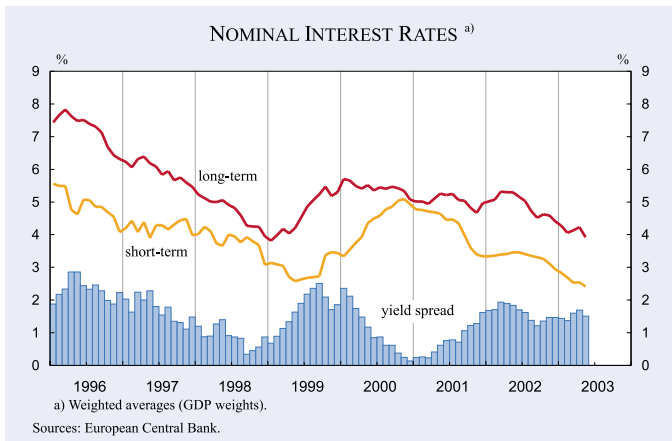
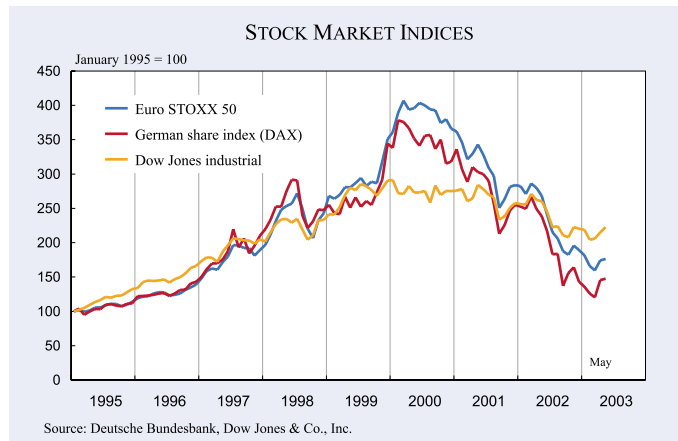


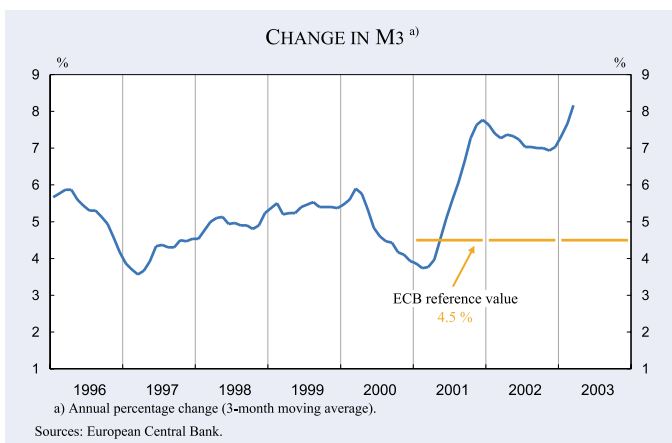
FINANCIAL CONDITIONS IN THE EURO AREA



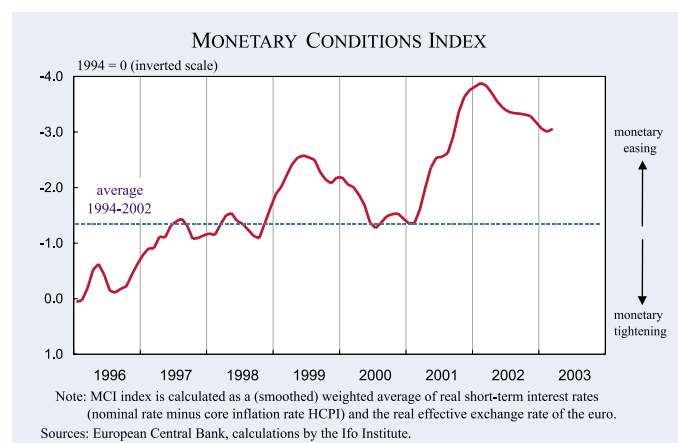
Short-term (three-month) interest rates have been declining since June 2002 and in May averaged 2.41% in the eurozone (2.64% in EU-15). On June 5, the ECB decided to lower its key interest rate by 50 basis points to 2.0%, effective June 9. Long-term (ten-year) bond rates continued their downward trend which had only been interrupted in March and April 2003. In May they averaged 3.39%. The yield spread narrowed again.



Stock prices have been rising again in the past two months, a reversal of the downward trend that started in early 2000. The rise was most marked for the German DAX which had also fallen most sharply.

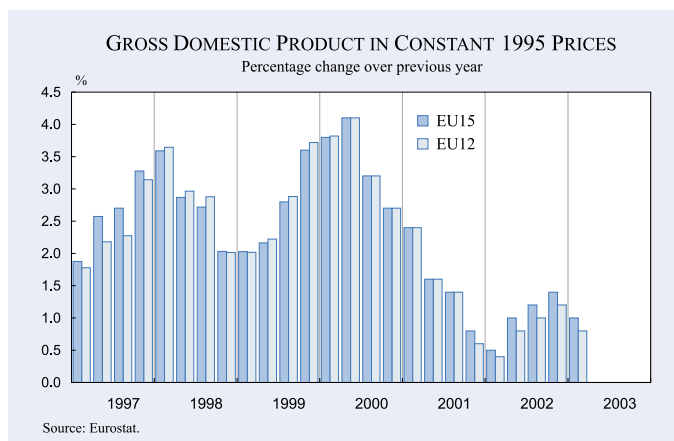


The strong growth of the broad money supply M3, observed during the past two years, is continuing. In April 2003 the annual growth rate of M3 rose to 8.7%, compared to 7.9% in March. The 3-month moving average (February to April) amounted to 8.2% compared to 7.7% in the period January to March.

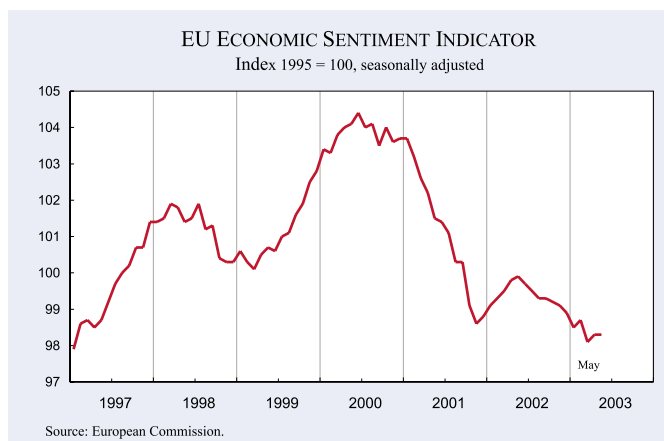


In April 2003, the monetary conditions index stabilised, indicating no further easing that month. This was the result of a small decline in the real exchange rate of the euro and a small rise of the real short-term interest rate, the other component of the index.

EU SURVEY RESULTS

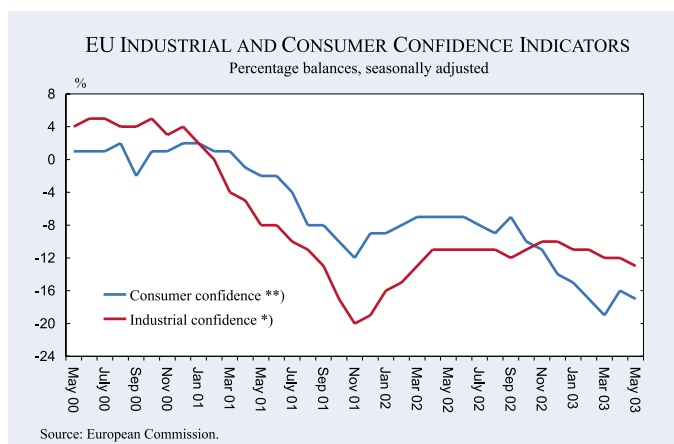


Following a rise, in the fourth quarter of 2002, of 1.2% year-on-year for the Eurozone and 1.4% for the EU-15 group of countries, real GDP growth declined again in the first quarter of this year to 0.8% in the Eurozone and 1.0% in EU-15. Available data indicate that first quarter growth was especially weak in the Netherlands (-0.1%) and Germany (0.2%), pretty good in Spain (2.1%), and the UK (2.3%) and highest in Greece (4.3%).



The economic sentiment indicator for the EU remained stable at 98.3 in May 2003, following an improvement in the previous month. Economic sentiment improved in Portugal, the UK, Greece and Belgium. In France, Luxembourg, Austria and Finland it remained unchanged while it decreased in Denmark, Germany, Spain, The Netherlands, Ireland, Italy and Sweden.

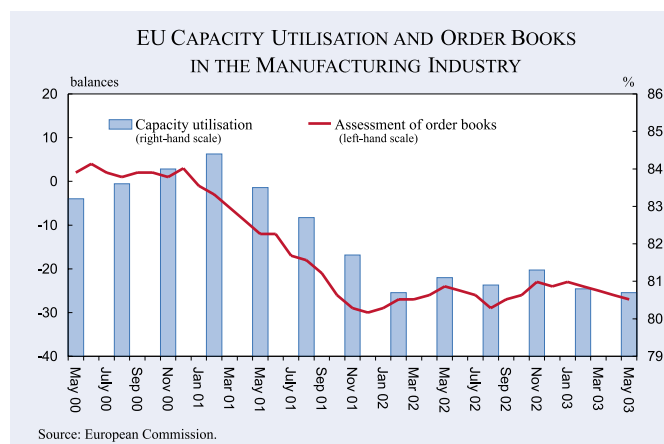
These developments are mainly attributable to an improvement in the retail trade confidence indicator.



* 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.

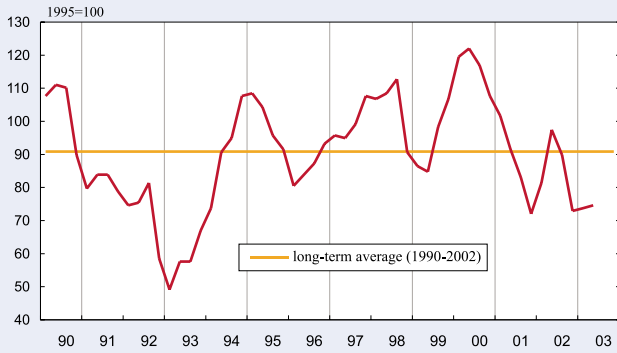
In contrast to the retail trade confidence indicator, the industrial confidence indicator and consumer confidence indicator decreased by 1 point each. The overall decline in industrial confidence was driven by decreases in Denmark, Belgium, Luxembourg and Sweden, Spain, Ireland, the Netherlands, and Austria. These decreases more than offset the increases registered in Finland, Greece, Portugal and the UK. Consumer confidence declined in Germany, Austria, Finland Greece and Ireland, while it increased in the Netherlands, Denmark, Luxembourg, Spain, Portugal, the UK and France.



Behind the slight deterioration of industrial confidence was a decrease in the *assessment of order books*. These assessments diverged widely across member states. They deteriorated significantly in Finland and more moderately in Denmark, Austria, the UK, Ireland, France Belgium and Italy. It remained unchanged in Sweden and improved in the rest of the EU countries. *Capacity utilisation* in the manufacturing industry declined marginally in the second quarter of 2003 (80.7) from the first quarter (80.8).

EURO AREA INDICATORS

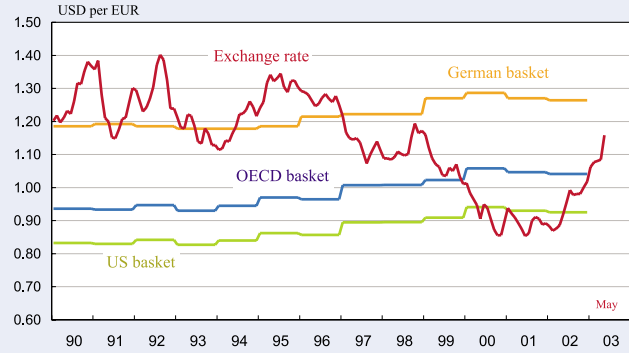
Ifo Economic Climate for the Euro Area



Source: Ifo World Economic Survey (WES) QII/ 2003.

The Ifo Economic Climate for the Euro Area in the second quarter of 2003 improved for the second time in sequence, but at 74.6 is still quite a bit below the long-term average of 90.9. While the assessment of the current state of the economy worsened slightly, expectations for the next six months improved, indicating a recovery, albeit a sluggish one, for the euro area.

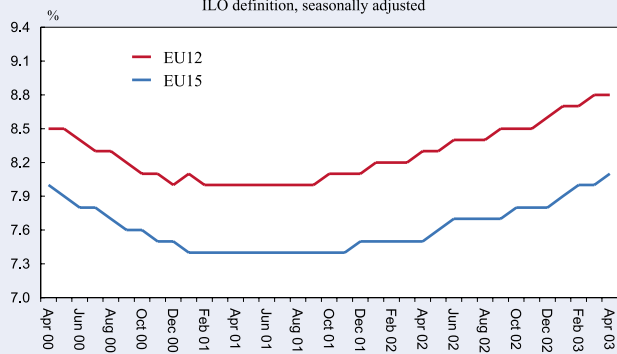
Exchange Rates of the Euro and PPPs



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

The exchange rate of the euro has been rising since April 2002, reaching parity with the US dollar in November of that year. In 2003 the pace of the appreciation increased, and the exchange rate averaged \$1.16 in May. If the purchasing power parities of the US basket of goods and the German basket are taken as lower and upper boundaries, the euro may continue to rise in coming months.

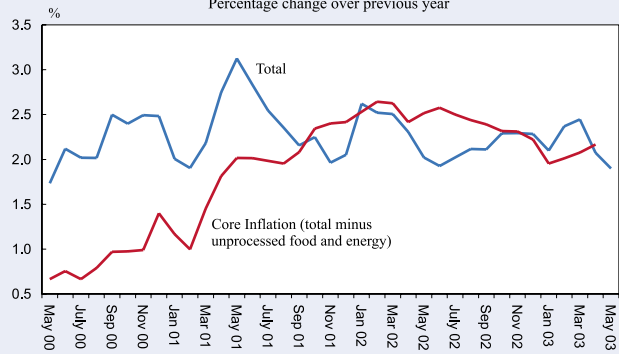
UNEMPLOYMENT RATE
ILO definition, seasonally adjusted



Source: Eurostat.

Whereas the seasonally adjusted unemployment rate for the 12 euro-area countries stabilised at 8.8% in April, it edged up slightly to 8.1% in the entire EU-15 group. The lowest rates were registered in Luxembourg (3.5%), the Netherlands (3.7%), Austria (4.3%), Ireland (4.6%), and Denmark (5.1%). Spain's rate (11.4%) remained the EU's highest rate. Eleven out of the twelve member states, for which data are available for the two most recent months, registered an increase in unemployment in the last twelve months.

INFLATION RATE (HICP)
Percentage change over previous year



Source: Eurostat, Ifo Institute.

The harmonised index of consumer prices (HICP) rose marginally in April, but the inflation rate continued to decline in a year-on-year comparison after having peaked in March as a result of the war-related oil price hike. Core inflation, however, continued its rise which had started in February.