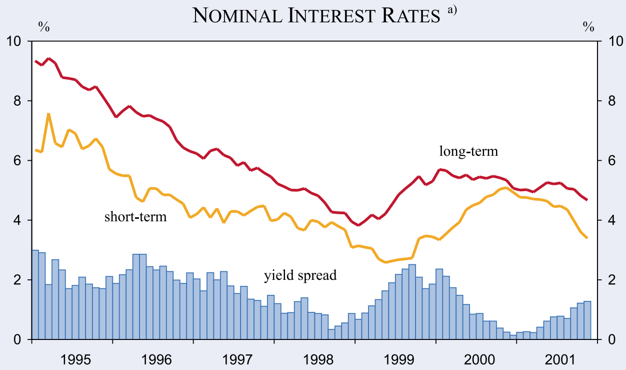
Monetary Conditions in the Euro-Area

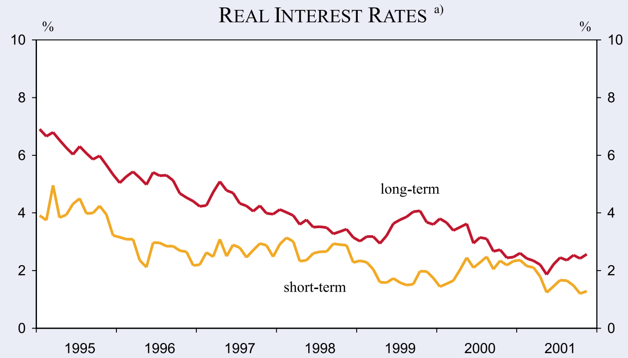
Nominal Interest Rates a)



a) Weighted averages (GDP weights).

Sources: European Central Bank.

Real Interest Rates a)



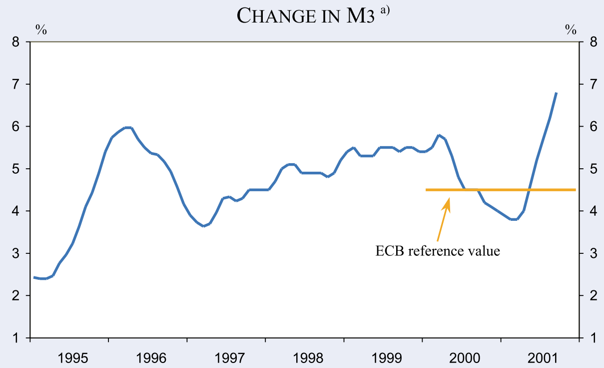
a) Real interest rate = nominal interest rate minus inflation rate.

Sources: European Central Bank.

Short-term interest rates (3-month Euribor) continued their decline which had started in December 2000 when they dropped below the 5% mark again. The decline accelerated in the second half of the year, when the ECB started to cut key interest rates from 4.5% in August to 3.25% in November. The yield spread increased as long-term rates declined more slowly. 10-year bond rates which last peaked in July at 5.25%, declined to 4.82% in October and 4.55% in early November.

With the rate of inflation declining since May, long-term real interest rates have been rising. Short-term real interest rates first rose but then declined again until they reversed in October. Both long and short-term rates are still lower today than their respective average levels since 1994.

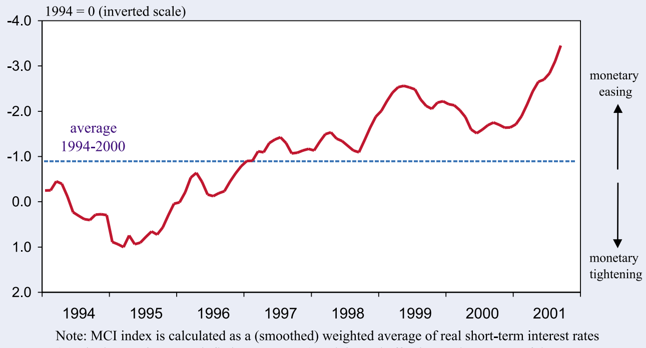
Change in M3 a)



a) R Annual percentage change (3-month moving average).

Sources: European Central Bank.

Monetary Conditions Index



Note: MCI index is calculated as a (smoothed) weighted average of real short-term interest rates (nominal rate minus core inflation rate HCPI) and the real effective exchange rate of the euro.

Sources: European Central Bank, calculations by the Ifo Institute.

The annual rate of growth of M3 (which from now on is corrected for holdings by non-residents of the euro area of money market paper and debt securities with a maturity up to two years) was 7.4% in October, up from 6.9% in September. The three-months average for the period August-October 2001 increased to 6.8% from 6.2% during the period July-September.

The monetary conditions index has risen steeply since the beginning of the year, signalling a strong easing of monetary policy. This is the result of a sharp decline in short-term real interest rates in the early part of the year and - after a brief reversal – a further decline since mid-year. The depreciation of the effective real exchange rate of the euro which ended in the middle of the year, had reinforced the interest rate effect. Its appreciation since July was swamped by the greater weight of the real interest rate decline.