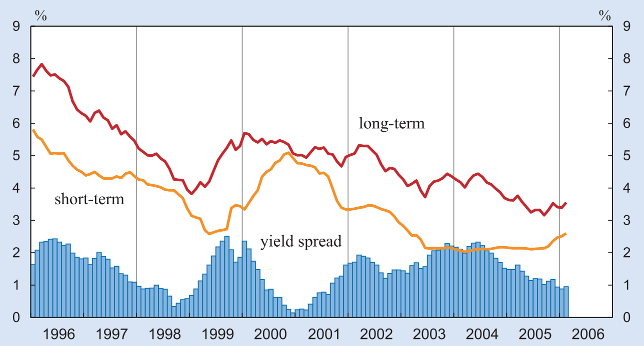
Financial conditions in the euro area

Nominal Interest Rates [a]

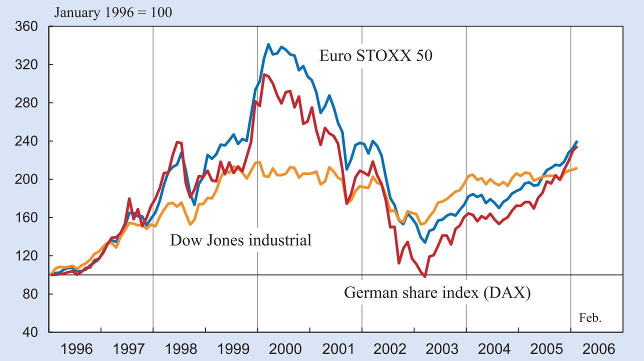


a) Weighted averages (GDP weights).

Sources: European Central Bank.

In anticipation of a rise in ECB key interest rates on 6 December 2005, money market rates had started to increase in October 2005 and continued to do so between December 2005 and the end of February 2006. In February, the 3-month EURIBOR averaged 2.6%. Then, on 8 March 2006, the ECB raised its key rates by another 25 basis points.
Ten-year bond yields had also started to rise in October 2005 when they stood at 3.3%. They averaged 3.55% in February 2006. The yield spread had narrowed until January 2006 and slightly increased again in February.

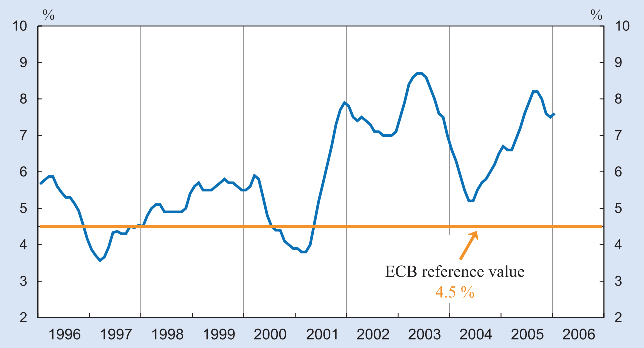
Stock Market Indices



Source: Deutsche Bundesbank, Dow Jones & Co., Inc.

The German stock index DAX continued its steep increase in 2006, averaging 5796 in February and approaching the 6000 mark in late March. The Euro STOXX rose in parallel, averaging 3744 in February. Compared to the performance of these two European indices, the Dow Jones Industrial has moved rather slowly toward the 11,000 mark, passing it in March.

Change in M3 [a]

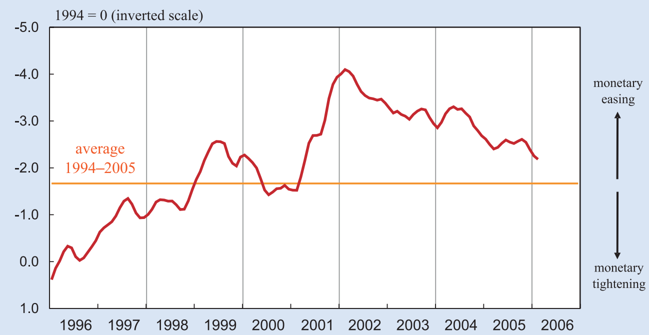


a) Annual percentage change (3-month moving average).

Sources: European Central Bank.

The annual growth rate of M3 increased to 8.0% in February 2006, from 7.6% in January. The three-month moving average of the annual M3 growth rates over the period from December 2005 to February 2006 stood at 7.6%, compared with 7.5% in the previous three-month period (November 2005 to January 2006). The annual growth rate of M1 decreased to 9.9% in February, from 10.2% in January.

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.

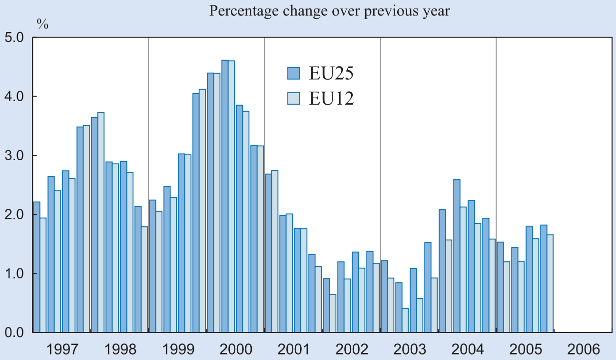
Sources: European Central Bank, calculations by the Ifo Institute.

The monetary conditions index has continued its trend decline that had started in 2002. After a sideward movement in most of 2005, the index sharply declined in late 2005 and early 2006, signalling greater monetary tightening. This is the result of rising real short-term interest rates and a falling real exchange rate of the euro.

EU SURVEY RESULTS

GROSS DOMESTIC PRODUCT IN CONSTANT 1995 PRICES

Percentage change over previous year

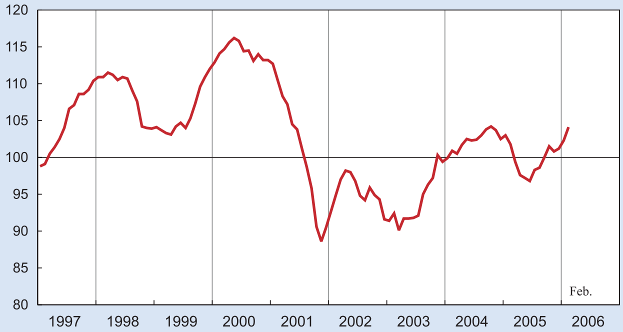


Source: Eurostat.

Both euro-zone and EU25 real GDP grew by 0.3% in the fourth quarter of 2005, compared to the previous quarter. In the third quarter of 2005, growth rates had been 0.7% in both zones.
Compared to the fourth quarter of 2004, GDP rose by 1.7% in the euro-zone and by 1.8% in the EU25, after 1.6% and 1.8% respectively in the previous quarter.

EU25 ECONOMIC SENTIMENT INDICATOR

Index 2000 = 100, seasonally adjusted

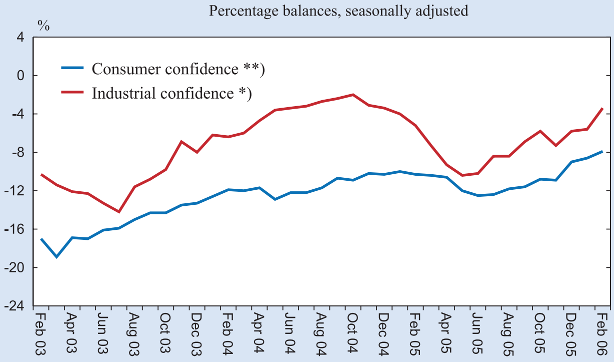


Source: European Commission.

The upward trend of the EU Economic Sentiment Indicator, which had begun in the summer of 2005, continued in February. Compared with January, the indicator improved by 1.8 points in the EU and by 1.2 points in the euro area. In both areas, the indicator is now considerably above its long-term average.

EU25 INDUSTRIAL AND CONSUMER CONFIDENCE INDICATORS

Percentage balances, seasonally adjusted

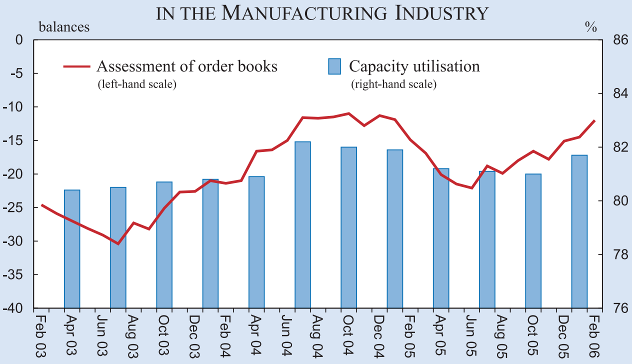


Source: European Commission.

* 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 EU industrial confidence indicator rose sharply in February, increasing by 3 points and extending the gradual upward trend the indicator has been following since the second quarter of 2005. The biggest improvements were registered in Finland (8 points), the UK (7 points), and Ireland (6 points).
The EU consumer confidence indicator rose by 1 point in February. At the country level, developments were generally positive. Of the larger Member States, only Germany and Spain saw a small decline in consumer confidence. France, Poland and the UK reported improvements of 2 points, while Italy came out on top with 4 points.

EU25 CAPACITY UTILISATION AND ORDER BOOKS IN THE MANUFACTURING INDUSTRY

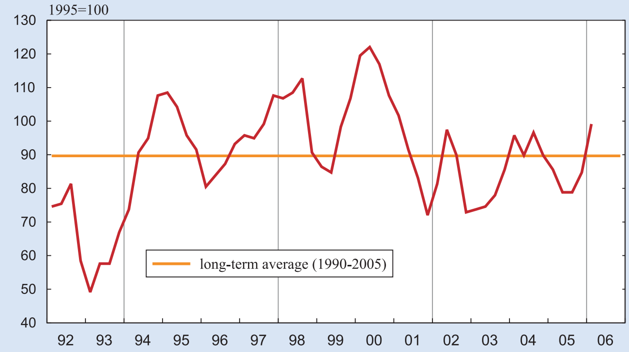


Source: European Commission.

The sharp improvement in February's industrial confidence was primarily due to the assessment of order books (and the stock of finished products). Capacity utilisation rose to 81.7 in the first quarter of 2006 from 81.0 in the fourth quarter of 2005.

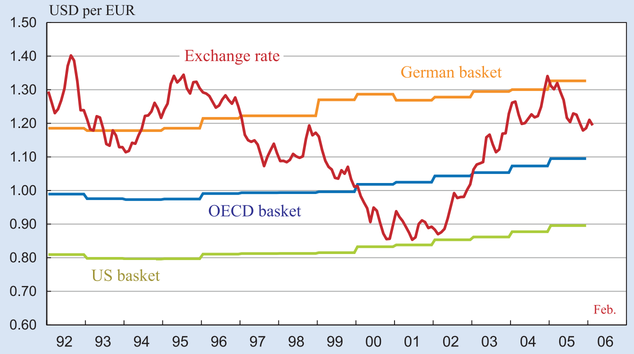
Euro area indicators

IFO Economic Climate for the Euro Area



Source: Ifo World Economic Survey (WES) QI/2006.

Exchange Rate of the Euro and PPPs



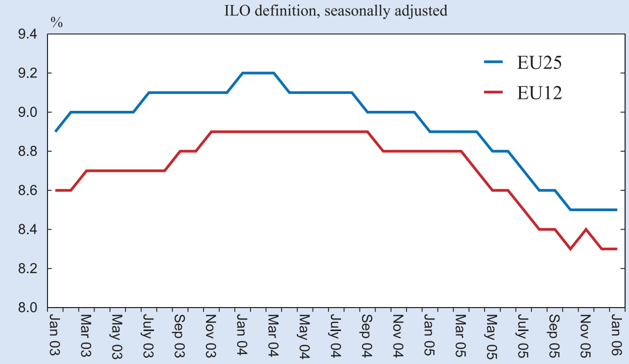
Sources: European Central Bank, Federal Statistical Office, OECD and calculations by the Ifo Institute.

The Ifo indicator for the euro-area economic climate rose sharply in January 2006, continuing the recovery that became evident in mid-2005. Both, the assessments of the current economic situation and the expectations for the coming six months improved considerably.

The exchange rate of the euro against the US dollar, which had peaked at 1.34 $/€ in December 2004, averaged only 1.19 $/€ in February 2006. During the past few months it seems to be fluctuating around the mark of 1.20 $/€ following the sharp decline during most of 2005.

Unemployment Rate

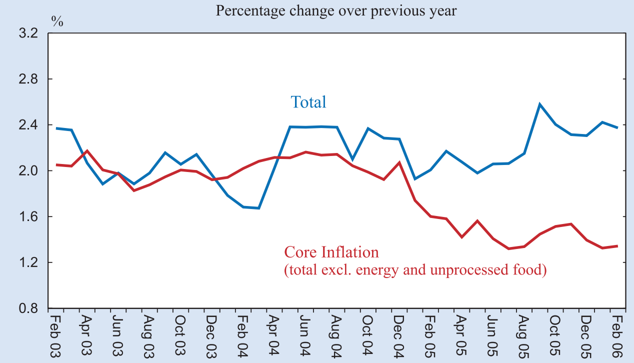
ILO definition, seasonally adjusted



Source: Eurostat.

Inflation Rate (HICP)

Percentage change over previous year



Source: Eurostat.

Euro-area unemployment remained stable at 8.3%. EU25 unemployment stood at 8.5% in January 2006, a rate that has been unchanged since November 2005. The lowest rates were again registered in Ireland (4.3%), Denmark (4.4% in December), the Netherlands (4.6%), the UK (5.0% in November), and Austria (5.2%). Unemployment rates were highest in Poland (17.2%), Slovakia (15.8%), Greece (10.1%), France (9.2%), and Germany (9.1%).

The annual inflation rate of the euro-zone (HICP) was 2.3% in February 2006, down from 2.4% in January. In February 2005 it stood at 2.1%. In February, the lowest annual rates were observed in Poland (0.9%), Sweden (1.1%), the Netherlands (1.4%) and Austria (1.5%). The highest rates were registered in Latvia (7.0%), Estonia (4.2%), Luxembourg (3.9%), and Spain (3.5%). Year-on-year core inflation (excluding energy and unprocessed foods), fell to 1.3% in January and February 2006 from 1.4% in December 2005.