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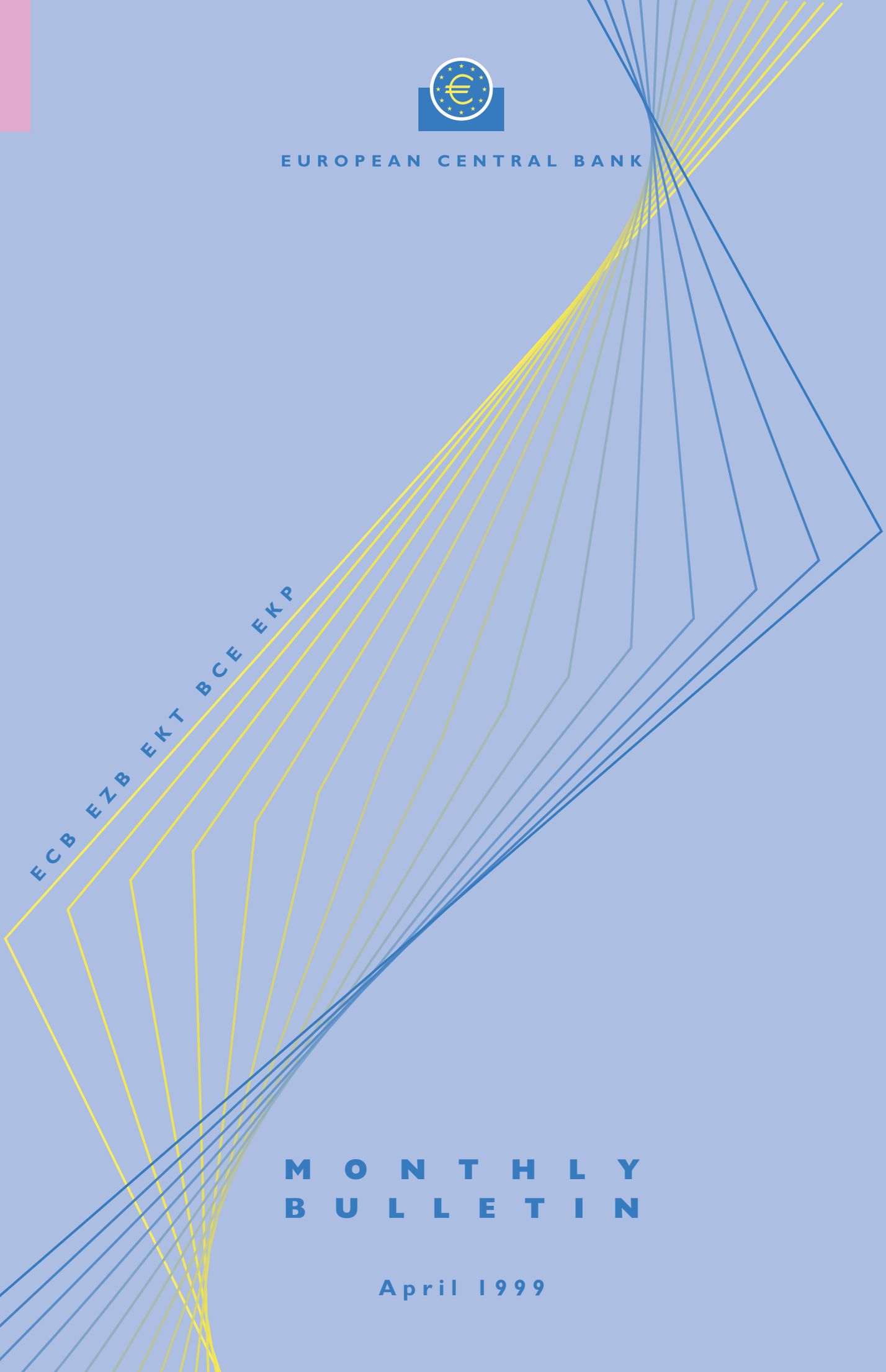
EUROPEAN CENTRAL BANK



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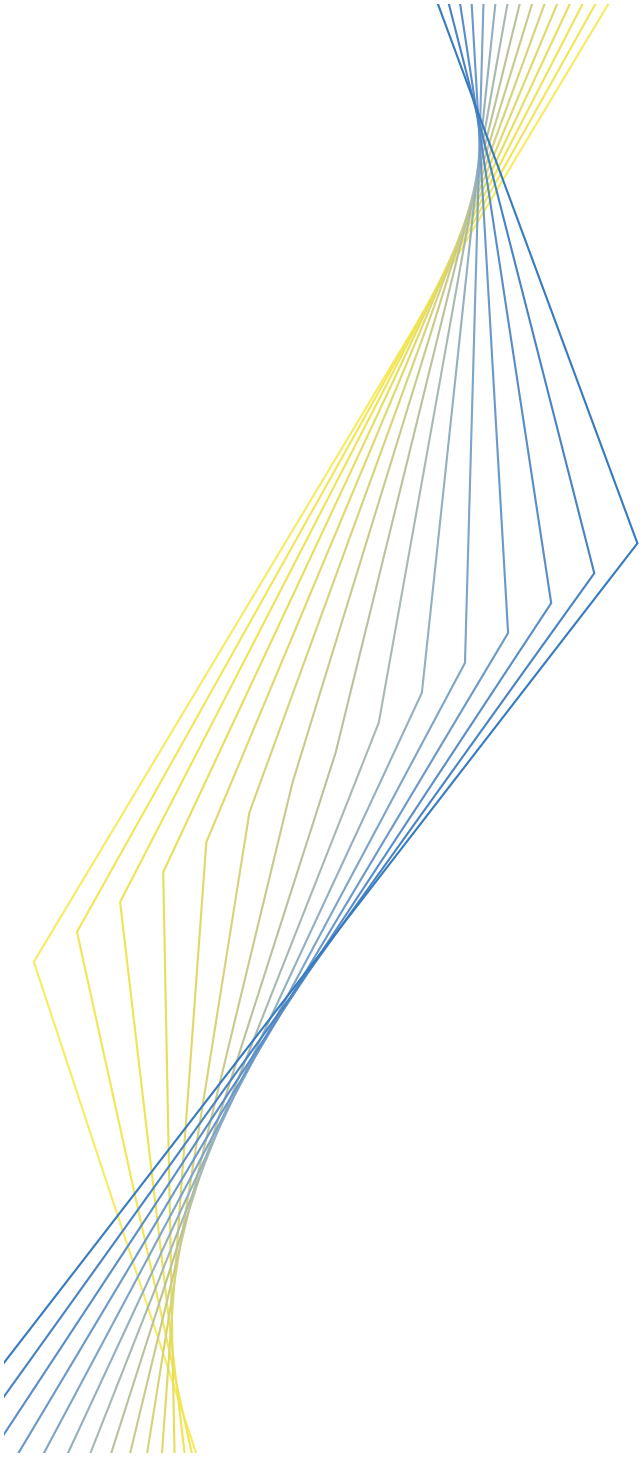

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Contents

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 Organisation
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

Against the background of subdued inflationary pressures in the euro area, the Governing Council of the ECB decided at its meeting on 8 April 1999 to reduce the interest rates on its monetary policy instruments. The Governing Council announced that the forthcoming main refinancing operations would be conducted as fixed rate tenders at an interest rate of 2.5%, starting with the operation to be settled on 14 April 1999. This implied a reduction of 50 basis points from the rate of 3.0% which had been applied to all previous such operations settled earlier in the year. In addition, with effect from 9 April 1999 the interest rate on the marginal lending facility was lowered from 4.5% to 3.5% and the interest rate on the deposit facility was reduced from 2.0% to 1.5%. These decisions were the result of a thorough assessment of the latest monetary, financial and other economic developments in the context of the Eurosystem's monetary policy strategy. This strategy embodies the focus on the primary objective of price stability (which is defined in quantitative terms as increases in the Harmonised Index of Consumer Prices (HICP) of below 2%) and a two-pillar approach comprising a prominent role for money and a broadly based assessment of the outlook for price stability. As will be outlined below, the Governing Council sees increases in HICP rates remaining safely below 2% over the medium term, also after the cut in interest rates.

With regard to the first pillar of the Eurosystem's monetary policy strategy, monetary growth should not be seen as signalling upcoming inflationary pressures at this juncture. The three-month moving average of annual M3 growth in the period from December 1998 to February 1999 increased to 5.1%. This is still close to the reference value for M3 growth of 4½% and may have been affected by special factors at the start of Stage Three. Indeed, the acceleration seen in the monthly monetary data in January 1999 was partly reversed in February 1999. The 12-month growth rate of M3 declined from 5.6% in January to 5.2% in February. This largely reflected a moderation in the rapid growth of overnight deposits. In addition, there was a moderate slowdown in the growth of credit to the private sector in February 1999.

As regards the second pillar, starting with financial indicators, both bond and foreign exchange markets have recently been influenced by global factors. After having risen somewhat in February 1999 in tandem with bond yields in the United States, euro area government bond yields remained broadly unchanged during March. At the same time, the US dollar has strengthened further against the euro in recent weeks.

These developments reflect to some extent the fact that aspects of the external environment facing the euro area seem to have improved slightly in recent weeks, while news concerning domestic economic activity in the euro area was less favourable. The main positive signs on the external side related to the continuously strong growth of the US economy, the gradual recovery in some Asian countries and some stabilisation in Latin America. By contrast, there is no firm evidence as yet of a turnaround in Japan.

Recent data on economic activity in the euro area confirmed a weakening towards the end of last year, particularly in the manufacturing sector, where confidence deteriorated further. Partial information for early 1999 covering a substantial part of the euro area also indicated that the euro area may need longer than previously expected to recover from the slowdown which began in late 1998. This picture is also reflected in recent downward revisions to real GDP forecasts for the euro area in 1999 and 2000 by major international organisations; these now expect real GDP growth of only around 2% in 1999 and 2.5% in 2000. Although these forecasts still imply that real GDP growth will not be far below past trends, the downward revisions in the growth forecasts and uncertainty concerning these forecasts have reinforced expectations of somewhat lower inflationary pressure arising from economic activity this year.

Evidence of a slowdown in economic activity has also become apparent in recent months in the labour market. The most recent data point to a deceleration in net job creation in the last quarter of 1998, while the progress in reducing unemployment has continued to be very gradual in recent months. Against this background, recent wage settlements in excess of the growth

of labour productivity in some industrial sectors do not appear to be conducive to new job creation and, if continued, would lead to inflationary pressures.

With regard to the latest available data on the HICP, the annual increase in consumer prices remained unchanged at 0.8% between November 1998 and February 1999. Underlying this stable rate of price increases have been offsetting developments in the prices of services and goods. In February price increases in the services sector moderated further owing mainly to reductions in prices in the telecommunications sector. At the same time, the rate of increase in goods prices was influenced upwards by recent trends in unprocessed food and energy prices.

As has been emphasised on previous occasions, the current low inflation rates are, to some extent, the reflection of the large fall in energy prices during 1998. Goods prices may be subject to some upward movement in the short term owing to the reversal in energy price trends following the recent announcement by many oil-producing countries of their intention to cut production. This notwithstanding, as is also discussed in an article in this issue of the Monthly Bulletin entitled "The role of short-term economic indicators in the analysis of price developments in the euro area", the effects of changes in energy prices as well as in unprocessed food prices on rates of HICP increases may only be of a temporary nature. More persistent effects on future consumer prices normally come from changes in the overall economic situation. Indeed, reflecting these changes, many projections for inflation rates in the euro area have been revised downwards recently.

In sum, weighing all the relevant indicators and taking a forward-looking and medium-term perspective, the Governing Council deemed it appropriate to make a determined monetary policy response with a view to maintaining the outlook for continued price stability. One of the main considerations underlying this decision was that monetary growth cannot, at the moment, be considered to be a risk to future price stability. At the same time, downward pressure on inflation stems from the current economic situation. Also after the cut in interest rates, the Governing Council does not see a risk in the current situation that HICP increases could rise lastingly to above 2% and hence be out of line with the Eurosystem's definition of price stability.

The decision of the Governing Council has to be seen in the context of the stability-oriented strategy. By adhering to this strategy, the monetary policy of the Eurosystem contributes to creating the economic conditions which are essential for exploiting the considerable growth potential of the euro area. In addition, at this juncture the significant cut in interest rates should help reduce current uncertainty about future economic developments, thereby contributing positively to restoring confidence in the economy. It should be recalled in this context that prior to the decision of the Governing Council on 8 April 1999, both short-term and long-term interest rates had already been very low.

At the current juncture the main challenge facing the euro area remains that of addressing the structural problems which are the dominant cause of the high levels of unemployment. The longer-term prospects for output growth can only improve if those responsible for other policy areas take more decisive steps towards making product and labour markets in the euro area more flexible through structural reform. At the same time, it is also important that structural imbalances and problems in the fiscal area are now addressed more forcefully in order to improve the longer-term growth prospects of the euro area.

* * *

In addition to the article explaining some aspects of the second pillar of the monetary policy strategy of the Eurosystem mentioned above, a second article entitled "Banking in the euro area: structural features and trends" is included in this issue of the Monthly Bulletin. The Eurosystem has a clear interest in monitoring developments in the euro area banking sector in connection with its tasks in the field of monetary policy and financial stability.

Economic developments in the euro area

1 Monetary and financial developments

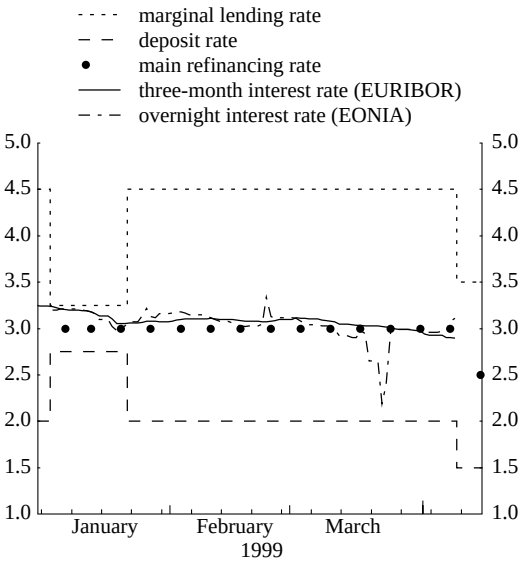
Monetary policy decisions by the Governing Council of the ECB

Reflecting the deliberations at its meeting on 8 April 1999, the Governing Council of the ECB deemed it appropriate to lower the interest rates on the monetary policy instruments of the Eurosystem. The Governing Council decided 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, with effect from 9 April 1999 the interest rate on the marginal lending facility was reduced by 1 percentage point to 3.5% and the interest rate on the deposit facility by 0.5 percentage point to 1.5% (see Chart 1). The considerations underlying these decisions are explained in more detail in the "Editorial" section of this Monthly Bulletin. The following sections provide an in-depth discussion of the monetary, financial and other economic data which were available at the time of the meeting of the Governing Council on 8 April 1999, which was also the cut-off date for this issue of the Monthly Bulletin.

Chart 1

ECB interest rates and money market rates

(percentages per annum; daily data)



Source: ECB.

Monetary growth slowed in February

In February 1999 the 12-month growth rate of the broad monetary aggregate M3 fell to 5.2% from 5.6% in January 1999. Yet, as the outturn for monetary growth in February 1999 was higher than that recorded in late 1998, the three-month moving average of 12-month growth rates of M3 covering the period from December 1998 to February 1999 still increased by 0.2 percentage point to stand at 5.1%. This figure, which has to be compared with the reference value for M3 growth of 4½% set by the Governing Council, may partly reflect the specific environment related to the transition to Stage Three of Economic and Monetary Union (EMU).

The moderate slowdown of M3 growth in February 1999 was mainly due to a deceleration in the rate of expansion of overnight deposits, which account for about one-third of the total stock of M3. Other deposits included in M3 also showed a slight reduction in growth. However, the slowdown in M3 growth was mitigated by the fact that the annual percentage change in marketable instruments, in particular money market paper and shares in money market funds, rose substantially in February 1999 to record positive values again.

The annual growth rate of overnight deposits decreased to 15.1% in February 1999, from 17.6% in the previous month. Moreover, in February 1999 the outstanding value of currency in circulation fell by 0.4% compared with the same month a year earlier (after a rise of 1.0% in January 1999). These developments signalled that euro area residents had reduced their preference for very liquid assets compared with January 1999. This presumably reflected, inter alia, the unwinding of uncertainties among investors prevailing at the very start of Stage

Three of EMU as well as the decreased influence of some technical factors (which were partly linked to the adjustment to new statistical and payment systems in the euro area). As a consequence, growth of the narrow monetary aggregate M1, which comprises currency in circulation and overnight deposits, decelerated to an annual rate of 12.0% in February 1999 from 14.3% in the previous month, thereby partly correcting the strong acceleration seen in January 1999 (see Chart 2). However, the 12-month growth rate of M1 remained exceptionally high, reflecting the effects of the convergence to low levels of nominal interest rates in the euro area in the course of 1998 and the transition to an environment of price stability.

The aggregate 12-month growth rate of other deposits included in M3 also decreased, from 2.1% in January 1999 to 1.5% in February 1999. This was due to a further drop in the pace of growth of deposits with an agreed maturity of up to two years (to -4.1% from -2.8% in January 1999) and a steady pace of increase (of 5.8%) in deposits redeemable at a period of notice of up to three months. As a consequence, growth of the intermediate monetary aggregate M2 slowed to an annual rate of 6.0% from 7.3% in January 1999.

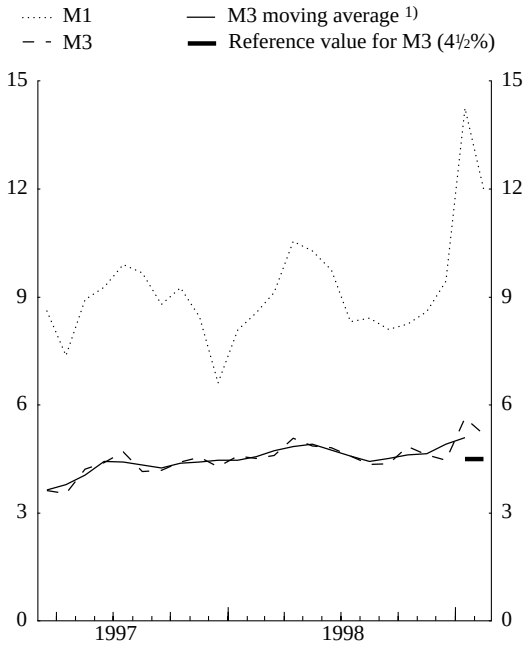
In February 1999 the short-term marketable instruments included in M3 showed a recovery compared with the previous months. This was entirely due to the significantly faster expansion of money market paper and shares in money market funds, the annual growth of which rose to 13.2% from 7.5% in January 1999. By contrast, repurchase agreements and debt securities issued with a maturity of less than two years continued their downward trend.

In view of the prominence given to monetary developments in evaluating the prospects for price stability, an accurate measurement of monetary growth, as well as of its components and its counterparts in the consolidated balance sheet of Monetary Financial Institutions (MFIs), is of crucial importance. For this reason, month-on-month changes and annual growth rates of the assets and liabilities in this balance sheet should be based on flows statistics which express the effect of financial transactions undertaken by the MFI sector. The use of separate flows statistics is important because changes in stocks may also reflect distorting factors such as reclassifications, revaluations and other changes which do not arise from financial transactions. In order to derive proper monetary growth figures based on flows statistics, the Eurosystem has corrected the changes in the money stock and assets and liabilities of the MFI sector for the aforementioned factors. This procedure and the underlying reasons are explained in more detail in Box 1.

Chart 2

Monetary aggregates in the euro area

(annual percentage changes)



Source: ECB.

1) Three-month centred moving average.

Box 1

The use of flows statistics in the analysis of monetary data

In general, flows statistics are aimed at measuring the economic transactions performed by an institutional sector over a certain period of time. In the case of monetary statistics, flows statistics express the variation in the aggregates caused by acquisitions of financial assets or the incurring of financial liabilities by the MFI sector. They are calculated by adjusting the difference between end-of-month stocks for the effect of "non-transactions-related" factors. These factors can be summarised under two headings:

1) *Reclassifications and other statistical factors:* these include the impact on the assets and liabilities of the MFI sector of changes in the reporting population, corporate restructuring, the reclassification of assets and liabilities and the correction of reporting errors. Institutions entering or leaving the reporting population and corporate restructuring affect the comparability of end-of-month stocks. Reclassifications of assets and liabilities and the correction of reporting errors may give rise to breaks in series.

2) *Revaluations and write-offs/write-downs:* changes in the value of the assets and liabilities of the MFI sector may also arise from exchange rate changes, changes in the market price of securities and write-offs or write-downs of loans. With regard to the first factor, as stocks are expressed in euro a change in the exchange rate of the euro will affect the value of assets or liabilities denominated in foreign currency. Similarly, a recorded change in the market value of securities held or issued by MFIs affects the outstanding stock of securities, in addition to actual transactions in these securities. Finally, a write-off or write-down of loans has an impact on the reported value of the outstanding amount of loans, but is not related to a change in the amount of MFI financing to the economy.

Flows statistics are regularly published as part of Tables 2.3 and 2.4 of the "Euro area statistics" section of the Monthly Bulletin. The tables show monthly flows in amounts and, for monetary aggregates, the annual percentage changes for each month. Annual percentage changes are calculated by adding the monthly flows corresponding to the present and the 11 previous months and expressing them as a percentage of the end-of-month stock of the 12th previous month.

Owing to the fact that the harmonised reporting system for monetary statistics was only introduced in 1998, flows data for periods prior to 1998 rely to a significant extent on estimation. The ECB has therefore decided to use, for the time being, the flows data for the calculation of 12-month growth rates for its monetary aggregates only as from the start of Stage Three of EMU. Although these flows data are also still provisional, they can already be regarded as economically and statistically more meaningful than the corresponding unadjusted changes in stocks.

Moderate slowdown also in credit growth

During February 1999 the total amount of credit granted by the MFI sector to euro area residents (including the public sector) increased at an annual rate of 7.4%. The growth of this item, which includes loans provided by MFIs as well as their holdings of debt securities and shares, showed a moderate slowdown from the annual rate of increase of 7.8% recorded in January 1999. This development was more than accounted for by a reduction in the annual growth rate of credit to households and corporations (from 10.2% in January to 9.5% in February). Credit growth to the private sector nonetheless remained strong. Yet only part of this appears to be related to underlying patterns of domestic demand. In this respect, the considerable rise in land and housing prices in some parts of the euro area also appears to underpin the strength of lending to the private sector. Another possible factor which may have contributed to supporting credit growth over recent months may have been a demand for credit by non-financial corporations in order to finance inventories, which, according to business survey data, have increased to above-normal levels. For the assessment of credit trends in the private sector, detailed information about the structure of loans is crucial. The Eurosystem compiles such information on a quarterly basis and this issue of the Monthly Bulletin includes the first available set of data for the euro area relating to the end of 1998 (see Box 2).

Box 2

The structure of loans to the non-financial private sector as at end-1998

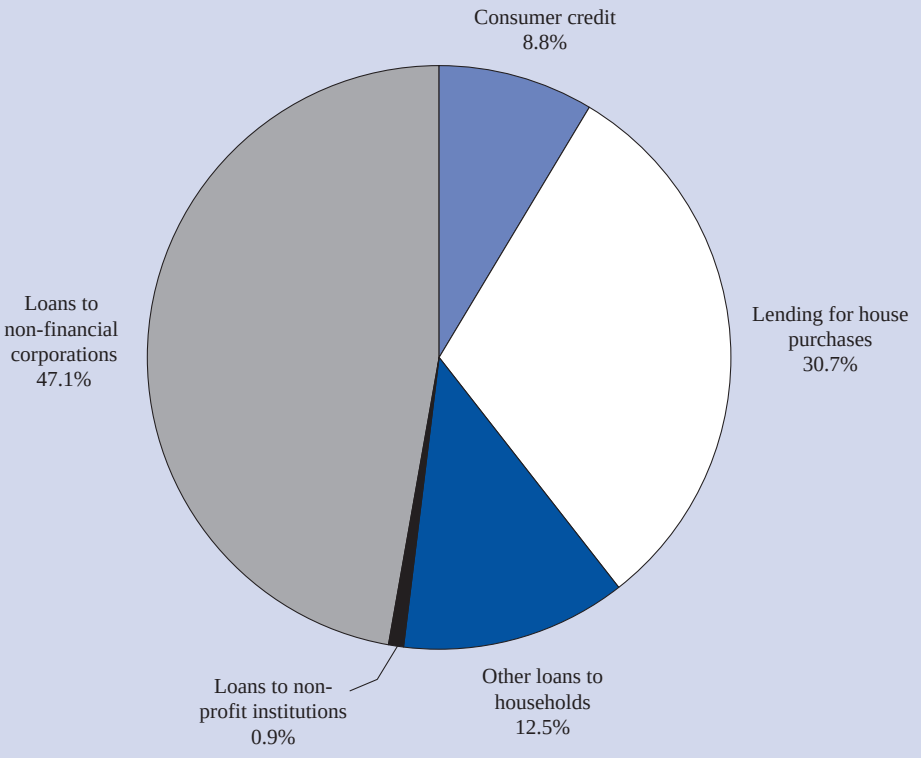
In March 1999 the first set of data which provide an insight into the composition of MFI lending to euro area residents by sector, type and maturity at issue became available. This set of data is compiled on a quarterly basis by the Eurosystem. At this point in time, however, only data on the structure of MFI loans to the non-financial private sector are available and these only for end-1998. These data are reported in Table 2.5 in the "Euro area statistics" section of this Monthly Bulletin.

At the end of 1998 loans to households accounted for 52.0% of the total value of outstanding loans from the MFI sector to the non-financial private sector, with the share of loans to non-financial corporations amounting to 47.1%. Non-profit institutions serving households (such as consumers' associations, charities, social, cultural, recreational and sports clubs, trade unions and political parties, etc.) held the remaining 0.9% of the total value of loans. For households, an additional breakdown by type of loan is available (see the chart below). This shows that loans for house purchases (normally at a maturity of over five years) play an important role in the euro area. At end-1998 they accounted for about 30.7% of total loans to the non-financial private sector. The share of loans classified as consumer credit stood at around 8.8%. Other loans to households (mainly for business or educational purposes, or to consolidate household debt) accounted for 12.5% of total loans to non-financial corporations and households.

With regard to the maturity composition of MFI loans to the non-financial private sector it is notable that loans with a maturity at issue of more than one year accounted for the largest share. This is the case both for households and for non-financial corporations. Loans with a maturity at issue of more than five years represented 50.1% of loans classified as consumer credit, 95.0% of loans for house purchases and 48.9% of loans to non-financial corporations. This confirms that the current low level of medium and longer-term retail bank lending rates may be having a significant stimulative effect on the demand for credit, in particular in those euro area countries which, in the past, had experienced considerably higher long-term interest rates.

MFI loans to the non-financial private sector

(December 1998, not seasonally adjusted, as a percentage of total)



Source: ECB.

In contrast with credit to the private sector, the amount of credit granted to general government continued to grow at a very subdued pace; in February 1999 the annual growth rate was 2.2%, compared with 1.9% in January 1999. This subdued rate of expansion was the result of slow growth both of loans to general government and of the MFIs' holdings of government debt securities.

Among the other counterparts of M3 in the consolidated MFI balance sheet, the growth of longer-term financial liabilities of the MFI sector vis-à-vis other euro area residents (excluding central government) decelerated slightly in February 1999, with the annual rate falling to 3.6% (compared with 4.1% in January 1999). The rate of expansion of debt securities issued by MFIs with a maturity of over two years continued to increase at a relatively strong pace (the 12-month growth rate was 6.8% in February and 7.3% in January). This may reflect, among other factors, the changes in the minimum reserve base of credit institutions in some euro area countries compared with the situation in Stage Two. At the same time, in an environment of relatively low longer-term bank deposit rates, holdings of longer-term deposits with MFIs continued to record a very subdued rate of growth.

The external assets and liabilities of the MFI sector showed a high degree of volatility in early 1999, with a marked reduction occurring in both items in February 1999. This reflected in particular the inclusion of temporary gross positions with central banks of Member States not participating in the euro area, relating to the operation of the TARGET system. These positions amounted to approximately €75 billion at end-January 1999 and almost €27 billion at end-February 1999. Overall, the net external asset position of the MFI sector deteriorated by €50 billion compared with January 1999 and by €132 billion compared with February 1998.

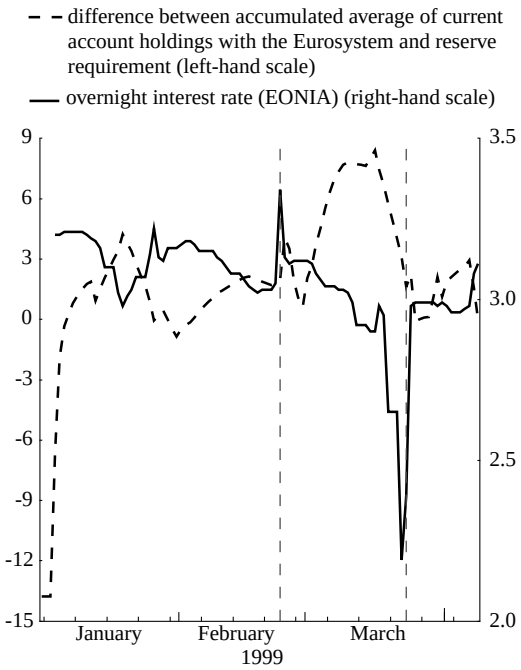
Declining money market interest rates

The overnight market interest rate, as measured by the EONIA ("euro overnight index average"), declined progressively during March 1999 from 3.12% at the start of the month to levels below 3% later on. This pattern mainly reflected the relatively abundant liquidity available to the banking system (see Chart 3 and Box 3). Towards the end of the second reserve maintenance period (which ran from 24 February to 23 March 1999) the overnight rate fell to a level as low as 2.19% on 22 March, before rising to 2.39% on the last day of this reserve maintenance period. Reflecting the ample provision of liquidity by the Eurosystem, the average level of the EONIA over the second maintenance period fell to 2.94%, while it had been equal to 3.13% on average in the first maintenance period. During the first days of the third maintenance period (calculated until 8 April, i.e. the cut-off date for data for this issue of the Monthly Bulletin) the average EONIA rate was 3.0%.

Chart 3

The banking system's liquidity and the overnight market interest rate

(EUR billions; daily data)



Source: ECB.

Note: Overnight interest rate in percentages per annum. The vertical dotted lines indicate the end of a reserve maintenance period.

Box 3

Allotments in monetary policy operations and liquidity conditions in the second reserve maintenance period

Allotments in monetary policy operations

The Eurosystem conducted four main refinancing operations and one longer-term refinancing operation during the second reserve maintenance period, which ran from 24 February to 23 March 1999. All main refinancing operations were carried out as fixed rate tenders at a rate of 3.0%, and the allotted amounts varied between €78.0 billion and €44.0 billion. At the beginning of the second maintenance period the number of counterparties participating in these operations remained around a level of 1,000. However, the amount of bids had increased gradually from €481.6 billion in the first main refinancing operation of Stage Three to peak at €1,100.8 billion on 3 March, while the allotment ratio had decreased from 15.6% to 6.1%. During the latter half of the second maintenance period the Eurosystem succeeded in reversing this trend by providing more ample liquidity. This brought the EONIA rate below the main refinancing rate and, consequently, reduced the incentive to submit large bids. The aggregate bid amounts decreased by two-thirds from their peak value and the allotment ratio increased to 27.3% in the main refinancing operation of 23 March. Under these circumstances, the number of counterparties participating in the tender operations declined to 554. The longer-term refinancing operation was carried out on 24 February in the form of a variable rate tender applying the single rate auction procedure. The allotment volume was pre-announced as €15 billion and resulted in a marginal rate of 3.04%, leaving the amount of outstanding longer-term refinancing operations unchanged at €45 billion. As a result, in the second maintenance period the Eurosystem provided a total of €181.4 billion of liquidity as a daily average through regular refinancing operations (including the operations inherited from the previous maintenance period).

Contributions to the banking system's liquidity

(EUR billions)

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

	Liquidity providing	*Liquidity absorbing*	*Net contribution*
(a) Monetary policy operations of the Eurosystem	**181.8**	**1.4**	**+180.4**
Main refinancing operations	136.4	-	+136.4
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	0.4	1.4	- 1.0
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	**323.6**	**401.8**	**- 78.2**
Banknotes in circulation	-	326.9	-326.9
Government deposits with the Eurosystem	-	49.9	- 49.9
Net foreign assets (including gold)	323.6	-	+323.6
Other factors (net)	-	25.0	- 25.0
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) - (b)			**102.2**
(d) Required reserves			**100.6**

Use of standing facilities

Compared with the first maintenance period the use of the marginal lending facility declined considerably, from a daily average of €3.8 billion to only €0.4 billion. The average use of the deposit facility was €1.4 billion, i.e. very close to the amount during the first maintenance period. However, most of the deposits were accumulated in the last days of the period and reflected the ample liquidity conditions prevailing on those days. On the last day of the period the use of the deposit facility reached its peak value of €12.2 billion (see the chart below).

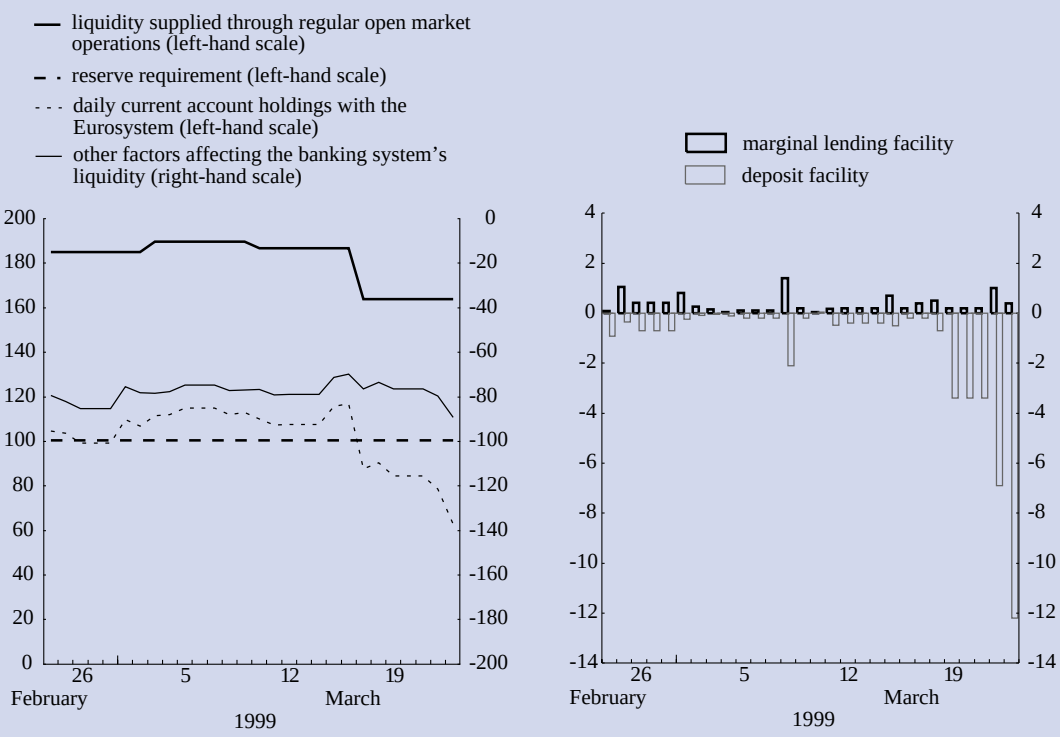
Liquidity factors not related to monetary policy operations

The sum effect of other factors affecting the banking system's liquidity (item (b) in the table above) – the so-called autonomous factors – was - €78.2 billion on average, the negative sign indicating that they absorbed liquidity in net terms. This was, in absolute terms, €6.6 billion higher than during the first maintenance

period, reflecting, inter alia, Treasury transactions and a decrease in net foreign assets. The impact of these autonomous factors fluctuated between - €70.8 billion and - €90.2 billion, the most volatile item being the balances of government accounts with central banks.

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

(EUR billions; daily data)



Current account holdings of counterparties

The current account holdings of counterparties with the Eurosystem are a consequence of the difference between the liquidity provided through monetary policy operations (including the net impact of the use of standing facilities) and the net effect of the autonomous factors. In the second maintenance period the average current account holdings were €102.2 billion, compared with reserve requirements of €100.6 billion. In the first maintenance period the average current account holdings had been €100.2 billion, and the reserve requirements had amounted to €98.2 billion. The difference between average current account holdings and reserve requirements therefore declined from €2.0 billion to €1.6 billion.

Difference between current account holdings and reserve requirements

The difference of €1.6 billion between the current account holdings and reserve requirements in the second maintenance period is attributable to various factors. About €0.7 billion is due to the following three types of current account holdings: i) current account holdings of counterparties which do not effectively have 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 payment system Euro Access Frankfurt (EAF); and iii) current account holdings of counterparties which hold their reserves indirectly through another institution, but still have a current account with the central bank for payment purposes. The remaining discrepancy of €0.9 billion is due to so-called excess reserves. These are positive balances that counterparties hold on their current accounts after they have fulfilled their reserve requirements. As the remuneration of current account balances which do not count for the fulfilment of reserve requirements is zero, while funds transferred to the deposit facility were remunerated at 2%, one would expect that current account holdings of this type would normally arise only through error or neglect. One tentative explanation for this phenomenon is the low opportunity cost of leaving small amounts of funds on current accounts overnight. This kind of reasoning, if applied to a large number of the more than 8,250 counterparties, might explain the discrepancy between current account holdings and reserve requirements observed during the first two maintenance periods.

The three-month market interest rate, as measured by the EURIBOR, was also on a declining path throughout the month of March (see Chart 4). After starting the month at a level of 3.10%, the three-month EURIBOR fell to a level of just below 3.0% on 25 March. On 8 April it stood at 2.90%, which implied a reduction of almost 35 basis points since the start of Stage Three of EMU. The decline in three-month interest rates may to some extent have been due to a change in the market's perception of the structural relationship between the overnight market rate and the main refinancing rate, but also seems to have mirrored increasing market expectations of an easing of money market conditions in the course of the second quarter of 1999.

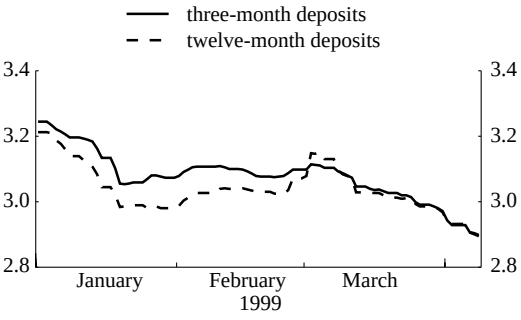
Reflecting these factors, the three-month interest rate on futures contracts on euro for delivery in June and September 1999 fell by 20-25 basis points between the end of February and 8 April 1999. On 8 April the interest rates on three-month futures contracts on euro for delivery in June and September 1999 stood at 2.79% and 2.75% respectively.

The fall in the three-month interest rate was also reflected in the outcome of the third longer-term refinancing operation of the Eurosystem. As announced after the meeting of the Governing Council on 4 March 1999, the Eurosystem conducted its monthly longer-term refinancing operation in March 1999 for the first time through the multiple rate method of allotment. This reflected the view that, after two longer-term operations in which the single rate method of allotment had been applied, all interested counterparties should have become sufficiently accustomed to this type of operation for them to be in a position to participate under the more market-oriented multiple rate method of allotment. The weighted average rate of this operation, which was settled on 25 March, was equal to 2.97%, with the marginal rate of allotment being equal to 2.96%. As the volume of the allotment in this operation was pre-announced by the Eurosystem, these interest rates reflected market conditions rather than monetary policy signals. As was expected, the allotment rates were slightly below the three-month EURIBOR of 3.01% prevailing on the day of the allotment. This negative spread may be attributed to the fact that the EURIBOR transactions – by contrast with the operations of the Eurosystem – are unsecured and can be expected to incorporate a higher risk premium.

Chart 4

Short-term interest rates in the euro area

(percentages per annum; daily data)



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

Long-term interest rates broadly stable

In euro area government bond markets, following the upward movement in 10-year government bond yields observed in the course of February and early March 1999, the level of long-term bond yields tended to stabilise towards the end of March at just above 4.1%. The average level of 10-year bond yields across the euro area at the end of March thus remained close to the average levels observed during October and November 1998 and considerably below the levels of over 4.5% observed before the summer of 1998. On 8 April 1999 (the cut-off date for the data contained in this issue of the Monthly Bulletin) bond yields stood at a level of 4.06%. This stabilisation of long-term bond yields in the euro area during March and early April partly reflected developments in international financial markets as well as domestic influences.

Developments in international bond markets in the course of March tended to confirm earlier views that heightened uncertainty about the future course of inflation related to expectations of continued strong economic growth in the United States had provoked the significant increase in bond yields observed during February and early March. As witnessed on previous occasions, this movement was transmitted to the euro area, where bond yields moved upwards in tandem with those in the United States during that period (see Chart 5). However, in the course of March market participants appeared to become more confident about the ability of the US economy to grow at a brisk pace without triggering significant inflationary pressures, and the level of long-term bond yields tended to stabilise both in the United States and in the euro area after early March. A further supportive global factor in the stabilisation of global bond yields was the decline in Japanese long-term bond yields during March and early April.

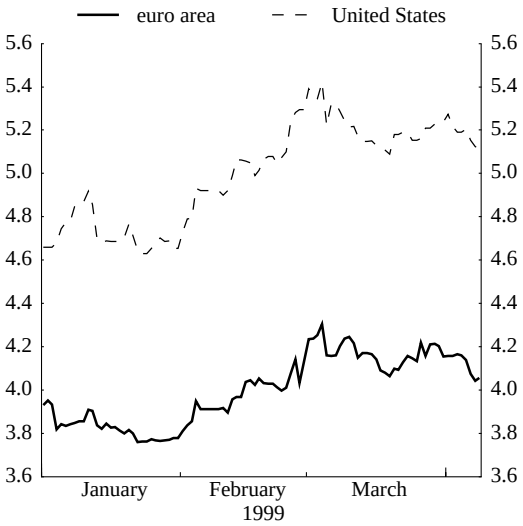
Apart from these global influences, domestic factors in the euro area tended largely to play a supportive role in the stabilisation of long-term interest rate levels in the euro area. Among these supportive factors was the aforementioned deceleration in the pace of M3 growth in February. Further factors included the unchanged rate of HICP price increase in February, as well as evidence of further declines in producer prices. Market perceptions that the pace of economic activity in the euro area might decelerate further in the short term also played a role in these developments.

In the light of the aforementioned developments in euro area bond markets, the yield curve in the euro area showed little change in slope between end-February and 8 April 1999 at longer-term maturities (see Chart 6). However, a negative kink in the

Chart 5

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

(percentages per annum; daily data)

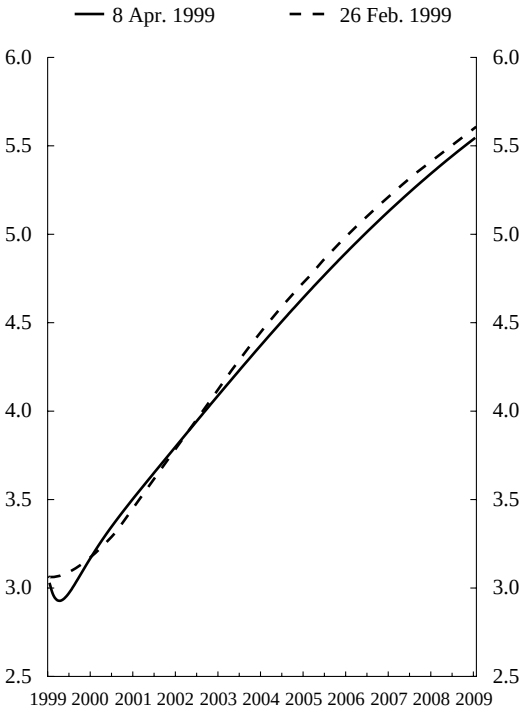


Sources: ECB, BIS and Reuters.
Note: Long-term government bond yields refer to 10-year bonds or to the closest available bond maturity.

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.

yield curve was visible in early April at short-term maturities, reflecting market expectations of lower money market interest rates in the near future. At the same time, there was little change in the differential between yields on fixed nominal income bonds and those on inflation index-linked bonds with a comparable maturity in France. As was discussed in detail in a box on page 16 of the February 1999 issue of the Monthly Bulletin, changes in this differential can be interpreted as an indication of changes in the perceptions of financial market participants concerning the longer-term outlook for inflation. Hence developments in these indicators would tend to suggest that market participants did not significantly alter their views concerning the longer-term inflation outlook in the euro area in the course of March and early April 1999, thus maintaining the assessment that price stability would be preserved.

Stock markets show little change

Following the large increase at the very beginning of 1999 which brought euro area stock prices, as measured by the broad Dow Jones EURO STOXX index, to more than 8% above their end-1998 levels and a subsequent decline of more than 4% by end-January, stock prices in the euro area have shown little sign of a discernible trend in the past two months.

Over the period from end-February to 8 April 1999 the broad EURO STOXX index rose by 3.8%. This performance during March and early April contrasted with developments in other major stock markets during this period, where significantly higher increases were observed. In the United States the Standard & Poor's 500 index increased by 8.5% over this period, while in Japan the Nikkei 225 index recorded an increase of more than 17% (see Chart 7).

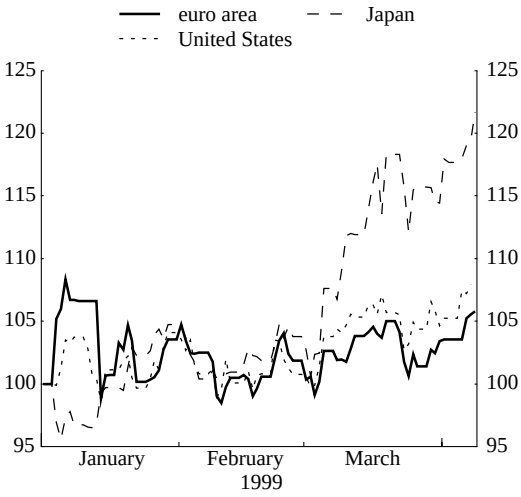
These differences in international stock market trends during March and early April may reflect changes in market perceptions about the outlook for domestic economic activity in individual economies. In the euro area recent stock market developments have taken place against a background of market perceptions that the pace of economic activity in the euro area might decelerate further. This contrasted with the situation in the United States, where the increase in stock prices took place against a background of continued evidence of robust growth. In Japan, despite the continued weakness of key indicators of economic activity, the increase in stock prices may have reflected a change in expectations of international investors concerning the likelihood of a future recovery of the pace of economic activity.

Recent stock market developments in the euro area appear to reflect mixed developments and differences in market perceptions concerning the outlook for different sectors of the economy. Reflecting this, the range of sectoral performances has been somewhat divergent since the beginning of the year. The largest sectoral increases in stock prices (of 21.5%, 17.1% and 14.4% respectively) were observed in the telecommunications, industrial and energy

Chart 7

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

(1 January 1999=100; daily data)



Sources: Reuters for the euro area; BIS 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.

sectors over the period from end-December 1998 to 8 April 1999. The principal sector-specific factors underlying these performances appeared to have been the trend towards industry consolidation in the case of the telecommunications sector and the recent sharp rise in oil prices in the case of the energy sector. The strong performance in industrial sector stock prices may, in part, be a reflection of the mild improvement in the external environment facing the euro area economy, as well as the depreciation of the euro in real effective terms. Contrasting developments could be seen in the consumer sector. This was most noticeable in the case of the non-cyclical food and beverage sector, where a decline in stock prices of almost 11% was recorded. Some cyclical stocks – such as those in the retail sector – also showed declines. The under-performance of these consumer sector stock market indices in comparison with the aggregate index took place against the background of the recent stabilisation of euro area consumer confidence indicators and a decline in retail confidence.

2 Price developments

Overall consumer price increases remained subdued

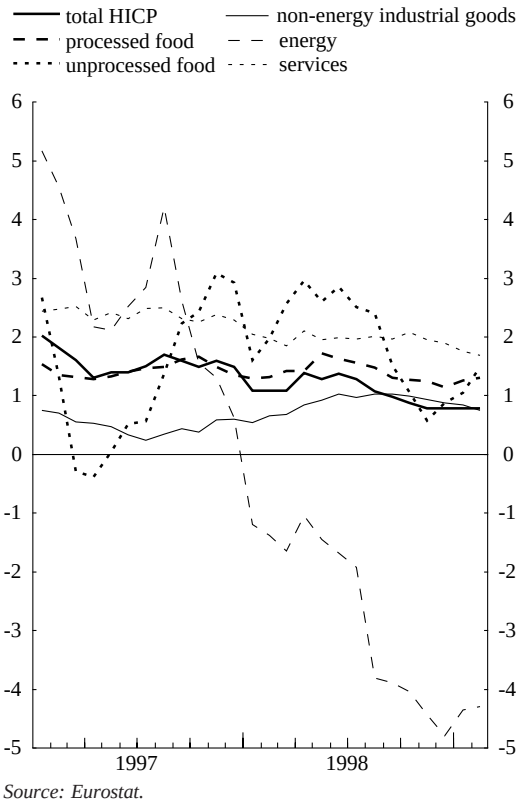
Consumer price inflation, as measured by the Harmonised Index of Consumer Prices (HICP), was 0.8% in February 1999, i.e. unchanged from the low rates seen over the previous three months (see Table 1). The subdued development of consumer price increases in the past few months can be attributed to generally weak upward pressure on prices. Most recently, the trend has masked a number of mutually offsetting factors.

On the one hand, recent months have seen a reversal of the downward trend in unprocessed food and energy prices, which was an important factor behind the lower increases in the overall price index during most of the second half of 1998 (see Chart 8). The annual increase in prices of unprocessed food rose from 0.6% in November 1998 to 1.1% in January 1999 and further to 1.5% in February 1999, probably reflecting reduced supplies of fruit and vegetables due to less favourable weather conditions. Furthermore, oil prices have started to rise in recent months and this has resulted in a slightly higher – albeit still negative – annual percentage change in energy prices in the HICP. Energy prices were 4.3% lower than a year earlier in February 1999, after having been 4.8% lower in December 1998. The announcement in March 1999 by many oil-producing countries that they intended to cut production prompted a marked increase in the price of oil, which, by the end of March 1999, stood about 50% (in euro terms) above its end-1998 level (and at the same level as a year earlier). This increase is most likely to be reflected in the HICP energy

Chart 8

Breakdown of HICP inflation in the euro area by components

(annual percentage changes; monthly data)



Source: Eurostat.

index with only a short lag. An increase in the energy prices component will affect overall consumer price inflation in proportion to the weight of this component in the HICP (8.8%).

As regards these latest developments, it may be noted that both unprocessed food and energy prices have shown a high degree of short-term volatility in the past. Consequently, the effects of changes in unprocessed food and energy prices on the HICP are regarded as being of a more transitory nature than those in less volatile components. (For a more detailed discussion of volatility in the components of the HICP see the article entitled "The role of short-term economic indicators in the analysis of price developments in the euro area" in this issue of the Monthly Bulletin, in particular Box 1.)

The changes in unprocessed food and energy prices in February 1999 were offset by a continued decline in the rate of change in the prices of non-energy industrial goods and services. The increase in prices of non-energy industrial goods fell from 0.9% in December 1998 to 0.7% in February 1999, due, inter alia, to lower increases in the prices of new vehicles. With regard to services prices, the annual increase fell for the fourth consecutive month (from 2.1% in October 1998 to 1.7% in February 1999), mainly on account of lower prices for communications (in particular telephone and telefax equipment and services) but also as a result of lower prices for transport services. Recent price developments in these sectors may be partly related to deregulation and increased competition.

With regard to other cost and price indicators, the rate of change in industrial producer prices has continued its downward trend – mainly as a result of the fall in prices of intermediate goods – and in January 1999 was 2.7% lower than a year earlier. Data for unit labour costs are only available up to the third quarter of 1998 and show that these were 0.6% lower than a year earlier in both the second and the third quarter 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 Oct.	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.
Harmonised Index of Consumer Prices (HICP) and its components													
Overall index	2.2	1.6	1.1	1.3	1.1	0.8	.	0.9	0.8	0.8	0.8	0.8	.
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	.
Food	1.9	1.4	1.6	2.1	1.7	1.1	.	1.2	1.0	1.0	1.2	1.4	.
Processed food	1.9	1.4	1.4	1.6	1.4	1.2	.	1.3	1.2	1.1	1.3	1.3	.
Unprocessed food	1.8	1.4	2.0	2.8	2.1	0.8	.	1.1	0.6	0.9	1.1	1.5	.
Industrial goods prices	1.8	1.0	0.1	0.4	0.1	-0.2	.	-0.1	-0.2	-0.4	-0.3	-0.4	.
Non-energy industrial goods	1.6	0.5	0.9	0.9	1.0	0.9	.	1.0	0.9	0.9	0.8	0.7	.
Energy	2.6	2.8	-2.6	-1.4	-3.2	-4.4	.	-4.0	-4.4	-4.8	-4.4	-4.3	.
Services	2.9	2.4	2.0	2.0	2.0	2.0	.	2.1	2.0	1.9	1.8	1.7	.
Other price and cost indicators													
Industrial producer prices [1]	0.4	1.1	-0.8	-0.2	-1.3	-2.3	.	-2.0	-2.4	-2.6	-2.7	.	.
Unit labour costs [2]	1.8	0.4	.	-0.6	-0.6	.	.	-	-	-	-	-	-
Compensation per employee [2]	3.4	2.6	.	1.2	1.3	.	.	-	-	-	-	-	-
Labour productivity [2]	1.6	2.3	.	1.8	1.8	.	.	-	-	-	-	-	-
Oil prices (EUR per barrel) [3]	15.9	17.1	12.0	12.8	11.7	10.0	10.3	11.2	10.2	8.8	9.5	9.4	11.8
Commodity prices (EUR) [4]	-6.9	13.0	-12.5	-10.7	-18.2	-20.5	-16.0	-23.6	-18.4	-19.4	-17.2	-16.1	-14.7

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

1) Excluding construction.
2) Whole economy.
3) Brent Blend (for one-month forward delivery). ECU up to December 1998.
4) Excluding energy. ECU up to December 1998.

3 Output, demand and labour market developments

A slowdown in real GDP growth at the turn of the year

Developments in economic activity in the euro area were examined in detail in the March 1999 issue of the Monthly Bulletin and, apart from some national data releases in the interim which appear to confirm this analysis, little further data have become available in time for this issue. In particular, revised data for real GDP in the fourth quarter of 1998, industrial production figures for January 1999 and the provisional results of the European Commission Business and Consumer Surveys in March were all due to be released shortly after the cut-off date for this Monthly Bulletin.

Overall, as noted in the previous issue of the Monthly Bulletin, recent indicators of economic activity in the euro area point to a sizable overall slowdown in the fourth quarter of 1998. The first estimate of quarter-on-quarter real GDP growth (released by Eurostat on 5 March 1999) was 0.2%, compared with 0.7% in the third quarter. Industrial production in the manufacturing sector declined by almost 1% in the fourth quarter of 1998 compared with the previous quarter, and, according to the February release of the European Commission Business Survey, industrial confidence continued to deteriorate in early 1999 (see Table 2). Consumer confidence did not increase further, instead remaining unchanged at the record high level observed at the beginning of 1999. Retail sales in the three months to December 1998 rose by 2.8% compared with the same period a year earlier, i.e. a rate of growth in the fourth quarter unchanged from that seen in the third quarter.

The picture of an overall worsening of growth prospects towards the end of last year is also reflected in the spring forecasts of the European Commission, the results of which were released on 30 March 1999. Following a growth rate of 3.0% in 1998, the Commission (on the basis of data available up to 19 March 1999) now expects real GDP to grow by 2.2% in the euro area in 1999. This compares with a growth rate of 2.6% projected in the autumn forecast of last year.

Employment growth slowed while the decline in unemployment virtually stalled

Total employment continued to grow in the fourth quarter of last year, but at a slower pace. Measured quarter-on-quarter, the growth rate was 0.3% in the last quarter of 1998, i.e. 0.2 percentage point lower than the rate of growth recorded in the previous quarter. The slowdown, which started in the manufacturing sector in the third quarter of 1998, may, according to national information, have affected other sectors that depend largely on industrial activity, such as commercial services. However, net job creation in the rest of the services sector has remained broadly on the same path. In the construction sector employment picked up during the summer and accelerated in October and November 1998, according to Eurostat data.

While total employment growth slowed in the fourth quarter of 1998, the standardised rate of unemployment in the euro area remained unchanged at 10.7% during that period. However, the unemployment rate resumed its decline in January 1999, partially on account of special factors, such as unusually mild weather conditions which stimulated hiring in construction, and the implementation of new employment schemes in some countries. The national data available at the cut-off date for this issue of the Monthly Bulletin suggest that, compared with the previous month, unemployment remained unchanged in February. Indeed, the declining trend in unemployment has virtually stalled in several countries in recent months, while the rate of unemployment remains high for the euro area as a whole.

Table 2

Output, demand and labour market developments in the euro area

(annual percentage changes, unless otherwise indicated)

	1996	1997	1998	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1998 Aug.	1998 Sep.	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan.
								3-month centred moving averages					
Real gross domestic product	1.6	2.5	3.0	3.8	3.0	2.9	2.4	-	-	-	-	-	-
- Change from previous period [1]	-	-	-	0.9	0.6	0.7	0.2	-	-	-	-	-	-
Industrial production excl. construction	0.2	4.3	4.2	6.6	4.6	4.0	1.9	4.0	3.5	2.9	1.9	.	.
- Change from previous period [2]	-	-	-	1.3	0.7	0.2	-0.1	0.2	0.1	0.2	-0.1	.	.
of which:													
Manufacturing	-0.2	4.8	4.6	7.4	5.1	4.3	2.0	4.3	4.0	3.2	2.0	.	.
by main industrial groupings:													
Intermediate goods	-0.4	5.4	4.0	7.5	4.4	3.3	0.8	3.3	2.6	2.0	0.8	.	.
Capital goods	1.8	5.0	7.2	9.8	7.2	6.9	5.2	6.9	6.6	6.1	5.2	.	.
Consumer goods	-0.3	2.2	3.2	4.0	3.8	3.5	1.7	3.5	3.3	2.7	1.7	.	.
Construction	-2.6	-1.0	0.0	3.6	0.2	-0.5	-2.6	-0.5	-1.4	-2.2	-2.6	.	.
Capacity utilisation (%) [3]	80.3	81.6	83.1	83.1	83.6	83.3	82.4	-	-	-	-	-	-
Economic sentiment index	-2.7	2.5	3.2	3.7	4.4	3.0	1.6	3.0	2.1	1.8	1.6	1.7	1.3
Consumer confidence indicator [4]	-9	-3	7	4	6	7	10	7	7	8	10	11	11
Industrial confidence indicator [4]	-8	3	7	10	10	7	0	7	5	3	0	-1	-2
Construction confidence indicator [4]	-13	-10	4	-2	1	10	8	10	9	9	8	11	12
Retail sales, constant prices	1.1	0.8	2.5	2.6	1.7	2.8	2.8	2.8	2.2	2.7	2.8	.	.
New passenger car registrations	6.6	3.9	7.7	12.7	3.3	7.4	7.5	7.4	5.1	7.7	7.5	9.0	5.9
Employment (whole economy)	0.2	0.3	1.3	1.0	1.2	1.4	1.6	-	-	-	-	-	-
Unemployment (annual change in 000s)	422	80	-831	-517	-798	-976	-1025	-977	-1010	-1043	-1026	-975	.
Unemployment (% of labour force)	11.6	11.6	11.0	11.2	11.0	10.9	10.7	10.9	10.8	10.7	10.7	10.7	.

Sources: Eurostat, European Commission Business and Consumer Surveys, European Automobile Manufacturers Association, national data and ECB calculations.

Note: All data are seasonally adjusted, apart from industrial production (adjusted for variations in the number of working days), retail sales and new passenger car registrations.

1) Seasonally adjusted data.

2) Seasonally adjusted data; monthly data are calculated as three-month centred moving averages against the corresponding average three months earlier.

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. Latest observations: 83.7% (July 1998), 82.8% (Oct. 1998) and 81.9% (Jan. 1999).

4) Percentage balances; data shown are calculated as deviations from the average over the period since January 1985.

Employment data, which are now available up to the end of 1998, provide, together with data on unemployment, a preliminary picture of the labour market for 1998 as a whole. On the basis of the employment data (which are still national and not fully consistent with harmonised unemployment data) it appears that net job creation in 1998 as a whole was considerably more dynamic than in previous years. Thus, in the course of the year, employment increased by 1.5% (i.e. around 1.7 million). During the same period, the absolute level of unemployment declined by 1.0 million, suggesting that the labour force grew by 0.5% last year. This is 0.2 percentage point higher than the average growth rate observed in the past. The positive momentum in employment growth from around mid-1997 onwards seems to have encouraged people to enter or re-enter the labour market, and has particularly benefited young job seekers who have been targeted by specific programmes in several countries.

4 Fiscal developments

The pattern of fiscal consolidation in 1998: first results for the euro area

The last issue of this Monthly Bulletin offered an assessment of the fiscal policy stance in the euro area, based on the European Commission's autumn 1998 forecast. According to the first results on the estimates of the budgetary outcomes in 1998, as compiled by the ECB on the basis of information provided by the NCBs, this assessment is broadly confirmed, although the results have been somewhat more positive than anticipated. The ECB estimates for 1997 and 1998 are summarised in Table 3, and presented in more detail and since 1991 in the section entitled "Euro area statistics" (Table 7, page 26*). Such tables not only incorporate the most up-to-date information, but also introduce a number of methodological changes in its statistical treatment. The main changes and features of the data presented in this issue of the Monthly Bulletin, which will be retained in future issues, are described in Box 4.

The pattern of fiscal consolidation in the euro area in 1998 can be characterised by the following elements:

- A modest reduction in the budget deficit. The weighted euro area average budget deficit amounted to -2.1% of GDP in 1998, i.e. 0.4 percentage point lower than in 1997. This is a slightly more positive result than previously expected, although the average deficit ratio still remains much closer to the value of 3% (laid down in Protocol (No. 5) on the excessive deficit procedure annexed to the Treaty as a reference for an excessive deficit) than to balance.
- The reduction in the budget deficit matches the decline in interest payments. The primary surplus has remained broadly constant at around 2.5% of GDP, which does not allow for a rapid decline in the debt ratio.
- There has been a balanced reduction of 0.5 percentage point of GDP in primary expenditure and total receipts. According to past experience, this adjustment is more likely to be permanent than the alternative

Table 3

General government fiscal position in the euro area [1)]

(as a percentage of GDP)

	1997	1998
Current receipts	**49.0**	**48.6**
of which: Direct taxes	12.2	12.5
Indirect taxes	13.5	14.1
Social contributions	18.3	17.2
Sales	2.7	2.7
Current expenditure	**48.6**	**47.4**
of which: Interest payments	5.0	4.5
Transfers to households	23.1	22.6
Compensation of employees	11.6	11.3
Intermediate consumption	5.2	5.1
Gross saving	**0.4**	**1.1**
Capital receipts	**0.7**	**0.5**
Capital expenditure	**3.6**	**3.7**
of which: Investment	2.3	2.3
Deficit (-)/surplus (+)	**-2.5**	**-2.1**
Total receipts	**49.7**	**49.1**
Total expenditure	**52.2**	**51.2**
Primary deficit (-)/surplus (+)	**2.5**	**2.4**
Gross debt	**75.4**	**73.6**

Source: ECB.

1) Excluding Luxembourg. Sub-groups may not add up to totals due to rounding.

pattern of fiscal consolidation based on tax increases.

- The change in the composition of current receipts implies a significantly lower weight of social security contributions (down 1.1 percentage points of GDP), and a higher weight of direct taxes (up 0.3 percentage point of GDP) and indirect taxes (up 0.6 percentage point of GDP), mostly due to changes in institutional arrangements in a few countries.
- The change in the composition of primary spending means a lower weight of current primary spending (down 0.7 percentage point of GDP) and a greater weight of capital spending (up 0.1 percentage point of GDP).
- The reduction in current primary spending as a percentage of GDP has been basically due to the reduction in transfers to households (down 0.5 percentage point of GDP), and – to a lesser extent – to savings in the compensation of employees (0.3 percentage point of GDP).
- The increase in the ratio of capital expenditure to GDP is explained by higher government transfers rather than by increased government investment, which still remains at a historically low level.
- The decline in the debt ratio by 1.8 percentage points has also been stronger than previously anticipated. However, one-third of this reduction (0.6 percentage point) is attributable to deficit-debt adjustments, while the primary surplus, which is still at a low level, contributed only moderately to debt reduction.

Box 4

General government fiscal position in the euro area: a new presentation

The general government fiscal position as presented in Table 7 of the section entitled "Euro area statistics" (page 26*) includes for the first time data on total government receipts and total government expenditure in the euro area as a percentage of euro area GDP. Government receipts and expenditure in the euro area comprise – in addition to government receipts and expenditure of the euro area countries – taxes levied by the European Union and subsidies and capital transfers supplied by the European Union to euro area countries. This reflects the reality of the European Union, in which government activity is carried out by national and European authorities.

The difference between total government receipts and total government expenditure in a given country is equal to government deficit as defined in the Treaty and used in the framework of the Stability and Growth Pact. As government deficit is defined by reference to the European System of Accounts (ESA), total government receipts and expenditure are also based on ESA transactions. The ESA consists of a coherent and detailed set of accounts and tables agreed for the European Union in order to facilitate comparative analyses across the Member States.

Government receipts and expenditure in a given country comprise the receipts and expenditure of all levels of government, that is central, state and local government as well as social security funds. The transactions between the different levels of government are consolidated, except for indirect taxes and production subsidies. Furthermore, no ESA transactions in government expenditure are netted against ESA transactions in government receipts.

Total government receipts and total government expenditure are broken down by current and capital receipts and expenditure; the difference between current receipts and current expenditure is equal to gross saving. Current government receipts include, in addition to direct and indirect taxes and social contributions, government sales such as fees recovered to pay for legal administration, catering in schools, certain licences or sales of wood from government estates and rents of government-owned houses. The important items of current government expenditure comprise transfers to households, as well as compensation of employees, intermediate consumption and interest (in the case of the three latter items as defined in the ESA).

Total receipts minus total expenditure of the general government, that is the government deficit, is not equal to the change in debt as defined in the Treaty. The difference is shown as deficit-debt adjustment and is mainly due to transactions by the general government in its financial assets.

5 Exchange rate and balance of payments developments

US dollar strengthened further

Foreign exchange market developments in March 1999 were characterised by a stronger US dollar and pound sterling and by significant volatility of the euro vis-à-vis the Japanese yen. The foreign exchange markets in the main emerging market economies moved toward lesser volatility. Of particular importance in this regard have been the stabilisation and recent appreciation of the Brazilian real (which had been floated in mid-January) and the continued stability in Asian foreign exchange markets.

The strength of the US dollar vis-à-vis the euro was mainly attributable to economic data released in March which demonstrated that the remarkably strong economic performance of the US economy was continuing unabated. In particular, indicators showed that growth was attributable not only to higher capital and labour inputs but also to productivity increases, despite a significant rate of job creation. Furthermore, indicators of inflationary pressures remained subdued. The main driving force behind the expansion continued to be consumer spending, with the level of consumer confidence remaining high. In addition, the continued strength of the dollar relative to the euro was accentuated by uncertainties related to the military conflict in the Balkans. Overall, the euro declined by 2.2% against the dollar during the month, to USD 1.07 on 31 March 1999. Over the first quarter since its launch the euro has weakened by 8.9% against the dollar. On 8 April 1999 the euro was quoted at USD 1.08.

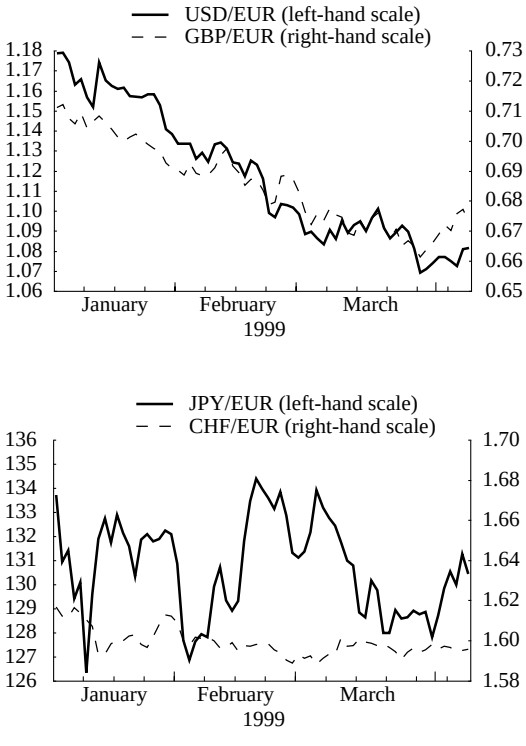
Against the Japanese yen the euro remained volatile in March while registering a decline of about 2.5% to a level of JPY 128 at the end of the month. Individual movements in the yen exchange rate against the dollar and the euro are difficult to attribute to specific developments, but it seems likely that the overall volatility of the yen has mainly been a result of the continued uncertainty surrounding the outlook for the Japanese economy. Upward movements in the yen during March may generally have been attributable to capital flows related to the end of the fiscal year on 31 March, while downward movements may have mostly been triggered by economic news releases, the bulk of which continued to paint a bleak picture of the Japanese economy. Of particular relevance in this context was the release of the preliminary figure for fourth-quarter GDP in 1998, which showed a 2.8% decline compared with the same period a year earlier. This implied an unprecedented decline in output over five consecutive quarters. On 8 April 1999 the euro was quoted at JPY 130.

The development of the euro against the pound sterling was similar to that against the dollar, and the euro ended the month at GBP 0.67 – down 2.4% from the beginning of the month. Part of the weakening against the pound sterling may be explained by the traditionally close link between movements of the dollar and the pound

Chart 9

Patterns in exchange rates

(daily data)

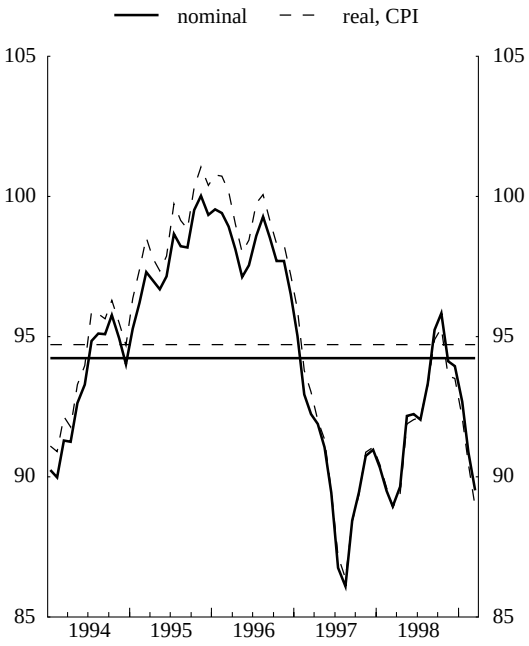


Source: ECB.

Chart 10

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.

as well as by the strong rise in oil prices. Furthermore, some recent data have indicated that the slowdown in real GDP growth in the United Kingdom might be less strong than previously expected. Against the Swiss franc the euro remained broadly stable during March. On 8 April 1999 the euro was quoted at GBP 0.67 and CHF 1.60.

In nominal effective terms, i.e. on the basis of the trade-weighted average index provided by the Bank for International Settlements (BIS), the euro declined by about 2% during March (see Chart 10). From the start of the year to the end of March the nominal effective exchange rate index declined by around 6%. More than half of the decline in the effective exchange rate index was due to the strengthening of the dollar and the pound sterling – the currencies of the two main trading partners of the euro area. Looking backward, by March both the nominal and the real effective exchange rate of the euro stood at a level somewhat below the average of 1998 and similar to the level observed in the first quarter of last year.

Trade surplus slightly reduced in 1998

As noted in the previous issues of the Monthly Bulletin, overall balance of payments data are not yet available. The following comments are based on figures produced by Eurostat and refer to exports and imports of goods between the euro area and the rest of the world, excluding intra-euro area transactions. In December 1998 the surplus on the balance of trade of the euro area amounted to ECU 6.9 billion,

Table 4

Trade in goods of the euro area

	1997	1998	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1998 Nov.	1998 Dec.
Exports											
ECU billions	762.1	790.4	191.7	193.5	206.6	194.0	203.9	194.5	198.1	65.8	63.9
Annual percentage changes	13.8	3.7	15.4	19.0	13.4	13.9	6.4	0.5	-4.1	-0.8	-4.6
Imports											
ECU billions	673.3	707.5	167.8	166.6	180.3	180.5	178.7	170.3	177.9	59.3	57.0
Annual percentage changes	13.4	5.1	13.9	18.2	14.2	13.8	6.5	2.2	-1.3	2.3	-3.0
Trade balance											
ECU billions	88.8	83.0	23.9	26.9	26.3	13.4	25.2	24.4	20.2	6.5	6.9
ECU billions, cumulative [1)]	88.8	83.0	35.6	62.5	88.8	13.4	38.6	62.8	83.0	76.0	83.0

Source: Eurostat.

1) For the year to date. Figures may not add up due to rounding.

i.e. ECU 1.4 billion lower than in the corresponding month of 1997. For 1998 as a whole the trade surplus was ECU 83 billion (1.4% of GDP), compared with ECU 88.8 billion (1.6% of GDP) in 1997 – the first, albeit slight, decline in recent years. According to December 1998 figures, the value of exports and imports amounted to ECU 63.9 billion and ECU 57.0 billion respectively. In that month exports declined by 4.6% compared with December 1997, continuing the year-on-year decline observed in October and November. For 1998 as a whole the value of exports increased by only 3.7%, which was significantly less than in 1997, when they rose by 13.8% compared with the year before. The slowdown in export growth reflects weaker foreign demand and some worsening of euro area competitiveness as measured by the real effective exchange rate during 1998. As for imports, their value decreased by 3.0% in December 1998 compared with December 1997, while for the whole of 1998 the rate of growth of imports slowed to 5.1% from 13.4% in 1997. Falling oil and commodity prices supported this decline.

The role of short-term economic indicators in the analysis of price developments in the euro area

This Article addresses the use of short-term indicators in the regular assessment of price developments. It is a sequel to two previous articles on the Eurosystem's monetary policy strategy and the role of monetary aggregates in this strategy, which were published in the January and February 1999 issues of the Monthly Bulletin respectively. The analysis of short-term economic indicators is an important feature of the second pillar of the monetary policy strategy, i.e. "the broadly based assessment of the outlook for future price developments and the risks to price stability in the euro area as a whole". While monetary data, as covered by the first pillar, contain information which is vital for the formulation of the appropriate monetary policy stance, the second pillar recognises that, in addition, information from other sources is required. Thus, within the broadly based assessment of current and future price developments, the analysis of price information – which can be derived from financial market indicators, various survey data on inflation expectations and the evaluation of forecasts of inflation – is complemented by the regular analysis of a wide range of short-term economic indicators. Such an analysis is by no means "mechanical". Rather, it has to be seen against the background of the behavioural and structural uncertainties which normally characterise the relationship between consumer price changes and changes in other macroeconomic variables.

1 The importance of short-term economic indicators in a broadly based assessment of price developments

The monetary policy strategy rests on two pillars

As explained in the article in the January 1999 issue of the Monthly Bulletin ("The stability-oriented monetary policy strategy of the Eurosystem"), the Governing Council of the ECB has defined price stability in the euro area as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) of below 2%. Price stability according to this definition is to be maintained over the medium term. Ultimately, inflation is considered to be a monetary phenomenon, conditional on monetary expansion and subject to control by means of monetary policy. Against this background, the Governing Council recognised that it was important to give money a prominent role in the Eurosystem's strategy. To signal this, it has announced a quantitative reference value for monetary growth as one pillar of the overall stability-oriented strategy. This pillar was explained in more detail in the February 1999 issue of the Monthly Bulletin (in the article entitled "Euro area monetary aggregates and their role in the Eurosystem's monetary policy strategy"). The same article showed that the overall performance of prices in the euro area is closely linked to longer-term trends in the money stock. In particular, the general trend towards lower rates of inflation over the 1980s and 1990s and the effective achievement of price stability over the past two years can be clearly associated with longer-term trends in money growth.

In addition, complementing the analysis of monetary growth in relation to its reference value, a broadly based assessment of the outlook for price developments and the risks to price stability in the euro area plays an important role in the monetary policy strategy. Money is therefore accorded a prominent, but not exclusive, role. In its broadly based assessment the Governing Council systematically analyses all the other information on the economic and financial situation. Since monetary policy measures only have an impact on prices with a relatively long lag, the assessment of price developments must be forward-looking. The analysis is conducted using a wide range of short-term economic indicators, information derived from financial market indicators, survey data on inflation expectations and forecasts of inflation. This information is combined to form an overall view of the outlook for prices as input into the

formulation of the appropriate monetary policy stance. This picture is continuously updated as new information becomes available. The information made available for the meetings of the Governing Council is regularly reviewed in the section of the Monthly Bulletin entitled "Economic developments in the euro area". This Article is focused on one aspect of this analysis of price developments, namely the use made of short-term economic indicators.

The assessment of price developments using a wide range of short-term economic indicators

In the short to medium term price developments are influenced not only by monetary trends but also by a host of non-monetary factors. The monitoring and analysis of a wide range of economic indicators help to identify the forces which determine the overall price climate and thereby to distinguish between more temporary factors, on the one hand, and underlying movements, on the other.

The first category contains factors of a largely exogenous nature, which tend to have a one-off effect on the price level, but which can nevertheless initiate or reinforce price pressures. Examples on the external side are oil and commodity price changes and, on the domestic side, changes in rates of VAT. The second category concerns the forces generated by the underlying dynamics of the domestic economy, as reflected in overall demand and supply conditions. As regards overall demand conditions, the strength of private and government consumption, private and public investment, exports and imports and their respective determinants have to be assessed. As far as overall supply conditions are concerned, the labour and capital sides of the production process have to be distinguished, as reflected in measures relating to labour market tightness and the rate of utilisation of capital.

The assessment of price developments does not consist in mechanically accounting for price changes on the basis of changes in the relevant short-term indicators, as the effects on prices of certain developments often vary depending on the precise circumstances. For example, a one-off change in indirect taxes may per se only lead to a one-off change in the price level. However, the ultimate impact on prices of such a tax change is highly dependent on the overall conditions prevailing in the economy. These largely determine the extent to which such tax changes can be quickly passed on to consumers and the reaction of other economic agents to such a change, i.e. the probability of "second-round" effects. If, for instance, an increase in VAT is implemented at a time when overall demand in the economy is strong and the labour market is tightening, there is a greater likelihood that it will be passed on to prices relatively quickly. Moreover, the price increases, in turn, may subsequently be incorporated into wage claims, triggering or reinforcing an inflationary process to which monetary policy will have to react. Similar considerations apply to other factors influencing short-term price developments, such as import prices, which give rise to different short-term dynamics, depending on the circumstances in which they occur.

All central banks undertake a detailed analysis and assessment of price developments. Nonetheless, the introduction of the euro makes this task more complex, as it may produce – or may already be producing – behavioural and institutional changes. The most obvious of these in terms of euro area developments is probably the changing relative importance of domestic as opposed to external developments. Moreover, apart from increased competitive pressures within the euro area following the introduction of the single currency, globalisation may be a further factor influencing the interplay of prices and their determinants. Additional problems of a somewhat different nature are caused by the fact that, while the statistical coverage of the short-term indicators available for the euro area as a whole is generally

sufficient, in a number of cases the coverage falls short of that in individual countries.

Overall, the assessment of the outlook for price developments for the euro area is subject to considerable uncertainty, which means that a number of caveats must be borne in mind. These have to be addressed by analysing as wide a range of indicators as possible. The aim is to produce an assessment of the future outlook for prices by constructing an overall picture taking into account monetary developments, financial market information, inflation forecasts and survey data, as well as a thorough assessment of price developments on the basis of the available short-term economic indicators.

2 Price indicators for the euro area

Main focus is on the HICP

The analysis of price developments requires, in the first instance, a conceptually and statistically sound measure of prices. For monetary policy purposes the Eurosystem has decided to focus on developments in the overall Harmonised Index of Consumer Prices (HICP) for the euro area. Conceptually, the focus on a consumer price index is due to the fact that consumer goods and services are at the very end of the production process in the economy. The prices of all other goods and services – including, for example, investment goods – have an intermediate character and their development will be one of the factors determining consumer price developments. A consumer price index, therefore, may be considered to sum up all inflationary and deflationary price developments in the economy. This is consistent with the general public's focus on consumer prices. Given this focus, the choice of the euro area HICP can be explained by the fact that this is the only index which fulfils a number of crucial statistical requirements: a high degree of harmonisation, sufficient coverage and timely availability (see Box 1 below for further details of the HICP and the main sub-categories).

Box 1

The Harmonised Index of Consumer Prices

The Governing Council of the ECB has defined price stability in terms of the Harmonised Index of Consumer Prices (HICP) for the euro area. This index was originally created for the assessment of price convergence in Stage Two of Economic and Monetary Union. As a result, it was, to a large extent, harmonised across the EU Member States in respect of coverage, standards for the procedures for quality adjustment and numerous technical details. Further harmonisation and broadening of the coverage, for example to include expenditure on education and health services, are planned for this year and next year. However, the HICP series already meet the requirements of the ECB for policy analysis in terms of reliability, comparability and timeliness. Eurostat publishes data for the HICP on a monthly basis, approximately three weeks after the end of the respective month. Data for the period from 1995 onwards are currently available. Backdata are being compiled in some countries.

In addition to total HICP, Eurostat publishes data for 77 different sub-components of the HICP. These sub-components comprise prices for specific types of goods and services (e.g. fish, second-hand motorcars and banking services) and are grouped in more aggregated sub-indices (e.g. food, industrial goods and services). In its Monthly Bulletin, the ECB currently focuses on data for total HICP and five main components (see the table below).

Weights of main components of the HICP for the euro area

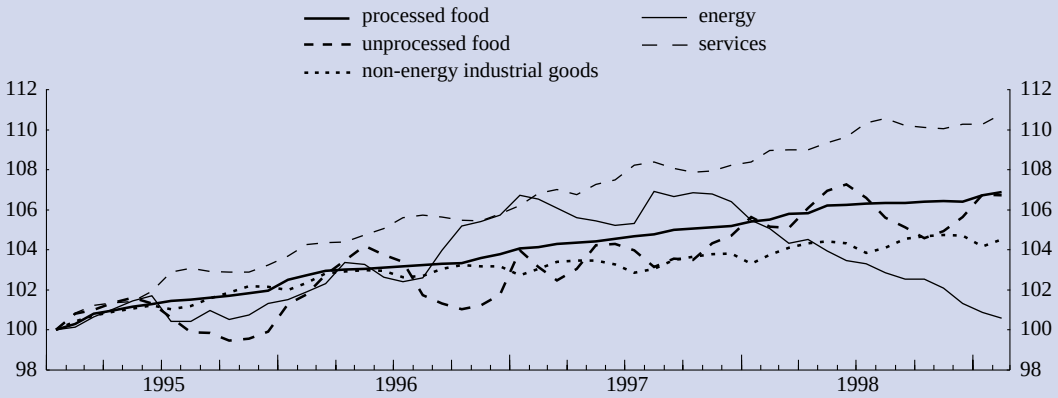
	Consumer spending weights for 1999, in percentages
Processed food	13.4
Unprocessed food	9.0
Non-energy industrial goods	32.5
Energy	8.8
Services	36.3

Source: Eurostat.

The developments in the five main components of the HICP are different from one another (see the chart below). Unprocessed food prices (e.g. meat, fruit and vegetables) and, in particular, energy prices (e.g. electricity, gas and other fuels) have shown a high degree of short-term volatility. The volatility of unprocessed food prices is closely related to seasonal factors and unusual changes in weather conditions. Energy prices are to a large extent determined by the world market price of oil, which can be extremely volatile at times. By contrast, price changes for processed food (e.g. bread, beverages and tobacco), non-energy industrial goods (e.g. shoes, cars and computers) and services (e.g. rentals for housing, travel expenses and transportation services) have displayed a fairly smooth development over time. Price developments with regard to services are less influenced by either weather conditions or global market conditions and – to a greater extent than other price developments – are determined by wage and capital costs as opposed to intermediate input costs. They therefore tend to show a relatively low degree of short-term volatility.

Breakdown of the HICP in the euro area by main components

(index: January 1995=100; monthly data)



Source: Eurostat.

The HICP includes a number of prices of goods and services provided by public sector entities that are only partly determined by market forces. Pricing in these cases is often administrative in nature, based on costs or other considerations, and not noticeably responsive to changes in demand. Changes in such administrative prices are frequently known up to a year ahead, which makes it possible to estimate their impact on overall HICP in advance. The importance of prices of a wholly or partly administrative nature varies across countries in the euro area, but they often include electricity, water supply and postal services. The privatisation of state-owned enterprises (e.g. in telecommunications services and public transport) has lowered the share of administrative prices in the overall HICP in recent years, and increasing competition in these sectors may well give rise to a somewhat different pattern of price developments in the sub-components concerned in the future.

For analytical purposes it can be useful to construct various measures of the HICP excluding certain volatile items or administrative prices. For example, in the March 1999 issue of the Monthly Bulletin the development of the HICP excluding energy was presented. However, these more limited indices do not represent the ECB's position regarding "underlying" or "core" measures of consumer price inflation, for which there is no agreed best definition.

Actual HICP developments have now been consistent with price stability as defined by the Governing Council of the ECB for almost two years. In the current situation the analysis of price developments is, therefore, mainly concerned with the question of whether or not price stability can be expected to continue. It should be noted that the definition of price stability is "symmetric" in the sense that neither a situation of sustained increases of more than 2% nor a situation of sustained declines in consumer prices would be regarded as consistent with this definition. A precise lower limit, however, was not given, the main reason for this being the fact that there is uncertainty surrounding the existence and magnitude of the so-called measurement bias in the HICP, which arises from, inter alia, the fact that the measurement of prices does not take sufficient account of accompanying quality changes in the products sold. This notwithstanding, it seems likely that, owing to improved data collection and compilation techniques, the measurement bias in the HICP will be lower, for example, than estimates that were published for the United States (the "Boskin Report"). So far no reliable estimates are available of the measurement bias in the euro area; however, any such bias is likely to be slightly positive, which suggests that the "true" increase in the HICP might be somewhat overestimated.

Other price indicators

In addition to the Harmonised Index of Consumer Prices, attention is also given to other price indicators in the context of analysing price developments, in particular prices at earlier stages of the production chain and import prices (considered in Section 3 below). These other price indicators point, for instance, to whether price increases are caused by higher demand or by supply bottlenecks, but there is not necessarily a stable and simple relationship between these prices and the consumer price index. One indicator which appears frequently in the analysis of price developments is the industrial producer price index. It refers to the prices of manufactured goods at every stage of the production chain prior to the final purchase by the consumer. Industrial producer prices are, like consumer prices, determined by a wide range of factors, including the outlays for intermediate goods, labour and capital. In addition, production costs are influenced by the development of productivity.

As less than half of the value of consumption expenditure relates to manufactured goods, one would not expect industrial producer and consumer prices to exhibit a close positive relationship at all times. In fact, while the broad trend of both industrial producer and consumer prices has been downward during the 1990s, actual developments in the two indices have differed considerably (see Chart 1).

Chart 1

Consumer and industrial producer prices in the euro area

(annual percentage changes; monthly data)

Sources: ECB calculations based on national non-harmonised data and Eurostat.

There are a number of factors that serve to weaken the relationship. First, industrial producer prices refer to manufactured goods, whereas consumer prices include services as well as goods. In addition, the composition of the baskets of goods is quite different for the two indices. Second, a change in industrial producer prices may not be passed on in consumer prices as a result of adjustments in wholesalers' and retailers' profit margins, on account, for example, of cyclical factors or competitive pressures. Finally, indirect taxes and subsidies are included in the measurement of consumer prices but not in that of producer prices. This argues against a simplistic and overly narrow focus when assessing price developments; while some indicators may point in one direction, their influence can be completely overshadowed by other factors.

3 Key short-term indicators for analysing price developments

As mentioned above, the ongoing analysis of short-term indicators is an important part of the overall assessment of price developments. It should be emphasised that, in practice, the relationship between developments in the respective indicators and price developments is not straightforward. Rather, the assessment of price developments consists in incorporating information from possibly conflicting indicators into the overall framework, thereby forming a consistent picture of the overall price climate. While the indicators mentioned below are far from representing an exhaustive set of factors influencing price developments, their discussion provides some insight into the type of analysis required.

Indicators of overall excess demand or supply

Conceptually, the most comprehensive measure of overall demand and supply conditions is the difference between the actual and potential levels of output of the economy as a whole, i.e. the "output gap". Potential output can be defined, in terms of growth rates, as the rate of growth of real GDP that is sustainable in the medium term. Its evolution is determined by the growth of the capital stock and labour supply and the rate of growth of productivity. If actual output growth is above the potential level of growth, a positive output gap may develop that could lead to inflationary pressures, and vice versa in the case of a rate of growth below that of potential. These price pressures are regarded as becoming stronger as the output gap increases.

The output gap cannot be used as a summary measure for guiding monetary policy decisions. While the concept as such is straightforward in theoretical terms, there are a number of reasons why, in practice, it can at best be used as a complementary indicator in the assessment of price developments. One of the most important reasons is that the level of potential output of an economy – and, therefore, the size of the output gap – cannot be determined with the necessary level of precision. There are a number of alternative concepts and techniques available for estimating potential output, the relative merits and drawbacks of which are subject to ongoing debate and research. In addition, the degree of price pressures corresponding to a certain output gap could depend on whether or not the constraining factor is capital or labour.

However, while estimates differ quite significantly across institutions with regard to the level of potential output, there is more uniformity in the estimates of the changes. Against this background of methodological and empirical difficulties, the Eurosystem has assumed a medium-term trend growth rate for real GDP for the euro area of 2-2½% per annum, which is also in line with the estimates of most international organisations. A comparison of actual real GDP growth with the trend growth rate shows that on average

since the beginning of the 1990s the euro area economy has been growing somewhat below, rather than above, trend. However, there has been a period of above-average growth over the past two years, indicating that the degree of excess productive capacity has been declining. While this points to possible, albeit slight, price pressures, current projections suggest weaker real GDP growth in 1999 compared with 1998.

It should be noted that the concept of trend real GDP growth fulfils a similar function in the first pillar of the monetary strategy of the Eurosystem. The trend growth rate and the Eurosystem's definition of price stability, together with the trend in the velocity of circulation of money, determine the reference value for the growth rate of money, as explained in the February 1999 issue of the Monthly Bulletin.

Indicators of output and demand conditions

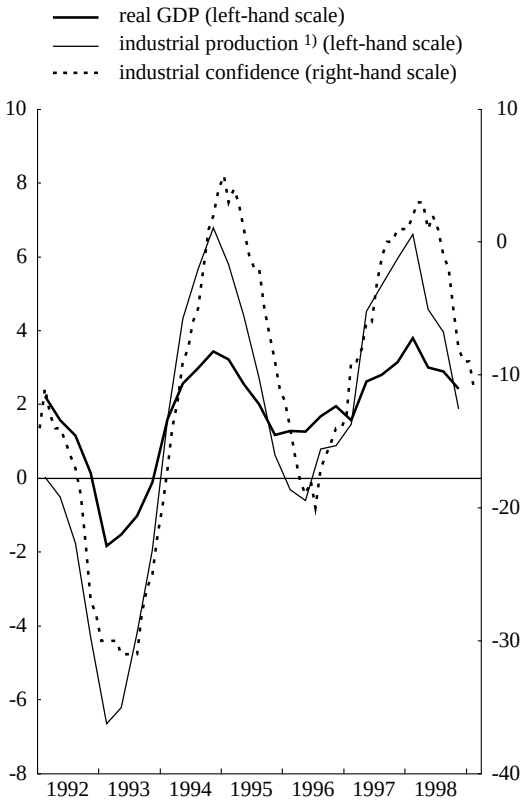
An analysis of both the sectoral output developments and the main components of demand provides additional information on the development of the economy and thereby on the possible impact on the overall price climate.

With regard to the breakdown of output by sector, an important component of overall output is industrial production. Although industrial output amounts to no more than one-third of the total, in cyclical terms it is the most sensitive component of output (see Chart 2) and data are available at a monthly frequency with a relatively small time lag. Further evidence of developments in the industrial sector can be derived from surveys on industrial confidence, such as those produced by the European Commission, which are available with an even shorter time lag and exhibit a close relationship with actual industrial production. This information facilitates an early identification of the direction and strength of activity and thereby contributes to a timely identification of price pressures.

Chart 2

Real GDP growth, industrial production and industrial confidence in the euro area

(annual percentage changes, monthly percentage balances for industrial confidence; quarterly data otherwise)



Sources: Eurostat and European Commission Business and Consumer Surveys.
1) Quarterly averages of monthly data.

However, given that industrial production refers largely to tradable goods, the prices of which are determined in world markets rather than by domestic factors, price developments in this sector may appear to be detached from developments in industrial output. During 1998 industrial producer prices decreased sharply as a result of strong declines in both energy and commodity prices and increased international competitive pressures. Developments in the construction sector, which accounts for some 15% of total industrial output in the euro area, are likely to follow different patterns, as demand and costs are predominantly determined by factors within the euro area.

Demand developments in the services sector are also likely to be largely determined by domestic factors. They may be expected to give clearer indications as to the concomitant price developments, with increased demand being more likely to be reflected in both prices and output. However, data availability for the services sector is, in general, less satisfactory than that for the industrial sector. Overall, recent developments at the sectoral level, which are characterised by a slowdown in industrial output growth since mid-1998 and sustained growth in the services sector, illustrate that there may be prolonged divergences between the different sectors, giving rise to divergent sectoral price developments.

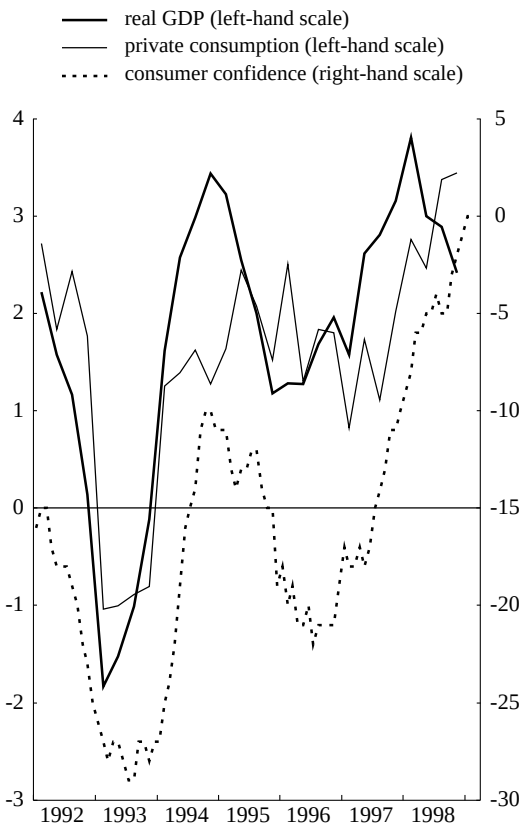
Turning to the main components of aggregate demand, private consumption, which comprises around 60% of total real GDP in the euro area, plays a major role in explaining overall growth patterns (see Chart 3). Consumption is to a large extent determined by real earnings of private households. In this respect, wages per capita may affect consumer prices not only via labour costs and output prices, but also via disposable income and demand. A second factor, which might influence private consumption, is financial wealth. In this respect, the direct effects of household financial wealth on consumption are considered to be of limited importance for the euro area, although a rise in house or equity prices may have some indirect effects through their impact on confidence. Chart 3 also shows, however, that the relationship between consumer confidence and consumption is somewhat weaker than that between industrial confidence and production.

Government consumption, which accounts for 15% of overall GDP in the euro area, to a large extent reflects real wages and salaries paid to public sector employees as well as spending on military equipment. This demand component does not usually cause pronounced fluctuations in aggregate demand, but discretionary fiscal policy can have an impact on the cyclical position of the

Chart 3

Real GDP growth, private consumption and consumer confidence in the euro area

(annual percentage changes, monthly percentage balances for consumer confidence; quarterly data otherwise)



Sources: Eurostat and European Commission Business and Consumer Surveys.

economy. More importantly, over the medium to long term fiscal policy can have positive effects by fostering consumer and industrial confidence, while confidence would be adversely affected if fiscal policies were not considered sustainable in the long run. The reason for the higher volatility of overall GDP compared with consumption lies in the development of investment, stockbuilding and net exports. Analysing investment patterns is not only important in order to gauge the likely pressures on prices arising from cyclical movements in aggregate demand, but also because investment has an important bearing on the supply side of the economy. Although stockbuilding is a very small component of demand, its contribution to growth can be

sizable in the short term, and corrections to inventory positions play an important part in explaining short-term movements in GDP. Stockbuilding can easily account for more than 1 percentage point of the change in GDP from one year to the next, but it should be borne in mind that the quality of national accounts data on stocks is questionable.

Indicators of supply conditions

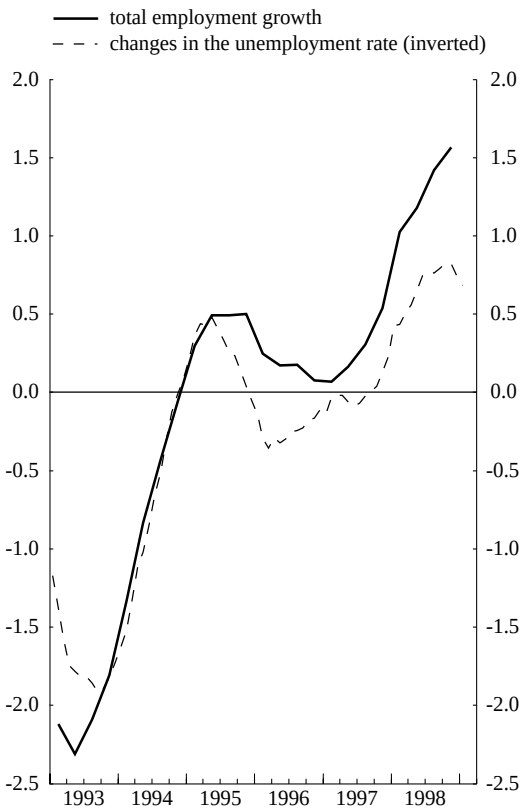
As already noted, price pressures tend to arise when demand and output exceed the production capacity of the economy. Labour market developments and capacity utilisation provide a broad indication of the tightness of supply conditions relative to demand, and thus point to possible price pressures at the level of factor costs and producer prices. At the same time, however, these developments tend to explain the behaviour of wage and profit incomes respectively. This serves to emphasise the dual role that some indicators may play in the explanation of price changes via both the demand and income channel, on the one hand, and the cost channel, on the other.

The rate of unemployment is probably the most prominent indicator of labour market tightness, although it cannot be regarded as an accurate summary measure. In principle, a decrease points to a reduction in excess labour supply and thus to an improved bargaining position of employees. Although the development of unemployment and employment are clearly related (see Chart 4), changes in the unemployment rate do not necessarily correspond to changes in employment. In the period since mid-1997 overall employment growth has picked up considerably, to annual rates of change of well above 1% (i.e. 2.2 million people), while in this same period the rate of unemployment has decreased by a cumulative 1 percentage point (i.e. 1.4 million people), after having remained broadly stable for the previous year and a half. The difference of around 800,000 people can be accounted for by a tendency for previously economically inactive persons to enter, or re-enter, the labour force, adding to the available non-employed labour supply.

Chart 4

Employment growth and changes in the unemployment rate in the euro area

(annual percentage changes, annual percentage point changes in the unemployment rate; quarterly data for employment, monthly data for unemployment)



Sources: ECB calculations based on available national non-harmonised data and Eurostat.

There is also a problem with the reliability of the unemployment figures themselves as a summary measure of slack in the labour market. The unemployment rate for the euro area as a whole, as published by Eurostat, is calculated according to ILO definitions and counts those out of work but actively seeking a job. This becomes more meaningful as a measure of labour market tightness and wage bargaining power the higher the number of unemployed persons who are attractive to employers in terms of their skills and other qualifications. The significant proportion of long-term unemployed, however, suggests, for instance, that a large number of these

job-seekers may not possess the necessary skills required to fill the existing vacancies. Such a "mismatch" in the labour market can also partly be seen in the simultaneous existence of unemployment and vacancies. However, this conclusion is dependent on the degree of flexibility in the level and structure of wages.

Hence a high unemployment rate does not, in itself, indicate downward pressure on wages. For reasons relating to the specific regulations and institutional features governing individual labour markets, a substantial part of measured unemployment is of a structural nature. Various estimates suggest that this is indeed the cause of the bulk of the unemployment in the euro area. This implies that it may well be the changes in employment and unemployment, rather than the underlying levels, that provide the most relevant indication of upward or downward wage pressures. To the extent that a reduction in measured unemployment, as observed over the past year, is not matched by a concomitant reduction in structural unemployment, labour market tightness and the potential for wage pressures increase. This suggests that comprehensive labour market reforms, directed at increasing flexibility and removing rigidities, contribute both to bringing unemployed persons into work and to containing wage pressures.

Whether wage increases constitute a direct threat to cost and price stability depends to a large extent on the accompanying developments in productivity. Wage increases in excess of productivity growth give rise to an increase in nominal unit labour costs. In this context, account needs to be taken of the fact that over an economic cycle productivity developments are not generally synchronised with wage demands. In the early phase of a recovery productivity tends to improve strongly, while wage increases are still moderate as a consequence of the higher unemployment following a recession, and vice versa in the later stages of a recovery. This phenomenon exacerbates the cyclical movements in unit labour costs, feeding through to movements in producer prices, to the extent that profit margins are not adjusted accordingly.

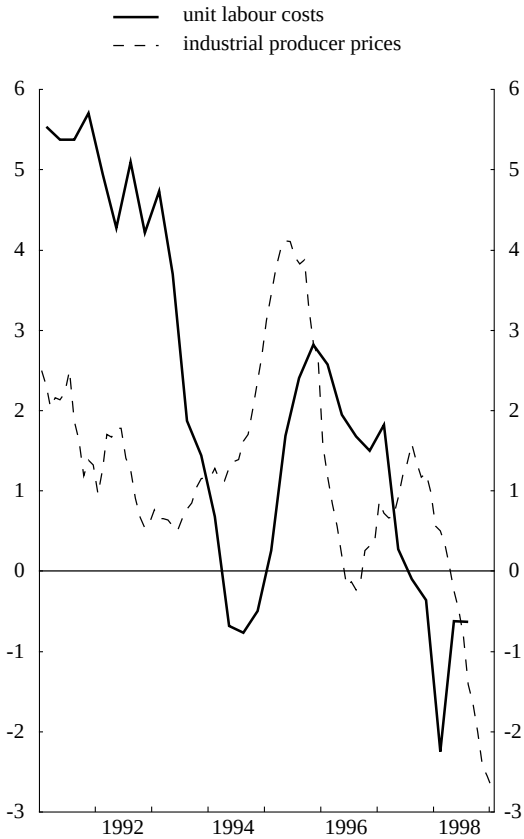
It should be noted, however, that wages are only one component of total costs and may affect producer prices to differing degrees and with a variable time lag. This is particularly evident when looking at the weak relationship evident in Chart 5. Depending on the developments of commodity prices, for instance, an increase in unit labour costs need not be reflected in upward pressure on industrial producer prices.

Increases in marginal costs of production and hence pressure on output prices may also be indicated by an increase in capacity utilisation,

Chart 5

Unit labour costs and industrial producer prices in the euro area

(annual percentage changes, quarterly data; monthly data for producer prices)



Sources: ECB calculations based on available national non-harmonised data and Eurostat.

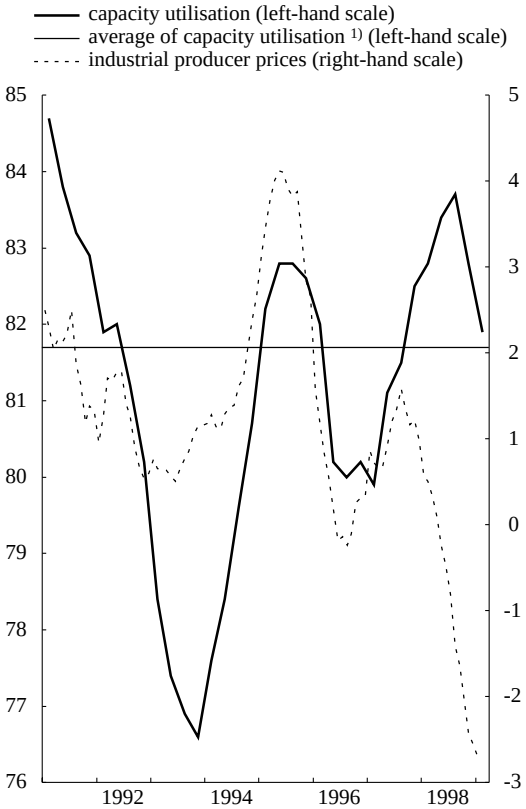
given that this implies a more intensive use of equipment and machinery, involving higher maintenance costs and higher overtime premium payments to employees (see Chart 6). This type of analysis suggests the existence of a "normal" rate of utilisation, which is fairly stable over time and above which such cost pressures occur. However, at times, this relationship may be rather weak, with other factors playing a more important role in the evolution of industrial producer prices, as has been the case since mid-1997.

An increase in capacity utilisation also reflects a pick-up in demand and production relative to available capacity and, depending on the market structure in which the individual firms operate, may point to a possibility of raising mark-ups. Current and expected profits are an important factor in the financing of investment, which, in turn, is necessary to relax the constraints implicit in high rates of capacity utilisation.

Chart 6

Capacity utilisation and industrial producer prices in the euro area

(in percentages, annual percentage changes for producer prices; quarterly data, monthly data for producer prices)



Sources: European Commission Business and Consumer Surveys and Eurostat.

1) Average of capacity utilisation over the period from 1985.

Other factors

Further information on price pressures can be derived from various other indicators. Among these, external factors play an important role. Economic activity in the rest of the world affects exports of the euro area and is therefore an important aspect in the assessment of total demand. However, external factors can also influence consumer prices in a more direct way.

External price developments affect the prices of imported goods measured in foreign currency, while exchange rate movements condition the extent to which such changes are mirrored in import prices expressed in euro. A change in import prices affects consumer prices both directly and indirectly. Some components of imports (e.g. coffee and oil) enter into consumption almost directly and therefore have a direct impact on consumer prices (proportional to their weight in the HICP). In addition, as noted above, import prices may also affect costs and prices in earlier stages of production, i.e. at the level of producer prices, and should ultimately have an impact on the prices paid by consumers.

An appreciation of the exchange rate tends to reduce the impact on domestic consumer price increases of a given external price increase. The impact of exchange rate movements on import prices is, however, also complex. It depends on, inter alia, the market structure, pricing behaviour in the industries concerned and whether firms view exchange rate movements as being temporary or permanent. For example, if importers view a change in the exchange rate as temporary, they may refrain from adjusting prices on account of competitive pressures and adjustment costs.

The effects of exchange rate movements on import prices may also vary with the category of imports. Primary products with a well-defined world market price contracted in a foreign currency (e.g. oil prices) form a homogeneous group for which the pass-through can be expected to be relatively rapid and complete. In the case of heterogeneous products such as manufactured goods, however, the pass-through is influenced by the state of domestic demand and the degree of competition in the relevant domestic sectors. It may therefore be protracted and incomplete, even in the medium term. Changes in world market prices that are not offset by exchange rate movements also affect the competitive position, which, in turn, affects net exports and aggregate demand conditions.

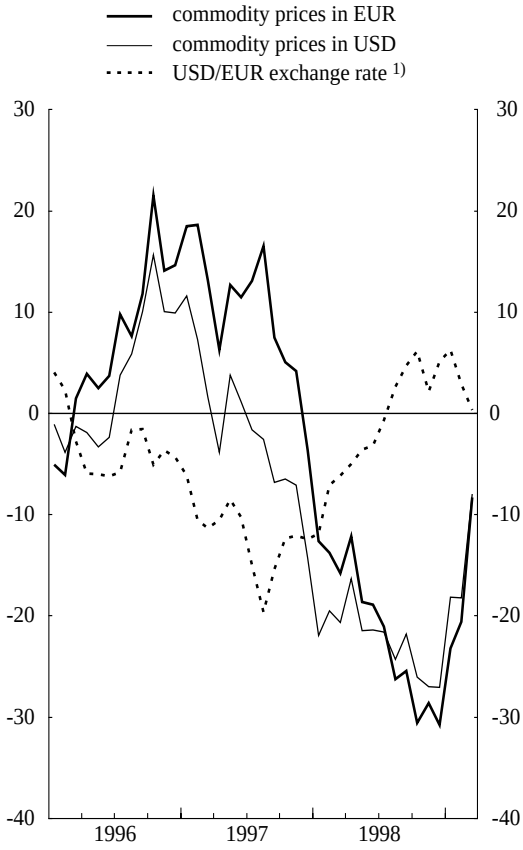
As indicated above, the importance of external factors for the development of consumer prices has been evident over the past few years. The significant fall in commodity prices, in foreign currency, since the beginning of 1997 was partly offset by a depreciation of the exchange rate during most of 1997. As a result, commodity prices expressed in ECU declined to a lesser extent than prices measured in terms of US dollars during 1997 (see Chart 7). By contrast, the continued fall in commodity prices during 1998 was reinforced by an appreciation of the exchange rate. Accordingly, commodity prices in ECU fell faster than prices in US dollars in the course of 1998. In the first few months of 1999 both commodity prices in dollar terms and exchange rate movements of the euro led to a partial reversal and gave rise to a comparative increase in import prices.

Those commodities that enter almost directly into consumption had a direct effect on consumer prices in 1998, in particular consumer prices for energy. Moreover, the fall in commodity prices, again notably energy prices, has also resulted in lower industrial producer prices. While the lower commodity prices have had a clear impact on industrial producer prices in those industries with a relatively high share of input goods (e.g. the intermediate goods industry), the impact has been more muted in industries with a relatively low weight of input goods, as shown by industrial producer prices for durable consumer goods (see Chart 8). The relatively modest decline in the annual increase of these prices partly explains the broadly stable development in prices for non-energy industrial goods in the HICP.

Chart 7

Commodity prices and the exchange rate

(annual percentage changes; monthly data)



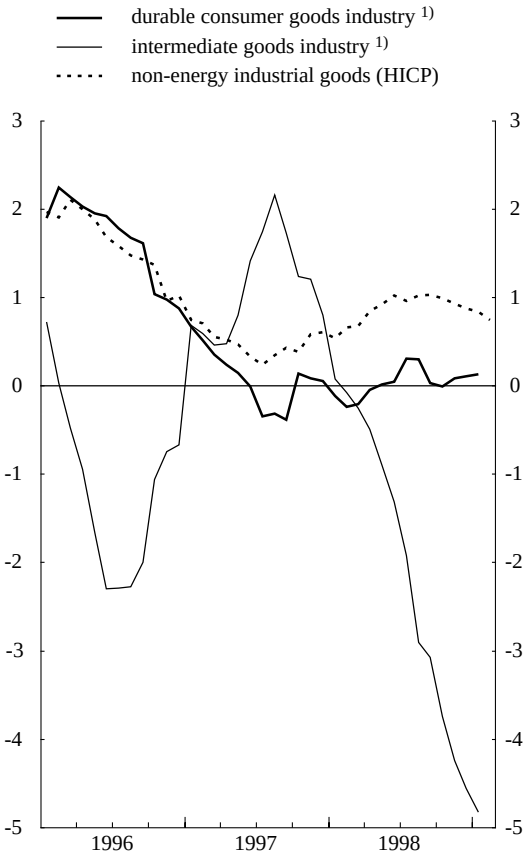
Sources: HWWA-Institut für Wirtschaftsforschung, Hamburg, and ECB calculations.
1) USD/ECU up to December 1998.

In addition to external factors, consumer prices can also be affected by changes in costs of a more specific nature, such as changing weather conditions, which may result in significant volatility in the prices of seasonal food. Furthermore, changes in fiscal policy can influence price developments. Examples of this are changes in indirect taxes and subsidies. Government-induced price impulses can also relate to changes in income taxes, property

Chart 8

Industrial producer prices and non-energy industrial goods in the HICP in the euro area

(annual percentage changes; monthly data)



Source: Eurostat.

1) Industrial producer prices.

taxes and, in particular, non-wage labour costs. Social security contributions are the largest component of non-wage labour costs. They affect compensation per employee paid by the employer and therefore have a direct effect on firms' total labour costs. As mentioned above, the effects of such factors may be seen as transitory as they tend to have a one-off impact on the price level. However, they can nevertheless cause price pressures or reinforce existing ones and therefore need to be monitored closely. Moreover, there can also be more fundamental effects arising from fiscal policies, in particular when these are not considered to be sustainable in the long term.

Finally, there are other types of shocks that may, in addition, affect aggregate supply and demand and thereby the price climate. First, political events may result in considerable changes in demand and cost conditions and, therefore, the development of prices. One example is German unification in 1990. Second, shocks in financial markets, such as the sharp depreciation of the Mexican peso in 1994 and that of many Asian currencies in 1998, affect consumer prices in the rest of the world through lower prices for imported consumer goods and, more indirectly, via their effect on net exports.

4 Concluding remarks

The second pillar of the monetary policy of the Eurosystem is a "broadly based assessment of the outlook for price developments and the risks to price stability in the euro area as a whole". This involves a wide-ranging analysis of all the economic and financial information available. Short-term economic indicators – as discussed above – along with financial market indicators, survey data and forecasts of inflation play an important role within the second pillar. However, such analysis can by no means be regarded as mechanical. Rather, it needs to take into account the complex relationships between these variables and price developments against the background of institutional and structural changes occurring, among other factors, as a consequence of the introduction of the euro.

Banking in the euro area: structural features and trends

Over the past decade or so competition in the banking sector has increased considerably, both in those countries which now comprise the euro area and in others, as a result of a number of fundamental forces pressing for change in the financial system. Of these factors, financial liberalisation, innovation, technological progress and the diversification of savings and investment portfolios are the most significant. The introduction of the euro is likely to act as a catalyst for further competition and structural change in the banking sector by speeding up the emergence of a genuine single market in financial services. However, in terms of the timing and nature of the effects, the impact of the euro is likely to vary significantly across different types of financial services and markets. A single money market in the euro area has been seen to develop very rapidly, but the market for retail banking services is still significantly segmented owing to a number of fiscal, legal and cultural differences, as well as to divergences in the way business is conducted. The largest proportion of retail banking activity in the euro area countries has remained in the hands of national institutions.

1 Monitoring the euro area banking sector

Together with the single market legislation liberalising the cross-border provision of financial services within the European Union, the introduction of the euro facilitates the development of a more integrated and competitive banking industry in the euro area. This is likely to involve further strategic adjustment on the part of banks and, hence, ongoing structural changes in the banking sector. The trend towards increased consolidation and concentration taking place via bank mergers and acquisitions is the most visible sign of this process of adjustment.

In the first weeks and months after the changeover to the euro a substantially integrated and highly competitive single money market has emerged in the euro area as banks' treasury functions have adapted to the new environment and the TARGET system has been very actively used for cross-border payments. Differences in overnight rates in the euro area now mainly reflect differences in the credit standing of banks, rather than of the country in which overnight funds are obtained or lent. This indicates that the overnight money market has begun to operate smoothly across the euro area and provides an example of how profoundly the functioning of financial markets might change as a result of the changeover to the euro and the single monetary policy.

However, the timing and nature of the effects of the euro are likely to differ substantially across financial services and markets. By contrast with money market and many other wholesale banking activities, fiscal, legal and cultural aspects as well as divergences in the way business is conducted seem to perpetuate the segmentation of national markets for retail banking services which can be observed at present. The mortgage market is a good example of this, as it continues to be subject to substantial national regulations, taxation, subsidies and administrative procedures. The need to become familiar with the conditions in the national markets and the difficulty of developing standard "pan-European" banking products constitutes a barrier to cross-border activity. The sooner these differences diminish, the faster the single currency can be expected to contribute to the integration of the markets for retail banking services.

The Eurosystem has a strong interest in those developments in the banking industry which have implications for the stability of the banking system and the functioning of payment systems (see Box 1) – both of which are relevant to the successful conduct of monetary policy in the euro area and closely linked to the other tasks of the Eurosystem (see Articles 105 (2) and 105 (5) of the Treaty). Against this background, this Article first characterises the structural features of the euro area banking systems and then proceeds to evaluate certain developments which could be triggered by the introduction

of the euro. It also draws to a significant extent on a recent ECB publication entitled *"Possible effects of EMU on the EU banking systems in the medium to long term"*, in which the analysis of likely longer-term trends in banking is based on an extensive collection of data from national sources.

Box 1

The Eurosystem's perspective on monitoring developments in the banking industry

The Eurosystem – the ECB and the euro area national central banks (NCBs) – has a clear interest in closely following developments in the euro area banking sector. In the first instance, the Eurosystem is interested in the structural features of the banking sector and in developments affecting its stability owing to their role in the monetary policy transmission mechanism. In particular, the structure and stability of the banking sector can have an impact on overall macroeconomic performance, the efficiency of monetary policy implementation and the functioning of payment systems. In this respect, it should be noted that all central banks have developed expertise and collect information about the banking system in the area of their monetary jurisdiction, irrespective of their supervisory responsibilities, analysing in particular the structural features and stability issues relating to the banking sector and the financial system as a whole. This reflects the fact that banks constitute the key sector in the monetary policy transmission mechanism as they are the Eurosystem's counterparties in monetary policy operations, onlending funds to the public, and as they are the primary collectors of deposits, which form a large part of the monetary aggregates monitored by the Eurosystem.

In the second instance, the Eurosystem is interested in developments which could possibly affect the stability of the banking system in relation to the task laid down in the Treaty (Article 105 (5)), which states that "*the ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system*". In particular, monitoring the stability of the euro area banking sector and providing suggestions to strengthen the stability of the financial system represent contributions that the Eurosystem can make in this area. This task is pursued with the assistance of the Banking Supervision Committee, which is composed of representatives of the NCBs and banking supervisory authorities of the EU countries. The latter are either part of the respective national central banks or separate bodies.

2 Structural features of the euro area banking sector

A number of indicators are used in this section to characterise in broad terms the present structural features of the euro area banking sector. As these features may vary significantly from one country to another, it is useful to provide national information as well.

Size increasing in terms of total assets

The size of a banking sector can be described in terms of the amount of assets that are held by banks and which reflect the activity of financial intermediation by banks, i.e. the provision of funds to the various sectors of the economy. The aggregated balance sheet of the euro area Monetary Financial Institutions (MFIs) excluding the Eurosystem was €14,233 billion (see Table 1) at end-1998 (see Box 2 for statistical definitions). This figure only slightly exceeds the amount of assets of euro area credit institutions. However, the assets and liabilities of the MFI sector vis-à-vis the rest of the economy are considerably less than the above-mentioned figure, since many assets and liabilities relate to activity between MFIs. (Please refer to the statistical annex, Table 2.3, of this Monthly Bulletin.)

Table 1

Aggregated balance sheet of the euro area MFIs (excluding the Eurosystem)

(EUR billions)

	end-1997	% share of total	end-1998	% share of total
Total assets	13,366.4	100.0	14,233.2	100.0
Cash	36.5	0.3	37.2	0.3
Loans	9,748.2	72.9	10,318.1	72.5
of which:				
Domestic	7,716.8	57.7	8,215.3	57.7
Rest of the euro area	719.3	5.4	832.7	5.9
Rest of the world	1,312.1	9.8	1,270.0	8.9
Debt securities[1)]	2,099.5	15.7	2,292.5	16.1
of which:				
Domestic	1,559.7	11.7	1,630.2	11.5
Rest of the euro area	308.9	2.3	403.0	2.8
Rest of the world	231.0	1.7	259.2	1.8
Money market paper	99.6	0.7	102.6	0.7
of which:				
Domestic	82.0	0.6	83.7	0.6
Rest of the euro area	17.5	0.1	18.9	0.1
Shares and other equity	379.8	2.8	481.6	3.4
of which:				
Domestic	289.6	2.2	365.1	2.6
Rest of the euro area	40.3	0.3	57.9	0.4
Rest of the world	50.0	0.4	58.6	0.4
Fixed assets	238.9	1.8	243.3	1.7
Remaining assets	763.9	5.7	757.9	5.3
Total liabilities	13,366.4	100.0	14,233.2	100.0
Currency	0.4	0.0	0.4	0.0
Deposits	9,148.7	68.4	9,749.2	68.5
of which:				
Domestic	6,900.8	51.6	7,243.6	50.9
Rest of the euro area	864.8	6.5	989.4	7.0
Rest of the world	1,383.0	10.3	1,516.2	10.7
Money market fund shares/units	252.0	1.9	244.2	1.7
Debt securities	1,925.1	14.4	2,091.0	14.7
Money market paper	138.8	1.0	165.3	1.2
Capital and reserves	687.5	5.1	727.5	5.1
Remaining liabilities	1,214.0	9.1	1,255.6	8.8

Source: ECB (MFI balance sheet data).
1) Securities other than shares.

Referring to data from national sources, total banking assets amounted to 176% of GDP in 1985 when measured in terms of the total assets of credit institutions resident in the countries which now comprise the euro area. At end-1997 this figure already stood at 234%. This indicates that the growth of the banking sector has been significantly faster than that of the economy as a whole. Furthermore, there has been a general increase in derivative, guarantee and other off-balance-sheet activities of banks that do not enter into the above measurement; hence the changes in total assets do not fully reflect the changes in the volume of services offered by banks.

Loans predominant on the assets side

The aggregated total assets of the euro area MFIs are still dominated by loans. At end-1998 the overall share of loans in total assets was 73%, including loans both to residents of the euro area and to those outside the euro area (see Table 1). Total holdings of debt securities constituted 16% of total assets, while shares and other types of equity

Box 2

The ECB's main data sources for monitoring developments in the banking industry

For the purposes of the current analysis, harmonised data are available from the euro area money and banking statistics collected for monetary policy purposes, published in the statistical annex to this Monthly Bulletin and on the ECB's Web site and defined in the Regulation of the European Central Bank of 1 December 1998 concerning the consolidated balance sheet of the Monetary Financial Institutions sector (ECB/1998/16). The reporting population covered by the statistics, namely Monetary Financial Institutions (MFIs), comprises resident credit institutions as defined in Community legislation, and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs, and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. These other resident financial institutions notably include money market funds. For statistical purposes, MFIs consolidate the business of all their offices (head office, subsidiaries and/or branches) located within the same national territory.

At the moment, the analysis of the longer-term trends in the euro area banking sector can only be based on the information collected from national sources. These national data may be fragmented and are generally not based on a harmonised statistical framework. For this reason, the data collected from national sources presented in this Article in Tables 3 to 7 should be read with caution, particularly when cross-country comparisons are made. Any further reconciliation of the banking sector statistics remains an important task for the future. It should also be noted that the population of credit institutions referred to in Tables 3 to 7 does not fully coincide with the list of MFIs published by the ECB.

holdings had only a 3% share. Investments in debt securities grew faster than loans in 1998, but equity holdings were the fastest growing asset item, partly reflecting share price increases over the year as a whole. Two features of the composition of assets appear to be especially prominent. First, interbank loans represent more than 20% of total assets (or more than 30% of total loans), which makes them the second-largest asset component after loans to the non-bank private sector (i.e. households and firms). Second, lending to general government is relatively important for euro area banks (around 15% of total assets), when both loans and purchases of the securities issued by general government are taken into account. Indeed, nearly half of all debt securities held by MFIs are government paper – for the most part debt securities issued by the respective national government.

In general, the assets of the euro area MFIs are still predominantly domestic. Loans and securities holdings related to residents in euro area countries other than the country of residence of the MFI itself had a 9% share in total assets at end-1998. Nevertheless, loans to residents in other euro area countries and the holdings of the respective debt securities grew by 20% in 1998, which far exceeded the growth in the respective domestic assets. External assets (i.e. assets vis-à-vis residents outside the euro area) were mostly loans and amounted to 11% of total assets. These assets started to exhibit a downward trend during the second half of 1998, which may mostly be regarded as a result of the crises in emerging economies. According to statistics published by the Bank for International Settlements, lending (i.e. loans and debt securities) to emerging and developing economies (mostly Latin American and Asian countries) and Russia accounted for around 25% of the external assets of the euro area banks in mid-1998.

Deposits as the main source of funding

Deposits constituted 69% of the total liabilities of the MFIs at end-1998 (see Table 1), of which interbank deposits have a

sizable share, reflecting the importance of interbank activities for euro area banks. The largest proportion of total deposits (74%) is collected from the domestic market, with broadly uniform distribution across the various maturity types: overnight, agreed maturity or redeemable at notice. However, deposits received from euro area residents from countries other than the country of residence of the MFI increased more rapidly than domestic deposits in 1998. Debt securities issued by MFIs accounted for 15% of total liabilities at end-1998, and capital and other reserves for 5%. The publicly available data on risk-weighted assets, which cover the larger banks in the euro area, show that average capital ratios (i.e. ratios of capital to risk-weighted assets) have tended to increase over the past few years.

While noting the limited amount of comparable historical data available, the changes in the aggregate asset and liability structure of the euro area MFIs imply the growing importance of debt securities in both lending and funding activities. In addition, the share of assets and liabilities vis-à-vis foreign residents in the euro area seems to be growing at a faster rate than the respective share of domestic assets and liabilities.

Institutional structure fragmented

The euro area banking sector is still very fragmented in terms of national and sometimes even local characteristics. In some countries a large part of the banking activity is in the hands of a few nationwide banks, while in some others the market share of banks that operate on a nationwide basis is rather small. The total number of credit institutions in the euro area was 8,249 at the beginning of April 1999 according to the list of MFIs published by the ECB (see Table 2). This reflects the large number of savings and co-operative banks – often operating at the local level – and specialised credit institutions in a number of countries. Conversely, the number of institutions that operate on a nationwide basis is rather small in proportion

Table 2

Number of credit institutions, 1 April 1999

BE	121
DE	3,218
ES	395
FR	1,210
IE	78
IT	933
LU	210
NL	612
AT	899
PT	228
FI	345
Total	8,249

Source: the ECB's Web site (http://www.ecb.int), item MFIs and assets: Monetary Financial Institutions and institutions subject to minimum reserve requirements", April 1999.

to the total number of institutions. In the United States, where population size is comparable with that of the euro area, the number of credit institutions is even higher, as there were more than 10,400 insured commercial banks and savings institutions at end-1998 according to statistics published by the Federal Deposit Insurance Corporation. In addition, there were almost 11,000 insured credit unions, based on the statistics maintained by the National Credit Union Administration. Obviously, this fragmentation reflects the legislation in the United States that imposed restrictions on the geographical breadth of banks' operations.

Strong domestic consolidation trend

On the basis of the national data it can be observed that, particularly since the early 1990s, the number of credit institutions has shown a declining trend, reflecting the ongoing consolidation process within national banking industries. In 1985 there were more than 11,200 credit institutions in the current euro area countries. The decline in the number of credit institutions reflects mergers rather than closures of existing institutions. There have been, first, "offensive" mergers, involving at least one large player, aimed at repositioning the bank in the financial markets or enlarging to a size better enabling it, for

example, to invest profitably in modern banking technologies or enter into a new banking activity. Second, "defensive" mergers have been conducted, especially among smaller credit institutions, to reduce excess capacity, meet capital adequacy and large exposure regulations, or resolve capital adequacy problems stemming from bad loans or limited access to new equity. Indeed, the largest reduction in the number of institutions has taken place among co-operative and savings banks, while the number of commercial banks has actually increased since the mid-1980s. This reflects the establishment of new banks and the changes of corporate form undergone by some savings and co-operative banks to become limited liability companies.

Consolidation has been a global phenomenon in the financial services industry, leading to the conclusion that it is not only related to the effects of the single market legislation and Economic and Monetary Union (EMU), but rather to more intense global competition and the need to increase efficiency and reduce costs. In addition, the favourable longer-term stock market development has facilitated new equity issues and hence has helped to finance mergers and acquisitions.

Table 3

Concentration at the national level: assets of the five largest credit institutions as a percentage of the total assets of domestic credit institutions

	1985	1990	1995	1997
BE	48.0	48.0	54.0	57.0
DE	.	13.9	16.7	16.7
ES	38.1	34.9	45.6	43.6
FR	46.0	42.5	41.3	40.3
IE	47.5	44.2	44.4	40.7
IT	20.9	19.1	26.1	24.6
LU	.	.	21.2	22.4
NL	69.3	73.4	76.1	79.4
AT	35.9	34.6	39.2	48.3
PT	61.0	58.0	74.0	76.0
FI	51.7	53.5	68.6	77.8

Source: the ECB publication entitled "Possible effects of EMU on the EU banking systems in the medium to long term", dated February 1999.

The consolidation trend is common to almost all euro area countries and has significantly increased the concentration of banking activity in the largest institutions at the national level, especially in the smaller countries (see Table 3). However, a meaningful analysis of concentration depends on an appropriate definition of the relevant market, which differs according to the banking service in question. For some retail banking services the relevant market can still be the local community, although "direct" or "remote" banking techniques, such as telephone and Internet banking, are widening the relevant market in geographical terms, while for some wholesale banking services the relevant market already encompasses the single currency area and, possibly, an even wider area. Therefore, while concentration tends to be lower in large countries at the national level, this may not necessarily be the case in comparable local markets. The series of mergers has increased concentration further in 1998, notably in Spain, France and Italy, and the trend is continuing.

Although the establishment of the single market and EMU have triggered an expectation of cross-border mergers, consolidation has so far taken place mainly within national banking industries. Cross-border mergers and acquisitions between large universal banks have been quite exceptional, although some such transactions have recently been effected. Cross-border mergers and acquisitions have so far been largely intended to facilitate expansion into specific market niches rather than the "mass" segment of the retail banking market.

Little change in overall capacity

While the number of credit institutions has fallen almost everywhere, the conventional measures of bank capacity – bank branches and employees per number of inhabitants – present a far more mixed picture, with considerable variation across countries in terms of both level and trend in the euro area (see Table 4). It should be noted that

Table 4

Number of credit institutions' branches and employees per 1,000 inhabitants

	1985		1990		1995		1997	
	Branches	Employees	Branches	Employees	Branches	Employees	Branches	Employees
BE	0.87	7.26	0.90	7.94	0.76	7.56	0.72	7.57
DE	0.61	9.46	0.63	11.10	0.59	9.28	0.57	9.16
ES	0.76	6.06	0.83	6.22	0.93	6.35	0.97	6.29
FR	0.47	7.71	0.45	7.63	0.44	7.05	0.44	6.89
IE	0.24	4.23	0.27	4.99	0.29	6.40	0.32	6.29
IT	0.23	5.66	0.31	5.92	0.41	6.23	0.44	6.00
LU	0.68	25.37	0.78	41.78	0.85	44.90	0.75	45.75
NL	0.59	7.54	0.54	7.86	0.44	7.13	0.44	7.19
AT	0.54	8.94	0.58	9.86	0.58	9.78	0.58	9.43
PT	0.15	5.90	0.20	6.20	0.35	6.09	0.41	5.97
FI	0.89	9.61	0.58	10.15	0.38	6.31	0.32	5.21
Euro area weighted average	0.51	7.38	0.54	7.97	0.55	7.52	0.56	7.37

Source: the ECB publication entitled "Possible effects of EMU on the EU banking systems in the medium to long term", dated February 1999.

the comparisons across countries are affected by differences in the size and functions of branches; this is also demonstrated by the fact that the countries with the largest number of branches per capita do not necessarily have the highest number of bank employees per capita.

With few exceptions, the decline in the number of banks has not so far generated corresponding reductions in the numbers of bank branches and employees. Overall, by end-1997 the total number of branches seems to have stabilised at around 160,000 in the euro area (around 0.6 per 1,000 inhabitants). Since the early 1990s the number of bank employees has been declining slightly in the euro area as a whole, and amounted to around 2,139,000 at end-1997 (around 7.4 per 1,000 inhabitants). Given the development of "direct banking" and automated teller machines, the banking industry seems to be becoming a less labour-intensive industry, and pressure to reduce the number of branches and employees could intensify.

Cross-border establishment relatively limited

The combined market share of foreign branches and subsidiaries established by credit institutions domiciled in the European Economic Area (EEA) was at end-1997 below 10% in terms of banking assets in all euro area countries with the exception of Belgium, Ireland and Luxembourg (see Table 5). The market share of branches and subsidiaries of credit institutions domiciled outside the EEA was generally even lower. These data support the contention that significant national orientations exist in banking activity in the euro area. However, the market shares of foreign institutions have recently shown a gradual increase in a number of countries, reflecting an increase in the establishment of, in particular, branches of banks domiciled in other EEA countries, apparently as a result of the freedom to establish branches within the single market without the need to obtain a separate licence for foreign operations.

Assessing the degree of internationalisation of the euro area banks is, however, a complex task, since it can take a number of different forms. The actual market share of foreign establishments underestimates the extent of internationalisation, since direct lending and other operations not involving the establishment of branches and subsidiaries are not taken into account. Clearly, foreign operations are very important for a number of individual banks in the euro area. Moreover, given that banks operate simultaneously in many markets of different

Table 5

Market share of branches and subsidiaries of foreign credit institutions as a percentage of the total assets of domestic credit institutions, end-1997

	From EEA countries		From third countries		Total
	Branches	Subsidiaries	Branches	Subsidiaries	
BE	9.0	19.2	6.9	1.2	36.3
DE	0.9	1.4	0.7	1.2	4.3
ES	4.8	3.4	1.6	1.9	11.7
FR	2.5 [1]	.	2.7 [1]	.	9.8 [1]
IE	17.7	27.8	1.2	6.9	53.6
IT	3.6	1.7	1.4	0.1	6.8
LU	19.4	71.1	1.4	8.1	99.9
NL	2.3	3.0	0.5	1.9	7.7
AT	0.7	1.6	0.1	1.0	3.3
PT	2.5	6.8	0.1	1.0	10.5
FI	7.1	0	0	0	7.1
Euro area weighted average	3.4	.	1.6	.	12.7

Source: the ECB publication entitled "Possible effects of EMU on the EU banking systems in the medium to long term", dated February 1999.
1) 1996 figures.

dimensions – local, national, European and global – some of the banks' activities are international, although banks may remain national in terms of their branch networks and organisation.

Increasing diversification of savings and investment

The diversification of savings and investment refers to the development whereby increased investment in higher-yielding and possibly more complex products, such as mutual funds, securities, pension funds and life assurance policies, reduces the overall share of retail bank deposits in household and company savings and investment portfolios. There are a number of factors behind this development: the absolute amount of financial wealth has risen, thus increasing the size of the market for asset management services, financial innovation has made more complex and more diversified investment portfolios possible, and technological improvements and greater liquidity in securities markets have reduced transaction costs.

This global diversification of savings and investment has also been quite visible in the euro area countries. Although ordinary bank deposits – as well as the total balance sheet of credit institutions – have continued to grow as a percentage of GDP over the past 10 years or so, the growth, in particular, in investment funds (undertakings for collective investment in transferable securities (UCITS) and other funds) has been much faster. For example, according to the ECB publication entitled *"Possible effects of EMU on the EU banking systems in the medium to long term"*, the annual growth rates of the assets of investment funds were usually higher than 20% in 1997 in the euro area countries. As a result, traditional banking has lost ground, in terms of its relative share, to institutional investors – investment funds, insurance companies and pension funds. However, assets of credit institutions still substantially exceed the assets under management by institutional investors (see Table 6). In addition, a large majority of UCITS are controlled by banking groups in the euro area. By diversifying into this area, the respective banking groups have "internalised" the changes in saving and investment behaviour. Within an individual banking group this has meant that a larger share of the activity is conducted outside the group's deposit bank and that the profits of the non-bank subsidiaries have become more important for overall profitability. The intensification of organisational links between banks and insurance companies has also characterised the development in the banking industry in many countries.

Table 6

Unconsolidated assets of investment funds, insurance companies and pension funds and credit institutions as a percentage of GDP, end-1997

	Investment funds (UCITS and other)	Insurance companies and pension funds	Credit institutions
BE	32.4	30.9	294.1
DE	24.7	36.9	255.8
ES	34.9	21.7	183.2
FR	35.0 [1]	45.0	244.6
IE	69.8	26.3 [2]	299.0
IT	18.9	19.4	155.4
LU	2,770.9	44.8 [2]	3,695.9
NL	19.0	146.0	227.0
AT	22.5	26.4	238.3
PT	26.0	31.0	220.0
FI	3.0	42.4	113.3
Euro area weighted average	31.3	41.2	234.4

Source: the ECB publication entitled "Possible effects of EMU on the EU banking systems in the medium to long term", dated February 1999.
1) 1996 figure.
2) 1995 figures.

Disintermediation refers to the decreasing share of banks and other financial intermediaries in the allocation of funds from savers and investors to borrowers. In practical terms it means that instead of borrowing funds from a bank, firms raise funds directly from the capital market. In the euro area disintermediation still seems to be at a relatively early stage. Medium to long-term corporate bonds have not been widely issued (see Table 7) and hence capital market issuance has not replaced bank borrowing to any significant extent. Either government bonds or financial institutions' paper have tended to dominate the bond markets in individual countries in the euro area. Moreover, according to the above-mentioned publication, commercial paper issues have been quite rare and lending by credit institutions has continued to grow as a percentage of GDP in the recent past.

Table 7

Nominal value of private non-financial enterprises' bonds, credit institutions' bonds and government bonds outstanding as a percentage of GDP, end-1997

	Private non-financial enterprises' bonds	Credit institutions' bonds	Government bonds
BE	10.0	38.3	111.0
DE	0.1	54.6	37.6
ES	2.6	4.5	52.9
FR	2.4	15.9	28.0
IE	0.01	1.6	32.2
IT	1.6	19.4	100.4
LU	115.7	307.6	1.1
NL	.	43.1 [1]	53.4
AT	2.7	31.1	30.6
PT	7.0	10.0	40.0
FI	3.7	7.1	35.5

Sources: the ECB publication entitled "Possible effects of EMU on the EU banking systems in the medium to long term", dated February 1999, and INSEE and the quarterly statistical supplement to the Bulletin of the Banque de France, first quarter 1999 (data for France).
1) Includes also bonds issued by non-financial enterprises.

3 The euro factor: speeding up integration in banking

The effects of the introduction of the euro should be evaluated against the background of the current regulatory framework for the single market, consisting of freedom of establishment and cross-border service provision and substantially harmonised prudential regulations (including those on own funds, solvency ratios and large exposures). The introduction of the euro can be expected to trigger a further increase in cross-border operations, mainly because the disappearance of national currencies reduces the risks and costs for both suppliers and users of financial services. To the extent that this takes place, the euro will significantly complement the single market legislation.

However – as noted at the beginning of this Article – further integration of the banking systems will depend on the degree to which the remaining fiscal and regulatory differences across countries are removed. This non-harmonised component of the fiscal and regulatory "platform" is important and diverse. It includes, inter alia, taxation, subsidies and other fiscal issues related to financial services, the tools used by banking supervisors (e.g. supervisory reporting and on-site inspections), provisions for the liquidation and restructuring of banks, and the definition and legal protection of financial instruments and contracts. It is likely that these non-harmonised aspects will come under pressure to converge as a result of increased consensus among legislators and regulators and perhaps also as a result of "regulatory competition" among national banking systems and financial centres. The more these differences are reduced, the faster the euro will have the anticipated effects.

Pressure for concentration in wholesale activities

The wholesale banking markets linked to interest rates and currencies are likely to become very closely integrated and highly competitive, since in these markets the traded instruments (e.g. certificates of deposit and short-term government paper) are relatively homogeneous in terms of credit risk and yield, and there is efficient arbitrage across national markets and financial centres. In these activities significant concentration of market turnover in a few financial centres and a few large active banks might emerge over time. There are three main reasons for this. First, the need for national "solutions" for trading and hedging purposes, such as currency or interest rate-linked derivative instruments, has diminished. Second, the pricing advantages of national institutions related to the information concerning "home" interest rates and currency have disappeared. Third, there seem to be increasing returns to scale in those activities related to homogeneous and mostly traded products, since both operating in euro area-wide markets and servicing large international customers require a "critical mass", and banks need to process not only national but also area-wide information.

Therefore, when national instruments and markets are replaced by euro area-wide instruments and markets, the largest banks at the euro area level could eventually capture a larger share of the activity than they have at present. This situation would correspond to the current situation in the United States, where the number of "money centre" banks is limited. For some banks this tendency could be a motive for mergers or acquisitions. For others it could mean a greater focus on retail banking activities in the home market and – to the extent that they have been active in dealing in the national currencies and money market instruments – revenue losses. The end result could be a further polarisation of the euro area banking industry, with a limited number of large banks active in the wholesale markets related to homogeneous foreign exchange and interest rate products and a large number of credit institutions concentrating on traditional intermediation at the national or local level. It should be noted, however, that the process of financial

innovation constantly creates new financial instruments and products, supporting the existence of many smaller specialised institutions alongside the larger ones.

Capital market activities likely to expand

The single currency offers substantial opportunities for private issuers of debt and equity instruments, as the increase in the number of both issuers and investors operating in the same currency increases the liquidity of the capital markets and makes a larger issue size possible, thus reducing the cost of funds. It is also likely that the larger currency area will attract new investors and issuers to the euro area capital markets. A sustained low level of current and expected inflation and diminishing public sector borrowing requirements would be additional factors in support of private capital market activity. As a result, private non-financial debt issuance, in particular, can be expected to grow from the present low levels at the expense of bank borrowing. In the United States, which is a large single currency area and which has integrated capital markets, the market for private sector debt instruments is significantly broader and deeper than that of the euro area, as was reported in the article entitled "*The euro area at the start of Stage Three*" in the January 1999 issue of the Monthly Bulletin. By contrast, the outstanding amount of domestic bank loans – both in absolute terms and relative to GDP – is far greater in the euro area than in the United States.

For banks, the growth in capital market activities and increasing disintermediation would imply a structural change from on-balance-sheet lending towards "investment banking"-type activities. Accordingly, the income structure would shift from interest income to non-interest (i.e. fee and other) income. While the loss of interest income could be offset by underwriting commissions, some reallocation of income could take place among banks and other financial institutions. The need both for national information on issuer risk evaluation and for a close relationship between the securities issuer and the underwriter probably continues to offer some degree of competitive advantage to national banks, except where the issuer is a well-known international company. However, large European banks and investment banks with adequate capital, customer relations and expertise might become stronger competitors in the future.

As large firms may concentrate their treasury functions within the euro area and reduce their correspondent banking relations, some banks' income from money transmission and correspondent banking services may be affected. Multinational corporations may also tend to minimise the number of separate accounts they hold within the euro area.

Cross-border operations also likely to increase in retail banking

In retail banking, the introduction of the euro can be expected to lead to a more gradual change, as the forces maintaining national segmentation remain for the most part intact. A general view seems to be that the euro as such is not the most significant force for change at the moment in this area. Rather, the spread of "direct banking" and the shift in customers' preference for other forms of saving and away from bank deposits are generally regarded as more important factors. Both tendencies increase competition for established banks. The need to establish a branch network – which has always been considered a major barrier to entry into retail banking markets – will lose its importance with the spread of new distribution technologies. In this process those retail lending products requiring personal advice, extensive credit risk evaluation and local knowledge are considered to be the most sheltered, while many standardised retail banking products are already promoted via "direct banking" channels. The changes in saving and investment patterns bring in new competitors for banks, such as UCITS, insurance companies and securities brokers.

The euro might have an indirect impact on both forces: on the one hand, it may speed up the adoption of new delivery technologies as there is a larger market in a single currency and, on the other, the disappearance of foreign exchange risk may increase the inclination of banks' retail customers to seek higher returns through alternative forms of investment. Enhanced transparency is set – by itself – to increase competition among financial institutions. Some time will probably be needed, however, before customers become sufficiently aware of the potentially wider market for retail banking services.

By lowering the barriers to entry for banks' cross-border operations, the euro might also trigger the development of "pan-European" or "regional" retail banking strategies. Perhaps the most important aspect is the fact that banks are able to fund their lending in another euro area country from their domestic retail deposit base or euro-denominated money and capital markets. Moreover, the expected increase in competition as a result of the introduction of the euro may compel institutions to broaden their customer base across national borders in order to spread their fixed banking costs, e.g. those related to updating the information technology in use.

Cross-border mergers or acquisitions represent the fastest way to acquire local expertise and customers in the retail sector. However, since the cost savings from eliminating overlaps in the retail network are likely to be limited and the managerial costs of integrating different structures and corporate cultures can be substantial, this type of operation motivated by the desire to gain access to foreign retail markets may remain scarce. Strategic alliances giving individual banks access to each other's distribution networks could provide an alternative way of expanding cross-border retail banking. This strategic goal could also be achieved on a stand-alone basis by incorporating retail services into the product range of the existing network of foreign branches and subsidiaries. A single branch or a small number of branches could be sufficient to attract retail customers in many cases, especially when services are provided by "direct banking". Therefore, the fairly large number of foreign branches already established in the euro area (more than 300 from EEA countries at end-1997) could indicate a gradual expansion of international banking activity through this channel. Finally, the cross-border supply of services on a remote basis without any establishment could also spread as "direct banking" develops. Given that the harmonisation of the national retail payment systems, nationally operating payment networks and country-specific payment practices is currently limited, there is a competitive advantage for domestically operating institutions in this area.

4 Concluding remarks

This Article has argued that the euro is likely to act as a catalyst, reinforcing the prevailing trends in the euro area banking sector and complementing the effects of the single market legislation. In particular, it is likely that the euro area banking systems will continue to become more integrated and that banking competition will intensify further. However, the timing and nature of these effects will probably differ substantially between different banking activities. In addition to money market activities, asset management and corporate finance services as well as large-value money transmission services are likely to take on an area-wide dimension, since national currencies were the main factor preventing the integration of the markets for these activities. Hence the emergence of a euro area-wide market in certain banking services is not only dependent on the emergence of "pan-European" banks, but also on the development of integrated money and capital markets and the evolution of cross-border bank/customer relationships.

As a result, banks operating in these markets will also be increasingly exposed to economic developments and financial market shocks originating beyond their national borders.

It seems safe to conclude that the structural and competitive effects being generated by EMU will have a far greater impact on banks' profitability than the costs of the changeover to the euro or direct losses of foreign exchange income should banks fail to adapt to the new environment. Such adaptation is already visible: there have been organisational changes, new products and services, mergers, strategic alliances, co-operation agreements, etc. This should be seen as a very positive development. In addition, the favourable levels of profitability recorded in the past few years should have strengthened banks' positions sufficiently to enable them to accommodate the adjustment process and the strategic risks involved. In the long term the adjustment process should result in a stronger and more efficient banking sector and generate customer gains by virtue of increased competition.

Euro area statistics

Contents

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

2. Liabilities

	Banknotes in circulation	Liabilities to financial sector counterparties in the euro area in euro						Debt certificates issued
			Current accounts (covering the minimum reserve 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

Source: ECB.

1) Discrepancies may arise from rounding.

Structural reverse operations	Marginal lending facility	Credits related to margin calls	Other lending	Securities of euro area residents in euro	General government debt in euro	Other assets	Total			
9	10	11	12	13	14	15	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.

Liabilities to other euro area residents in euro	Liabilities to non-euro area residents in euro	Liabilities to euro area residents in foreign currency	Liabilities to non-euro area residents in foreign currency	Counterpart of special drawing rights allocated by the IMF	Revaluation accounts	Capital and reserves	Other liabilities	Total			
9	10	11	12	13	14	15	16	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.

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 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 executed through tenders

(EUR millions; interest rates in percentages per annum)

Main refinancing operations

Date of settlement	Bids (amount)	Allotment (amount)	Fixed rate tenders	Variable rate tenders		Running for [...] days
			Fixed rate	Marginal rate	Weighted average rate	
	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

Longer-term refinancing operations

Date of settlement	Bids (amount)	Allotment (amount)	Fixed rate tenders	Variable rate tenders		Running for [...] days
			Fixed rate	Marginal rate	Weighted average rate	
	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

Other tender operations

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

1999

Source: ECB.

Table 1.4

Minimum reserve statistics

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

(EUR billions)

	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	1 Jan.	8,408.5	4,726.4	87.3	133.4	1,101.9	448.1	1,911.4
	end-Jan.	8,599.0	4,837.2	78.3	142.2	1,105.4	510.6	1,925.2
	end-Feb. [(p)]	8,621.9	4,802.5	82.4	141.1	1,110.9	541.1	1,944.0

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) The reserve base of credit institutions as at 1 January 1999 was used to calculate the minimum reserves for the maintenance period starting on 1 January 1999 and ending on 23 February 1999. Subsequent 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 previous 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	3.0
	Mar.	100.6	101.5	0.9	0.1	3.0
	Apr. [(p)]	100.0	.	.	.	.

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

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				Holdings of securities other than shares issued by euro area residents				Holdings of shares/ other equity issued by euro area residents			External assets [3)]	Fixed assets	Remaining assets	**Total assets**
			MFIs	General govern-ment	Other euro area residents		MFIs	General govern-ment	Other euro area residents		MFIs	Other euro area residents				
		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	0.5	2.4	294.3	7.2	42.5	693.5
	Feb.	257.7	235.9	21.2	0.7	108.2	1.0	105.8	1.5	2.9	0.6	2.4	294.6	7.3	43.8	714.5
	Mar.	242.7	221.3	21.2	0.2	106.6	1.2	104.2	1.3	3.0	0.6	2.4	294.0	7.5	40.8	694.6
	Apr.	237.2	215.6	21.2	0.4	102.5	1.4	100.2	0.9	3.0	0.6	2.5	298.4	7.6	45.2	693.9
	May	239.3	217.8	21.2	0.3	101.9	1.6	99.4	0.9	3.0	0.6	2.5	301.7	7.7	48.2	701.8
	June	325.0	303.7	21.1	0.2	105.4	4.8	99.7	0.8	3.2	0.8	2.5	288.4	7.8	49.4	779.2
	July	338.2	316.9	21.1	0.2	87.8	1.1	85.9	0.8	4.7	2.1	2.6	292.5	8.0	51.4	782.6
	Aug.	339.9	318.5	21.1	0.2	88.1	0.9	86.3	0.9	4.7	2.0	2.7	290.4	8.0	56.3	787.4
	Sep.	326.8	305.5	21.1	0.2	82.7	1.0	81.0	0.7	4.7	2.0	2.7	288.0	8.0	51.5	761.7
	Oct.	326.6	305.3	21.1	0.2	73.3	0.9	71.7	0.7	4.7	2.0	2.7	297.9	8.1	51.0	761.6
	Nov.	322.2	300.7	21.1	0.4	78.0	1.0	76.3	0.6	4.7	2.0	2.7	305.1	8.1	52.8	770.9
	Dec.	225.1	204.5	20.4	0.1	87.8	1.1	86.2	0.5	5.3	1.7	3.6	317.2	8.0	48.4	691.8
1999	Jan.	403.4	382.4	20.4	0.6	89.2	1.3	87.3	0.7	8.2	4.1	4.1	421.0	9.8	59.2	990.8
	Feb. [(p)]	385.1	364.1	20.4	0.6	90.7	1.5	88.7	0.5	8.3	4.2	4.1	364.4	9.9	52.9	911.3

2. Liabilities

		Currency in circulation	Deposits of euro area residents				Money market paper	Debt securities issued	Capital and reserves	External liabilities [3)]	Remaining liabilities	**Total liabilities**
			MFIs	Central government	Other general government/ other euro area residents							
		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	107.4	16.1	63.6	693.5
	Feb.	339.9	159.2	93.7	61.5	4.0	13.3	16.5	105.6	15.1	64.9	714.5
	Mar.	340.5	137.9	88.4	46.8	2.7	11.3	17.2	104.8	15.3	67.6	694.6
	Apr.	343.8	131.3	84.8	44.3	2.2	12.0	16.9	103.7	16.4	69.8	693.9
	May	346.1	141.8	90.9	47.0	4.0	13.1	15.3	103.5	15.9	66.1	701.8
	June	345.4	208.0	149.3	54.2	4.5	13.5	14.1	111.6	20.8	65.8	779.2
	July	350.4	199.9	132.8	64.0	3.0	13.9	14.3	110.3	24.0	69.8	782.6
	Aug.	344.6	208.8	135.5	69.7	3.5	12.4	13.5	110.2	21.6	76.3	787.4
	Sep.	341.5	195.9	124.4	67.1	4.5	11.2	12.8	106.4	23.2	70.7	761.7
	Oct.	342.3	198.2	129.2	64.7	4.3	11.7	11.8	106.6	22.6	68.4	761.6
	Nov.	344.1	210.5	147.3	56.8	6.4	12.5	11.6	103.3	20.0	68.9	770.9
	Dec.	359.0	146.8	89.0	54.9	2.9	7.2	6.7	97.0	18.6	56.5	691.8
1999	Jan.	343.8	342.7	286.2	50.3	6.2	6.3	5.3	123.5	99.3	69.9	990.8
	Feb. [(p)]	339.4	331.6	269.9	55.0	6.7	6.3	5.3	120.6	49.9	58.2	911.3

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) Including temporary gross positions with the national central banks of Member States not participating in the euro area relating to the operation of the TARGET system, amounting to approximatively EUR 75 billion at end-January 1999 and approximately EUR 27 billion at end-February 1999.

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	351.1	102.2	248.9	1,597.3	236.4	827.8	13,529.7
	Feb.	8,538.7	2,986.8	807.9	4,744.0	1,932.1	651.8	1,086.2	194.1	106.3	363.6	106.6	257.1	1,623.6	236.7	833.1	13,634.1
	Mar.	8,561.6	2,979.8	806.0	4,775.8	1,957.2	654.9	1,103.7	198.6	105.1	384.3	110.9	273.4	1,676.7	238.0	812.9	13,735.8
	Apr.	8,617.1	2,999.7	810.9	4,806.5	1,978.1	664.3	1,114.8	199.1	105.7	396.0	114.0	282.0	1,634.0	238.2	832.4	13,801.5
	May	8,618.2	2,994.0	799.7	4,824.4	2,000.0	670.8	1,126.5	202.7	105.7	403.9	116.4	287.5	1,632.9	247.0	846.3	13,854.0
	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	736.9	13,924.1
	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	780.6	13,912.7
	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	769.8	13,934.8
	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	782.8	13,994.6
	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	782.9	14,145.8
	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	796.1	14,357.4
	Dec.	9,048.1	3,130.4	821.3	5,096.4	2,033.3	731.4	1,107.5	194.4	102.6	423.0	120.2	302.8	1,587.8	243.3	795.1	14,233.2
1999	Jan.	9,267.8	3,345.8	818.3	5,103.8	2,062.2	739.1	1,116.7	206.4	103.7	431.0	102.1	328.9	1,632.7	244.0	955.5	14,696.9
	Feb. [p]	9,166.8	3,234.6	820.8	5,111.4	2,079.3	747.2	1,131.0	201.2	108.2	442.7	108.4	334.3	1,587.5	242.8	974.2	14,601.5

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	7,782.9	3,029.5	95.6	4,657.8	1,177.2	1,921.6	1,341.8	217.1	253.7	1,944.5	145.2	690.8	1,436.0	1,276.2	13,529.7
	Feb.	0.4	7,831.2	3,066.1	98.4	4,666.7	1,178.9	1,926.4	1,345.1	216.3	255.7	1,967.8	147.2	696.0	1,469.8	1,266.0	13,634.1
	Mar.	0.4	7,837.8	3,077.0	92.8	4,668.0	1,208.1	1,901.3	1,346.4	212.2	255.5	1,985.1	149.5	710.3	1,521.2	1,276.0	13,735.8
	Apr.	0.4	7,868.5	3,079.7	97.2	4,691.6	1,222.5	1,916.4	1,346.0	206.6	258.3	1,999.4	156.3	702.6	1,492.4	1,323.6	13,801.5
	May	0.4	7,890.6	3,092.8	88.2	4,709.6	1,239.5	1,914.1	1,347.9	208.2	261.2	2,012.1	150.9	712.2	1,485.2	1,341.4	13,854.0
	June	0.4	7,999.7	3,174.8	94.0	4,730.9	1,287.0	1,893.9	1,346.5	203.4	259.8	2,041.2	145.9	718.7	1,496.1	1,262.3	13,924.1
	July	0.4	7,962.4	3,163.3	92.4	4,706.8	1,248.0	1,897.4	1,345.9	215.5	259.8	2,061.8	152.8	720.1	1,472.9	1,282.5	13,912.7
	Aug.	0.4	7,982.7	3,183.7	95.4	4,703.5	1,238.9	1,908.8	1,347.6	208.2	264.7	2,072.6	152.9	720.1	1,475.8	1,265.6	13,934.8
	Sep.	0.4	8,014.5	3,212.6	96.3	4,705.6	1,260.0	1,891.3	1,346.6	207.7	260.3	2,074.8	153.2	718.4	1,484.9	1,288.1	13,994.6
	Oct.	0.4	8,105.9	3,285.9	97.0	4,723.0	1,265.2	1,889.6	1,349.8	218.3	258.4	2,077.7	160.2	722.5	1,532.4	1,288.3	14,145.8
	Nov.	0.4	8,214.3	3,370.6	98.2	4,745.5	1,305.2	1,889.5	1,352.5	198.3	259.6	2,093.6	168.6	724.3	1,600.1	1,296.5	14,357.4
	Dec.	0.4	8,233.0	3,283.2	101.3	4,848.4	1,379.2	1,906.9	1,384.4	178.0	244.2	2,091.0	165.3	727.5	1,516.2	1,255.6	14,233.2
1999	Jan.	0.4	8,369.7	3,424.7	87.5	4,857.4	1,400.0	1,881.1	1,401.2	175.1	273.5	2,125.5	174.1	744.7	1,603.4	1,405.6	14,696.9
	Feb. [p]	0.4	8,271.2	3,337.0	91.2	4,843.0	1,373.3	1,878.7	1,403.5	187.5	293.3	2,150.4	179.1	749.2	1,601.0	1,356.9	14,601.5

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	Loans to euro area residents: General government	Loans to euro area residents: Other euro area residents	Holdings of securities other than shares issued by euro area residents	Holdings of securities other than shares issued by euro area residents: General government	Holdings of securities other than shares issued by euro area residents: 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	251.4	1,891.6	243.6	841.2	10,149.9
	Feb.	5,573.8	829.1	4,744.7	1,387.6	1,192.0	195.6	259.4	1,918.2	244.0	848.2	10,231.2
	Mar.	5,603.2	827.2	4,776.0	1,407.7	1,207.9	199.8	275.9	1,970.7	245.5	824.5	10,327.5
	Apr.	5,639.0	832.1	4,806.9	1,414.9	1,215.0	199.9	284.4	1,932.4	245.8	848.1	10,364.6
	May	5,645.6	820.9	4,824.7	1,429.4	1,225.9	203.5	290.0	1,934.6	254.7	865.2	10,419.5
	June	5,703.4	826.9	4,876.6	1,433.7	1,237.3	196.4	285.3	1,963.3	248.0	755.8	10,389.5
	July	5,739.7	822.5	4,917.2	1,424.9	1,223.1	201.8	277.7	1,925.2	243.3	801.7	10,412.5
	Aug.	5,741.6	825.0	4,916.7	1,424.8	1,222.4	202.4	270.9	1,931.5	244.3	795.9	10,409.0
	Sep.	5,792.8	828.0	4,964.8	1,419.6	1,216.7	202.9	272.8	1,912.9	245.0	804.4	10,447.5
	Oct.	5,833.1	833.9	4,999.1	1,432.9	1,226.3	206.6	273.8	1,919.1	247.1	804.5	10,510.5
	Nov.	5,884.4	840.7	5,043.7	1,429.4	1,228.1	201.3	287.2	1,971.2	249.3	818.6	10,640.1
	Dec.	5,938.2	841.6	5,096.6	1,388.6	1,193.7	194.9	306.5	1,905.0	251.3	807.8	10,597.4
1999	Jan.	5,943.0	838.7	5,104.3	1,411.0	1,204.0	207.1	333.0	2,053.8	253.9	983.9	10,978.6
	Feb. [(p)]	5,953.2	841.2	5,112.0	1,421.4	1,219.6	201.8	338.4	1,951.9	252.8	996.9	10,914.6

2. Liabilities: levels outstanding

		Currency in circulation	Deposits of central government	Deposits of other general government/other euro area residents	Deposits of other general government/other euro area residents: Overnight	Deposits of other general government/other euro area residents: With agreed maturity	Deposits of other general government/other euro area residents: Redeemable at notice	Deposits of other general government/other euro area residents: 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**
		12	13	14	15	16	17	18	19	20	21	22	23	24	25
1998	Jan.	311.4	146.3	4,660.0	1,179.4	1,921.6	1,341.8	217.1	308.0	1,311.7	695.6	1,452.0	1,339.7	-74.8	10,149.9
	Feb.	311.7	160.0	4,670.7	1,182.9	1,926.4	1,345.1	216.3	309.8	1,331.6	694.5	1,484.9	1,330.9	-62.9	10,231.2
	Mar.	311.8	139.6	4,670.8	1,210.8	1,901.3	1,346.4	212.2	311.2	1,346.2	703.7	1,536.6	1,343.4	-35.8	10,327.5
	Apr.	314.8	141.6	4,693.8	1,224.7	1,916.5	1,346.0	206.6	320.9	1,350.6	691.8	1,508.8	1,393.1	-50.8	10,364.6
	May	317.2	135.1	4,713.7	1,243.5	1,914.1	1,347.9	208.2	319.4	1,355.0	698.8	1,501.2	1,407.3	-28.2	10,419.5
	June	315.5	148.2	4,735.4	1,291.5	1,893.9	1,346.5	203.4	315.1	1,369.1	711.4	1,516.9	1,328.0	-50.1	10,389.5
	July	320.6	156.4	4,709.8	1,251.0	1,897.4	1,345.9	215.5	322.3	1,377.5	711.2	1,496.9	1,352.4	-34.6	10,412.5
	Aug.	314.9	165.2	4,707.0	1,242.5	1,908.8	1,347.6	208.2	326.2	1,381.3	710.1	1,497.4	1,342.0	-35.1	10,409.0
	Sep.	311.9	163.3	4,710.1	1,264.5	1,891.3	1,346.6	207.7	322.5	1,377.0	713.2	1,508.1	1,359.0	-17.6	10,447.5
	Oct.	313.4	161.7	4,727.3	1,269.5	1,889.6	1,349.8	218.3	328.5	1,378.6	711.5	1,555.0	1,356.7	-22.2	10,510.5
	Nov.	314.3	155.0	4,751.9	1,311.5	1,889.5	1,352.5	198.4	331.8	1,384.8	708.8	1,620.1	1,365.4	8.0	10,640.1
	Dec.	323.7	156.2	4,851.3	1,382.1	1,906.9	1,384.4	178.0	314.0	1,365.2	702.6	1,534.8	1,312.3	37.3	10,597.4
1999	Jan.	313.6	137.9	4,863.6	1,406.2	1,881.1	1,401.2	175.1	350.2	1,390.5	761.9	1,702.7	1,475.5	-17.3	10,978.6
	Feb. [(p)]	309.8	146.2	4,849.7	1,380.0	1,878.7	1,403.5	187.5	370.6	1,407.0	757.2	1,650.9	1,415.0	8.2	10,914.6

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) Including temporary gross positions of the Eurosystem with the national central banks of Member States not participating in the euro area relating to the operation of the TARGET system, amounting to approximatively EUR 75 billion at end-January 1999 and approximatively EUR 27 billion at end-February 1999.

5) Data are expected to be available for the May issue of this Bulletin.

(EUR billions (not seasonally adjusted))

3. Assets: flows [3]

		Loans to euro area residents			Holdings of securities other than shares issued by euro area residents			Holdings of shares/other equity issued by other euro area residents	External assets [5]	Fixed assets	Remaining assets	**Total assets [5]**
			General government	Other euro area residents		General government	Other euro area residents					
		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	8.0	.	0.4	7.2	.
	Mar.	30.1	-1.9	32.0	19.2	15.1	4.2	16.4	.	1.5	-24.0	.
	Apr.	38.4	5.0	33.4	7.7	7.4	0.3	8.5	.	0.3	27.0	.
	May	7.2	-11.1	18.3	14.7	11.0	3.7	5.6	.	9.0	18.7	.
	June	66.6	5.9	60.7	2.9	10.7	-7.8	-5.9	.	-6.7	-106.3	.
	July	39.1	-4.3	43.3	-11.8	-17.4	5.6	-6.8	.	-4.7	49.2	.
	Aug.	1.7	2.5	-0.7	-0.2	-0.8	0.6	-6.7	.	1.0	-5.8	.
	Sep.	55.6	3.2	52.3	-5.0	-5.8	0.8	1.9	.	0.6	14.5	.
	Oct.	44.3	7.7	36.6	16.2	9.7	6.4	1.0	.	2.1	2.3	.
	Nov.	52.2	6.7	45.5	-3.7	1.8	-5.4	13.5	.	2.2	10.5	.
	Dec.	58.7	1.0	57.6	-39.9	-33.4	-6.4	19.2	.	2.0	-5.9	.
1999	Jan.	58.2	3.2	55.1	8.4	11.2	-2.8	7.5	.	0.1	156.5	.
	Feb. [p]	7.4	2.4	5.1	9.9	15.4	-5.5	5.4	.	-1.1	10.0	.

4. Liabilities: flows [3]

		Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents					Money market fund shares/ units and money market paper	Debt securities issued	Capital and reserves	External liabilities [5]	Remaining liabilities [5]	Excess of inter-MFI liabilities	**Total liabilities [5]**
					Overnight	With agreed maturity	Redeemable at notice	Repurchase agreements							
		12	13	14	15	16	17	18	19	20	21	22	23	24	25
1998	Feb.	0.4	13.6	11.2	3.7	5.1	3.2	-0.8	1.7	20.5	-0.9	.	.	11.8	.
	Mar.	0.0	-20.4	-1.0	27.5	-25.7	1.3	-4.1	1.9	14.7	11.1	.	.	27.2	.
	Apr.	3.0	2.0	25.5	14.8	16.7	-0.4	-5.6	9.8	8.1	-11.8	.	.	-15.1	.
	May	2.4	-6.5	20.8	19.1	-1.8	1.9	1.6	-1.9	6.8	6.8	.	.	22.5	.
	June	-1.7	13.1	20.6	47.5	-20.8	-1.4	-4.8	-4.5	14.5	14.9	.	.	-23.8	.
	July	5.2	8.2	-23.5	-39.7	4.7	-0.6	12.1	7.2	11.4	-1.4	.	.	17.0	.
	Aug.	-5.7	8.8	-2.7	-8.5	11.4	1.7	-7.3	3.8	3.3	-0.7	.	.	-0.5	.
	Sep.	-3.1	-1.8	8.2	23.8	-14.3	-0.9	-0.5	-3.2	1.0	3.2	.	.	17.3	.
	Oct.	1.5	-1.6	26.2	5.2	4.8	5.3	10.9	6.2	2.0	-2.0	.	.	-4.9	.
	Nov.	0.9	-6.7	22.1	41.1	-1.6	2.4	-19.9	2.1	5.2	-2.5	.	.	30.2	.
	Dec.	9.4	1.2	101.9	71.1	19.4	31.8	-20.5	-13.2	-20.4	-5.5	.	.	28.3	.
1999	Jan.	-9.3	-6.3	22.0	21.9	-10.0	14.7	-4.6	13.0	17.5	17.0	.	.	-33.1	.
	Feb. [p]	-3.8	8.4	-23.8	-27.4	-11.0	2.2	12.4	19.7	13.4	-4.8	.	.	32.3	.

Table 2.4

Monetary aggregates [1) 2)]

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

1. Levels outstanding at end of period

		M1				M2				Repurchase agreements	Money market fund shares/ units and money market paper	Debt securities up to 2 years
				Total	Annual percentage change [3)]	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									
		1	2	3	4	5	6	7	8	9	10	11
1998	Jan.	311.4	1,250.5	1,561.9	8.1	907.9	1,177.5	3,647.3	4.0	217.1	308.0	72.8
	Feb.	311.7	1,251.0	1,562.8	8.6	904.5	1,181.6	3,648.9	4.2	216.3	309.8	77.6
	Mar.	311.8	1,280.7	1,592.5	9.1	878.2	1,183.4	3,654.0	4.4	212.2	311.2	83.8
	Apr.	314.8	1,292.8	1,607.6	10.6	892.0	1,185.2	3,684.8	5.1	206.6	320.9	84.3
	May	317.2	1,309.9	1,627.1	10.3	888.3	1,189.2	3,704.6	5.2	208.2	319.4	87.5
	June	315.5	1,358.6	1,674.0	9.8	870.6	1,188.9	3,733.6	5.2	203.4	315.1	86.6
	July	320.6	1,318.5	1,639.2	8.3	872.0	1,189.5	3,700.7	4.4	215.5	322.3	92.2
	Aug.	314.9	1,309.5	1,624.4	8.4	878.8	1,192.4	3,695.6	4.3	208.2	326.2	86.8
	Sep.	311.9	1,330.1	1,641.9	8.1	866.3	1,192.2	3,700.4	4.6	207.7	322.5	81.2
	Oct.	313.4	1,334.0	1,647.4	8.3	868.8	1,195.7	3,711.9	4.6	218.3	328.5	84.6
	Nov.	314.3	1,376.1	1,690.4	8.6	872.8	1,198.2	3,761.4	5.0	198.4	331.8	81.8
	Dec.	323.7	1,448.1	1,771.8	9.4	884.6	1,229.3	3,885.7	5.7	178.0	314.0	68.8
1999	Jan.	313.6	1,469.6	1,783.2	-	881.5	1,245.8	3,910.5	-	175.1	350.2	54.3
	Feb. [(p)]	309.8	1,440.8	1,750.5	-	867.3	1,249.5	3,867.4	-	187.5	370.6	57.1

2. Flows [4)]

		M1				M2				Repurchase agreements	Money market fund shares/ units and money market paper	Debt securities up to 2 years
				Total	Annual percentage change [4)]	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									
		1	2	3	4	5	6	7	8	9	10	11
1998	Feb.	0.4	0.7	1.0	-	-3.1	4.1	2.0	-	-0.8	1.7	4.9
	Mar.	0.0	29.3	29.4	-	-26.8	1.8	4.3	-	-4.1	1.9	6.1
	Apr.	3.0	12.9	16.0	-	14.9	1.8	32.7	-	-5.6	9.8	0.9
	May	2.4	17.4	19.8	-	-3.3	4.0	20.6	-	1.6	-1.9	3.3
	June	-1.7	48.2	46.4	-	-18.2	-0.3	28.0	-	-4.8	-4.5	-0.9
	July	5.2	-39.3	-34.1	-	2.3	0.6	-31.3	-	12.1	7.2	5.8
	Aug.	-5.7	-9.0	-14.8	-	6.8	3.0	-5.0	-	-7.3	3.8	-5.5
	Sep.	-3.1	22.3	19.3	-	-10.2	-0.2	9.0	-	-0.5	-3.2	-5.1
	Oct.	1.5	4.2	5.7	-	7.9	5.6	19.3	-	10.9	6.2	8.6
	Nov.	0.9	41.2	42.1	-	2.9	2.3	47.3	-	-19.9	2.1	-2.6
	Dec.	9.4	72.5	81.9	-	13.6	30.7	126.1	-	-20.5	-13.2	-13.0
1999	Jan.	-9.3	19.3	9.9	14.3	-11.9	14.9	12.9	7.3	-4.6	13.0	-8.3
	Feb. [(p)]	-3.8	-30.0	-33.8	12.0	-15.5	3.7	-45.6	6.0	12.4	19.7	2.4

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			Memo: Non-monetary liabilities of MFIs							
Total	Annual percentage change [3]	3-month moving average (centered)	Deposits			Debt securities over 2 years	Capital and reserves	Total		
				With agreed maturity over 2 years	Redeemable at notice over 3 months					
12	13	14	15	16	17	18	19	20		
4,245.2	4.6	4.5	1,232.1	1,014.4	217.7	1,239.0	695.6	3,166.7	1998	Jan.
4,252.5	4.5	4.6	1,240.0	1,022.5	217.5	1,254.0	694.5	3,188.5		Feb.
4,261.2	4.6	4.7	1,240.6	1,023.8	216.8	1,262.5	703.7	3,206.7		Mar.
4,296.7	5.1	4.8	1,239.8	1,025.1	214.7	1,266.2	691.8	3,197.8		Apr.
4,319.7	4.9	4.9	1,239.3	1,026.3	213.0	1,267.5	698.8	3,205.7		May
4,338.8	4.8	4.7	1,236.0	1,024.0	212.0	1,282.5	711.4	3,229.8		June
4,330.8	4.6	4.6	1,236.6	1,025.8	210.8	1,285.2	711.2	3,233.1		July
4,316.8	4.3	4.4	1,240.4	1,030.5	209.9	1,294.6	710.1	3,245.1		Aug.
4,311.8	4.4	4.5	1,234.8	1,025.5	209.3	1,295.8	713.2	3,243.7		Sep.
4,343.3	4.8	4.6	1,230.4	1,021.3	209.1	1,294.1	711.5	3,235.9		Oct.
4,373.4	4.6	4.6	1,226.7	1,017.2	209.5	1,302.9	708.8	3,238.4		Nov.
4,446.6	4.5	4.9	1,237.5	1,022.8	214.6	1,296.3	702.6	3,236.4		Dec.
4,490.1	-	-	1,214.7	1,000.4	214.4	1,336.2	761.9	3,312.8	1999	Jan.
4,482.5	-	-	1,225.8	1,012.2	213.6	1,349.9	757.2	3,333.0		Feb. [p]

M3			Memo: Non-monetary liabilities of MFIs							
Total	Annual percentage change [4]	3-month moving average (centered)	Deposits			Debt securities over 2 years	Capital and reserves	Total		
				With agreed maturity over 2 years	Redeemable at notice over 3 months					
12	13	14	15	16	17	18	19	20		
7.8	-	-	8.0	8.2	-0.2	15.6	-0.9	22.7	1998	Feb.
8.3	-	-	0.4	1.1	-0.8	8.5	11.1	20.0		Mar.
37.8	-	-	-0.2	1.8	-2.0	7.2	-11.8	-4.8		Apr.
23.6	-	-	-0.3	1.4	-1.7	3.5	6.8	10.0		May
17.8	-	-	-3.5	-2.6	-1.0	15.4	14.9	26.7		June
-6.1	-	-	1.0	2.2	-1.2	5.5	-1.4	5.2		July
-14.0	-	-	3.7	4.6	-0.9	8.9	-0.7	11.9		Aug.
0.3	-	-	-4.7	-4.1	-0.6	6.1	3.2	4.6		Sep.
44.9	-	-	-3.4	-3.2	-0.2	-6.5	-2.0	-11.9		Oct.
26.9	-	-	-4.0	-4.4	0.4	7.8	-2.5	1.2		Nov.
79.4	-	-	11.4	5.9	5.5	-7.4	-5.5	-1.5		Dec.
13.0	5.6	5.1	1.9	2.2	-0.3	25.8	17.0	44.7	1999	Jan.
-11.1	5.2	-	3.7	4.5	-0.7	10.9	-4.8	9.8		Feb. [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 corporations [3)]				Households [3)]							Non-profit institutions serving households [3)]
						Consumer credit [4)]			Lending for house purchase [4)]			
		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 coverage of consumer credit and lending for house purchase is not fully consistent across the euro area. Column 5 includes other lending to households.

Table 2.6

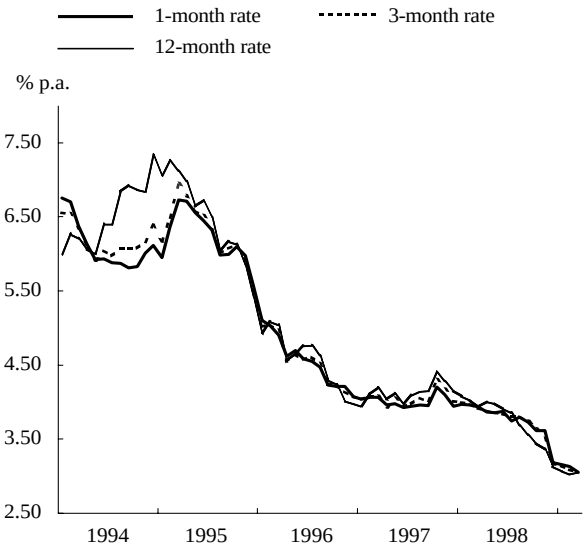
Money market interest rates [1]

(percentages per annum) [2]

	Euro area [3] [4]					United States [5]	Japan [5]
	Overnight deposits 1	1-month deposits 2	3-month deposits 3	6-month deposits 4	12-month deposits 5	3-month deposits 6	3-month deposits 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 Mar.	3.83	3.93	3.92	3.89	3.93	5.59	0.50
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
1999 5 Mar.	3.04	3.11	3.10	3.09	3.13	5.00	0.14
12	2.92	3.05	3.05	3.02	3.03	5.01	0.20
19	2.65	3.03	3.03	3.00	3.01	4.93	0.18
26	2.99	3.00	2.99	2.97	2.99	4.98	0.22
2 Apr.	2.96	2.95	2.93	2.91	2.93	4.98	0.25

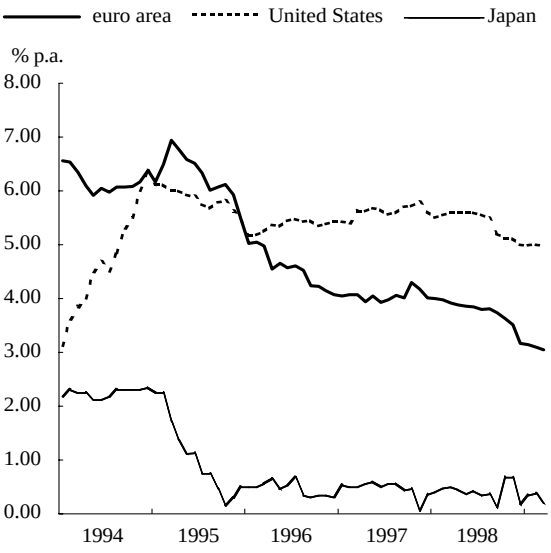
Euro area money market rates

(monthly)



3-month money market rates

(monthly)



Sources: 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

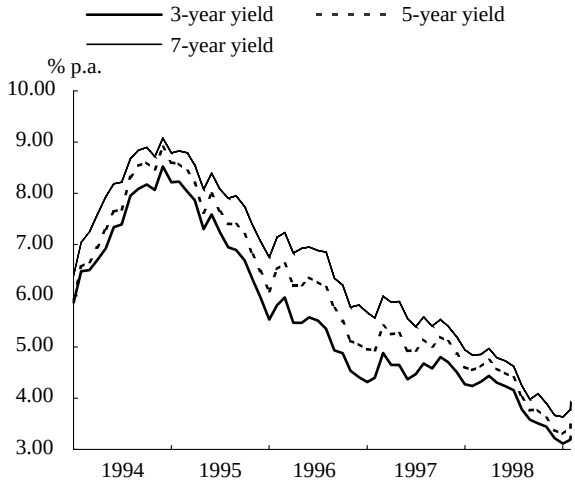
Government bond yields [1)]

(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 Mar.	4.17	4.32	4.61	4.86	5.01	5.73	1.56
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
1999 5 Mar.	3.14	3.31	3.58	3.92	4.17	5.28	1.57
12	3.04	3.21	3.49	3.89	4.16	5.17	1.73
19	3.04	3.18	3.45	3.82	4.09	5.14	1.70
26	3.02	3.19	3.49	3.93	4.21	5.18	1.70
2 Apr.	2.94	3.11	3.41	3.93	4.16	5.22	1.64

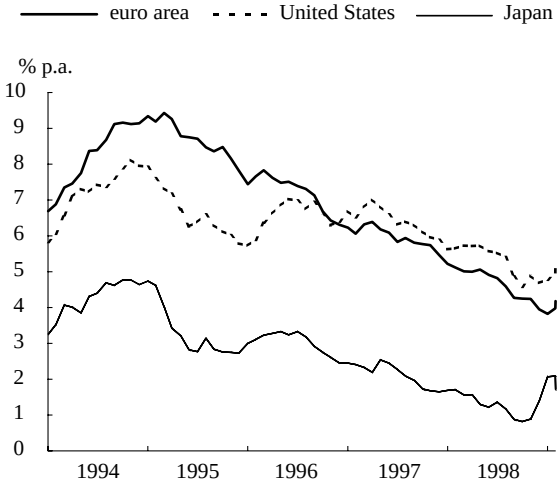
Euro area government bond yields

(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

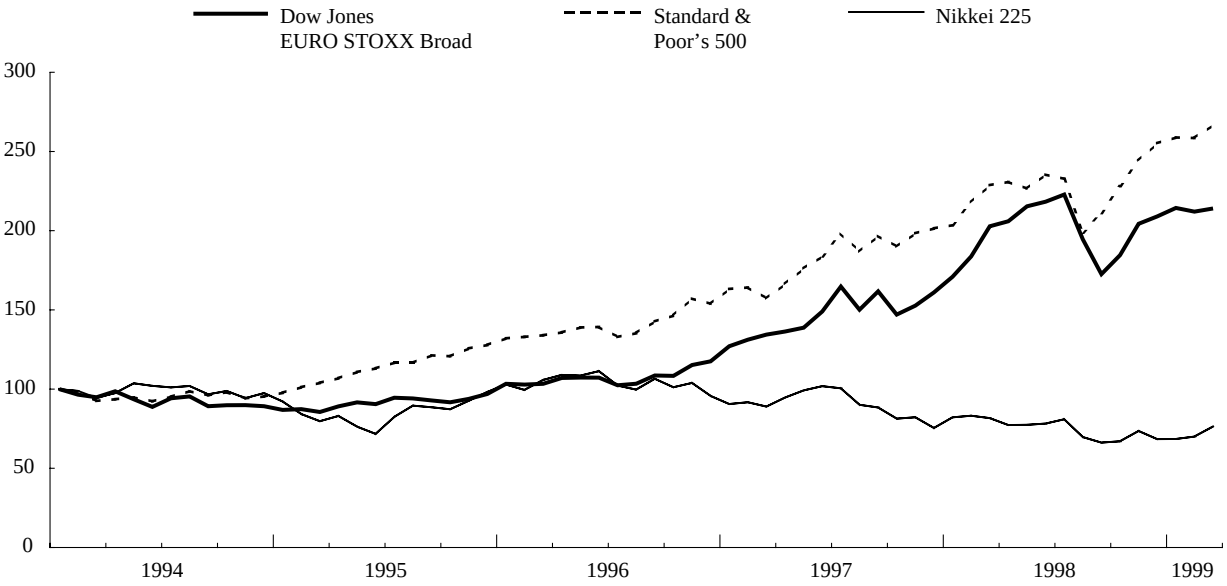
Stock market indices

(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	Mar.	289.46	3,153.32	196.69	197.27	390.26	278.01	249.55	239.23	270.77	335.91	268.38	1,076.83	16,840.31
	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
1999	5 Mar.	306.22	3,536.64	149.91	155.46	488.62	246.48	246.34	219.74	310.47	378.84	322.16	1,275.47	14,894.00
	12	309.70	3,574.73	151.71	153.54	484.91	255.65	254.79	236.57	312.53	375.16	326.48	1,294.59	15,488.86
	19	313.26	3,633.05	159.18	161.55	484.64	269.39	257.42	242.86	317.74	380.21	322.65	1,299.29	16,378.78
	26	302.58	3,488.15	158.40	155.08	474.42	263.57	247.60	234.65	309.15	378.36	309.50	1,282.80	16,016.99
	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	1,286.37	16,327.56

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

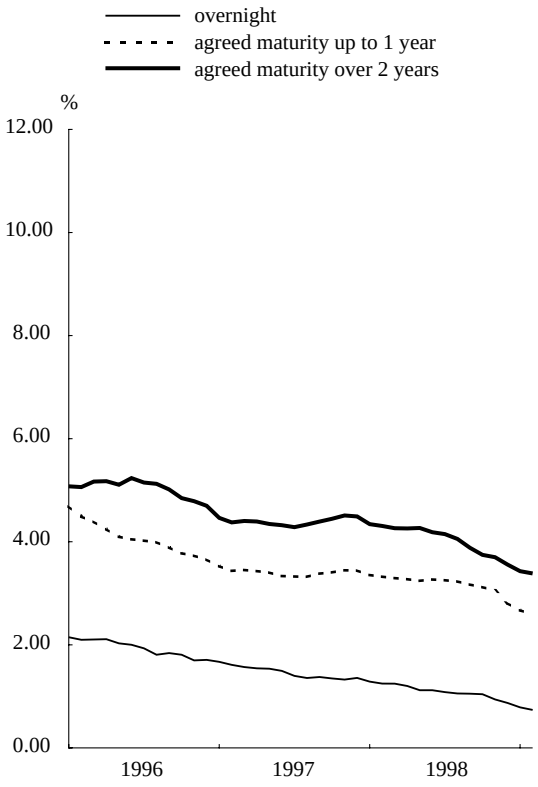
Retail bank interest rates

(percentages per annum; period averages; lending interest rates are provisional)

	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	8.64	.	11.03	7.76
1997	1.47	3.41	3.63	4.40	2.80	3.09	7.27	6.69	9.97	6.81
1998	1.11	3.20	3.22	4.06	2.61	3.25	6.42	5.94	9.39	5.98
1998 Feb.	1.25	3.32	3.36	4.31	2.76	3.30	6.76	6.30	9.69	6.41
Mar.	1.25	3.30	3.33	4.26	2.74	3.32	6.73	6.19	9.63	6.31
Apr.	1.20	3.27	3.30	4.26	2.71	3.30	6.62	6.12	9.49	6.17
May	1.12	3.24	3.26	4.27	2.71	3.33	6.55	6.09	9.46	6.15
June	1.12	3.27	3.28	4.19	2.58	3.34	6.47	6.04	9.46	6.08
July	1.08	3.25	3.26	4.15	2.56	3.29	6.35	6.00	9.39	5.94
Aug.	1.06	3.23	3.24	4.05	2.55	3.30	6.31	5.91	9.39	5.88
Sep.	1.05	3.17	3.18	3.88	2.53	3.21	6.30	5.78	9.37	5.75
Oct.	1.04	3.12	3.13	3.74	2.49	3.14	6.19	5.65	9.15	5.58
Nov.	0.94	3.06	3.05	3.70	2.48	3.12	6.07	5.57	9.03	5.52
Dec.	0.87	2.81	2.81	3.56	2.44	3.03	5.91	5.26	8.92	5.38
1999 Jan.	0.79	2.67	2.67	3.43	2.36	2.86	5.77	5.17	8.89	5.20
Feb.	0.74	2.60	2.59	3.38	2.33	2.78	5.68	5.09	8.82	5.12

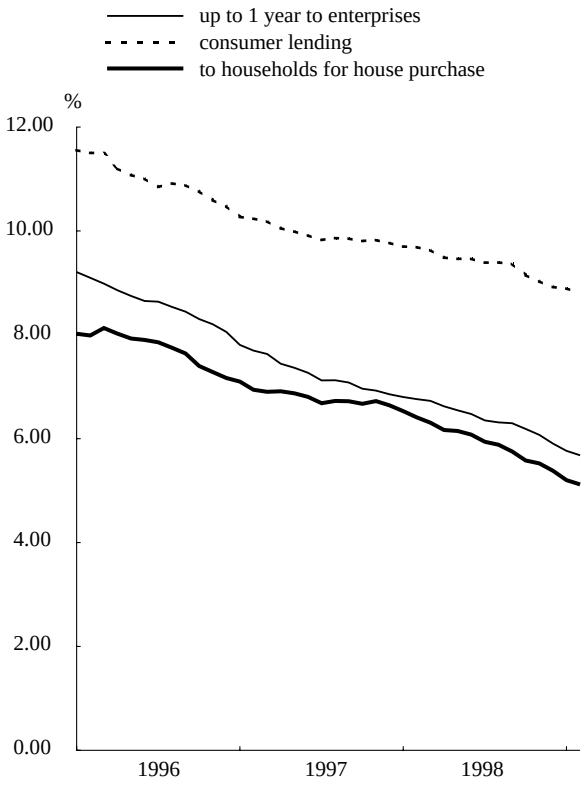
Deposit interest rates

(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 for analysing 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 the monthly 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.

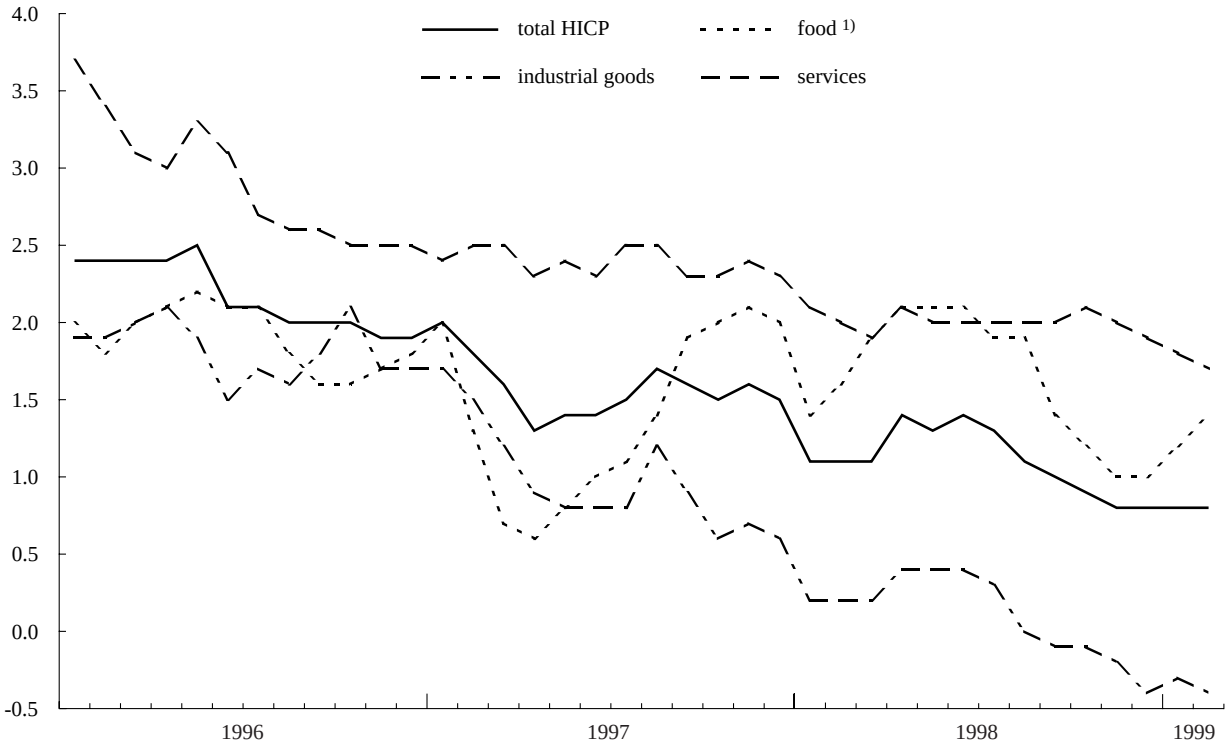
4 HICP and other prices in the euro area

Table 4.1

Harmonised Index of Consumer Prices

(annual percentage changes, unless otherwise indicated)

		Total (index, 1996 = 100)	Total	Goods							Services
					Food [1]			Industrial goods			
						Processed food [1]	Unprocessed food		Non-energy industrial goods	Energy	
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
1997	Q4	102.0	1.5	1.1	2.0	1.5	2.8	0.7	0.5	1.2	2.3
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
1998	Feb.	102.3	1.1	0.7	1.6	1.3	2.0	0.2	0.7	-1.4	2.0
	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



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			Construction [2]	Total	Total excluding energy
								Durable consumer goods	Non-durable consumer goods			
		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	-0.1	-21.2	-12.5
1998	Q1	101.4	0.5	0.6	-0.1	0.3	1.0	-0.2	1.6	0.3	-14.1	-0.1
	Q2	101.0	-0.2	0.0	-0.9	0.4	0.5	0.0	0.9	0.1	-16.6	-10.7
	Q3	100.4	-1.3	-1.1	-2.6	0.6	0.3	0.2	0.4	-0.3	-24.3	-18.2
	Q4	99.5	-2.3	-2.1	-4.2	0.2	-0.2	0.1	-0.3	-0.4	-30.0	-20.5
1999	Q1	.	.	.	.	.	.	.	.	.	-17.5	-16.0
1998	Mar.	101.3	0.3	0.5	-0.3	0.4	0.9	-0.2	1.4	-	-15.8	-4.7
	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.	99.4	-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	-4.8	0.1	.	0.1	.	-	-23.2	-17.2
	Feb.	.	.	.	.	.	.	.	.	-	-20.6	-16.1
	Mar.	.	.	.	.	.	.	.	.	-	-8.3	-14.7

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

		Deflators of GDP (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	2.7	2.9	2.1	1.7	3.5	3.7
1996		102.0	2.0	2.4	2.5	0.7	1.8	3.4	3.5
1997		103.4	1.4	1.8	2.2	1.0	0.4	2.6	3.0
1996	Q1	101.4	2.6	2.5	3.4	1.2	2.6	3.6	4.1
	Q2	101.9	2.2	2.6	2.2	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	0.3	1.5	3.3	2.8
1997	Q1	102.9	1.4	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	1.4	1.8	2.0	1.2	-0.1	2.3	2.7
	Q4	104.1	1.4	1.7	2.1	1.1	-0.4	2.2	2.8
1998	Q1	104.4	1.5	1.4	1.6	0.8	-2.2	1.0	2.2
	Q2	104.8	1.6	1.4	1.6	0.3	-0.6	1.2	2.8
	Q3	105.2	1.5	1.1	2.0	-0.3	-0.6	1.3	2.6

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.

5 Real economy indicators in the euro area

Table 5.1

Output and demand indicators

1. Gross domestic product and its components

(ECU billions, seasonally adjusted, at 1990 prices) [1]

		GDP	Domestic demand	Private consumption	Government consumption	Gross fixed capital formation	Exports [2]	Imports [2]
		1	2	3	4	5	6	7
1995		4,493.3	4,401.8	2,758.2	708.6	908.2	1,442.2	1,350.8
1996		4,563.0	4,452.2	2,809.6	720.8	911.7	1,506.2	1,395.4
1997		4,679.0	4,538.2	2,849.6	722.9	930.8	1,661.8	1,520.9
1998		4,820.6	4,691.3	2,935.5	726.0	969.5	1,761.9	1,632.6
1997	Q4	1,184.4	1,147.2	718.7	179.1	236.8	432.8	395.6
1998	Q1	1,195.1	1,164.6	725.6	181.8	241.0	433.3	402.8
	Q2	1,202.0	1,169.0	729.5	182.4	239.6	441.4	408.4
	Q3	1,210.5	1,174.9	736.8	181.7	243.8	446.8	411.3
	Q4	1,213.0	1,182.8	743.5	180.1	245.1	440.4	410.2

(annual percentage changes) [1]

		GDP	Domestic demand	Private consumption	Government consumption	Gross fixed capital formation	Exports [2]	Imports [2]
		8	9	10	11	12	13	14
1995		2.2	1.9	1.9	0.0	3.4	8.1	7.4
1996		1.6	1.1	1.9	1.7	0.4	4.4	3.3
1997		2.5	1.9	1.4	0.3	2.1	10.3	9.0
1998		3.0	3.4	3.0	0.4	4.2	6.0	7.3
1997	Q4	3.2	2.5	2.0	-0.7	2.8	11.6	10.2
1998	Q1	3.8	3.9	2.8	0.3	5.7	11.0	11.8
	Q2	3.0	3.2	2.5	0.6	3.2	7.7	8.6
	Q3	2.9	3.4	3.4	0.2	4.3	4.2	5.7
	Q4	2.4	3.1	3.4	0.6	3.5	1.8	3.7

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	3.3	3.5	2.5	7.2	-1.4	1.7	-0.3	2.0	0.3
1996		100.2	0.2	-0.2	-0.4	1.8	0.1	-0.8	-2.6	1.1	6.6
1997		104.5	4.3	4.8	5.4	5.0	0.8	2.2	-1.0	0.8	3.9
1998		108.9	4.2	4.6	4.0	7.2	6.8	1.4	0.0	2.5	7.7
1997	Q4	106.9	5.9	6.4	7.3	6.8	3.3	2.8	-0.3	2.1	11.2
1998	Q1	108.3	6.6	7.4	7.5	9.8	7.8	1.4	3.6	2.6	12.7
	Q2	109.0	4.6	5.1	4.4	7.2	6.7	2.3	0.2	1.7	3.3
	Q3	109.2	4.0	4.3	3.3	6.9	6.9	1.9	-0.5	2.8	7.4
	Q4	109.2	1.9	2.0	0.8	5.2	5.9	0.0	-2.6	2.8	7.5
1998	Feb.	108.3	6.5	7.0	7.3	8.9	7.6	1.2	0.5	2.1	10.3
	Mar.	109.0	7.2	7.4	7.4	11.6	10.7	0.9	-0.3	2.9	16.5
	Apr.	108.8	3.5	3.9	3.7	6.0	4.1	1.1	-2.3	0.8	-1.8
	May	109.2	6.9	7.7	6.3	10.6	11.3	4.3	3.2	1.7	6.9
	June	109.1	3.5	3.8	3.4	5.3	5.2	1.6	-0.1	2.6	5.3
	July	109.4	4.3	4.7	3.6	7.6	6.6	2.5	0.3	3.4	7.2
	Aug.	109.0	4.5	5.0	3.7	7.3	8.7	2.3	0.3	2.4	7.1
	Sep.	109.4	3.3	3.5	2.6	5.9	6.2	1.0	-1.8	2.6	7.9
	Oct.	109.5	2.9	3.7	1.6	6.9	9.6	0.5	-2.3	1.7	1.2
	Nov.	109.3	2.6	2.5	1.8	5.4	5.5	0.6	-2.6	3.9	15.3
	Dec.	108.7	0.0	-0.4	-1.2	3.2	1.9	-1.2	-2.9	2.7	7.3
1999	Jan.	.	.	.	.	.	.	.	.	.	5.1
	Feb.	.	.	.	.	.	.	.	.	.	5.6

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. The latest quarter is a first estimate.

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)

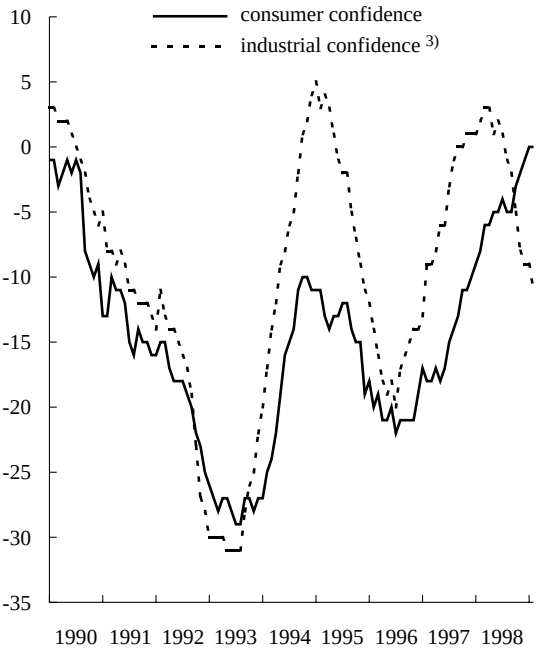
		Employment [1]				Unemployment [2]		Labour productivity [1]	
		Whole economy		Manufacturing		Millions	% of labour force	Whole economy (annual percentage changes)	Manufacturing (annual percentage changes)
		Index, 1995 = 100	Annual percentage changes	Index, 1995 = 100	Annual percentage changes				
		1	2	3	4	5	6	7	8
1995		100.0	0.4	100.0	-0.8	14.383	11.4	1.8	4.3
1996		100.2	0.2	98.6	-1.4	14.806	11.6	1.6	1.2
1997		100.4	0.3	97.9	-0.8	14.886	11.6	2.3	5.6
1998		101.7	1.3	100.4	2.6	14.057	11.0	.	2.0
1997	Q4	100.7	0.5	98.5	0.5	14.755	11.5	2.6	6.1
1998	Q1	101.1	1.0	99.5	2.1	14.418	11.2	3.4	5.1
	Q2	101.5	1.2	100.3	2.8	14.139	11.0	1.8	2.2
	Q3	102.0	1.4	100.7	2.8	13.943	10.9	1.8	1.5
	Q4	102.3	1.6	101.0	2.6	13.729	10.7	.	-0.6
1998	Jan.	-	-	-	-	14.480	11.3	-	-
	Feb.	-	-	-	-	14.432	11.2	-	-
	Mar.	-	-	-	-	14.343	11.2	-	-
	Apr.	-	-	-	-	14.213	11.1	-	-
	May	-	-	-	-	14.150	11.0	-	-
	June	-	-	-	-	14.054	11.0	-	-
	July	-	-	-	-	13.993	10.9	-	-
	Aug.	-	-	-	-	13.964	10.9	-	-
	Sep.	-	-	-	-	13.873	10.8	-	-
	Oct.	-	-	-	-	13.777	10.7	-	-
	Nov.	-	-	-	-	13.705	10.7	-	-
	Dec.	-	-	-	-	13.704	10.7	-	-
1999	Jan.	-	-	-	-	13.568	10.6	-	-

Chart 5.3

Opinion surveys

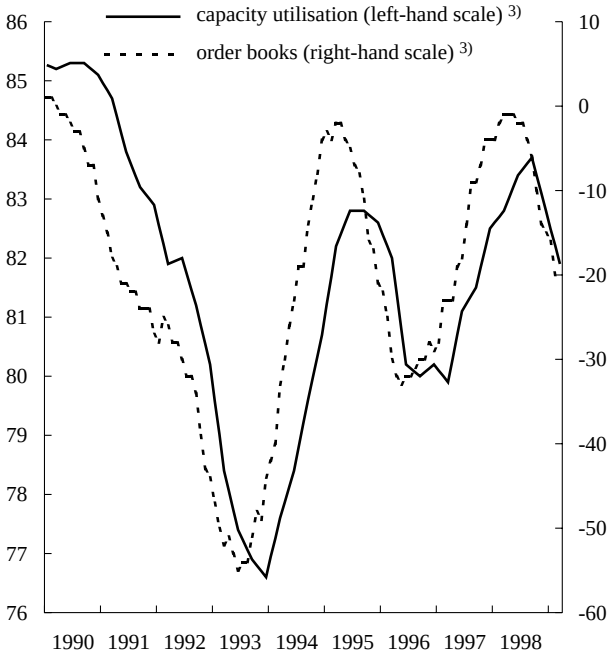
Consumer and industrial confidence indicators

(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 to 4, and 7 to 8), Eurostat (columns 5 to 6) 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)

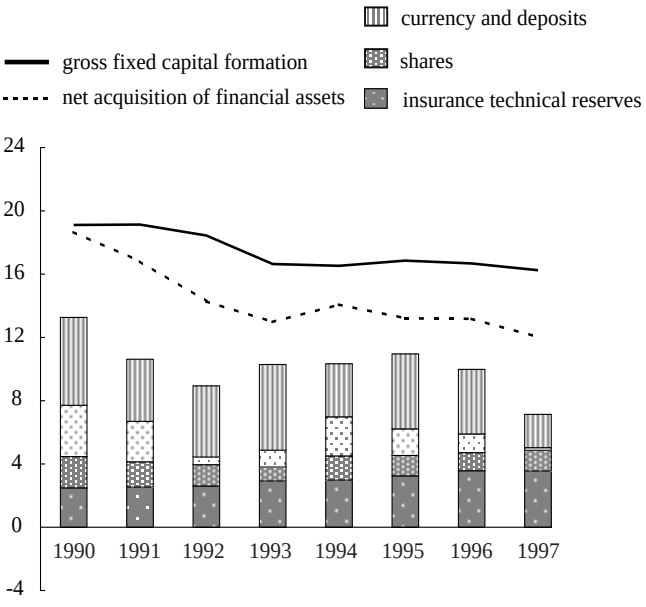
	Euro area saving and investment [1]			Investment of private non-financial sectors [1] [2]							
	Gross saving	Gross fixed capital formation	Net lending to the rest of the world	Gross fixed capital formation	Non-financial corporations	Net acquisition of financial assets	Currency and deposits	Securities 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			
	12	13	14	15	16	17	18	19	20	21	22
									(col. 6 - 14)	(col. 6 / (4+6))	(col. 14 / (12+14))
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

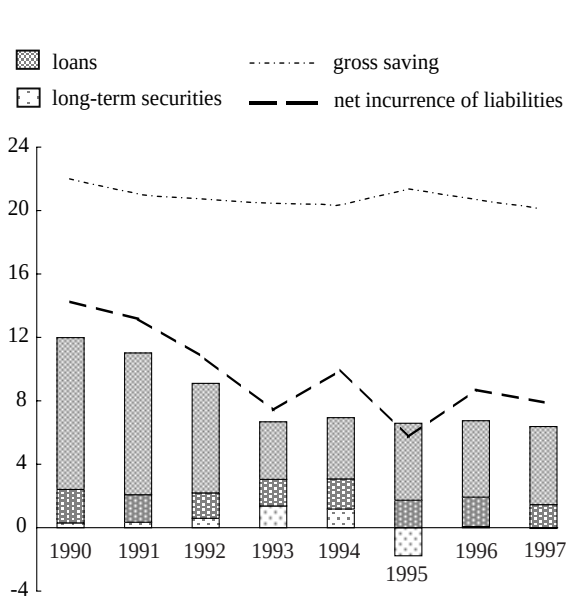
Investment and financing of private non-financial sectors [1] [2]

(as a percentagte 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							Expenditure							
	Total	Current receipts	Direct taxes	Indirect taxes	Social contributions	Sales	Capital receipts	Total	Current expenditure	Compensation of employees	Intermediate consumption	Interest	Transfers to households	Capital 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	48.6	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 (+)				Primary deficit/ surplus	Deficit/ debt adjustment [3)]	Change in debt [4)]				Gross nominal consolidated debt			
		Total	Central government	Local government	Social security			Total	Currency, deposits and loans	Short-term securities	Medium/ long-term securities	Total	Currency, deposits and loans	Short-term securities	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	1.4	-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 8.6

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	7.4
Jan.	337.4	101.6	405	5.6	22.6	205.9	1.7	7.1
Feb.	340.1	105.6	405	2.6	22.8	208.5	0.7	9.0

Source: ECB.

1) Discrepancies may arise from rounding.

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

9 External trade in goods of the euro area

Table 9

1. Exports

(ECU billions; f.o.b. value)

		Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manufactured articles	Machinery, transport equipment	Other
		1	2	3	4	5	6	7	8
1995		622.45	46.79	14.53	11.14	79.50	182.75	271.31	16.44
1996		669.70	48.65	13.71	12.97	85.09	194.25	293.46	21.58
1997		762.10	52.78	16.29	14.40	98.93	216.32	342.50	20.88
1998		790.41	.	.	.	.	.	.	.
1996	Q1	158.77	11.48	3.43	3.08	20.46	46.11	68.71	5.51
	Q2	166.17	11.94	3.43	3.24	21.26	47.73	73.38	5.19
	Q3	162.60	11.92	3.25	3.15	21.69	48.39	69.34	4.86
	Q4	182.16	13.31	3.60	3.50	21.67	52.03	82.02	6.02
1997	Q1	170.33	11.98	3.81	3.66	22.60	48.70	74.57	5.00
	Q2	191.68	13.35	4.08	3.61	25.11	53.86	86.38	5.29
	Q3	193.53	13.04	4.16	3.42	25.63	55.70	86.49	5.08
	Q4	206.56	14.42	4.24	3.70	25.58	58.06	95.05	5.51
1998	Q1	193.95	13.14	4.13	3.40	26.54	54.32	87.45	4.99
	Q2	203.86	13.94	3.89	3.31	26.94	56.03	94.71	5.04
	Q3	194.50	12.73	3.85	2.94	25.70	54.50	90.14	4.64
	Q4	198.10	.	.	.	.	.	.	.
1997	Nov.	66.34	4.64	1.35	1.19	8.21	18.76	30.39	1.81
	Dec.	67.05	4.53	1.34	1.25	8.10	18.07	31.96	1.80
1998	Jan.	58.41	4.04	1.25	1.17	8.37	16.17	25.80	1.60
	Feb.	63.64	4.30	1.37	1.01	8.59	17.99	28.76	1.62
	Mar.	71.91	4.79	1.51	1.21	9.58	20.16	32.89	1.77
	Apr.	67.94	4.69	1.31	1.11	9.16	18.84	31.00	1.83
	May	65.87	4.55	1.27	1.07	8.69	18.09	30.56	1.64
	June	70.05	4.70	1.32	1.12	9.09	19.10	33.16	1.56
	July	72.72	4.51	1.33	1.08	9.24	20.95	34.00	1.62
	Aug.	56.16	3.97	1.23	0.94	7.72	15.41	25.46	1.43
	Sep.	65.63	4.25	1.30	0.92	8.75	18.14	30.68	1.59
	Oct.	68.34	4.51	1.31	0.97	8.54	19.31	32.19	1.52
	Nov.	65.82	.	.	.	.	.	.	.
	Dec.	63.94	.	.	.	.	.	.	.
Percentage change compared with the corresponding period in the previous year									
Dec. 1998		-4.6	.	.	.	.	.	.	.
Cumulative Jan.-Dec. 1998		3.7	.	.	.	.	.	.	.

Source: Eurostat; the commodity breakdown is in accordance with the SITC Rev. 3.

2. Imports

(ECU billions; c.i.f. value)

		Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manufactured articles	Machinery, transport equipment	Other
		1	2	3	4	5	6	7	8
1995		562.73	46.03	39.81	62.09	52.12	163.71	177.36	21.60
1996		593.92	46.68	36.45	73.85	53.75	166.12	191.34	25.73
1997		673.30	49.63	41.30	81.21	61.93	188.02	228.17	23.05
1998		707.45	.	.	.	.	.	.	.
1996	Q1	147.69	11.72	9.70	16.35	13.60	42.71	47.81	5.80
	Q2	147.38	11.64	9.42	17.53	13.75	40.22	48.69	6.13
	Q3	140.94	11.18	8.29	17.81	12.69	41.75	43.51	5.70
	Q4	157.91	12.13	9.05	22.16	13.71	41.44	51.32	8.10
1997	Q1	158.60	11.36	9.63	21.19	14.62	44.53	51.53	5.76
	Q2	167.80	12.63	11.03	18.62	16.04	46.47	57.31	5.69
	Q3	166.63	12.18	10.03	20.00	15.21	48.90	55.58	4.75
	Q4	180.27	13.46	10.61	21.41	16.07	48.12	63.76	6.85
1998	Q1	180.52	12.64	10.84	17.49	17.59	51.21	64.56	6.18
	Q2	178.71	12.55	11.12	15.88	17.21	50.05	65.82	6.08
	Q3	170.32	12.22	9.64	14.65	16.20	50.06	62.34	5.24
	Q4	177.90	.	.	.	.	.	.	.
1997	Nov.	58.01	4.22	3.48	6.83	5.20	15.40	20.77	2.10
	Dec.	58.76	4.42	3.44	7.05	5.06	15.28	20.98	2.52
1998	Jan.	57.90	4.12	3.51	6.16	5.60	16.41	20.11	2.00
	Feb.	58.22	3.95	3.53	5.74	5.53	16.58	20.69	2.20
	Mar.	64.40	4.57	3.80	5.60	6.47	18.22	23.75	1.99
	Apr.	59.97	4.33	3.66	5.42	5.74	16.62	22.25	1.96
	May	57.10	4.03	3.55	5.53	5.56	15.75	20.90	1.78
	June	61.64	4.19	3.91	4.93	5.91	17.67	22.68	2.34
	July	59.10	4.34	3.55	4.92	5.86	17.68	20.89	1.86
	Aug.	49.94	3.69	2.79	4.72	4.65	14.71	17.86	1.52
	Sep.	61.29	4.19	3.29	5.00	5.68	17.67	23.59	1.86
	Oct.	61.57	4.25	3.30	5.00	5.68	17.06	24.31	1.97
	Nov.	59.32	.	.	.	.	.	.	.
	Dec.	57.02	.	.	.	.	.	.	.
Percentage change compared with the corresponding period in the previous year									
Dec. 1998		-3.0	.	.	.	.	.	.	.
Cumulative Jan.-Dec. 1998		5.1	.	.	.	.	.	.	.

Source: Eurostat; the commodity breakdown is in accordance with the SITC Rev. 3.

Table 9

3. Trade balance

(ECU billions; 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		59.73	0.76	-25.29	-50.96	27.37	19.04	93.95	-5.16
1996		75.78	1.97	-22.74	-60.88	31.33	28.13	102.12	-4.15
1997		88.79	3.16	-25.01	-66.81	37.00	28.31	114.33	-2.17
1998		82.96	.	.	.	.	.	.	.
1996	Q1	11.08	-0.25	-6.26	-13.27	6.86	3.40	20.89	-0.29
	Q2	18.80	0.30	-5.99	-14.29	7.51	7.51	24.69	-0.94
	Q3	21.65	0.74	-5.04	-14.67	9.00	6.63	25.83	-0.84
	Q4	24.25	1.18	-5.45	-18.66	7.96	10.59	30.70	-2.08
1997	Q1	11.72	0.62	-5.81	-17.53	7.98	4.18	23.05	-0.76
	Q2	23.89	0.72	-6.95	-15.01	9.07	7.39	29.08	-0.41
	Q3	26.90	0.87	-5.87	-16.58	10.43	6.80	30.92	0.34
	Q4	26.29	0.96	-6.37	-17.70	9.52	9.95	31.28	-1.34
1998	Q1	13.44	0.49	-6.71	-14.10	8.95	3.11	22.89	-1.20
	Q2	25.15	1.39	-7.23	-12.57	9.73	5.98	28.89	-1.04
	Q3	24.18	0.52	-5.78	-11.71	9.51	4.44	27.80	-0.60
	Q4	20.20	.	.	.	.	.	.	.
1997	Nov.	8.33	0.42	-2.14	-5.65	3.01	3.35	9.62	-0.29
	Dec.	8.30	0.11	-2.10	-5.80	3.04	2.78	10.98	-0.72
1998	Jan.	0.51	-0.08	-2.25	-4.99	2.77	-0.24	5.69	-0.40
	Feb.	5.42	0.35	-2.17	-4.73	3.07	1.41	8.07	-0.58
	Mar.	7.51	0.22	-2.29	-4.38	3.11	1.94	9.13	-0.22
	Apr.	7.97	0.36	-2.35	-4.31	3.42	2.22	8.75	-0.12
	May	8.77	0.52	-2.28	-4.45	3.13	2.34	9.66	-0.14
	June	8.41	0.51	-2.59	-3.81	3.18	1.42	10.48	-0.78
	July	13.62	0.18	-2.22	-3.85	3.38	3.27	13.11	-0.24
	Aug.	6.22	0.28	-1.56	-3.78	3.07	0.70	7.60	-0.09
	Sep.	4.34	0.05	-2.00	-4.08	3.06	0.47	7.09	-0.27
	Oct.	6.78	0.26	-1.99	-4.03	2.87	2.25	7.87	-0.45
	Nov.	6.50	.	.	.	.	.	.	.
	Dec.	6.92	.	.	.	.	.	.	.
Absolute change compared with the corresponding period in the previous year									
Dec. 1998		-1.4	.	.	.	.	.	.	.
Cumulative Jan.-Dec. 1998		-5.8	.	.	.	.	.	.	.

Source: Eurostat; the commodity breakdown is in accordance with the SITC Rev. 3.

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 1	Japanese yen 2	Swiss franc 3	Pound sterling 4	Swedish krona 5	Danish krone 6	Greek drachma 7	Norwegian krone 8	Canadian dollar 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	Mar.	1.084	139.9	1.614	0.653	8.64	7.55	331.6	8.22	1.536
	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	8.88	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
% ch. vs.[2)]	prev. month	-2.9	-0.4	-0.2	-2.5	0.7	0.0	0.2	-1.7	-1.6

		Bilateral ECU or euro exchange rates							Effective exchange rate (EER) of the euro area [3)]	
		Australian dollar 10	New Zealand dollar 11	Hong Kong dollar 12	Korean won 13	Singapore dollar 14	Taiwan dollar 15	Mexican peso 16	Nominal 17	Real 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	Mar.	1.619	1.892	8.41	1,615.8	1.757	35.30	9.30	88.9	88.9
	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	88.9
% ch. vs.[2)]	prev. month	-1.5	-0.8	-2.9	0.5	-1.3	-1.0	-5.5	-1.5	-1.7
	prev. year								0.7	0.0

Source: ECB.

1) *To December 1998, rates for the ECU (source BIS); from January 1999, rates for the euro.*

2) *A percentage change of 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	1.1	1.7	3.0	4.4	7.2	-2.0	6.20
1996		2.1	-0.9	67.4	7.19	7.36	1.7	1.0	3.3	1.4	6.8	7.2	3.98
1997		1.9	0.4	63.6	6.26	7.48	0.9	2.8	3.1	4.6	5.6	4.7	3.73
1998		1.3	0.8	58.1	4.94	7.50	.	2.8	2.9	1.6	5.1	4.6	4.27
1998	Q1	1.6	-	-	5.30	7.53	-0.7	2.1	4.2	6.1	5.5	3.0	3.90
	Q2	1.4	-	-	5.12	7.52	.	1.6	1.3	-0.8	5.2	5.1	4.21
	Q3	1.2	-	-	4.82	7.50	.	3.1	3.7	2.7	5.1	6.6	4.47
	Q4	1.1	-	-	4.51	7.44	.	4.4	2.7	-1.3	4.7	3.7	4.51
1999	Q1	.	-	-	4.22	7.44	.	.	.	.	.	.	3.64
1998	Sep.	1.1	-	-	4.74	7.48	-	-	-	0.0	4.9	8.4	4.92
	Oct.	1.1	-	-	4.67	7.44	-	-	-	1.6	4.8	4.0	4.85
	Nov.	1.1	-	-	4.59	7.44	-	-	-	0.0	4.6	4.1	4.43
	Dec.	1.1	-	-	4.27	7.45	-	-	-	-5.5	4.6	2.9	4.23
1999	Jan.	1.2	-	-	4.03	7.44	-	-	-	.	.	3.7	3.87
	Feb.	1.3	-	-	4.19	7.44	-	-	-	.	.	4.3	3.62
	Mar.	.	-	-	4.43	7.43	-	-	-	.	.	.	3.46
Greece													
1995		-	-10.3	110.1	-	303.0	-2.5	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	.	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	.	3.8	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	1.8	13.18
	Q4	4.0	-	-	7.76	331.5	.	.	.	0.8	.	5.6	11.94
1999	Q1	.	-	-	6.08	322.7	.	.	.	.	.	.	10.56
1998	Sep.	5.0	-	-	8.25	337.9	-	-	-	-0.8	11.9	1.1	13.50
	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	-	-	-	.	.	14.6	11.45
	Feb.	3.5	-	-	5.96	322.0	-	-	-	.	.	.	10.43
	Mar.	.	-	-	5.97	322.5	-	-	-	.	.	.	9.84
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	2.9	.	1.8	7.2	9.9	4.2	4.43
1998		1.0	2.0	75.1	4.99	8.92	.	.	2.9	4.1	8.2	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	1.2	.	1.8	6.2	8.6	2.6	4.53
	Q3	0.6	-	-	4.82	8.95	2.6	.	3.1	4.8	8.1	4.7	4.29
	Q4	0.1	-	-	4.50	9.38	.	.	3.8	1.2	7.5	4.5	3.94
1999	Q1	.	-	-	4.21	8.97	.	.	.	.	.	.	3.31
1998	Sep.	-0.1	-	-	4.79	9.12	-	-	-	2.7	7.6	4.8	4.32
	Oct.	0.1	-	-	4.72	9.37	-	-	-	4.0	7.5	5.9	4.27
	Nov.	0.1	-	-	4.55	9.31	-	-	-	1.3	7.6	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	7.6	4.1	3.42
	Feb.	0.2	-	-	4.18	8.88	-	-	-	.	.	5.8	3.31
	Mar.	.	-	-	4.44	8.94	-	-	-	.	.	.	3.23
United Kingdom													
1995		-	-5.7	53.0	8.32	0.829	-0.5	1.7	2.8	1.5	8.7	7.2	6.75
1996		2.5	-4.4	53.6	7.94	0.814	-0.2	2.0	2.6	0.4	8.2	9.9	6.11
1997		1.8	-1.9	52.1	7.13	0.692	0.6	3.3	3.5	1.0	7.0	11.2	6.92
1998		1.5	0.6	49.4	5.60	0.676	.	.	2.1	.	6.3	9.6	7.43
1998	Q1	1.5	-	-	6.10	0.660	-1.6	3.1	3.1	0.1	6.5	10.5	7.56
	Q2	1.8	-	-	5.89	0.665	.	.	2.3	0.9	6.3	9.9	7.58
	Q3	1.4	-	-	5.57	0.676	.	.	1.8	0.4	6.3	9.5	7.67
	Q4	1.4	-	-	4.82	0.702	.	.	1.1	.	6.2	8.6	6.89
1999	Q1	.	-	-	4.39	0.687	.	.	.	.	.	.	5.60
1998	Sep.	1.5	-	-	5.16	0.687	-	-	-	0.4	6.3	9.3	7.47
	Oct.	1.3	-	-	4.99	0.705	-	-	-	-0.5	6.2	9.3	7.22
	Nov.	1.4	-	-	4.93	0.701	-	-	-	-0.2	6.2	8.4	6.97
	Dec.	1.5	-	-	4.54	0.702	-	-	-	.	.	8.2	6.47
1999	Jan.	1.6	-	-	4.20	0.703	-	-	-	.	.	7.6	5.90
	Feb.	1.5	-	-	4.37	0.689	-	-	-	.	.	.	5.53
	Mar.	.	-	-	4.60	0.671	-	-	-	.	.	.	5.40

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) *BPM4; BPM5 for Sweden.*
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

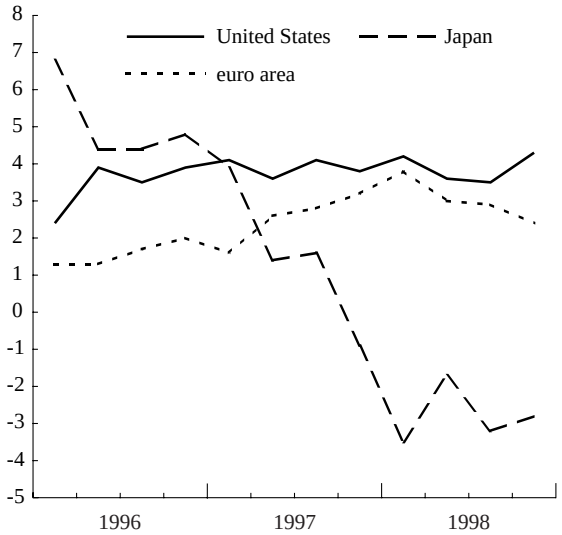
Economic and financial developments

(annual percentage changes, unless otherwise indicated)

		Consumer price index	Unit labour costs [1]	Real GDP	Industrial production index [1]	Standardised unemployment 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	4.1	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	.	.	.	.	4.3	.	4.99	5.00	1.122	-	.
1998	Sep.	1.5	-	-	2.9	4.5	7.6	5.20	4.87	1.154	-	-
	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	-	-	2.2	4.3	8.7	4.99	4.78	1.161	-	-
	Feb.	1.6	-	-	2.4	4.4	8.5	5.00	4.99	1.121	-	-
	Mar.	.	-	-	.	4.2	.	4.99	5.23	1.088	-	-
						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	-6.9	4.1	4.0	0.18	1.30	146.4	-5.9	.
1998	Q1	2.0	3.7	-3.5	-4.0	3.7	4.7	0.50	1.65	139.2	-	-
	Q2	0.3	7.1	-1.7	-8.5	4.1	3.7	0.43	1.36	149.5	-	-
	Q3	-0.2	.	-3.2	-8.6	4.3	3.7	0.12	1.14	156.3	-	-
	Q4	0.5	.	-2.8	-6.7	4.4	4.0	0.18	1.04	140.6	-	-
1999	Q1	.	.	.	.	.	.	0.31	1.96	130.7	-	-
1998	Sep.	-0.2	.	-	-7.6	4.3	3.8	0.12	0.88	155.3	-	-
	Oct.	0.2	.	-	-7.9	4.3	3.9	0.68	0.82	144.2	-	-
	Nov.	0.8	.	-	-5.6	4.4	4.3	0.68	0.89	140.1	-	-
	Dec.	0.6	.	-	-6.4	4.4	3.9	0.18	1.39	137.4	-	-
1999	Jan.	0.2	.	-	-7.9	4.4	3.6	0.35	2.07	131.3	-	-
	Feb.	-0.1	.	-	-5.2	4.6	3.5	0.38	2.09	130.8	-	-
	Mar.	.	.	-	.	.	.	0.20	1.72	130.2	-	-

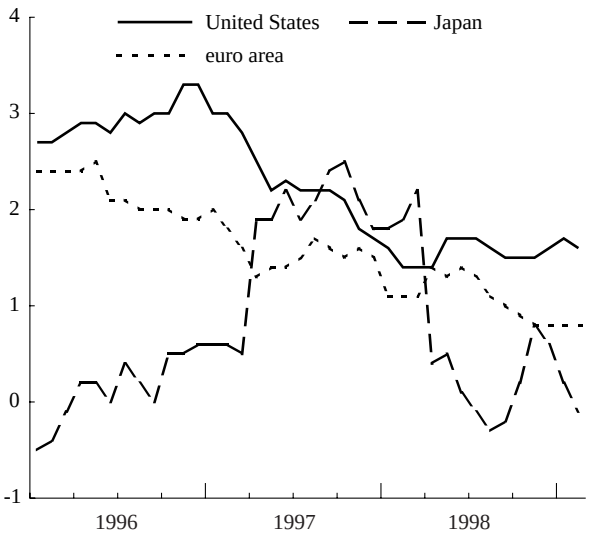
Real gross domestic product

(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)

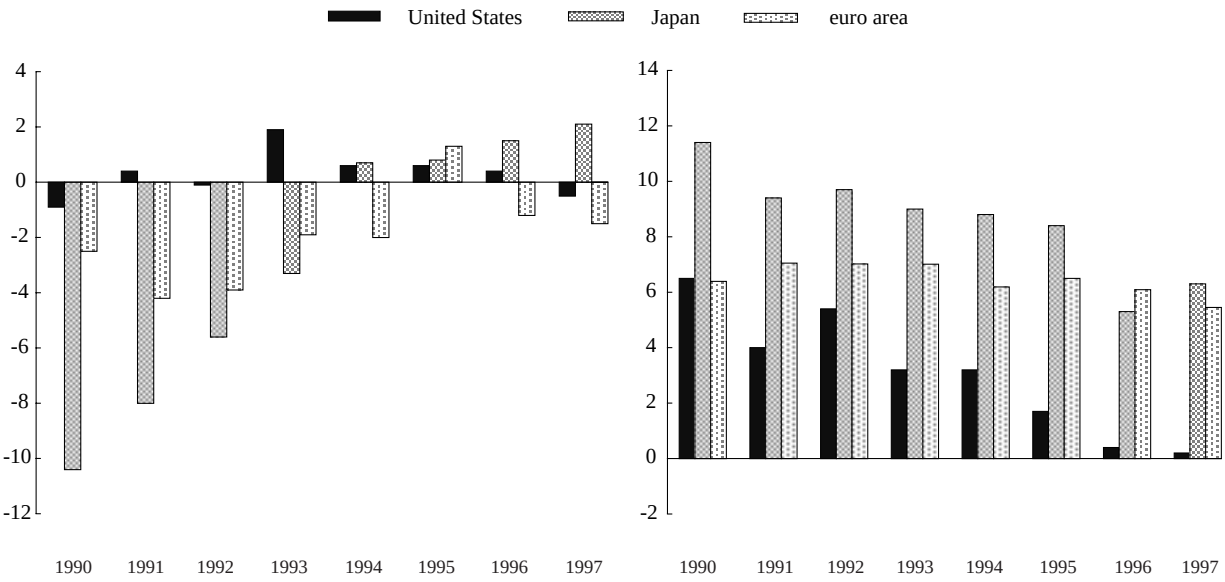
		National saving and investment			Investment and financing of non-financial corporations						Investment and financing of households [1]			
		Gross saving	Gross capital formation	Net lending to the rest of the world	Gross capital formation	Gross fixed capital formation	Net acquisition of financial assets	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.

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).*

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 8 April 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 24. 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.

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 the 1998 EU Council Regulation on 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 employment are derived from the most recent national sources using similar, but not fully comparable, definitions of employment (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 will be published for the first time in the May issue of the ECB Monthly Bulletin (Tables 8.1 to 8.5). The balance of payments data are not shown in this issue because of problems encountered in compiling consistent historical data. The concepts and definitions used in balance of payments and international investment position statistics (the latter to be published in the autumn, for end-1998 stocks) conform to the 5th edition of the IMF Balance of Payments Manual (October 1993) and the ECB Guideline of 1 December 1998 on the statistical reporting requirements of the European Central Bank (ECB/1998/17).

The outstanding amounts of the Eurosystem's reserves and related assets from 1999 onwards are shown in Table 8.6. The Eurosystem's reserve assets consist of highly liquid, marketable and creditworthy 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.

This definition of the Eurosystem's reserve assets complies with the guidelines established by the 5th edition of the IMF Balance of Payments Manual, which may differ from the 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 are valued on a market basis.

The Eurosystem's claims on euro area residents which meet the criteria of liquidity, marketability and creditworthiness and are denominated in foreign currency – principally foreign currency deposits with banks located in the euro area – are shown as a memorandum item in Table 8.6. This approach permits a reconciliation of the Eurosystem's international reserves as recorded in the balance of payments and its foreign currency liquidity position.

Table 9 presents data on euro area external trade in goods.

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

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.

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.

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).

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.

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.

"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.