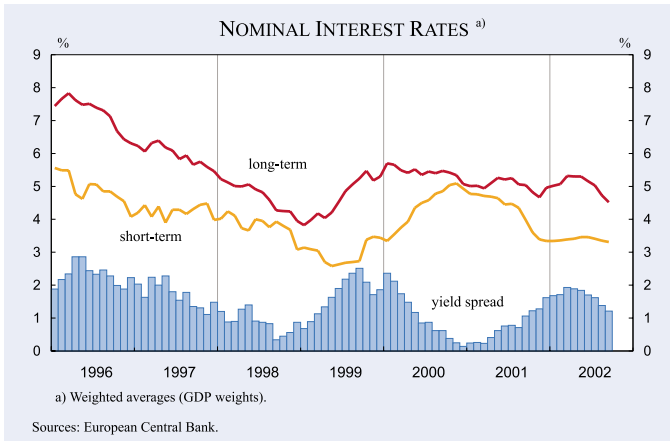
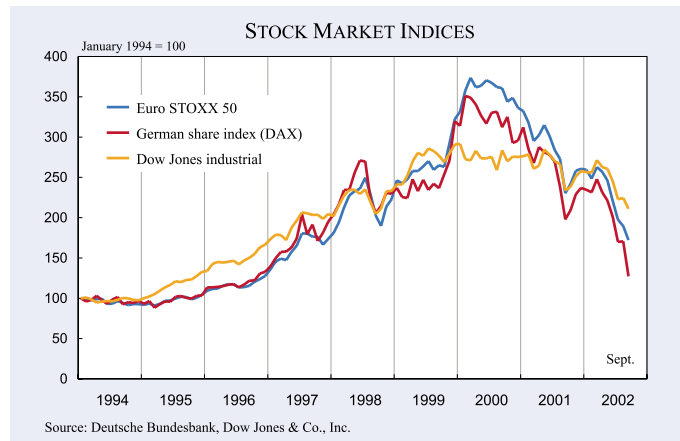


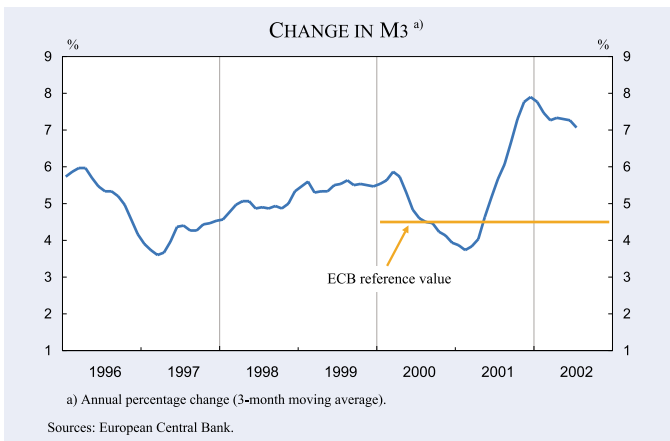
# FINANCIAL CONDITIONS IN THE EURO-AREA



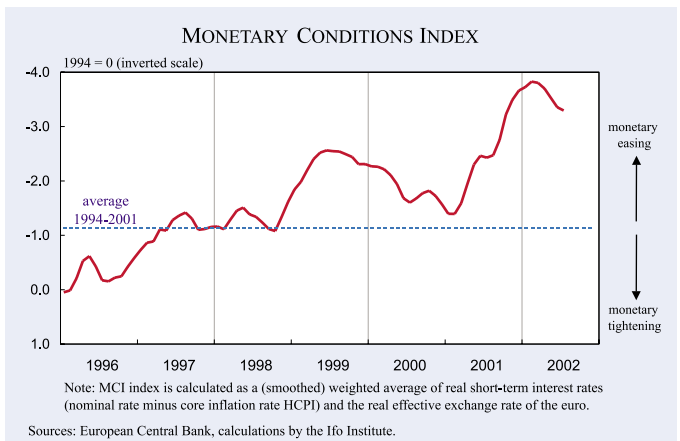
The ECB has left its key interest rate (the minimum bid rate on the main refinancing operations of the Eurosystem) unchanged at 3.25%, the rate in effect since November 2001. Since then, the 3-month money market rate has fluctuated around 3%. Long-term interest rates (yields on 10-year government bonds), which had peaked in May 2002 at 5.3%, have since declined to 4.5% in early September. The yield spread has diminished accordingly.



Following a temporary recovery in US and European stock prices in early August, the waning optimism regarding the world-wide economic recovery as well as the concern regarding future company profits exerted downward pressure on all major stock markets. In 2002, the Dow Jones has so far outperformed the Euro STOXX and, in particular, the German DAX.

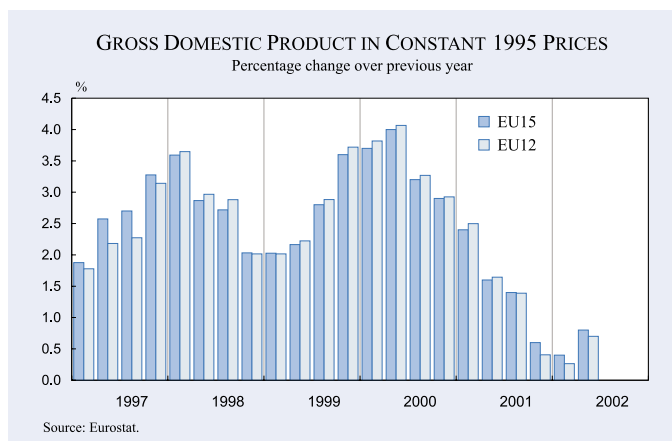


The 3-month average of the annual growth rates of M3 decreased further to 7.1% in the period from June to August from 7.3% in the period from May to July 2002. It still remains significantly above the reference value of 4.5%. According to the ECB, the continued strength of monetary growth may partly be due to precautionary motives, partly also to the low opportunity cost of holding money as reflected in the sharp rise in the annual growth rate of M1 (from 7.6% in July to 7.8% in August).

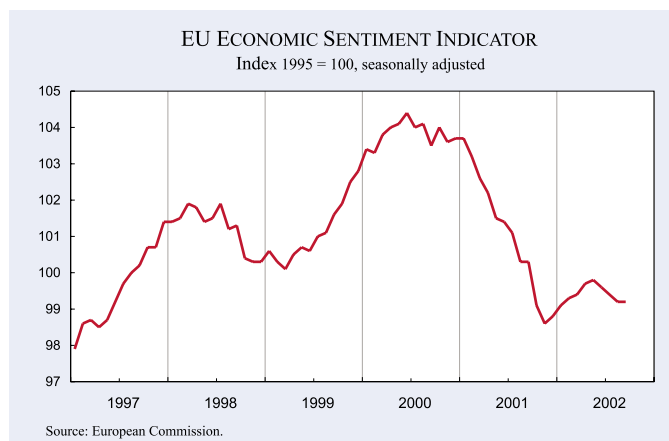


The monetary conditions index declined marginally, but is still high in the monetary easing range. This is one reason why the ECB has so far refused to cut its key interest rates.

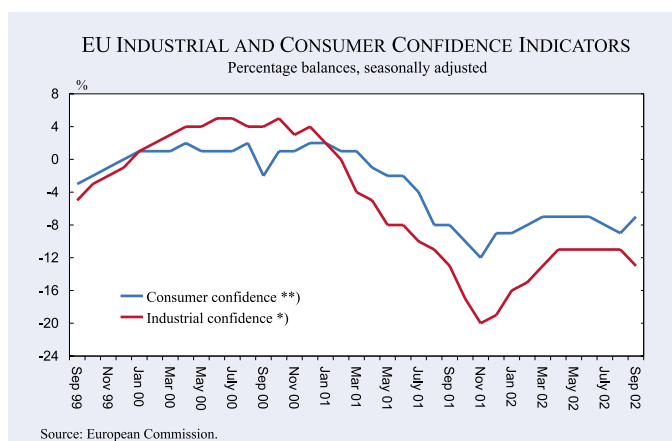
# EU SURVEY RESULTS



In the second quarter of 2001 GDP increased by 0.7% year-on-year in the euro area and by 0.8% in EU15, following growth rates of 0.3% and 0.4%, respectively, in the pre-ceding quarter. Greece (4%), Finland (2.5%) and Spain (2.0%) grew the fastest. Ger-many (0.1) and the Netherlands (-0.1%) were among the slowest. Whereas consumer spending and exports recovered, investment declined for the sixth consecutive quarter.



The economic sentiment indicator in the EU remained unchanged, at 99.2, in September. It rose in Italy (0.6 percentage points), Ireland (0.4), Spain, Austria and Finland (0.2) and Belgium (0.1), while it remained unchanged in Portugal and Sweden. It fell in Greece and the United Kingdom (0.4), Germany and the Netherlands (0.3), Denmark (0.2) and France (0.1). Such developments are due to the falls recorded in the industrial and retail trade components. The consumer and construction confidence indicators rose, while industry confidence remained unchanged.

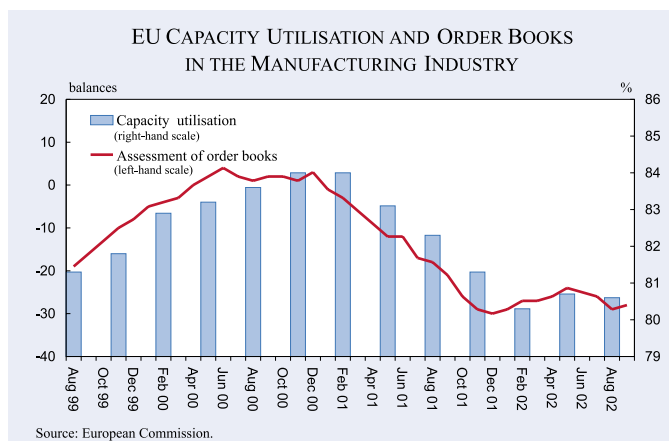


\* The industrial confidence indicator is an average of responses (balances) to the questions on production expectations, order-books and stocks (the latter with inverted sign).

\*\* 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** declined by 2 percentage points. It decreased most in the UK, Luxembourg and Spain and, to a lesser extent, in Germany, France, Greece, the Netherlands, Denmark and Portugal. It increased in Ireland, Finland, Italy and Sweden and, to a much lesser extent, in Belgium.

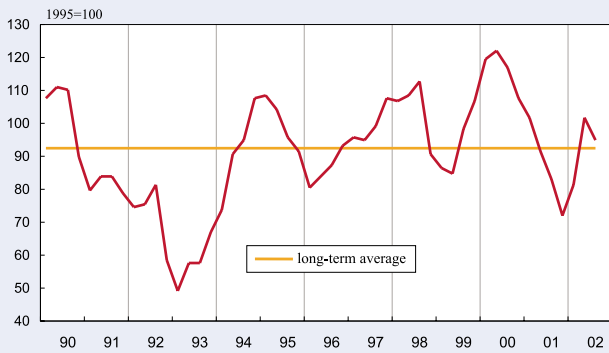
The **consumer confidence indicator** increased by 2 percentage points, mostly due to increases in Austria and Germany, and to a lesser extent, in Spain, Ireland, Finland, Sweden, Denmark and the UK. It declined significantly in Greece and the Netherlands.



Capacity utilisation declined marginally from 80.7 in May to 80.6 in September. The assessment of order books improved slightly from - 29 in August to - 28 in September. The lowest assessments were registered in Austria, Germany and Luxembourg.

## EURO AREA INDICATORS

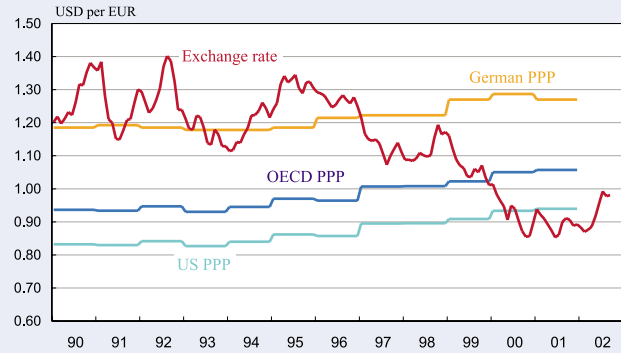
### Ifo Economic Climate for the Euro Area



Source: Ifo World Economic Survey (WES) QIII/2002.

This Ifo indicator declined in July 2002 compared with the survey results of the preceding quarter, but remained above its long-term mean. The decline results exclusively from less favourable expectations of the economic situation in the coming six months, whereas assessments of the current economic situation remained unchanged. Expectations still point to a continuation of the slow economic recovery in the euro area.

### Exchange Rates of the Euro and PPPs

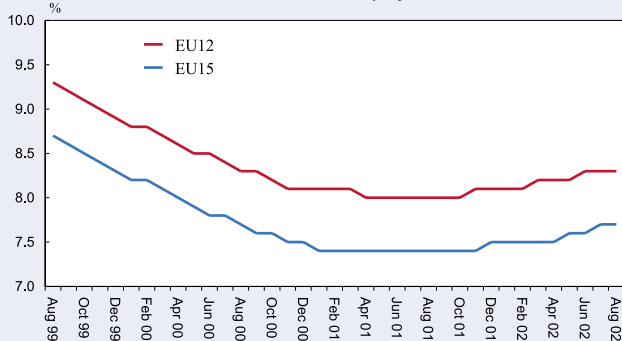


Sources: European Central Bank, Federal Statistical Office, OECD and calculations by the Ifo Institute.

After the introduction of the euro as a unit of account in January 1999 (the currency proper did not replace national currencies in the hands of the public until January 2002), the exchange rate followed a declining trend until October/November 2000. It recovered in the course of 2002, almost achieving parity with the US dollar in July. The purchasing power parities indicate the range within which the  $\$/\text{€}$  exchange rate might stabilise.

### Unemployment Rate

ILO definition, seasonally adjusted



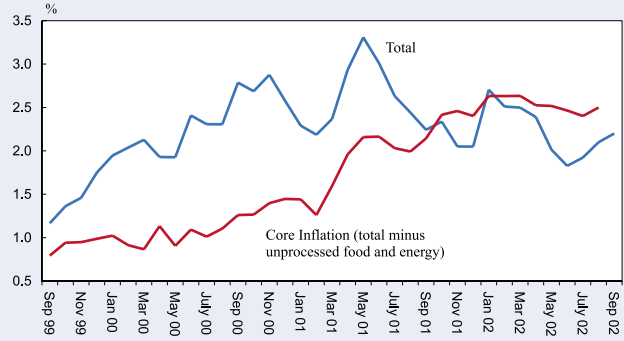
Source: Eurostat.

The seasonally adjusted unemployment rate has edged upward from 8% through most of 2001 to 8.2% in the winter months of 2002 and 8.3% since April. The unemployment rate in the EU15 group of countries also remained unchanged, at 7.7%, in July. A year earlier it had stood at 7.3%. In July, the highest unemployment rates were registered by Belgium (6.9%), Germany (8.3%), France (8.9%), Finland (9.3%), and Spain (11.3%).

Luxembourg, the Netherlands, Austria, Denmark, Ireland and Portugal had the lowest unemployment rates.

### Inflation Rate (HICP)

Percentage change over previous year



Source: Eurostat, Ifo Institute.

The annual inflation rate of the Euro area rose from 2.1% in August to a preliminary 2.2% in September 2002. In August 2001 it had amounted to 2.4%. The highest year-on-year rates of price increase were registered in August by Ireland (4.5%), Portugal (3.9%), Greece and the Netherlands (3.8% each). Germany and the United Kingdom (1.0% each) and Belgium (1.3%) had the lowest inflation rates. Core inflation remained rather stable in the euro area, although it also rose back to 2.5% in August after a dip to 2.4% in July.