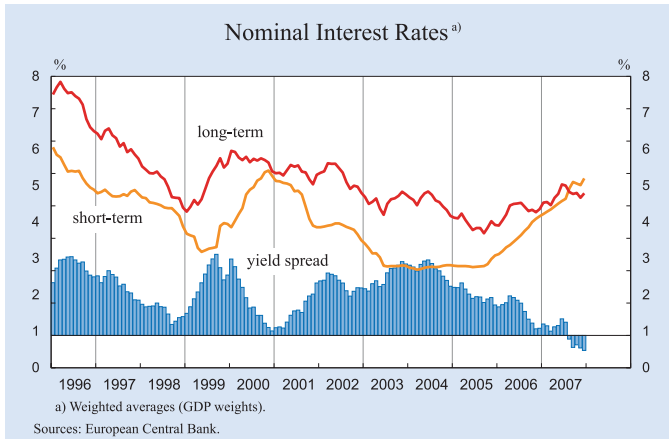
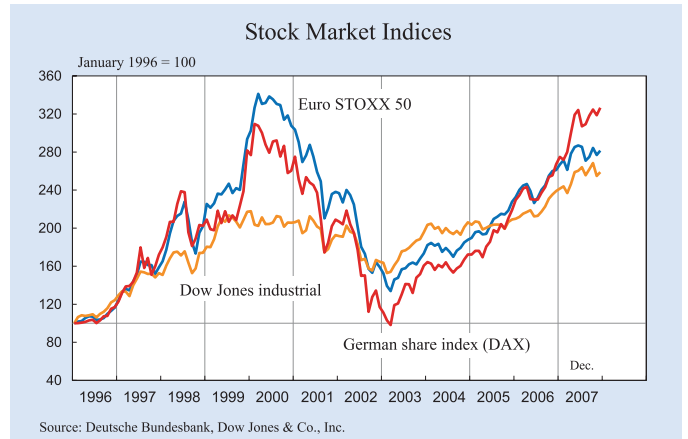


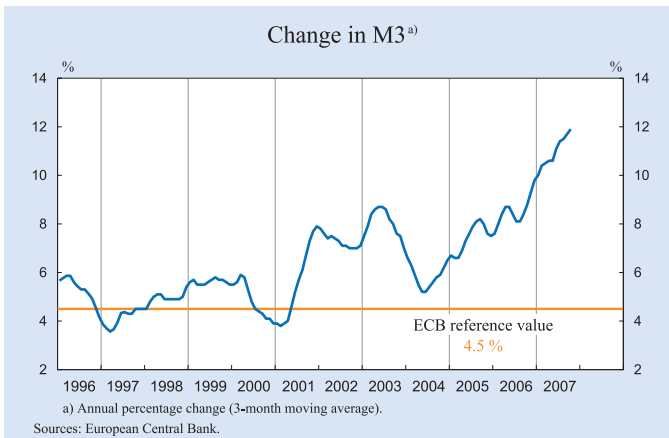
FINANCIAL CONDITIONS IN THE EURO AREA



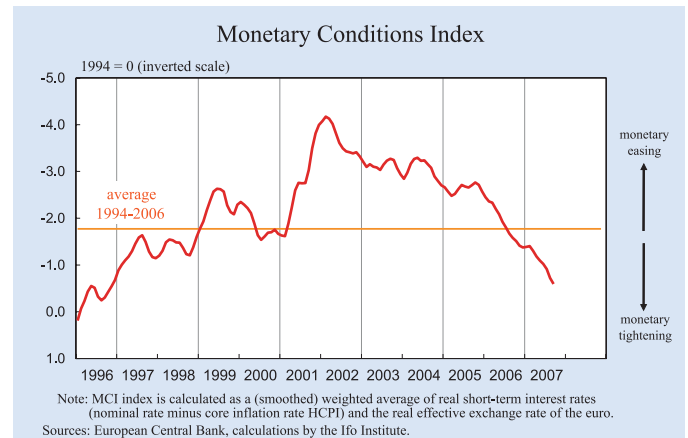
In the three-month period from October 2007 to December 2007 short-term interest rates rose. The three-month EURIBOR rate increased from an average 4.69% in October to 4.85% in December. Yet, ten-year bond yields declined from 4.40% in October to 4.25% in November and 4.39% in December 2007. In the same period of time the yield spread declined continuously from -0.29% (October) to -0.46% (December).



The German stock index DAX continued to rise in December, averaging 8,067 points in December 2007 compared to 8,019 points in October. The Euro STOXX slightly decreased from 4,430 in October to 4,386 in December. The Dow Jones International also declined in December, averaging 13,407 points compared to 13,901 points in October.

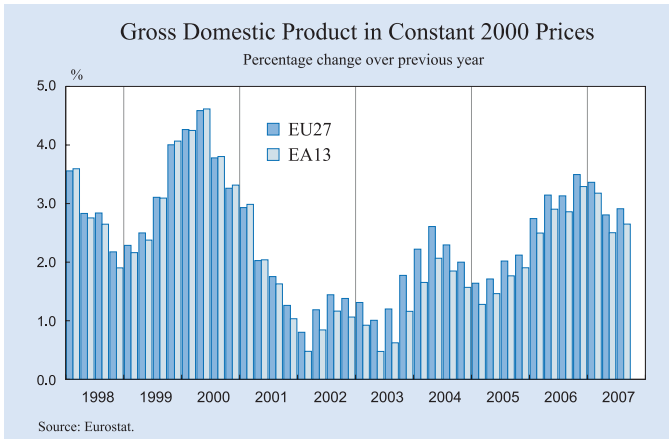


The annual rate of growth of M3 stood at 11.9% in October 2007, compared to 11.7% in September. The three-month average of the annual growth rate of M3 over the period from August to October 2007 rose to 11.7%, from 11.0% in the period May to July 2007.

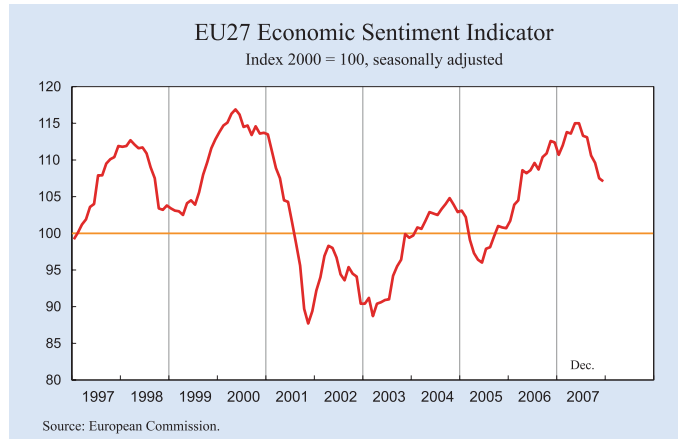


In September 2007 the monetary conditions index continued its general decline that had started in late 2001, signalling greater monetary tightening. This is the result of rising real short-term interest rates and a rising real effective exchange rate of the euro.

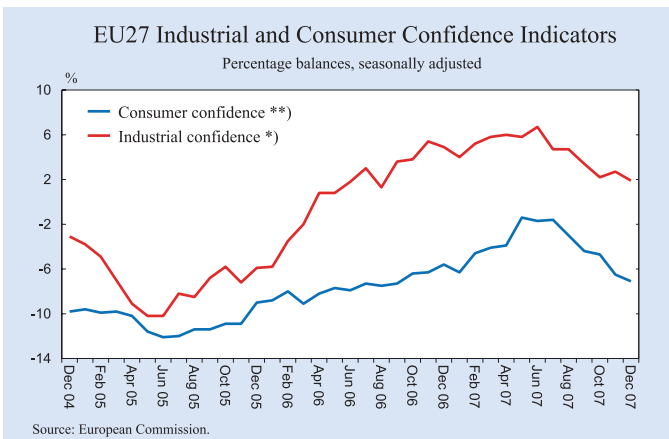
EU SURVEY RESULTS



According to the first Eurostat estimates, euro area (EU13) GDP grew by 0.7% and EU27 GDP by 0.8% in the third quarter of 2007 compared to the previous quarter. In the second quarter of 2007 the growth rate had amounted to 0.3% for the euro area and 0.5% for the EU27. Compared to the third quarter of 2006, i.e. year over year, seasonally adjusted GDP rose by 2.7% in the euro area and by 2.9% in the EU27.



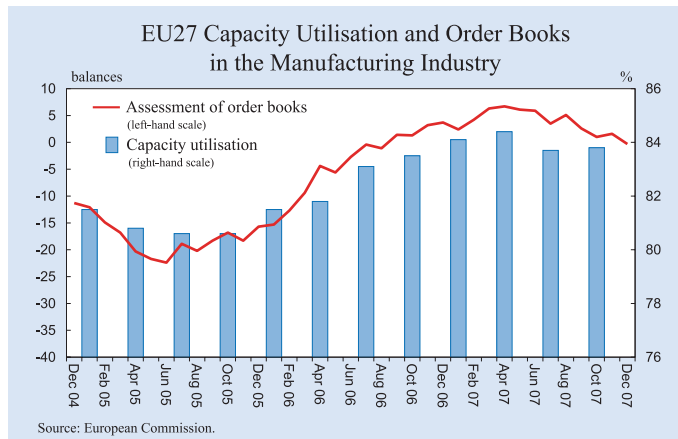
In December, the EU Economic Sentiment Indicator continued to weaken in both the EU27 and the euro area. It declined by 0.4 percentage points in the EU27 and by 0.1 percentage points in the euro area, to 107.1 and 104.7 respectively. However, despite the decline observed in the second half of 2007, the indicator remains well above its long-term average in both areas. Overall economic confidence improved in Italy, while it decreased in Spain, the UK, France, Poland and Germany.



* 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.

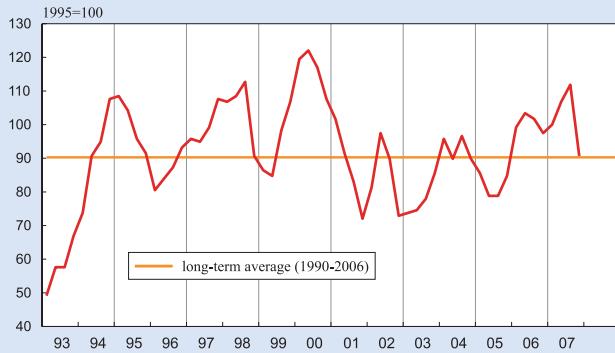
After a recovery in November, the industrial confidence indicator declined in December 2007. Yet the level of the indicator remains well above its long-term average. Among the large EU Member States, industrial confidence rose only in Germany, while it weakened in the UK, Spain, France and Italy. It remained unchanged in Poland for the sixth consecutive month. In comparison, consumer confidence remained stable in the EU in December 2007, while it continued to weaken in the euro area. Following a peak in May 2007, confidence in both areas has declined fairly steadily. Consumer confidence, however, is still above its long-term average, while for the euro area there is only a two-point difference. In December consumer confidence worsened in Germany, Spain and the UK, while it improved in France and Poland.



In December 2007 managers' assessment of *order books* deteriorated from 1.0 in October to -0.3 in December. In September the indicator had reached 2.6. *Capacity utilisation* slightly improved to 83.8 in the fourth quarter of 2007 from 83.7 in the previous quarter.

EURO AREA INDICATORS

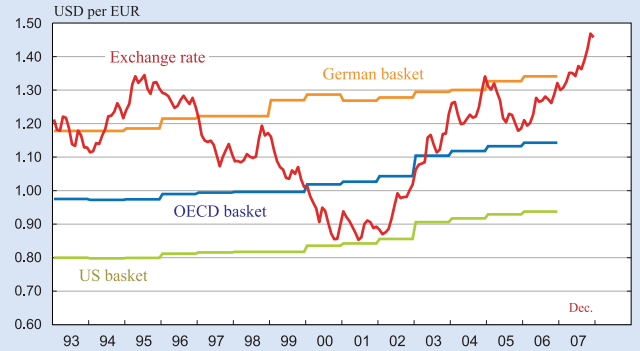
Ifo Economic Climate for the Euro Area



Source: Ifo World Economic Survey (WES) IV/2007.

The Ifo indicator of the economic climate in the euro area (EU13) has clearly worsened in the fourth quarter of 2007. Its decline is attributable to both less positive assessments of the current economic situation and less favourable economic expectations for the coming six months. The latest survey results indicate a slowdown in economic growth in the coming half year.

Exchange Rate of the Euro and PPPs

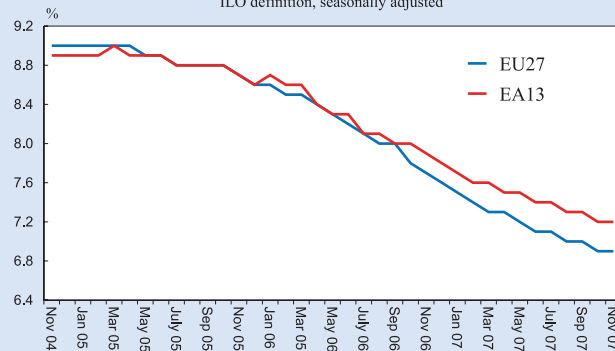


Sources: European Central Bank, Federal Statistical Office, OECD and calculations by the Ifo Institute.

The exchange rate of the euro against the US dollar averaged 1.46 \$/€ in December 2007, an increase from 1.42 \$/€ in October. In September 2007 the rate had amounted to 1.39 \$/€.

Unemployment Rate

ILO definition, seasonally adjusted

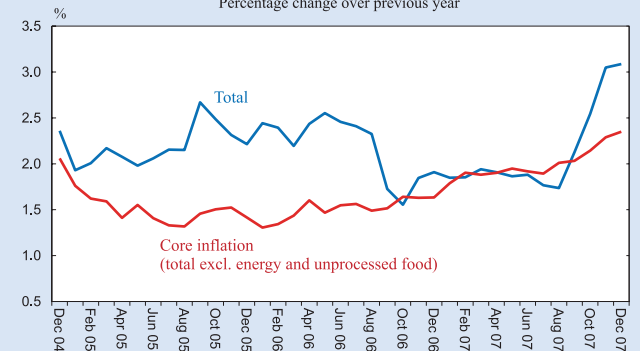


Source: Eurostat.

Euro area (EU13) unemployment (seasonally adjusted) stood at 7.2% in November 2007, unchanged from October. EU27 unemployment was 6.9% in November 2007, also the same as in October. It had been 7.7% a year earlier. Among the EU Member States the lowest rates were registered in the Netherlands (2.9%) and Denmark (3.2%). Unemployment rates were the highest in Slovakia (11.0%) and Poland (8.5%).

Inflation Rate (HICP)

Percentage change over previous year



Source: Eurostat.

Euro area annual inflation (HICP) is likely to have been 3.1% in December 2007. It was also 3.1% in November. This is quite an increase from a year earlier, when the rate had been 1.9%. The EU27 annual inflation rate also reached 3.1% in November. An EU-wide HICP comparison shows that in November 2007 the lowest annual rates were observed in the Netherlands (1.8%), Finland (2.1%) and Slovakia (2.3%), and the highest rates in Latvia (13.7%), Bulgaria (11.4%) and Estonia (9.3%). Year-on-year EU13 core inflation (excluding energy and unprocessed foods) rose to 2.35% in December 2007 from 2.29% in November.