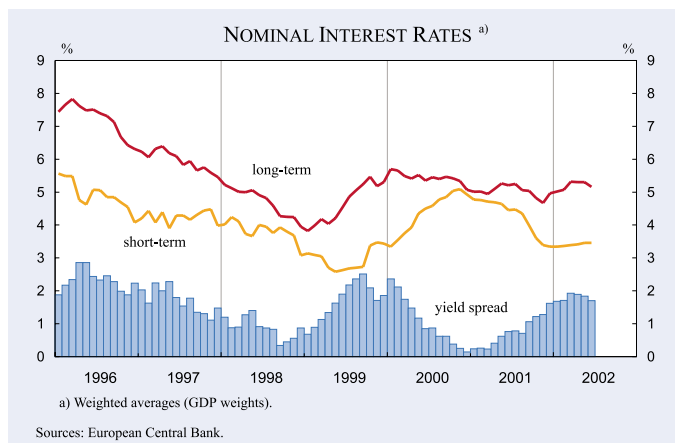
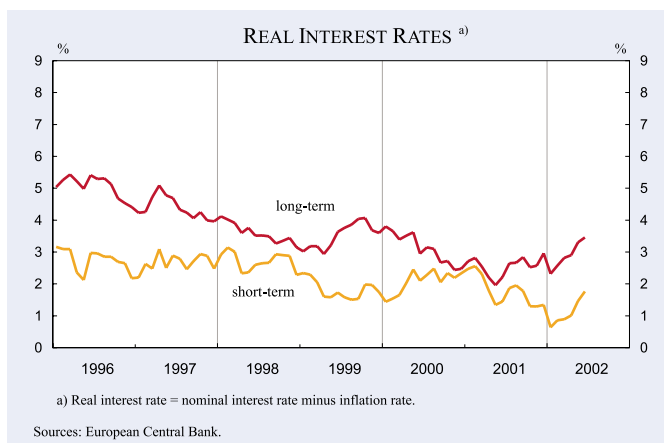


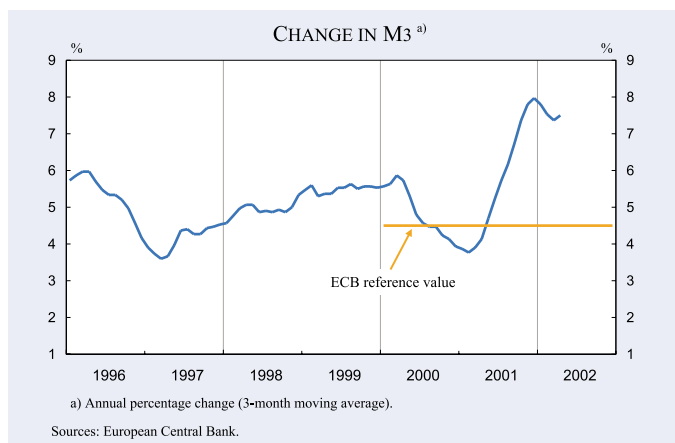
MONETARY CONDITIONS IN THE EURO-AREA



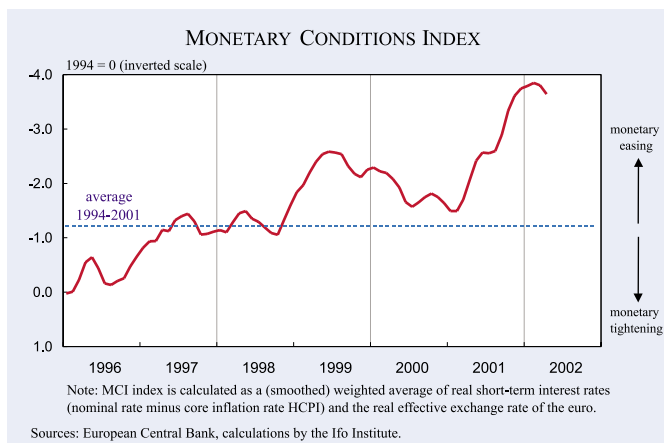
Long-term nominal interest rates peaked in March 2002 at 5.32% and have since declined to 5.16% in June. This is obviously the result of a portfolio shift from equities to bonds. Short-term interest rates, in contrast, have risen, though very modestly, since the beginning of the year. Consequently the yield spread has been declining.



Real interest rates, both short-term and long-term, have been rising steeply since the beginning of the year in line with the dramatic decline in the rate of inflation. Real money market rates rose from 0.64% in January to 1.76% in June, real bond rates from 2.32% to 3.46% over the same period of time.

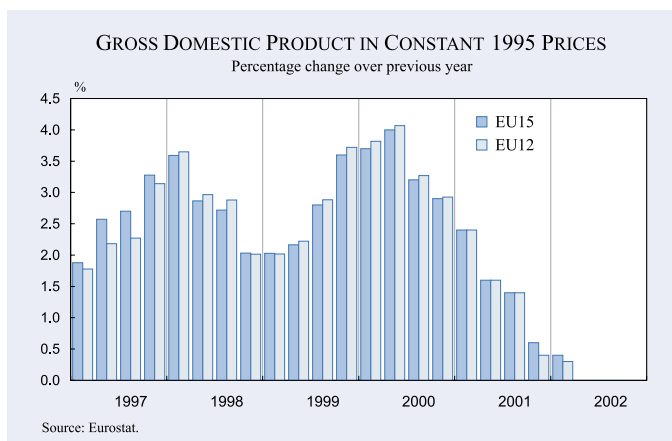


The annual rate of growth of the money supply M3 increased to 7.8% in May from 7.4% in April. The three-month average of the annual growth rates of M3 over the period March–May 2002 increased to 7.5% from 7.4% during the period February–April, following a decline throughout the earlier part of the year. A counterpart of M3, the longer-term financial liabilities of the MFI sector, expanded at an annual rate of 5.3% in May, up from 4.7% in April. This was mainly the result of an increase in the growth rate of debt securities issued with a maturity of over two years.

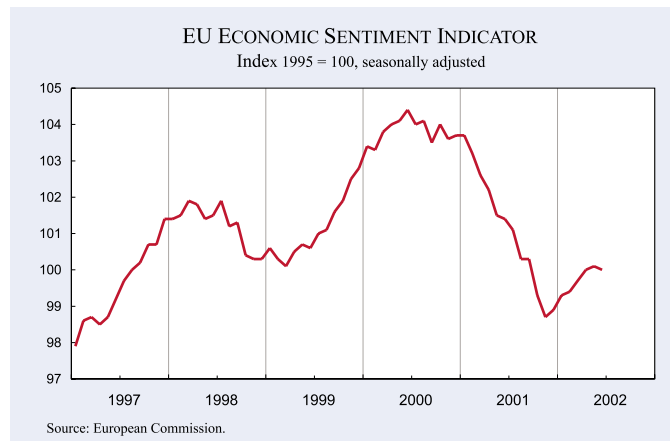


The monetary conditions index peaked in February and has since continued to decline. This signals a reversal of monetary easing. Behind this development is the steep rise in real interest rates and the increase in the real effective exchange rate of the euro.

EU SURVEY RESULTS

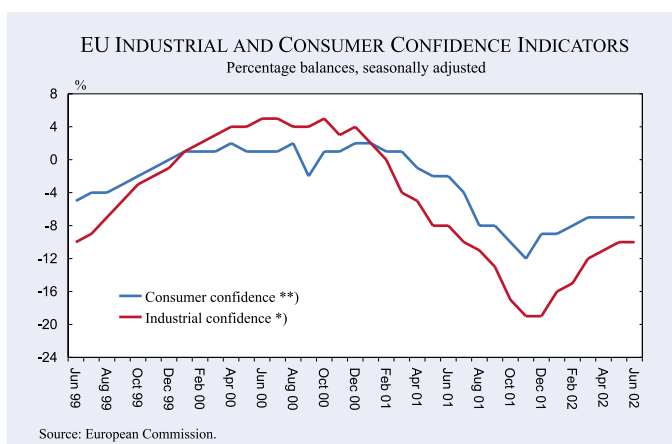


GDP of the euro area rose by 0.3% and that of EU-15 by 0.4% in the first quarter of 2002 compared to the first quarter of 2001. This follows corresponding growth rates of 0.4% and 0.6% respectively in the preceding quarter. Greece and Spain were the countries with the best performance, followed by Denmark and the UK. In a quarter to quarter comparison, consumption spending stagnated in the euro area, but rose a little (by 0.1%) in EU-15. Investment fell in the fifth consecutive quarter. Exports recovered by 0.5% in the euro area and 0.4% in EU-15, whereas imports declined further.



a) The new economic sentiment indicator is based on the industrial, construction, retail trade and consumer confidence indicators. Seasonally adjusted data.

The economic sentiment indicator in the EU remained largely unchanged in June, at a value of 100.0, which compares with 100.1 in May. In the euro area it fell by 0.3 percentage points, from 99.9 in May to 99.6 in June. The economic sentiment indicator rose in Spain, Finland, Sweden (0.3 percentage points), the UK (0.2), Greece and Austria (0.1) while it remained unchanged in Germany.

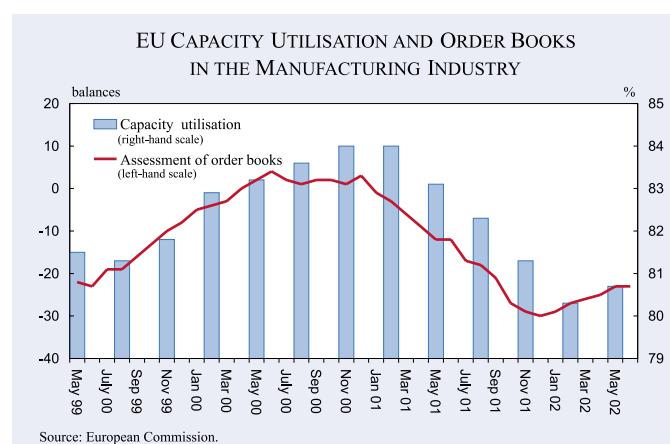


* The industrial confidence indicator is an average of responses (balances) to the questions on production expectations, order-books and stocks (the latter with inverted sign).

** New consumer confidence indicators, calculated as an arithmetic average of the following questions: financial and general economic situation (over the next 12 months), unemployment expectations (over the next 12 months) and savings (over the next 12 months). Seasonally adjusted data.

The **industrial confidence** indicator in the EU remained unchanged. Industrialists' confidence increased in Sweden (9 percentage points), Luxembourg (5), Spain and the UK (4), Finland (3), Greece, Austria and Portugal (2).

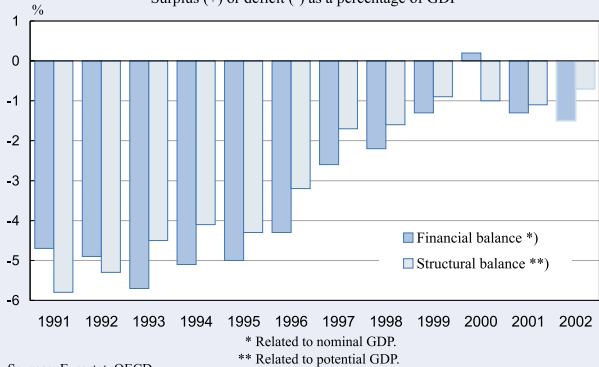
Consumer confidence also remained unchanged in the EU, whereas it fell by 1 percentage point in the euro area. This difference is mainly explained by the increase recorded in Denmark and Sweden. The indicator also increased in Belgium and Germany, however.



The **quarterly report on capacity utilisation** in the EU showed a trend reversal in May, rising to 80.7 from 80.3 in February, the low point in this cycle. **Order books** remained unchanged, although some countries like Germany and Italy registered significant decreases. Order books greatly increased in Sweden, Spain and the UK, however.

EURO AREA INDICATORS

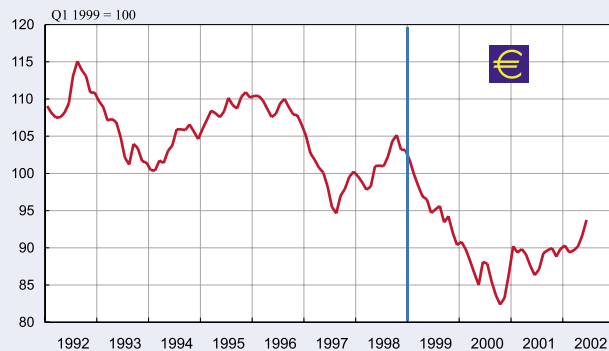
GENERAL GOVERNMENT FISCAL BALANCES
Surplus (+) or deficit (-) as a percentage of GDP



Sources: Eurostat, OECD.

Following a surplus of 0.2% of GDP in the financial balance of the euro area countries in 2000 and a deficit of 1% in the structural balance, the fiscal situation deteriorated in 2001 with deficits of 1.3 and 1.1% of GDP respectively. The forecast of the OECD for 2002 sees the financial balance deteriorate further, but a significant improvement of the structural deficit.

REAL EFFECTIVE EXCHANGE RATE OF THE EURO ^{a)}

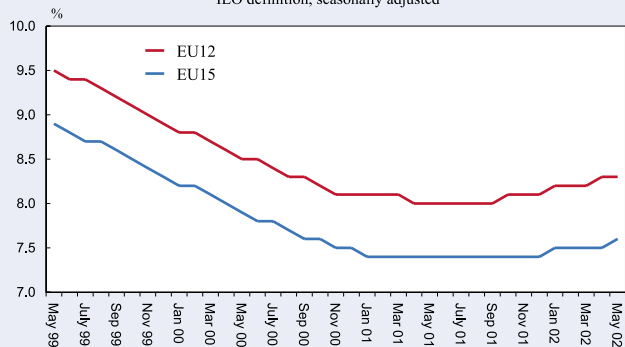


Source: European Central Bank.

a) 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. Weights are based on 1990 manufactured goods trade with the trading partners United States, Japan, Switzerland, United Kingdom, Sweden, Denmark, Greece, Norway, Canada, Australia, Hong Kong, South Korea and Singapore and capture third market effects. Real rates are calculated using national CPIs. Where CPI data are not yet available, estimates are used.

Not only the nominal bilateral USD/EUR exchange rate has risen in recent month, the same is true for the more important effective rate and especially the real effective exchange rate of the euro. From its low in June 2001 at 86.3 (1999 Q1 = 100) it rose to 91.5 in May 2002. From August 2001 to April 2002 the real effective exchange rate had moved around the 90 mark which has now been significantly exceeded for the first time. If this trend continues, exports of the euro area will in time be adversely affected.

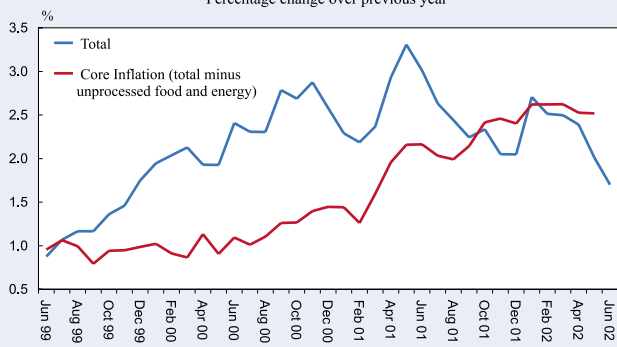
UNEMPLOYMENT RATE
ILO definition, seasonally adjusted



Source: Eurostat.

The unemployment rate in the euro area (EU12) levelled off in May at 8.3%, after having risen from its low of 8% in the summer of 2001. The unemployment rate in the larger EU15 group of countries, though lower, continued to rise in May to 7.6%. Hopefully both rates will stabilise and then reverse trend as the economic recovery takes firmer hold throughout Europe.

INFLATION RATE (HICP)
Percentage change over previous year



Source: Eurostat, Ifo Institute.

The rate of increase of consumer prices, as measured by the HICP, continued to decline in June to a preliminary 1.7% from its peak in May 2001 (3.3%). At this level, below the ECB target of 2%, there is little need for the European Central Bank to raise interest rates. Core inflation, however, shows a different picture. Excluding food and energy, this rate of price increase has steadily risen since February 2001 but has levelled off, at 2.5%, in May.