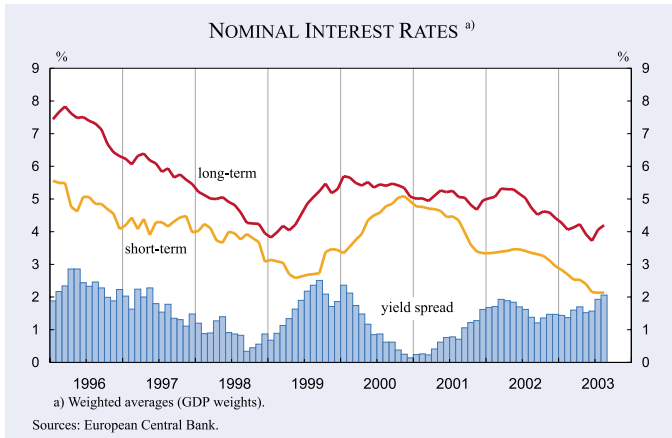
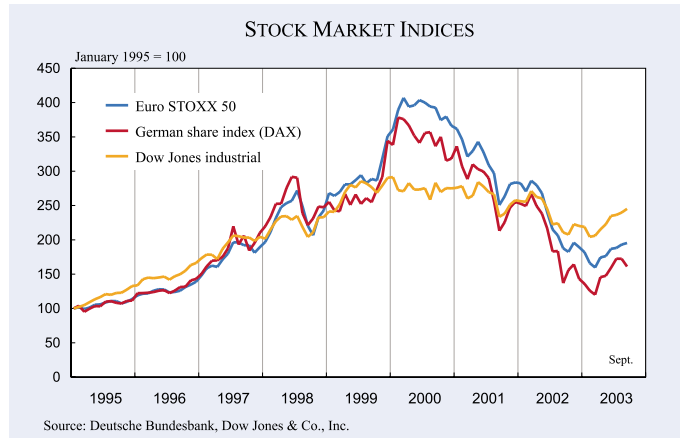


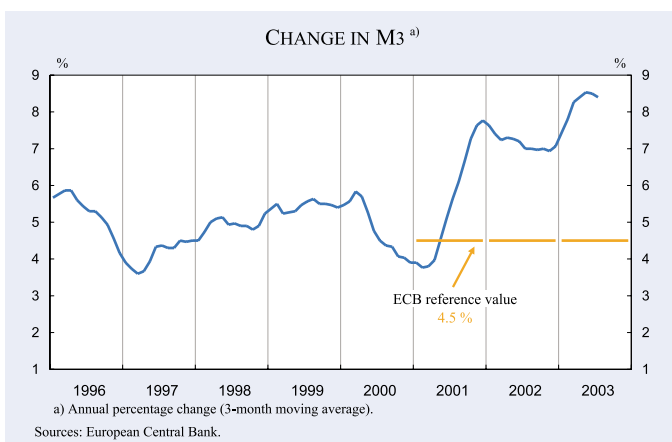
FINANCIAL CONDITIONS IN THE EURO AREA



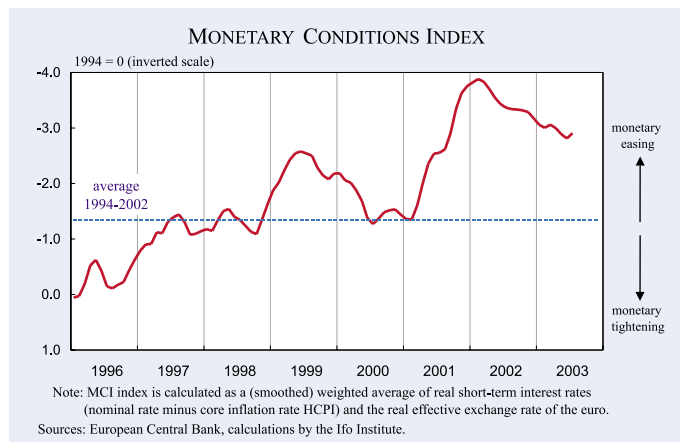
Short-term (three-month) interest rates have been declining since May 2001, when the ECB started to reduce its key interest rates. The latest step with 50 basis points to 2.0% was taken in early June 2003. Since then money market rates have remained more or less unchanged at about 2.15%. Long-term (ten-year) bond rates followed a downward trend until June when they averaged 3.72%, but have risen since to an average of 4.2% in August. The yield spread has therefore widened again to 2%.



Stock prices reversed their downward trend in March/April 2003. Only the German DAX whose rise had been steepest, suffered a decline in September.

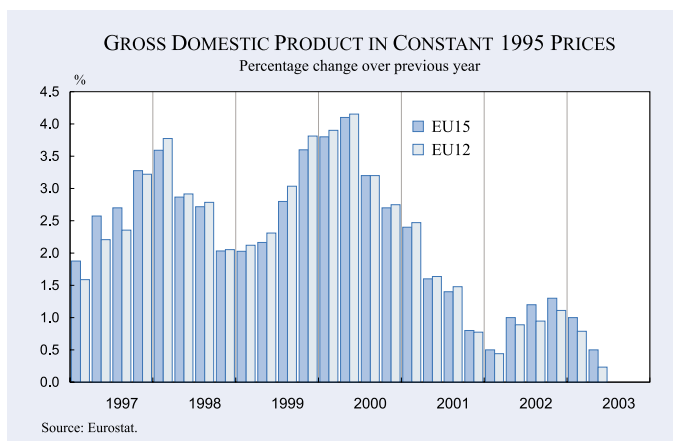


The trend of strong growth of the broad money supply M3, which has been observed since mid-2001, has continued although the annual growth rate of M3 declined to 8.2% in August from 8.6% in July. The 3-month average of the annual growth rates of M3 over the period June to August 2003 stood at 8.4%, compared to 8.5% in the period from May to July.

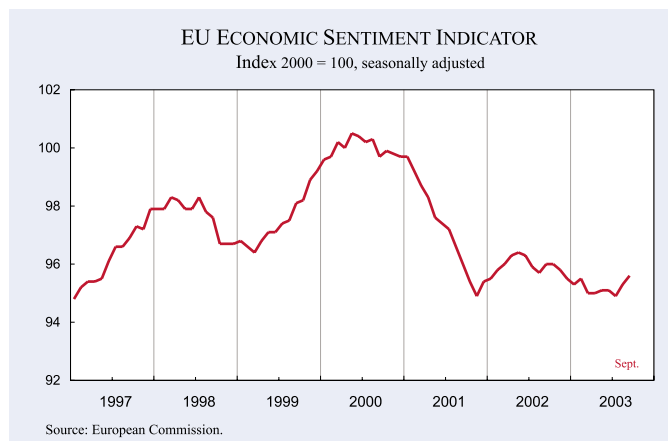


The monetary conditions index, which is based on real short-term interest rates and the real effective exchange rate of the euro, rose again, indicating renewed monetary easing. This was the result of a decline in both components of the index.

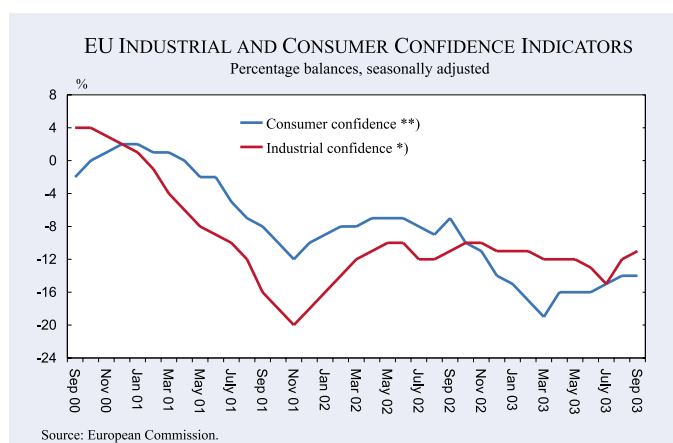
EU SURVEY RESULTS



In the Eurozone, real GDP growth declined during the second quarter 2003 by 0.1% compared to the first quarter. In EU-15 it remained unchanged. Compared to the second quarter 2002, real GDP grew by 0.2% in the Eurozone and by 0.5% in EU-15, following growth of 0.8% and 1.0% respectively in the first quarter. Compared to the first quarter, second quarter growth fell especially in the Netherlands (-0.5%), Denmark (-0.5%) and France (-0.3%), but rose most in Spain (0.7%) and Finland (0.6%).



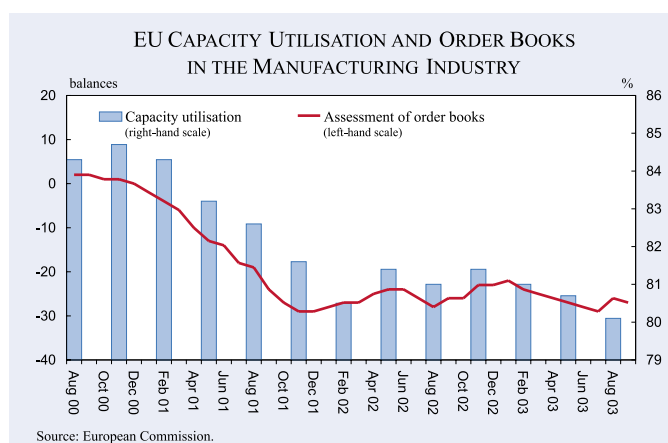
The economic sentiment indicator for the EU continued its improvement in September. Following its increase by 0.4 points in August, the indicator rose 0.3 points in September, reaching its highest level for this year. The improvement was due, in particular, to a rise in confidence in the industrial and retail sectors, while confidence in the construction sector and among consumers remained unchanged. The positive results in the EU were dominated by developments in the euro area. Except for Spain, France and the Netherlands, all euro area countries showed improvement in economic sentiment.



* 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.

Following its continuous decline since autumn of last year, *industrial confidence* in the EU showed an improvement for the second month in a row, bringing it back to the level recorded at the beginning of 2003. In the euro area, the indicator reached its highest level since mid-2001. The rebound was particularly vigorous in Belgium, Germany, Italy and Luxembourg.

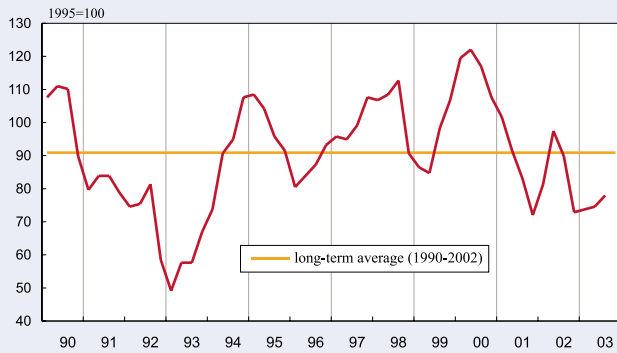
In contrast, *consumer confidence* remained unchanged in September, following a small increase of 1 point in August. The indicator had seen a substantial improvement since March, with one short-lived interruption in May, but remains quite markedly below its long-term average.



The improvement of industrial confidence was primarily due to substantially higher production expectations. The *assessment of order books*, however, which had improved noticeably in August, deteriorated slightly in September. In the euro area they remained unchanged; improvements in some countries were offset by deterioration in others. *Capacity utilisation* in the manufacturing industry continued to decline in the third quarter of 2003, with a substantial drop to 80.1% from the second quarter (80.7%).

EURO AREA INDICATORS

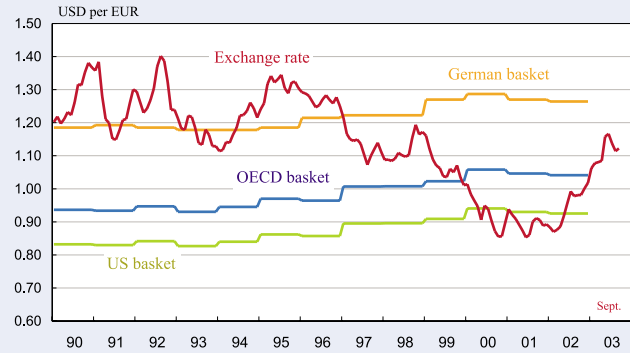
Ifo Economic Climate for the Euro Area



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

The Ifo Economic Climate for the Euro Area in the third quarter of 2003 improved for the third time in a row, but at 78 is still quite a bit below the long-term average of 90.9. While the experts' assessments of the current state of the economy again worsened slightly, expectations for the next six months improved substantially, indicating that a recovery may finally be around the corner. The most unfavourable assessments of the current state of the economy were given for Portugal, Germany and the Netherlands, whereas the assessments for Finland, Greece, Luxemburg and Spain were relatively positive. Expectations improved everywhere except in Ireland where a further slowdown of the still rapid economic growth is expected.

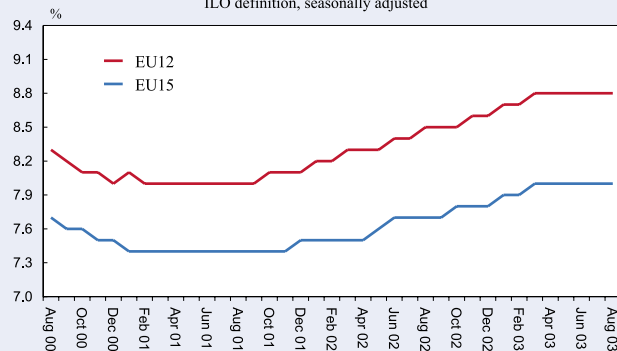
Exchange Rates of the Euro and PPPs



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

The exchange rate of the euro against the dollar, which had been rising since April 2002, fell in July and August, but rebounded in September when it averaged \$1.12. If the purchasing power parities of the US basket of goods and the German basket are taken as lower and upper bounds, there is still room for the euro to rise in coming months.

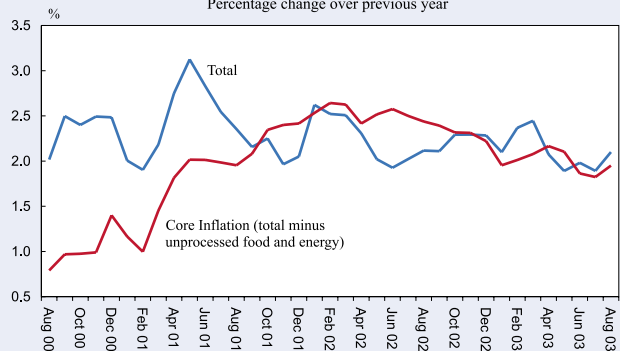
UNEMPLOYMENT RATE
ILO definition, seasonally adjusted



Source: Eurostat.

In August 2003, the seasonally adjusted unemployment rate of the 12 euro-area countries remained at the level of 8.8% that it had reached in March (August 2002: 8.5%). The same was true of the average unemployment rate of the EU-15 countries which remained unchanged at 8% (August 2002: 7.7%). The lowest rates were registered by Luxembourg (3.8%), the Netherlands (4.1%), Austria (4.5%), and Ireland (4.7%). At 11.4%, Spain continued to record the EU's highest unemployment rate. Italy's rate fell from 9.0% (July 2002) to 8.5% (July 2003).

INFLATION RATE (HICP)
Percentage change over previous year



Source: Eurostat, Ifo Institute.

The harmonised index of consumer prices (HICP) was 2.1% higher in August than a year ago and is estimated to have risen again by 2.1% in September. This is an increase from the 1.9% increase in July. Core inflation, which excludes the prices of energy and unprocessed foods, also rose from 1.8% in July to 1.95% in August.