saving, investment and financing

(as a percentage of GDP, unless otherwise indicated)

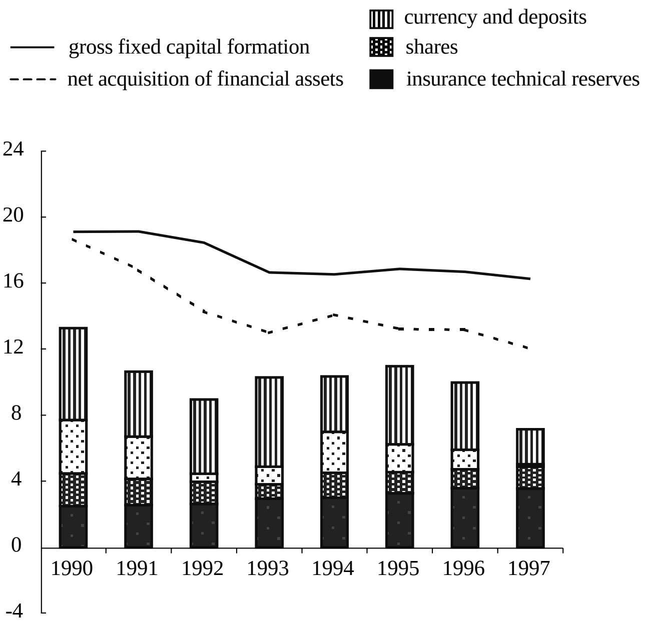
	Euro area saving and investment [1]			Investment of private non-financial sectors [1) 2)]							
	Gross saving	Gross fixed capital formation	Net lending to the rest of the world	Gross fixed capital formation	Non-financial corporations	Net acquisition of financial assets	Currency and deposits	Securities other than shares	Long-term securities	Shares	Insurance technical reserves
	1	2	3	4	5	6	7	8	9	10	11
1990	23.6	22.8	0.1	19.1	13.8	18.7	5.6	4.4	3.2	2.0	2.5
1991	21.9	23.0	-1.3	19.1	14.3	16.8	3.9	3.0	2.6	1.6	2.5
1992	20.9	22.2	-1.0	18.4	13.7	14.3	4.5	1.7	0.5	1.3	2.6
1993	20.0	20.2	0.5	16.6	12.3	13.0	5.4	0.6	1.1	0.9	2.9
1994	20.4	19.8	0.3	16.5	12.3	14.1	3.4	2.3	2.5	1.5	3.0
1995	21.3	20.0	1.0	16.9	12.6	13.2	4.7	1.9	1.7	1.3	3.3
1996	20.9	19.7	1.4	16.7	12.4	13.2	4.1	0.3	1.2	1.1	3.6
1997	21.4	19.0	2.1	16.3	12.0	12.0	2.1	-0.3	0.2	1.3	3.6

	Financing of private non-financial sectors [1) 2)]								Net financial investment	Financial investment as a % of gross investment	Net incurrence of liabilities as a % of financing
	Gross saving	Households	Net incurrence of liabilities	Securities other than shares	Long-term securities	Shares	Loans	Long-term loans	(col. 6 - 14)	(col. 6 / (4+6))	(col. 14 / (12+14))
	12	13	14	15	16	17	18	19	20	21	22
1990	22.0	12.0	14.2	0.6	0.3	2.1	9.6	4.5	4.4	49.4	39.3
1991	21.0	12.1	13.2	0.4	0.3	1.7	8.9	4.8	3.6	46.8	38.5
1992	20.7	12.1	10.7	0.7	0.6	1.6	6.9	4.7	3.6	43.6	34.0
1993	20.4	11.5	7.4	1.3	1.4	1.7	3.6	4.3	5.6	43.8	26.6
1994	20.4	10.6	9.9	1.1	1.2	1.9	3.9	3.7	4.1	46.0	32.8
1995	21.4	10.7	5.7	-1.7	-1.8	1.7	4.9	3.0	7.5	43.9	21.1
1996	20.7	10.5	8.7	0.2	0.1	1.9	4.8	3.6	4.5	44.1	29.6
1997	20.1	9.9	7.9	0.0	0.0	1.5	4.9	3.2	4.1	42.5	28.2

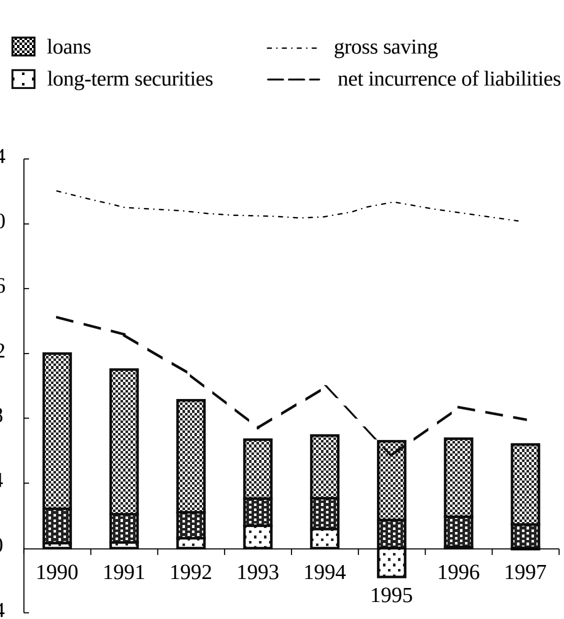
Investment and financing of private non-financial sectors [1) 2)]

(as a percentage of GDP)

Investment



Financing



Source: ECB.
1) *Selected items of financing and investment.*
2) *Private non-financial sectors comprise non-financial corporations, households and non-profit institutions serving households.*

7 General government fiscal position in the euro area and in the euro area countries

Table 7

General government fiscal position

(as a percentage of GDP)

1. Euro area [1) 2)] – receipts and expenditure

	Receipts: Total	Receipts: Current receipts	Receipts: Direct taxes	Receipts: Indirect taxes	Receipts: Social contributions	Receipts: Sales	Receipts: Capital receipts	Expenditure: Total	Expenditure: Current expenditure	Expenditure: Compensation of employees	Expenditure: Intermediate consumption	Expenditure: Interest	Expenditure: Transfers to households	Expenditure: Capital expenditure	Expenditure: Investment
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1991	48.0	47.5	12.3	12.9	17.3	2.5	0.4	52.4	47.7	11.8	5.5	4.9	21.3	4.6	3.0
1992	49.2	48.4	12.3	13.0	17.7	2.7	0.8	53.8	49.3	12.1	5.5	5.5	22.2	4.5	3.0
1993	49.9	49.4	12.5	13.2	18.2	2.8	0.5	55.5	51.0	12.3	5.7	5.7	23.1	4.5	2.9
1994	49.2	48.6	12.0	13.4	18.1	2.7	0.5	54.3	50.1	12.0	5.5	5.4	23.1	4.2	2.7
1995	49.1	48.5	12.1	13.3	18.1	2.8	0.6	54.0	49.7	11.8	5.3	5.7	23.1	4.3	2.6
1996	49.3	48.8	12.1	13.4	18.3	2.8	0.5	53.4	49.7	11.9	5.4	5.5	23.2	3.7	2.4
1997	49.7	49.0	12.2	13.5	18.3	2.7	0.7	52.2	48.6	11.6	5.2	5.0	23.1	3.6	2.3
1998	49.1	48.5	12.5	14.1	17.2	2.7	0.5	51.2	47.4	11.3	5.1	4.5	22.6	3.7	2.3

2. Euro area [1) 2)] – saving, deficit and debt

	Gross saving	Deficit (-) / surplus (+): Total	Deficit (-) / surplus (+): Central government	Deficit (-) / surplus (+): Local government	Deficit (-) / surplus (+): Social security	Primary deficit/ surplus	Deficit/ debt adjustment [3)]	Change in debt [4)]: Total	Change in debt [4)]: Currency, deposits and loans	Change in debt [4)]: Short-term securities	Change in debt [4)]: Medium/ long-term securities	Gross nominal consolidated debt: Total	Gross nominal consolidated debt: Currency, deposits and loans	Gross nominal consolidated debt: Short-term securities	Gross nominal consolidated debt: Medium/ long-term securities
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
1991	-0.2	-4.4	-4.5	-0.2	0.3	0.5	0.7	5.1	1.3	0.0	3.9	58.3	18.5	8.5	31.2
1992	-0.9	-4.6	-4.3	-0.2	-0.1	0.9	2.2	6.8	1.7	0.9	4.2	61.9	19.2	8.9	33.8
1993	-1.6	-5.5	-5.3	-0.2	0.0	0.2	2.5	8.1	1.5	-0.3	6.9	68.4	20.2	8.4	39.8
1994	-1.5	-5.1	-4.9	-0.2	0.0	0.3	0.8	5.9	0.2	0.6	5.1	70.8	19.4	8.5	42.9
1995	-1.3	-5.0	-4.6	-0.1	-0.3	0.7	2.3	7.3	2.0	-0.2	5.5	74.8	20.6	7.9	46.4
1996	-0.9	-4.1	-3.9	0.0	-0.2	1.3	-0.2	3.9	0.3	0.2	3.4	76.1	20.2	7.8	48.1
1997	0.4	-2.5	-2.6	0.0	0.0	2.5	-0.3	2.2	-0.1	-1.0	3.2	75.4	19.3	6.6	49.5
1998	1.1	-2.1	-2.3	0.2	0.1	2.4	-0.6	1.5	-0.4	-0.7	2.6	73.6	18.1	5.6	49.9

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

	BE	DE	ES	FR	IE	IT	LU	NL	AT	PT	FI
	1	2	3	4	5	6	7	8	9	10	11
1991	-6.3	-3.3	-4.4	-2.1	-2.3	-10.1	1.9	-2.9	-3.0	-6.0	-1.1
1992	-7.1	-2.8	-4.0	-3.9	-2.4	-9.6	0.7	-3.9	-2.0	-3.0	-5.7
1993	-7.3	-3.5	-6.8	-5.8	-2.3	-9.6	1.6	-3.2	-4.3	-6.1	-7.3
1994	-4.9	-2.6	-6.2	-5.8	-1.5	-9.2	2.7	-3.8	-5.0	-6.0	-6.0
1995	-4.0	-3.3	-7.1	-4.9	-2.1	-7.7	1.8	-4.0	-5.1	-5.7	-4.6
1996	-3.1	-3.4	-4.5	-4.1	-0.3	-6.6	2.8	-2.0	-3.7	-3.3	-3.1
1997	-1.9	-2.7	-2.6	-3.0	1.1	-2.7	2.9	-0.9	-1.9	-2.5	-1.2
1998	-1.3	-2.1	-1.8	-2.9	2.3	-2.7	2.1	-0.9	-2.1	-2.3	1.0

4. Euro area countries – gross nominal consolidated debt

	BE	DE	ES	FR	IE	IT	LU	NL	AT	PT	FI
	12	13	14	15	16	17	18	19	20	21	22
1991	128.4	40.9	44.6	35.8	92.6	102.0	4.0	79.0	58.2	67.3	23.1
1992	130.6	43.6	47.0	39.9	89.5	109.4	4.9	79.9	58.1	59.9	41.5
1993	137.6	47.5	58.8	45.4	93.1	120.0	5.9	81.1	62.8	63.2	58.0
1994	135.1	49.9	61.3	48.6	86.5	125.7	5.5	77.8	65.6	63.8	59.6
1995	132.2	58.3	64.2	52.8	78.9	125.3	5.8	79.0	69.4	65.9	58.1
1996	128.0	60.8	68.6	55.7	69.4	124.6	6.3	77.0	69.8	64.9	57.8
1997	123.4	61.5	67.5	58.1	61.3	122.4	6.4	71.2	64.3	61.7	54.9
1998	117.3	61.0	65.6	58.5	52.1	118.7	6.7	67.7	63.1	57.8	49.6

Sources: ECB for euro area aggregated data; European Commission (DG II and Eurostat) for data relating to euro area countries' deficit/surplus and debt.
1) Transactions among the euro area countries are not consolidated.
2) Euro area excluding Luxembourg.
3) Difference between the annual change in nominal gross consolidated debt and the deficit as a percentage of GDP.
4) Annual change in nominal gross consolidated debt expressed as a percentage of GDP: [debt(t)-debt(t-1)] / GDP(t).

8 Balance of payments of the euro area and the Eurosystem's reserve position

Table 8.1

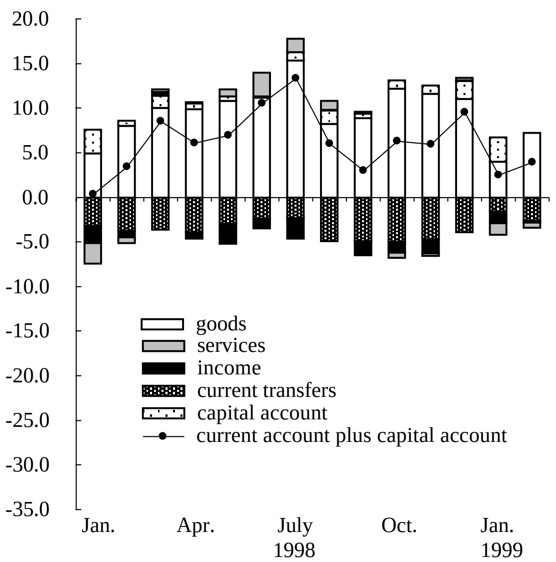
Summary balance of payments [1)]

(EUR billions (ECU billions to end-1998); net flows)

		Current account					Capital account	Financial account [2)]						Errors and omissions [3)]
		Total	Goods	Services	Income	Current transfers		Total [3)]	Direct investment	Portfolio investment [3)]	Financial derivatives [3)]	Other investment [3) 4)]	Reserve assets [3)]	
		1	2	3	4	5	6	7	8	9	10	11	12	13
1998		67.0	122.1	3.1	-12.6	-45.5	12.6	7.9	-100.2	-90.8	-8.3	198.9	8.3	-87.6
1998	Q1	7.6	22.9	-2.6	-2.2	-10.5	4.7	-1.6	-11.2	-54.7	0.3	65.2	-1.3	-10.7
	Q2	22.3	31.8	3.7	-4.0	-9.3	1.2	4.1	-14.8	-1.7	-4.1	24.6	0.0	-27.5
	Q3	19.3	32.4	2.7	-3.8	-12.1	3.0	-3.3	-23.1	12.3	1.2	3.5	2.8	-19.0
	Q4	17.9	34.9	-0.6	-2.8	-13.6	3.7	8.7	-51.1	-46.7	-5.6	105.5	6.7	-30.3
1998	Jan.	-2.4	4.9	-2.3	-1.9	-3.2	2.7	13.5	-5.1	-2.0	-1.8	20.0	2.5	-13.9
	Feb.	2.8	8.0	-0.6	-0.7	-3.8	0.6	-17.6	-4.5	-22.8	0.7	12.9	-3.9	14.2
	Mar.	7.1	10.0	0.3	0.4	-3.6	1.4	2.5	-1.5	-29.9	1.4	32.3	0.2	-11.0
	Apr.	5.5	9.9	0.2	-0.7	-3.9	0.6	-29.0	-8.2	-21.9	-0.9	2.9	-0.9	22.9
	May	6.4	10.8	0.8	-2.2	-3.0	0.5	19.5	-1.3	9.1	-1.5	12.3	0.9	-26.4
	June	10.4	11.2	2.7	-1.1	-2.4	0.1	13.6	-5.2	11.1	-1.8	9.5	0.0	-24.1
	July	12.3	15.3	1.5	-2.3	-2.3	1.0	23.8	-8.6	14.6	-1.4	17.8	1.3	-37.1
	Aug.	4.5	8.2	1.0	0.1	-4.9	1.5	8.6	-7.9	8.5	2.3	8.3	-2.5	-14.6
	Sep.	2.5	8.9	0.2	-1.6	-4.9	0.5	-35.7	-6.6	-10.8	0.3	-22.6	4.0	32.6
	Oct.	5.4	12.2	-0.6	-1.2	-5.0	0.9	-12.3	-16.6	-33.4	-3.0	44.1	-3.3	6.0
	Nov.	5.0	11.6	-0.3	-1.6	-4.7	0.9	4.7	-33.8	1.8	-2.4	45.1	-6.1	-10.5
	Dec.	7.5	11.0	0.3	0.1	-3.9	2.0	16.3	-0.7	-15.1	-0.2	16.2	16.1	-25.8
1999	Jan.	-0.2	4.0	-1.3	-1.3	-1.6	2.7	11.8	-5.2	8.1	-2.1	13.6	-2.4	-14.3
	Feb.	3.9	7.2	-0.6	-0.2	-2.6	0.0	6.7	-2.0	-16.8	-0.2	21.2	4.6	-10.6

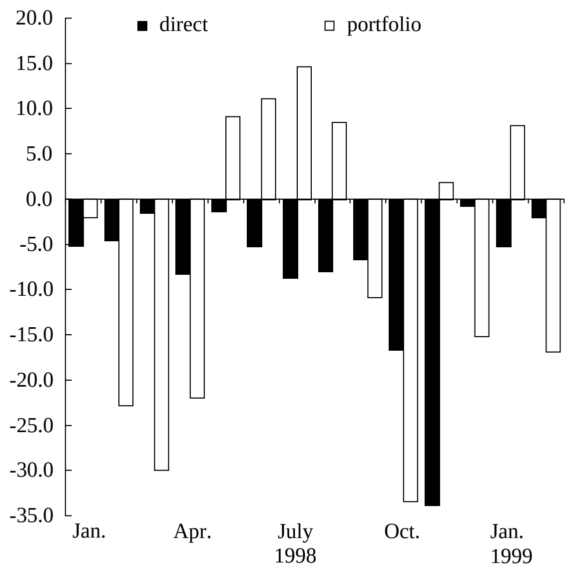
Current and capital accounts

(EUR billions (ECU billions to end-1998); net flows)



Direct and portfolio investment

(EUR billions (ECU billions to end-1998); net flows)



Source: ECB.
1) Discrepancies may arise from rounding.
2) Inflows (+); outflows (-).
3) Series for which data from January 1999 are not closely comparable with earlier observations.
4) Flows before January 1999 include estimations.

Table 8.2

Current and capital accounts [1)]

(EUR billions (ECU billions to end-1998); gross flows)

		Current account										Capital account	
		Total		Goods		Services		Income		Current transfers			
		Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
		1	2	3	4	5	6	7	8	9	10	11	12
1998		1,277.8	1,210.7	779.4	657.3	247.6	244.4	190.2	202.9	60.6	106.1	17.6	5.0
1998	Q1	317.6	310.1	190.8	167.9	56.3	58.9	47.0	49.2	23.5	34.1	5.9	1.2
	Q2	325.7	303.5	199.0	167.2	64.1	60.4	50.3	54.2	12.3	21.6	2.4	1.2
	Q3	316.0	296.7	190.8	158.3	67.4	64.7	45.5	49.3	12.2	24.3	4.1	1.1
	Q4	318.4	300.5	198.8	163.9	59.7	60.4	47.4	50.1	12.5	26.1	5.2	1.5
1998	Jan.	104.7	107.1	58.6	53.7	18.5	20.8	14.6	16.5	13.0	16.2	3.1	0.4
	Feb.	101.0	98.1	62.3	54.3	17.6	18.2	15.1	15.8	6.0	9.8	0.9	0.4
	Mar.	112.0	104.9	69.9	60.0	20.2	19.9	17.3	16.9	4.6	8.1	1.8	0.4
	Apr.	106.4	101.0	66.5	56.6	20.2	20.0	16.2	16.9	3.5	7.4	1.0	0.4
	May	104.4	98.0	64.3	53.5	20.7	19.9	15.2	17.3	4.2	7.2	0.9	0.4
	June	114.9	104.5	68.2	57.1	23.2	20.5	18.9	20.0	4.6	7.0	0.5	0.4
	July	116.0	103.7	70.6	55.3	24.1	22.6	16.2	18.5	5.0	7.3	1.4	0.4
	Aug.	94.6	90.1	55.3	47.1	22.3	21.3	13.4	13.3	3.6	8.5	1.8	0.3
	Sep.	105.4	102.9	64.8	55.9	21.0	20.9	15.9	17.5	3.6	8.5	0.9	0.4
	Oct.	106.8	101.4	68.2	56.0	20.4	21.0	14.6	15.8	3.6	8.6	1.3	0.4
	Nov.	101.5	96.5	65.2	53.5	18.1	18.4	14.2	15.8	4.1	8.8	1.3	0.5
	Dec.	110.1	102.5	65.4	54.4	21.2	20.9	18.6	18.5	4.8	8.7	2.6	0.6
1999	Jan.	94.3	94.5	53.0	49.0	14.5	15.8	14.2	15.5	12.6	14.2	3.1	0.5
	Feb.	93.7	89.8	58.1	50.9	16.0	16.6	14.3	14.4	5.3	7.9	0.5	0.5

Source: ECB.

1) *Discrepancies may arise from rounding.*

Table 8.4

Direct and portfolio investment accounts [1] [2]

(EUR billions (ECU billions to end-1998); net flows)

		Direct investment		Portfolio investment									
				Total		Equity		Debt instruments					
								Assets			Liabilities [3]		
		Abroad	In the euro area	Assets	Liabilities [3]	Assets	Liabilities [3]	Total	Bonds and notes	Money market instruments	Total	Bonds and notes	Money market instruments
		1	2	3	4	5	6	7	8	9	10	11	12
1998		-177.9	77.7	-307.1	216.3	-82.4	68.5	-224.7	-206.9	-17.9	147.8	119.4	28.3
1998	Q1	-46.4	35.2	-114.1	59.4	-29.6	14.8	-84.5	-74.9	-9.5	44.6	39.9	4.6
	Q2	-39.6	24.9	-83.3	81.6	-25.6	24.8	-57.6	-55.1	-2.5	56.7	44.3	12.4
	Q3	-25.3	2.2	-55.0	67.3	-9.8	-0.4	-45.2	-42.5	-2.7	67.7	50.5	17.3
	Q4	-66.6	15.4	-54.7	8.0	-17.3	29.2	-37.4	-34.3	-3.1	-21.2	-15.2	-6.0
1998	Jan.	-9.8	4.7	-20.8	18.7	-5.7	4.7	-15.1	-16.3	1.2	14.0	11.3	2.7
	Feb.	-15.0	10.5	-51.1	28.3	-11.4	3.2	-39.7	-33.0	-6.7	25.1	26.0	-1.0
	Mar.	-21.6	20.1	-42.3	12.4	-12.5	6.9	-29.7	-25.7	-4.0	5.5	2.6	2.9
	Apr.	-20.7	12.5	-34.0	12.1	-8.0	1.2	-26.0	-30.9	4.9	10.9	10.6	0.3
	May	-12.3	10.9	-19.6	28.7	-6.7	5.5	-12.9	-10.0	-2.9	23.2	15.8	7.5
	June	-6.6	1.4	-29.7	40.8	-10.9	18.2	-18.7	-14.2	-4.6	22.6	17.9	4.7
	July	-2.8	-5.8	-23.0	37.6	-3.2	9.1	-19.8	-20.9	1.1	28.6	17.0	11.6
	Aug.	-4.0	-4.0	-14.5	23.0	0.5	-5.4	-15.0	-14.1	-0.9	28.4	22.4	6.0
	Sep.	-18.6	12.0	-17.5	6.7	-7.1	-4.1	-10.4	-7.4	-2.9	10.8	11.1	-0.3
	Oct.	-11.7	-5.0	-6.9	-26.6	-1.4	-6.1	-5.5	-8.0	2.5	-20.4	-24.8	4.3
	Nov.	-41.1	7.3	-30.3	32.1	-9.0	33.0	-21.3	-15.7	-5.6	-0.9	1.1	-2.0
	Dec.	-13.8	13.1	-17.6	2.5	-7.0	2.4	-10.6	-10.6	0.0	0.1	8.4	-8.3
1999	Jan.	-11.6	6.3	-17.2	25.3	-6.3	5.9	-10.9	-7.4	-3.5	19.3	23.5	-4.1
	Feb.	-5.4	3.4	-19.8	3.0	-3.1	2.8	-16.7	-18.5	1.8	0.1	-5.8	5.9

Source: ECB.
1) *Discrepancies may arise from rounding.*
2) *Inflows (+); outflows (-).*
3) *Series for which data from January 1999 are not closely comparable with earlier observations.*

Table 8.5

Other investment account [1) 2) 3)]

(EUR billions (ECU billions to end-1998); net flows)

		Total		Eurosystem		General government		MFIs (excluding the Eurosystem)						Other sectors	
								Total		Long-term		Short-term			
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998		-37.0	235.8	-0.7	2.5	-1.4	-8.2	-18.1	211.0	-38.3	36.6	20.3	174.4	-16.8	30.5
1998	Q1	-31.2	96.4	0.4	-0.1	-1.9	-2.4	-9.6	88.7	-7.6	11.1	-1.9	77.6	-20.1	10.2
	Q2	-1.5	26.2	-1.0	0.5	-2.9	-1.0	-1.8	20.7	-13.7	7.7	11.9	13.1	4.2	5.9
	Q3	-79.3	82.8	0.4	-0.6	0.4	-1.9	-73.6	78.7	-14.7	1.4	-58.8	77.3	-6.5	6.6
	Q4	75.0	30.4	-0.5	2.7	3.1	-2.8	66.9	22.8	-2.3	16.4	69.1	6.4	5.6	7.8
1998	Jan.	-14.4	34.3	0.1	0.2	-2.4	-1.6	3.1	32.8	-4.4	3.6	7.5	29.2	-15.2	2.9
	Feb.	-14.1	27.0	0.3	-0.3	-0.8	-1.3	-6.6	24.6	-4.3	7.3	-2.3	17.4	-7.0	4.0
	Mar.	-2.7	35.0	0.0	0.1	1.2	0.5	-6.0	31.3	1.1	0.2	-7.1	31.1	2.1	3.3
	Apr.	6.7	-3.8	0.0	0.3	0.5	0.2	12.9	-7.2	-4.1	4.0	17.0	-11.3	-6.6	2.9
	May	-0.7	12.9	0.0	-0.3	-1.2	-0.6	-5.9	13.5	-3.9	0.8	-1.9	12.7	6.4	0.4
	June	-7.6	17.0	-0.9	0.6	-2.2	-0.6	-8.8	14.5	-5.6	2.9	-3.2	11.6	4.4	2.6
	July	-3.2	20.9	0.2	-0.1	0.3	-3.4	6.4	21.9	-3.3	0.9	9.7	21.1	-10.0	2.5
	Aug.	-10.2	18.5	0.1	-0.1	0.5	0.5	-22.8	17.4	-6.1	-1.6	-16.7	19.0	12.0	0.7
	Sep.	-65.9	43.3	0.1	-0.4	-0.3	0.9	-57.1	39.4	-5.3	2.1	-51.9	37.3	-8.5	3.4
	Oct.	5.5	38.7	0.0	0.4	0.2	0.4	14.8	33.6	-1.0	4.6	15.7	29.0	-9.5	4.3
	Nov.	10.2	34.9	-0.1	-2.7	1.1	1.5	2.5	33.1	0.5	2.3	2.1	30.9	6.7	3.0
	Dec.	59.4	-43.2	-0.4	5.0	1.8	-4.7	49.6	-43.9	-1.8	9.6	51.4	-53.5	8.4	0.5
1999	Jan.	-59.2	72.8	2.7	0.0	-0.5	-5.6	-58.5	75.1	-13.2	8.2	-45.3	67.0	-3.0	3.2
	Feb.	20.4	0.7	-4.9	0.0	-2.1	-0.7	39.4	-3.2	-0.7	-3.0	40.2	-0.2	-12.0	4.6

Source: ECB.

1) *Discrepancies may arise from rounding.*
2) *Inflows (+); outflows (-).*
3) *Data from January 1999 are not closely comparable with earlier observations. Flows before January 1999 include estimations.*

Table 8.6

Reserves and related assets of the Eurosystem [1] [2]

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

	Reserve assets							Memo: Related assets
	Total	Monetary gold	In fine troy ounces (millions)	Special drawing rights	Reserve position in the IMF	Foreign exchange	Other claims	Claims on euro area residents denominated in foreign currency
	1	2	3	4	5	6	7	8
1999 1 Jan.	330.2	99.6	405	5.8	22.7	201.5	0.7	7.6
Jan.	337.5	101.6	405	5.6	22.7	206.0	1.7	7.4
Feb.	340.2	105.6	405	2.6	22.8	208.5	0.7	9.4
Mar.	348.9	105.3	405	3.4	23.6	214.7	1.8	10.1

Source: ECB.

1) *Discrepancies may arise from rounding.*

2) *The figures are not fully comparable with those of Table 1.1 owing to differences in coverage and valuation.*

9 External trade in goods of the euro area

Table 9

1. Exports [1]

(EUR billions (ECU billions to end-1998); f.o.b. value)

		Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manu-factured articles	Machinery, transport equipment	Other	Export trade indices 1995 = 100		
										Value [2]	Volume [2]	Unit value
		1	2	3	4	5	6	7	8	9	10	11
1995		622.5	46.8	14.5	11.1	79.5	182.8	271.3	16.4	100.0	100.0	100.0
1996		669.7	48.6	13.7	13.0	85.1	194.3	293.5	21.6	107.6	104.6	102.8
1997		762.4	52.8	16.3	14.4	98.9	216.4	342.6	20.8	122.5	115.9	105.7
1998		790.5	.	.	.	.	.	.	.	127.0	.	.
1996	Q3	162.6	11.9	3.3	3.1	21.7	48.4	69.3	4.9	104.5	102.0	102.5
	Q4	182.2	13.3	3.6	3.5	21.7	52.0	82.0	6.0	117.1	114.8	101.9
1997	Q1	170.7	12.0	3.8	3.7	22.6	48.9	74.7	5.0	109.7	104.1	105.3
	Q2	191.7	13.4	4.1	3.6	25.1	53.8	86.4	5.3	123.2	117.3	105.1
	Q3	193.4	13.0	4.2	3.4	25.6	55.6	86.5	5.1	124.3	116.5	106.6
	Q4	206.6	14.4	4.2	3.7	25.6	58.1	95.1	5.5	132.8	125.6	105.7
1998	Q1	193.9	13.1	4.1	3.4	26.5	54.3	87.5	5.0	124.6	115.5	107.9
	Q2	203.5	13.9	3.9	3.3	26.9	56.0	94.5	5.0	130.8	122.3	106.9
	Q3	194.5	12.7	3.9	2.9	25.7	54.5	90.0	4.7	125.0	117.1	106.7
	Q4	198.6	.	.	.	.	.	.	.	127.7	.	.
1997	Nov.	66.3	4.7	1.3	1.2	8.2	18.8	30.4	1.7	127.8	121.1	105.6
	Dec.	67.1	4.5	1.3	1.2	8.1	18.1	32.0	1.8	129.4	122.3	105.8
1998	Jan.	58.4	4.0	1.3	1.2	8.4	16.2	25.8	1.6	112.6	104.6	107.7
	Feb.	63.6	4.3	1.4	1.0	8.6	18.0	28.8	1.6	122.7	113.8	107.8
	Mar.	71.9	4.8	1.5	1.2	9.6	20.2	32.9	1.7	138.5	128.2	108.1
	Apr.	67.9	4.7	1.3	1.1	9.2	18.8	30.9	1.8	130.9	122.3	107.0
	May	65.7	4.5	1.3	1.1	8.7	18.1	30.5	1.6	126.7	118.4	107.0
	June	69.9	4.7	1.3	1.1	9.1	19.1	33.1	1.6	134.8	126.3	106.7
	July	72.7	4.5	1.3	1.1	9.2	20.9	34.0	1.6	140.2	131.1	106.9
	Aug.	56.2	4.0	1.2	0.9	7.7	15.4	25.4	1.5	108.3	102.2	105.9
	Sep.	65.6	4.2	1.3	0.9	8.8	18.2	30.6	1.6	126.5	118.1	107.1
	Oct.	68.3	4.5	1.3	1.0	8.6	19.3	32.2	1.4	131.7	124.6	105.7
	Nov.	66.1	4.5	1.3	0.9	8.0	17.7	31.9	1.8	127.4	121.6	104.7
	Dec.	64.3	.	.	.	.	.	.	.	123.9	.	.
1999	Jan.	54.1	.	.	.	.	.	.	.	104.3	.	.

Sources: Eurostat and ECB; the commodity breakdown is in accordance with the SITC Rev. 3.

1) Owing to differences in definitions, coverage and time of recording, trade data (as compiled by Eurostat) are not fully comparable with the goods item in the balance of payments statistics compiled by the ECB (Table 8.2).

2) ECB calculations based on Eurostat data.

2. Imports [1)]

(EUR billions (ECU billions to end-1998); c.i.f. value)

	Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manu-factured articles	Machinery, transport equipment	Other	Import trade indices 1995 = 100		
									Value [2)]	Volume [2)]	Unit value
	1	2	3	4	5	6	7	8	9	10	11
1995	562.7	46.0	39.8	62.1	52.1	163.7	177.4	21.6	100.0	100.0	100.0
1996	593.9	46.7	36.5	73.8	53.8	166.1	191.3	25.7	105.5	102.8	102.6
1997	674.0	49.7	41.3	81.2	62.0	188.1	228.7	23.0	119.8	110.3	108.6
1998	707.8	.	.	.	.	.	.	.	125.8	.	.
1996 Q3	140.9	11.2	8.3	17.8	12.7	41.8	43.5	5.7	100.2	98.1	102.1
Q4	157.9	12.1	9.0	22.2	13.7	41.4	51.3	8.1	112.2	108.8	103.1
1997 Q1	159.1	11.4	9.7	21.2	14.7	44.6	51.8	5.8	113.1	105.9	106.8
Q2	168.0	12.6	11.0	18.6	16.0	46.5	57.5	5.7	119.4	111.4	107.2
Q3	166.6	12.2	10.0	20.0	15.2	48.9	55.6	4.7	118.4	106.9	110.8
Q4	180.3	13.5	10.6	21.4	16.1	48.2	63.8	6.8	128.2	116.9	109.6
1998 Q1	180.5	12.6	10.8	17.5	17.6	51.2	64.5	6.2	128.3	119.6	107.3
Q2	178.7	12.5	11.1	15.9	17.2	50.0	65.8	6.1	127.0	121.4	104.6
Q3	170.6	12.2	9.6	14.7	16.2	50.1	62.4	5.3	121.3	119.2	101.8
Q4	178.1	.	.	.	.	.	.	.	126.6	.	.
1997 Nov.	58.0	4.2	3.5	6.8	5.2	15.4	20.8	2.0	123.7	112.4	110.0
Dec.	58.8	4.4	3.4	7.1	5.1	15.3	21.0	2.5	125.5	116.3	107.9
1998 Jan.	57.9	4.1	3.5	6.2	5.6	16.4	20.1	2.0	123.5	114.7	107.6
Feb.	58.2	4.0	3.5	5.7	5.5	16.6	20.7	2.2	124.2	115.1	107.9
Mar.	64.4	4.6	3.8	5.6	6.5	18.2	23.7	2.0	137.3	128.9	106.5
Apr.	60.0	4.3	3.7	5.4	5.7	16.6	22.3	2.0	127.9	121.1	105.6
May	57.1	4.0	3.5	5.5	5.6	15.7	20.9	1.8	121.7	116.0	104.9
June	61.6	4.2	3.9	4.9	5.9	17.7	22.7	2.3	131.4	127.1	103.4
July	59.1	4.3	3.6	4.9	5.9	17.7	20.9	1.9	126.1	123.4	102.2
Aug.	50.0	3.7	2.8	4.7	4.7	14.7	17.9	1.5	106.7	105.3	101.3
Sep.	61.5	4.2	3.3	5.0	5.7	17.7	23.6	1.9	131.1	128.8	101.8
Oct.	61.8	4.3	3.3	5.0	5.7	17.1	24.4	2.0	131.8	132.7	99.3
Nov.	59.0	4.1	3.1	4.4	5.3	15.9	24.1	2.1	125.7	130.5	96.3
Dec.	57.3	.	.	.	.	.	.	.	122.2	.	.
1999 Jan.	53.5	.	.	.	.	.	.	.	114.2	.	.

Sources: Eurostat and ECB; the commodity breakdown is in accordance with the SITC Rev. 3.

1) *Owing to differences in definitions, coverage and time of recording, trade data (as compiled by Eurostat) are not fully comparable with the goods item in the balance of payments statistics compiled by the ECB (Table 8.2). Much of the difference arises from the treatment of insurance and freight in the recording of imports.*

2) *ECB calculations based on Eurostat data.*

Table 9

3. Trade balance [1)]

(EUR billions (ECU billions to end-1998); exports (f.o.b.) - imports (c.i.f.))

		Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manufactured articles	Machinery, transport equipment	Other
		1	2	3	4	5	6	7	8
1995		59.7	0.8	-25.3	-51.0	27.4	19.0	93.9	-5.2
1996		75.8	2.0	-22.7	-60.9	31.3	28.1	102.1	-4.2
1997		88.4	3.2	-25.0	-66.8	37.0	28.3	114.0	-2.2
1998		82.7	.	.	.	.	.	.	.
1996	Q3	21.7	0.7	-5.0	-14.7	9.0	6.6	25.8	-0.8
	Q4	24.2	1.2	-5.5	-18.7	8.0	10.6	30.7	-2.1
1997	Q1	11.6	0.6	-5.8	-17.5	7.9	4.3	22.8	-0.8
	Q2	23.7	0.7	-6.9	-15.0	9.1	7.4	28.9	-0.4
	Q3	26.8	0.9	-5.9	-16.6	10.4	6.7	30.9	0.3
	Q4	26.3	1.0	-6.4	-17.7	9.5	9.9	31.3	-1.3
1998	Q1	13.4	0.5	-6.7	-14.1	9.0	3.1	22.9	-1.2
	Q2	24.8	1.4	-7.2	-12.6	9.7	6.0	28.7	-1.1
	Q3	23.8	0.5	-5.8	-11.7	9.5	4.4	27.6	-0.6
	Q4	20.6	.	.	.	.	.	.	.
1997	Nov.	8.3	0.4	-2.1	-5.6	3.0	3.4	9.6	-0.3
	Dec.	8.3	0.1	-2.1	-5.8	3.0	2.8	11.0	-0.7
1998	Jan.	0.5	-0.1	-2.3	-5.0	2.8	-0.2	5.7	-0.4
	Feb.	5.4	0.4	-2.2	-4.7	3.1	1.4	8.1	-0.6
	Mar.	7.5	0.2	-2.3	-4.4	3.1	1.9	9.1	-0.3
	Apr.	7.9	0.4	-2.4	-4.3	3.4	2.2	8.7	-0.1
	May	8.7	0.5	-2.3	-4.5	3.1	2.3	9.6	-0.2
	June	8.3	0.5	-2.6	-3.8	3.2	1.4	10.4	-0.8
	July	13.6	0.2	-2.2	-3.8	3.4	3.3	13.1	-0.2
	Aug.	6.1	0.3	-1.6	-3.8	3.1	0.7	7.6	-0.1
	Sep.	4.1	0.0	-2.0	-4.1	3.1	0.5	7.0	-0.3
	Oct.	6.5	0.2	-2.0	-4.0	2.9	2.2	7.8	-0.6
	Nov.	7.1	0.3	-1.8	-3.5	2.8	1.9	7.8	-0.3
	Dec.	7.0	.	.	.	.	.	.	.
1999	Jan.	0.6	.	.	.	.	.	.	.

Sources: Eurostat and ECB; the commodity breakdown is in accordance with the SITC Rev. 3.

1) *Owing to differences in definitions, coverage and time of recording, trade data (as compiled by Eurostat) are not fully comparable with the goods item in the balance of payments statistics compiled by the ECB (Table 8.1). Much of the difference arises from the treatment of insurance and freight in the recording of imports.*

10 Exchange rates

Table 10

Exchange rates [1]

(period averages; units of national currency per ECU or euro (bilateral); index 1990 = 100 (effective))

		Bilateral ECU or euro exchange rates								
		US dollar	Japanese yen	Swiss franc	Pound sterling	Swedish krona	Danish krone	Greek drachma	Norwegian krone	Canadian dollar
		1	2	3	4	5	6	7	8	9
1995		1.308	123.0	1.546	0.829	9.33	7.33	303.0	8.29	1.795
1996		1.270	138.1	1.568	0.814	8.51	7.36	305.5	8.20	1.731
1997		1.134	137.1	1.644	0.692	8.65	7.48	309.3	8.02	1.569
1998		1.121	146.4	1.622	0.676	8.92	7.50	330.7	8.47	1.665
1998	Q1	1.087	139.2	1.604	0.660	8.71	7.53	319.1	8.20	1.554
	Q2	1.100	149.5	1.643	0.665	8.60	7.52	339.9	8.28	1.592
	Q3	1.118	156.3	1.642	0.676	8.95	7.50	332.7	8.54	1.690
	Q4	1.177	140.6	1.600	0.702	9.38	7.44	331.5	8.82	1.814
1999	Q1	1.122	130.7	1.599	0.687	8.97	7.44	322.7	8.60	1.696
1998	Apr.	1.091	144.1	1.643	0.653	8.53	7.55	345.0	8.22	1.560
	May	1.109	149.7	1.639	0.677	8.54	7.50	340.3	8.26	1.603
	June	1.101	154.4	1.645	0.667	8.71	7.52	334.8	8.34	1.613
	July	1.098	154.3	1.661	0.668	8.77	7.52	328.7	8.37	1.630
	Aug.	1.102	159.4	1.646	0.675	8.96	7.50	331.6	8.51	1.688
	Sep.	1.154	155.3	1.617	0.687	9.12	7.48	337.9	8.74	1.756
	Oct.	1.194	144.2	1.596	0.705	9.37	7.44	336.5	8.88	1.842
	Nov.	1.164	140.1	1.612	0.701	9.31	7.44	329.1	8.68	1.793
	Dec.	1.172	137.4	1.594	0.702	9.45	7.45	328.8	8.91	1.807
1999	Jan.	1.161	131.3	1.605	0.703	9.08	7.44	323.6	8.65	1.765
	Feb.	1.121	130.8	1.598	0.689	8.91	7.44	322.0	8.65	1.679
	Mar.	1.088	130.2	1.595	0.671	8.94	7.43	322.5	8.51	1.651
	Apr.	1.070	128.2	1.602	0.665	8.91	7.43	325.5	8.32	1.594
% ch. vs.[2]	prev. month	-1.6	-1.6	0.4	-0.9	-0.3	0	0.9	-2.2	-3.4

		Bilateral ECU or euro exchange rates							Effective exchange rate (EER) of the euro area [3]	
		Australian dollar	New Zealand dollar	Hong Kong dollar	Korean won	Singapore dollar	Taiwan dollar	Mexican peso	Nominal	Real
		10	11	12	13	14	15	16	17	18
1995		1.765	1.993	10.01	999.7	1.833	34.28	8.35	97.8	98.7
1996		1.623	1.847	9.68	1,007.9	1.765	34.39	9.52	98.3	99.1
1997		1.528	1.715	8.75	1,073.2	1.678	32.50	8.95	90.4	90.7
1998		1.787	2.097	8.69	1,568.9	1.876	37.64	10.30	92.3	92.1
1998	Q1	1.630	1.879	8.42	1,745.8	1.817	36.07	9.17	89.6	89.7
	Q2	1.754	2.063	8.53	1,537.0	1.810	37.09	9.55	91.3	91.1
	Q3	1.867	2.199	8.67	1,486.8	1.935	38.71	10.62	93.5	93.4
	Q4	1.887	2.236	9.16	1,516.6	1.942	38.64	11.84	94.6	94.1
1999	Q1	1.770	2.087	8.69	1,342.6	1.911	36.60	11.18	91.0	90.5
1998	Apr.	1.673	1.971	8.47	1,520.2	1.749	36.07	9.29	89.6	89.4
	May	1.762	2.062	8.60	1,552.4	1.817	37.13	9.53	92.2	91.9
	June	1.824	2.151	8.53	1,539.8	1.866	38.06	9.83	92.2	92.0
	July	1.776	2.116	8.51	1,423.6	1.878	37.79	9.78	92.0	92.1
	Aug.	1.868	2.196	8.55	1,450.4	1.939	38.33	10.34	93.3	93.3
	Sep.	1.962	2.289	8.97	1,592.4	1.994	40.10	11.83	95.2	94.9
	Oct.	1.932	2.284	9.31	1,615.7	1.969	39.81	12.21	95.8	95.3
	Nov.	1.834	2.180	9.05	1,511.9	1.913	38.08	11.64	94.1	93.6
	Dec.	1.893	2.241	9.11	1,426.3	1.941	38.02	11.65	94.0	93.5
1999	Jan.	1.839	2.159	8.99	1,362.5	1.950	37.43	11.83	92.7	92.1
	Feb.	1.751	2.062	8.68	1,330.2	1.905	36.41	11.21	90.9	90.5
	Mar.	1.726	2.045	8.43	1,336.2	1.881	36.04	10.60	89.5	89.1
	Apr.	1.668	1.972	8.30	1,292.2	1.834	35.22	10.10	88.4	87.7
% ch. vs.[2]	prev. month	-3.3	-3.6	-1.6	-3.3	-2.5	-2.3	-4.7	-1.2	-1.5
	prev. year								-1.4	-1.9

Source: ECB.

1) *To December 1998, rates for the ECU (source BIS); from January 1999, rates for the euro.*
2) *A percentage change in the latest monthly observation is shown compared with the previous month and (only for the effective exchange rate) the same month of the previous year, respectively. A positive change denotes an appreciation of the euro.*
3) *BIS calculations; to December 1998, based on weighted averages of the euro area countries' effective exchange rates; from January 1999, based on weighted averages of bilateral euro exchange rates (original BIS figures have been rescaled to 1990 = 100). Weights are based on 1990 manufactured goods trade with the trading partners whose currencies are shown in the table and capture third-market effects. Real rates are calculated using national CPIs. Where CPI data are not yet available, estimates are used.*

11 Economic and financial developments in the other EU Member States

Table 11

Economic and financial developments

(annual percentage changes, unless otherwise indicated)

		HICP	General government deficit (-) / surplus (+) as a % of GDP	General government gross debt as a % of GDP	Long-term government bond yield 1) as a % per annum	Exchange rate 2) as national currency per ECU or euro	Current and new capital account 3) as a % of GDP	Unit labour costs 4)	Real GDP	Industrial production index 5)	Standardised unemployment rate as a % of labour force (s.a.)	Broad money 6)	3-month interest rate 1) as a % per annum
		1	2	3	4	5	6	7	8	9	10	11	12
Denmark													
1995		-	-2.4	72.1	8.27	7.33	.	1.7	3.0	4.4	7.2	-2.0	6.20
1996		2.1	-0.9	67.4	7.19	7.36	.	1.0	3.3	1.4	6.8	7.2	3.98
1997		1.9	0.4	63.6	6.26	7.48	0.6	2.8	3.1	4.6	5.6	4.7	3.73
1998		1.3	0.8	58.1	4.94	7.50	-1.4	2.8	2.9	1.6	5.1	4.6	4.27
1998	Q1	1.6	-	-	5.30	7.53	-1.0	2.1	4.2	6.1	5.5	3.0	3.90
	Q2	1.4	-	-	5.12	7.52	-1.8	1.6	1.3	-0.8	5.2	5.1	4.21
	Q3	1.2	-	-	4.82	7.50	1.5	3.1	3.7	2.7	5.1	6.6	4.47
	Q4	1.1	-	-	4.51	7.44	-4.0	4.4	2.7	-1.3	4.7	3.7	4.51
1999	Q1	1.4	-	-	4.22	7.44	.	.	.	.	4.8	4.5	3.64
1998	Oct.	1.1	-	-	4.67	7.44	-	-	-	1.6	4.8	4.0	4.85
	Nov.	1.1	-	-	4.59	7.44	-	-	-	0.0	4.7	4.1	4.43
	Dec.	1.1	-	-	4.27	7.45	-	-	-	-5.5	4.7	2.9	4.23
1999	Jan.	1.2	-	-	4.03	7.44	-	-	-	.	4.9	3.7	3.87
	Feb.	1.3	-	-	4.19	7.44	-	-	-	.	4.8	4.3	3.62
	Mar.	1.7	-	-	4.43	7.43	-	-	-	.	4.7	5.5	3.46
	Apr.	.	-	-	.	7.43	-	-	-	.	.	.	3.12
Greece													
1995		-	-10.3	110.1	-	303.0	-2.8	11.6	2.1	2.1	7.1	6.4	16.09
1996		7.9	-7.5	112.2	-	305.5	-3.7	10.6	2.4	0.6	7.5	9.8	13.54
1997		5.4	-3.9	109.4	9.92	309.3	-4.0	7.1	3.2	1.0	7.9	14.5	12.48
1998		4.5	-2.4	106.5	8.48	330.7	.	.	.	3.4	.	4.0	13.53
1998	Q1	4.2	-	-	10.45	319.1	.	.	.	3.1	8.1	4.6	16.27
	Q2	5.0	-	-	7.90	339.9	.	.	.	6.1	10.3	3.4	12.77
	Q3	4.8	-	-	7.83	332.7	.	.	.	3.7	11.7	2.3	13.18
	Q4	4.0	-	-	7.76	331.5	.	.	.	0.8	.	5.6	11.94
1999	Q1	3.4	-	-	6.08	322.7	.	.	.	.	.	.	10.56
1998	Oct.	4.5	-	-	8.45	336.5	-	-	-	0.8	10.4	2.4	12.45
	Nov.	3.9	-	-	7.65	329.1	-	-	-	2.7	.	5.4	11.75
	Dec.	3.7	-	-	7.17	328.8	-	-	-	-1.3	.	8.7	11.62
1999	Jan.	3.5	-	-	6.32	323.6	-	-	-	-2.9	.	14.6	11.45
	Feb.	3.5	-	-	5.96	322.0	-	-	-	.	.	.	10.43
	Mar.	3.2	-	-	5.97	322.5	-	-	-	.	.	.	9.84
	Apr.	.	-	-	5.85	325.5	-	-	-	.	.	.	9.85
Sweden													
1995		-	-6.9	77.6	10.24	9.33	.	.	3.9	10.6	8.8	-1.3	8.83
1996		0.8	-3.5	76.7	8.02	8.51	.	.	1.3	1.8	9.6	10.0	6.03
1997		1.8	-0.7	76.7	6.62	8.65	.	.	1.8	7.2	9.9	4.2	4.43
1998		1.0	2.0	75.1	4.99	8.92	2.4	.	2.9	4.1	8.3	3.5	4.36
1998	Q1	1.9	-	-	5.51	8.71	3.0	.	2.7	4.5	8.7	2.0	4.70
	Q2	1.4	-	-	5.13	8.60	1.1	.	1.8	6.2	8.6	2.6	4.53
	Q3	0.6	-	-	4.82	8.95	2.5	.	3.1	4.8	8.1	4.7	4.29
	Q4	0.1	-	-	4.50	9.38	2.8	.	3.8	1.2	7.6	4.5	3.94
1999	Q1	0.2	-	-	4.21	8.97	.	.	.	.	7.5	5.4	3.31
1998	Oct.	0.1	-	-	4.72	9.37	-	-	-	4.0	7.6	5.9	4.27
	Nov.	0.1	-	-	4.55	9.31	-	-	-	1.3	7.7	5.6	3.90
	Dec.	0.0	-	-	4.22	9.45	-	-	-	-1.5	7.5	2.1	3.60
1999	Jan.	0.0	-	-	4.02	9.08	-	-	-	-1.1	7.7	4.1	3.42
	Feb.	0.2	-	-	4.18	8.91	-	-	-	.	7.3	5.8	3.31
	Mar.	0.5	-	-	4.44	8.94	-	-	-	.	7.5	6.3	3.23
	Apr.	.	-	-	4.24	8.91	-	-	-	.	.	.	2.99
United Kingdom													
1995		-	-5.7	53.0	8.32	0.829	.	1.7	2.8	1.5	8.7	7.2	6.75
1996		2.5	-4.4	53.6	7.94	0.814	0.0	2.0	2.6	0.4	8.2	9.9	6.11
1997		1.8	-1.9	52.1	7.13	0.692	0.9	3.3	3.5	1.0	7.0	11.2	6.92
1998		1.5	0.6	49.4	5.60	0.676	0.2	.	2.1	0.3	6.3	9.6	7.43
1998	Q1	1.5	-	-	6.10	0.660	-0.1	3.1	3.1	0.2	6.4	10.5	7.56
	Q2	1.8	-	-	5.89	0.665	-0.8	.	2.3	1.0	6.3	9.9	7.58
	Q3	1.4	-	-	5.57	0.676	0.8	.	1.8	0.5	6.3	9.5	7.67
	Q4	1.4	-	-	4.82	0.702	1.0	.	1.1	-0.5	6.3	8.6	6.89
1999	Q1	1.6	-	-	4.39	0.687	.	.	.	.	6.3	.	5.60
1998	Oct.	1.3	-	-	4.99	0.705	-	-	-	-0.5	6.2	9.3	7.22
	Nov.	1.4	-	-	4.93	0.701	-	-	-	-0.1	6.2	8.4	6.97
	Dec.	1.5	-	-	4.54	0.702	-	-	-	-1.0	6.4	8.2	6.47
1999	Jan.	1.6	-	-	4.20	0.703	-	-	-	-0.9	6.3	7.6	5.90
	Feb.	1.5	-	-	4.37	0.689	-	-	-	-1.4	.	7.4	5.53
	Mar.	1.7	-	-	4.60	0.671	-	-	-	.	.	.	5.40
	Apr.	.	-	-	4.54	0.665	-	-	-	.	.	.	5.32

Sources: Eurostat (columns 1, 8 and 10 (except Greece)); European Commission (DG II and Eurostat) (columns 2 and 3); Bloomberg (column 12); national data (columns 4, 5, 6, 7, 9, 10 (Greece) and 11).

1) Average-of-period values.
2) For more information, see Table 10.
3) BPM5; BPM4 for Greece.
4) Whole economy; data for the United Kingdom exclude employers' contribution to social security.
5) Manufacturing; adjusted for working days.
6) Average of end-month values; M3; M4 for the United Kingdom.

12 Economic and financial developments outside the EU

Table 12.1

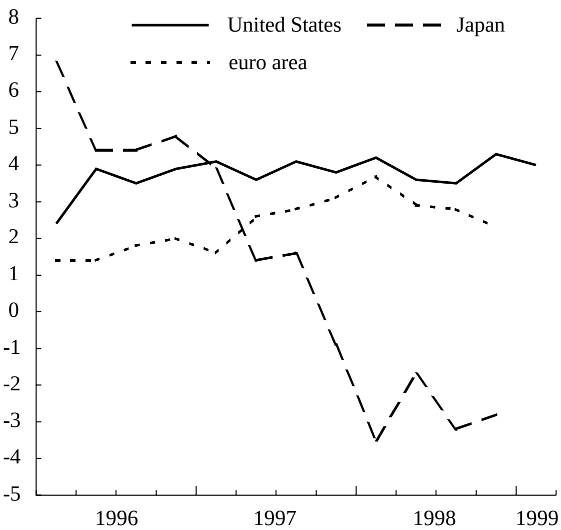
Economic and financial developments

(annual percentage changes, unless otherwise indicated)

		Consumer price index	Unit labour costs [1]	Real GDP	Industrial production index [1]	Unemploy-ment rate as a % of labour force (s.a.)	M2 [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 ECU or 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												
1995		2.8	-1.6	2.3	5.4	5.6	2.1	5.44	6.69	1.308	-2.2	60.8
1996		2.9	-2.3	3.4	4.8	5.4	4.8	5.43	6.54	1.270	-1.2	59.9
1997		2.3	0.0	3.9	6.7	4.9	5.0	5.62	6.45	1.134	0.1	57.8
1998		1.6	0.7	3.9	4.2	4.5	7.4	5.00	5.33	1.121	1.4	55.4
1998	Q1	1.5	1.1	4.2	6.0	4.6	6.6	5.59	5.67	1.087	-	57.7
	Q2	1.6	1.0	3.6	5.0	4.4	7.2	5.59	5.67	1.100	-	56.2
	Q3	1.6	1.4	3.5	3.2	4.5	7.3	5.20	5.27	1.118	-	55.4
	Q4	1.5	-0.8	4.3	2.5	4.4	8.4	5.00	4.72	1.177	-	55.4
1999	Q1	1.7	.	4.0	2.2	4.3	8.5	4.99	5.00	1.122	-	.
1998	Oct.	1.5	-	-	3.0	4.5	8.2	5.12	4.58	1.194	-	-
	Nov.	1.5	-	-	2.3	4.4	8.4	5.12	4.89	1.164	-	-
	Dec.	1.6	-	-	2.2	4.3	8.7	5.00	4.69	1.172	-	-
1999	Jan.	1.7	-	-	2.0	4.3	8.7	4.99	4.78	1.161	-	-
	Feb.	1.6	-	-	2.5	4.4	8.5	5.00	4.99	1.121	-	-
	Mar.	1.7	-	-	2.2	4.2	8.1	4.99	5.23	1.088	-	-
	Apr.	.	-	-	.	.	.	4.97	5.18	1.070	-	-
Japan												
1995		-0.1	-2.5	1.5	3.4	3.2	3.0	0.50	3.32	123.0	-3.6	.
1996		0.1	-1.7	5.1	2.3	3.4	3.3	0.31	3.03	138.1	-4.3	.
1997		1.7	-1.8	1.4	3.6	3.4	3.1	0.36	2.15	137.1	-3.3	.
1998		0.6	.	-2.8	-7.1	4.1	4.0	0.18	1.30	146.4	-5.9	.
1998	Q1	2.0	3.7	-3.5	-4.2	3.7	4.7	0.50	1.65	139.2	-	-
	Q2	0.3	7.1	-1.7	-8.8	4.1	3.7	0.43	1.36	149.5	-	-
	Q3	-0.2	.	-3.2	-8.5	4.3	3.7	0.12	1.14	156.3	-	-
	Q4	0.5	.	-2.8	-6.8	4.4	4.0	0.18	1.04	140.6	-	-
1999	Q1	-0.1	.	.	-4.4	.	3.6	0.31	1.96	130.7	-	-
1998	Oct.	0.2	.	-	-7.8	4.3	3.9	0.68	0.82	144.2	-	-
	Nov.	0.8	.	-	-5.9	4.4	4.3	0.68	0.89	140.1	-	-
	Dec.	0.6	.	-	-6.7	4.4	3.9	0.18	1.39	137.4	-	-
1999	Jan.	0.2	.	-	-8.3	4.4	3.6	0.35	2.07	131.3	-	-
	Feb.	-0.1	.	-	-4.1	4.6	3.4	0.38	2.09	130.8	-	-
	Mar.	-0.4	.	-	-1.2	.	3.7	0.20	1.72	130.2	-	-
	Apr.	.	.	-	.	.	.	0.18	1.55	128.2	-	-

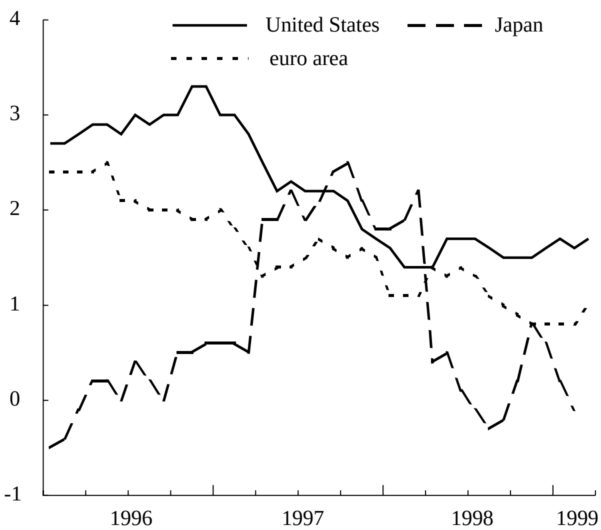
Real gross domestic product

(annual percentage changes; quarterly)



Consumer price indices

(annual percentage changes; monthly)



Sources: National data (columns 1, 2 (United States), 3, 4, 5, 6, 8 (to December 1998), 9 and 11); OECD (column 2 (Japan)); Eurostat (euro area chart data); Reuters (columns 7 and 8 (from January 1999)); European Commission (DG II) (column 10).

1) *Manufacturing.*
2) *Average-of-period values, M2 and CDs for Japan.*
3) *For more information, see Tables 2.6 and 2.7.*
4) *For more information, see Table 10.*
5) *Gross consolidated debt for the general government (end of period).*

Table 12.2

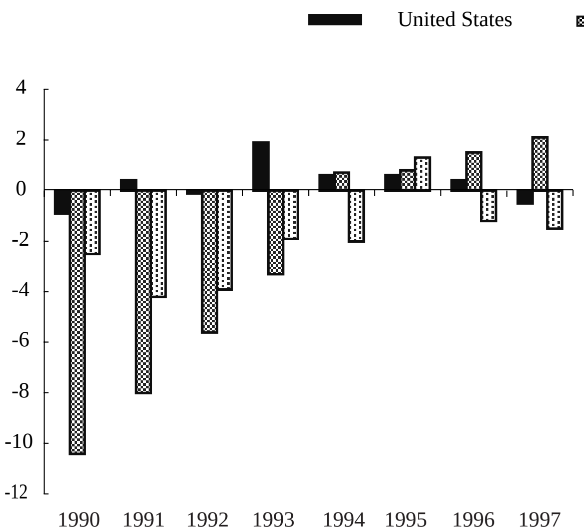
Saving, investment and financing

(as a percentage of GDP)

		National saving and investment			Investment and financing of non-financial corporations						Investment and financing of households [1)]			
		Gross saving	Gross capital formation	Net lending to the rest of the world	Gross capital formation	Gross fixed capital formation	Net acquisition of financial assets	Gross saving	Net incurrence of liabilities	Securities and shares	Capital expenditure	Net acquisition of financial assets	Gross saving	Net incurrence of liabilities
		1	2	3	4	5	6	7	8	9	10	11	12	13
United States														
1995		16.3	17.4	-1.4	7.8	7.2	6.0	8.3	5.4	2.4	12.2	6.7	13.5	4.9
1996		16.6	17.8	-1.6	7.9	7.5	5.2	8.2	4.8	1.4	12.4	5.4	13.5	5.0
1997		17.3	18.4	-1.7	8.3	7.4	3.7	8.2	4.2	1.8	12.3	4.8	12.8	4.7
1998		17.4	18.9	-2.5	8.3	7.7	4.0	8.2	4.3	0.9	12.7	5.3	11.5	6.0
1997	Q1	17.0	18.1	-1.6	8.1	7.3	6.1	8.1	5.9	1.3	12.4	2.9	12.9	4.5
	Q2	17.6	18.5	-1.5	8.7	7.5	2.4	8.3	2.9	1.4	12.2	5.8	13.3	4.6
	Q3	17.5	18.4	-1.7	8.2	7.7	3.2	8.4	4.3	2.0	12.3	5.4	12.9	5.5
	Q4	17.3	18.5	-2.0	8.1	7.3	3.0	8.1	3.9	2.4	12.2	5.2	12.3	4.1
1998	Q1	17.7	19.1	-2.1	8.7	7.7	5.9	8.2	7.2	2.2	12.5	4.0	11.6	5.6
	Q2	17.2	18.7	-2.5	8.1	7.8	1.8	8.1	2.6	2.7	12.7	7.8	11.5	6.1
	Q3	17.3	18.8	-2.7	8.2	7.6	3.8	8.1	3.7	0.8	12.7	3.9	11.2	5.3
	Q4	17.3	18.9	-2.7	8.3	7.8	4.4	8.2	3.9	-1.8	13.1	5.7	11.5	7.0
Japan														
1995		30.8	28.6	2.1	14.9	14.9	3.1	13.5	2.3	0.5	5.3	10.3	13.1	1.9
1996		31.5	30.0	1.4	14.6	15.3	1.7	15.2	0.3	1.0	6.7	6.4	12.7	1.1
1997		30.9	28.7	2.2	15.5	16.1	3.3	15.2	1.2	0.1	5.6	7.1	12.3	0.7
1998		.	.	.	.	.	4.4		-5.7	-1.3	.	5.3	.	-0.3
1997	Q1	33.4	29.4	1.5	.	.	0.6	.	-8.1	-1.0	.	-3.3	.	-0.9
	Q2	31.2	26.6	2.3	.	.	2.6	.	-1.9	1.4	.	10.7	.	0.7
	Q3	30.2	30.0	2.2	.	.	3.0	.	3.1	0.4	.	-0.3	.	1.5
	Q4	29.0	29.3	2.6	.	.	6.6	.	10.7	-0.3	.	19.8	.	1.5
1998	Q1	33.2	27.9	2.4	.	.	0.6	.	-15.3	-2.6	.	-5.4	.	-2.3
	Q2	.	24.1	.	.	.	-0.6	.	1.3	2.2	.	12.2	.	0.0
	Q3	.	26.7	.	.	.	4.1	.	-1.9	0.5	.	-2.2	.	0.5
	Q4	.	.	.	.	.	12.7	.	-6.7	-4.8	.	15.4	.	0.6

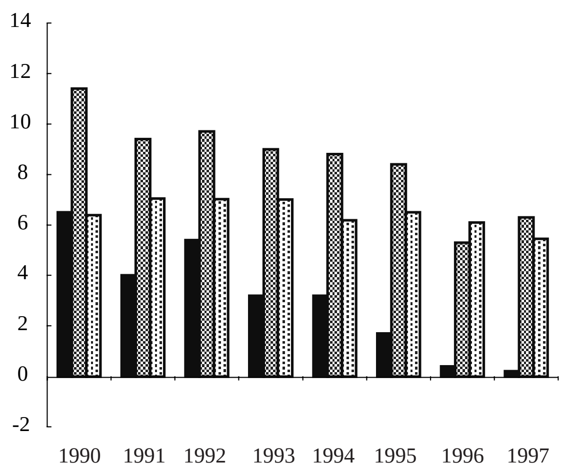
Net lending of non-financial corporations

(as a percentage of GDP)



Net lending of households [1)]

(as a percentage of GDP)



Sources: ECB, Federal Reserve Board, Bank of Japan and Economic Planning Agency.

1) *Households including non-profit institutions serving households. For Japan, saving of non-profit institutions serving households is included under saving of non-financial corporations.*

General notes

The basis for the statistics compiled and published by the European Central Bank (ECB) was laid down in the document entitled the "Statistical requirements for Stage Three of Monetary Union (Implementation package)" which was made available to banking associations and others involved in statistical preparations for Stage Three by the European Monetary Institute (EMI) and the national central banks (NCBs) in July 1996. The "Implementation package" covers money and banking statistics, balance of payments statistics, international investment position statistics, financial accounts statistics, price and cost and other economic statistics.[1]

The focus of these statistics is the euro area as a whole. More detailed and longer runs of data, with further explanatory notes, are available on the ECB's Web site (http://www.ecb.int), and new or expanded data will appear in the ECB Monthly Bulletin as they become available.

Because the composition of the ECU does not coincide with the currencies of the Member States adopting 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 Member States which have not adopted the euro. To avoid this effect in the monetary statistics, the pre-1999 data in Tables 2.1 to 2.5 are expressed in units converted from national currencies at the irrevocable fixed exchange rates announced on 31 December 1998. Unless indicated otherwise, price and cost statistics before 1999 are based on the data expressed in national currency terms.

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

As a general rule, the cut-off date for the statistics included in the ECB Monthly Bulletin is the date of the first meeting in the month of the Governing Council of the ECB. For this issue, it was 6 May 1999.

Recent data are often provisional and may be revised.

Monetary policy and financial statistics

Tables 1.1 to 1.5 show the consolidated financial statement of the Eurosystem, data on Eurosystem operations, statistics relating to minimum reserves, and the banking system's liquidity position. Monetary data relating to Monetary Financial Institutions (MFIs), including the Eurosystem, are shown in Tables 2.1 to 2.3. Table 2.3 is consolidated; inter-MFI positions within the euro area are not shown, but any difference between the sum total of such claims and liabilities as recorded is shown in column 13. Table 2.4 sets out monetary aggregates drawn from the consolidated MFI balance sheet; they include also some (monetary) liabilities of central government. Table 2.5 shows a quarterly sectoral and maturity analysis of loans by MFIs to euro area residents. More quarterly detail will be available shortly. A complete list of MFIs is published on the ECB's Web site. Details of the sector definitions are set out in the "Money and Banking Statistics Sector Manual – Guidance for the statistical classification of customers" (EMI, April 1998). The "Money and Banking Statistics Compilation Guide" (EMI, April 1998) explains recommended practices to be followed by the NCBs. From 1 January 1999 the statistical information is collected and compiled on the basis of the ECB Regulation concerning the consolidated balance sheet of the Monetary Financial Institutions sector (ECB/1998/16).

Statistics on money market interest rates, long-term government bond yields and stock market indices (Tables 2.6 to 2.8) are produced by the ECB using data from wire services. For details concerning the statistics on retail bank interest rates (Table 2.9), see the footnote at the bottom of the relevant page.

1 Money and banking statistics are the responsibility of the ECB at the European level; responsibility for balance of payments, international investment position and financial accounts statistics is shared with the European Commission (Eurostat); price and cost and other economic statistics are the responsibility of the European Commission (Eurostat).

Statistics on securities market issues and redemptions (Table 3) are expected to be available later in 1999.

Prices and real economy indicators

The data presented in the ECB Monthly Bulletin are, with a few exceptions, 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. However, the availability of comparable data is, as a general rule, better for the more recent periods than for earlier periods. The seasonally adjusted data are produced by Eurostat or national sources.

The Harmonised Index of Consumer Prices (HICP) for the euro area (Table 4.1) is available from 1995 onwards. It is based on national HICPs that follow the same methods in all euro area countries. The implementation of Council Regulation (EC) No. 1165/98 of 19 May 1998 concerning short-term statistics will enlarge the range of available euro area data, including timely and comparable data for retail trade turnover, for which, at present, an estimate based on national data is used (Table 5.1).

With regard to statistics on national accounts (Tables 4.2 and 5.1), the implementation of the European System of Accounts 1995 (ESA 95) during 1999 and thereafter will pave the way for fully comparable data, including quarterly summary accounts, across the euro area.

Unemployment rates conform to International Labour Organisation (ILO) guidelines. Data on whole economy employment are derived from national sources using similar definitions. Data on manufacturing employment are harmonised and reported under the Regulation concerning short-term statistics (Table 5.2).

Opinion survey data (Chart 5.3) draw on the business and consumer surveys of the European Commission.

Financial accounts statistics

The "Implementation package" foresaw a need for detailed information covering the financial transactions and balance sheets for the euro area in order to complement monetary analysis and policy research. The aim is to provide a fairly full, though not complete, set of financial accounts for the euro area based on money and banking, balance of payments, capital market, non-MFI financial corporation and government finance statistics, and drawing also on the ESA 95 national accounts. Table 6 shows euro area aggregates based on national capital and financial accounts.

A more detailed and further harmonised set of statistics presenting financial accounts for the euro area is expected to appear in the ECB Monthly Bulletin later in 1999.

General government fiscal position

The general government fiscal position in the euro area is presented in Table 7 by reference to general government receipts, expenditure, saving, deficit and debt as a percentage of GDP. These data are aggregated by the ECB from harmonised data provided by the NCBs.

In addition, general government deficit and debt data are shown for individual euro area countries owing to their importance in the framework of the Stability and Growth Pact. These data are provided by the European Commission.

Balance of payments of the euro area, the Eurosystem's reserve position, trade in goods and exchange rates

Balance of payments statistics for the euro area were published by the ECB on 30 April 1999 and are reproduced in this issue of the ECB Monthly Bulletin (Tables 8.1 to 8.5). The concepts and definitions used in balance of payments and international investment position statistics (the latter to be published next autumn, for end-1998 stocks) generally conform to the 5th edition of the IMF Balance of Payments Manual (October 1993), to the ECB Guideline of 1 December 1998 (ECB/1998/17) on the statistical reporting requirements of the European Central Bank, and to Eurostat's documentation. The common methodology agreed between the ECB and the European Commission (Eurostat) and the aggregation method are explained in Box 2 on page 26 of this issue of the Monthly Bulletin and on the ECB's Web site. Table 8.3 on income is not included in this issue; it will be published in the August issue, when detailed quarterly data are available.

The euro area balance of payments is compiled by the ECB. Data up to December 1998 are expressed in ECU.

The outstanding amounts of the Eurosystem's reserves and related assets from 1999 onwards are shown in Table 8.6. Net flows consistent with them are shown in Table 8.1. These data are not comparable with the net flows up to December 1998 shown in Table 8.1, which are compiled by aggregating figures following national definitions and include instruments issued by other residents of the euro area.

Table 9 gives data on euro area external trade in goods, and indices – value, volume and unit value – for total exports and imports. The value and volume indices are calculated by the ECB from the unit value index provided by Eurostat. Owing to differences in definitions, classification, coverage and time of recording, external trade data are not fully comparable with the goods item in the balance of payments statistics (Tables 8.1 and 8.2).

From January 1999 onwards, statistics on exchange rates (Table 10) are daily reference rates published by the ECB.

Detailed methodological notes on euro area balance of payments statistics, external trade in goods of the euro area, and exchange rates are available on the ECB's Web site.

Other statistics

Statistics on other EU Member States (Table 11) follow the same principles as those for data relating to the euro area. Data for the United States and Japan contained in Tables/Charts 12.1 and 12.2 are obtained from national sources. Saving, investment and financing data for the United States and Japan (Table/Chart 12.2) are structured in the same way as the capital and financial flows data shown for the euro area in Table/Chart 6.

Conventions used in the tables

"-"	not applicable
"."	not available
"…"	nil or negligible
"billion"	10^9
(p)	provisional
s.a.	seasonally adjusted

Chronology of monetary policy measures of the Eurosystem

7 January 1999

The Governing Council of the ECB decides that for the two main refinancing operations to be announced on 11 and 18 January 1999 respectively the same conditions will apply as for the first such operation, which was settled on 7 January 1999, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. The Governing Council confirmed its intention to maintain the main refinancing rate at this level for the foreseeable future.

12 January 1999

Following the decision of the Governing Council of the ECB on 22 December 1998, the ECB announces that the first longer-term refinancing operations of the Eurosystem will be conducted as variable rate tenders using the single rate method of allotment. With a view to phasing in the longer-term refinancing operations, the first such operation is conducted through three parallel tenders with three different maturities, namely 25 February, 25 March and 29 April 1999. The ECB also announces that the intention is to allot an amount of €15 billion in each of these parallel tenders. For the subsequent longer-term refinancing operations in the first three months of 1999, the intention is to allot an unchanged amount of €15 billion per operation.

21 January 1999

The Governing Council of the ECB decides to revert to the interest rates on the Eurosystem's two standing facilities which it had set for the start of Stage Three, i.e. to set the interest rate for the marginal lending facility at a level of 4.5% and that for the deposit facility at a level of 2.0% with effect from 22 January 1999. Furthermore, it decides that for the two main refinancing operations to be settled on 27 January and 3 February 1999 respectively the same conditions will apply as for the first three such operations settled earlier in January, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%.

4 February 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 10 and 17 February 1999 the same conditions will apply as for the first such operations settled earlier in the year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%.

18 February 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 24 February and 3 March 1999 the same conditions will apply as for the previous such operations settled earlier in the year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%.

4 March 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 10 and 17 March 1999 the same conditions will apply as for the previous such operations settled earlier in the year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%. The Governing Council also decides that for forthcoming longer-term refinancing operations of the Eurosystem the multiple rate method of allotment will be applied (starting from the operation with a settlement date of 25 March 1999) until otherwise indicated.

18 March 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 24 and 31 March and 7 April 1999 the same conditions will apply as for the previous such operations settled earlier in the year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%.

8 April 1999

The Governing Council of the ECB decides to reduce the interest rate on the main refinancing operations by 0.5 percentage point to 2.5%, starting with the operation to be settled on 14 April 1999. In addition, it decides to lower the interest rate on the marginal lending facility by 1 percentage point to 3.5% and the interest rate on the deposit facility by 0.5 percentage point to 1.5%, both with effect from 9 April 1999.

22 April 1999

The Governing Council of the ECB decides that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 2.5%, 3.5% and 1.5% respectively. In addition, the Governing Council announces that for the longer-term refinancing operations to be settled during the next six months, the intention is to continue to allot an amount of €15 billion per operation.

6 May 1999

The Governing Council of the ECB decides that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 2.5%, 3.5% and 1.5% respectively.

Documents published by the European Central Bank (ECB)

This list is designed to inform readers about selected documents published by the European Central Bank. The publications are available to interested parties free of charge from the Press Division. Please submit orders in writing to the postal address given on the back of the title page.

For a complete list of documents published by the European Monetary Institute, please visit the ECB's Web site (http://www.ecb.int).

Annual Report

"Annual Report 1998", April 1999.

Monthly Bulletin

Articles published from January 1999 onwards:

"The euro area at the start of Stage Three", January 1999.

"The stability-oriented monetary policy strategy of the Eurosystem", January 1999.

"Euro area monetary aggregates and their role in the Eurosystem's monetary policy strategy", February 1999.

"The role of short-term economic indicators in the analysis of price developments in the euro area", April 1999.

"Banking in the euro area: structural features and trends", April 1999.

"The operational framework of the Eurosystem: description and first assessment", May 1999.

"The implementation of the Stability and Growth Pact", May 1999.

Other publications

TARGET brochure, July 1998.

"The TARGET service level", July 1998.

"Report on electronic money", August 1998.

"Assessment of EU securities settlement systems against the standards for their use in ESCB credit operations", September 1998.

"Money and banking statistics compilation guide", September 1998.

"The single monetary policy in Stage Three: General documentation on ESCB monetary policy instruments and procedures", September 1998.

"Third progress report on the TARGET project", November 1998.

"Correspondent central banking model (CCBM)", December 1998.

Other publications (cont'd)

"Payment systems in the European Union – Addendum incorporating 1997 figures", January 1999.

"Possible effects of EMU on the EU banking systems in the medium to long term", February 1999.