

ECB staff September 2006 projections point to sustained growth and elevated inflation rates

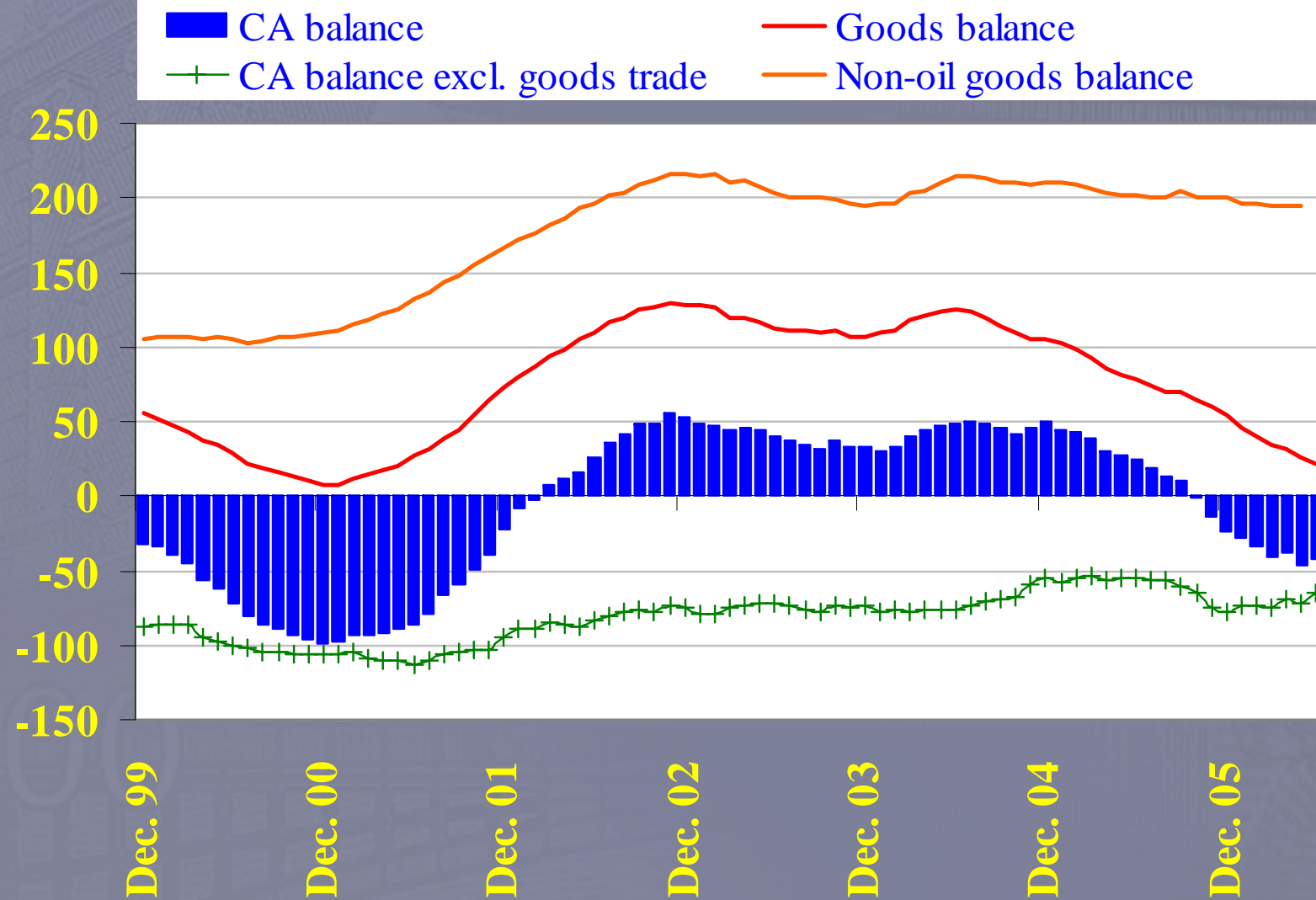
(average annual percentage changes)

	2005	2006	2007
Real GDP	1.5	2.2 - 2.8	1.6 - 2.6
Private consumption	1.5	1.8 - 2.2	0.9 - 2.1
Government consumption	1.3	1.0 - 2.0	0.7 - 1.7
Gross fixed capital formation	2.7	3.0 - 4.6	2.1 - 5.3
Exports (goods and services)	4.2	6.0 - 8.8	3.4 - 6.6
Imports (goods and services)	5.2	5.7 - 8.7	3.1 - 6.5
HICP	2.2	2.3 - 2.5	1.9 - 2.9

Notes: For each variable and horizon, ranges are based on the average absolute difference between actual outcomes and previous projections by euro area central banks. The projections for real GDP and its components refer to working-day-adjusted data. The projections for exports and imports include intra-euro area trade. The September 2006 projections for the first time include Slovenia as part of the euro area in the euro area projections for 2007.

Euro area current account balance shifts into deficit due to oil bill

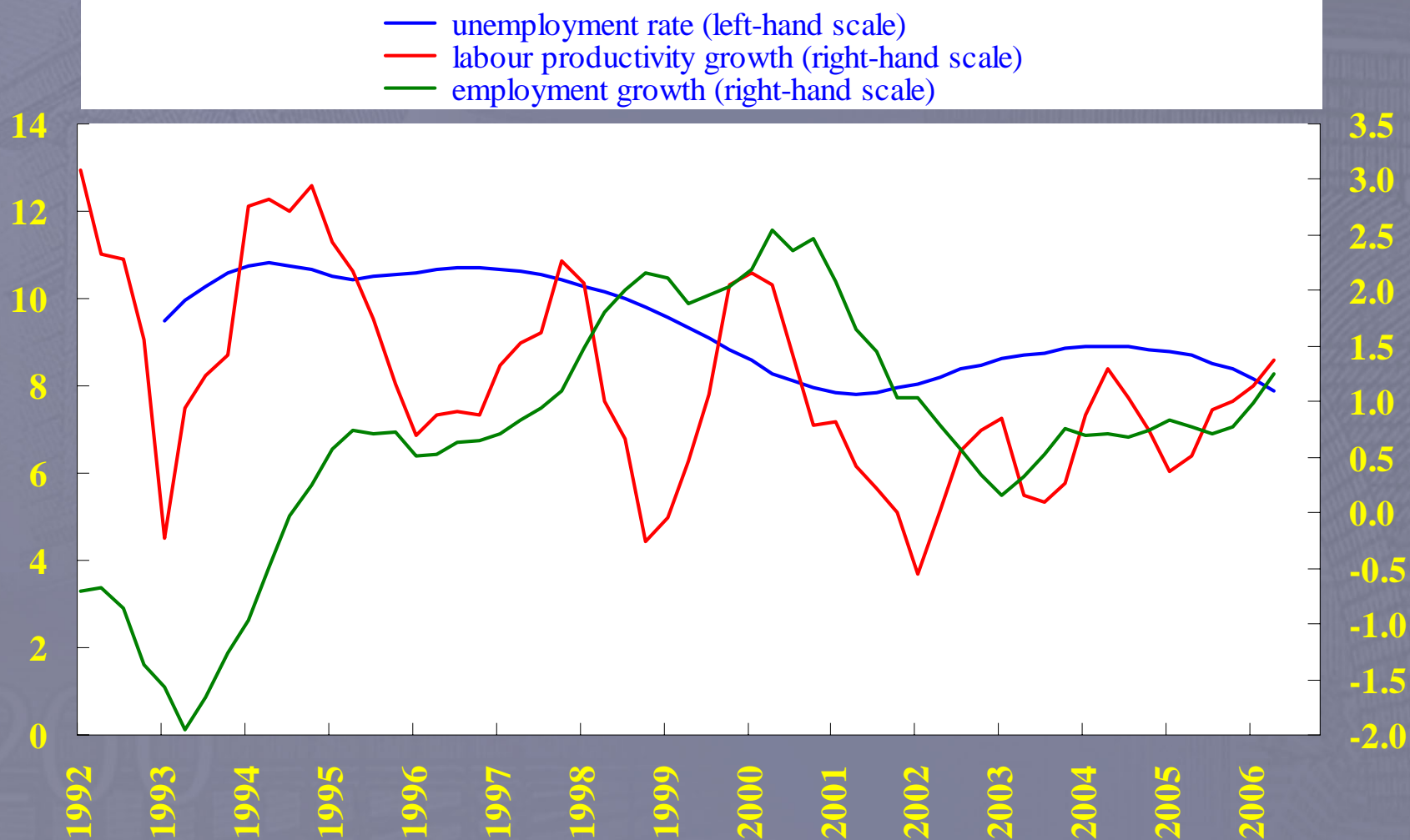
(EUR billions; 12-month cumulated flows)



Source: ECB.

Note: Latest observation: June 2006.

Ongoing gradual improvement in the labour market



Sources: Eurostat and ECB calculation.

Note: Latest observation: 2006Q2; Unemployment (in % of labour force), employment and labour productivity (annual percentage changes).

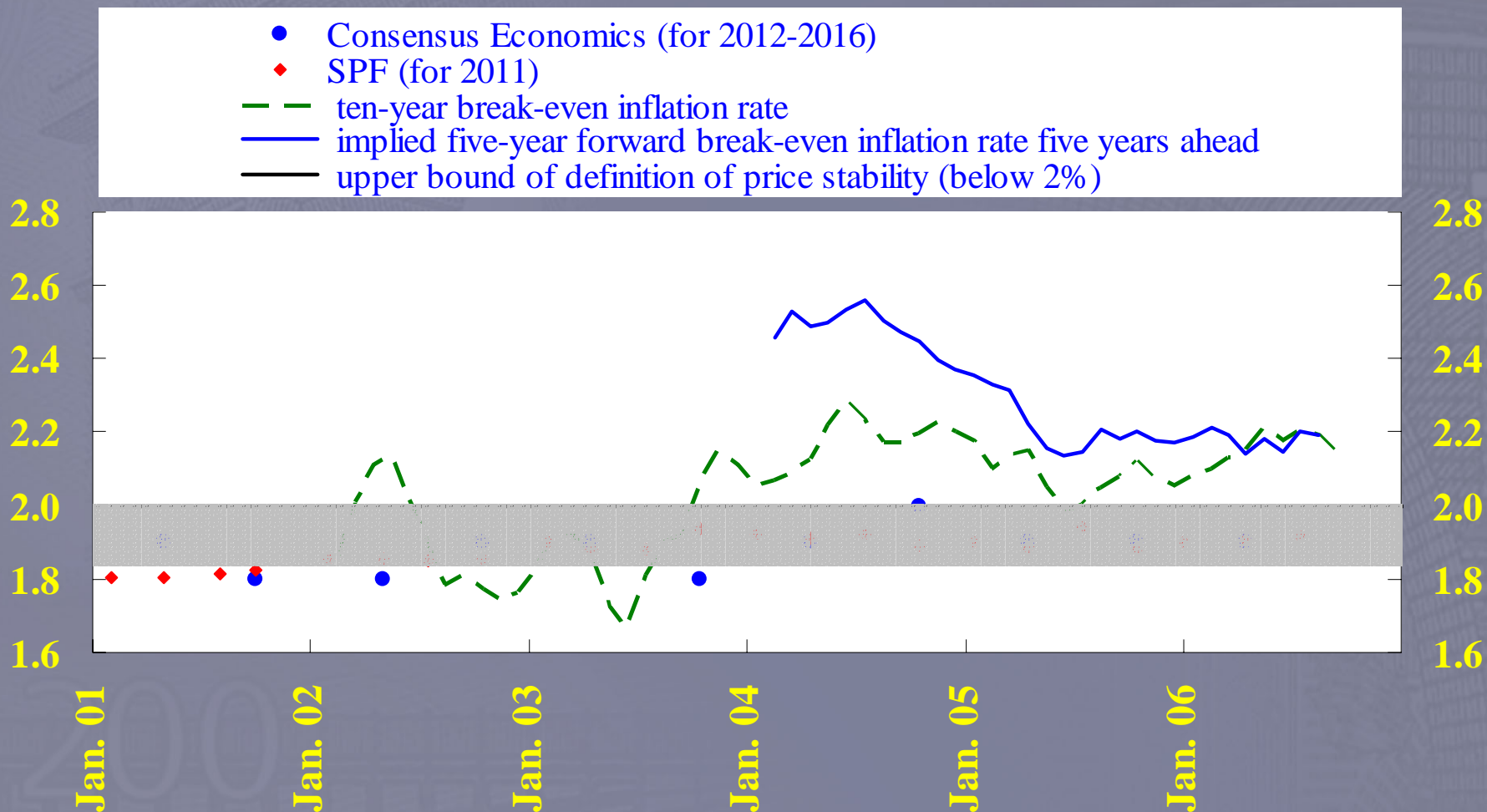
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Longer-term inflation expectations remain anchored

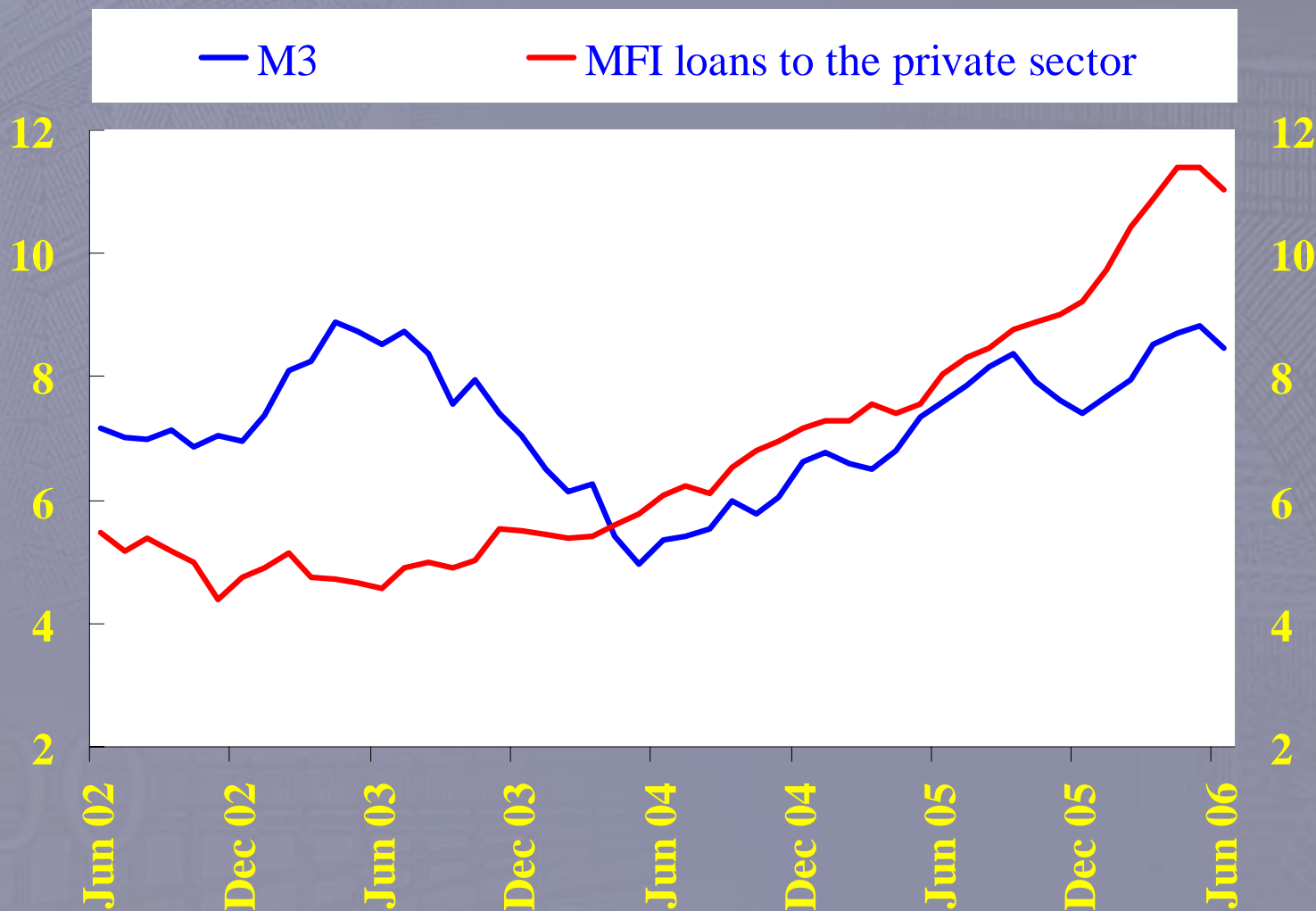


Sources: Consensus Economics, ECB, Reuters and ECB calculation.

Note: Ten-year break-even inflation rate derived from 2012-maturity bonds until March 2005 and from 2015-maturity bonds thereafter. The implied forward BEIR five-years ahead is calculated from constant-maturity BEIRs obtained from the estimation of zero-coupon term structures of nominal and index-linked bond yields in the euro area.

M3 and MFI loans to the private sector

(annual percentage changes; adjusted for seasonal and calendar effects)



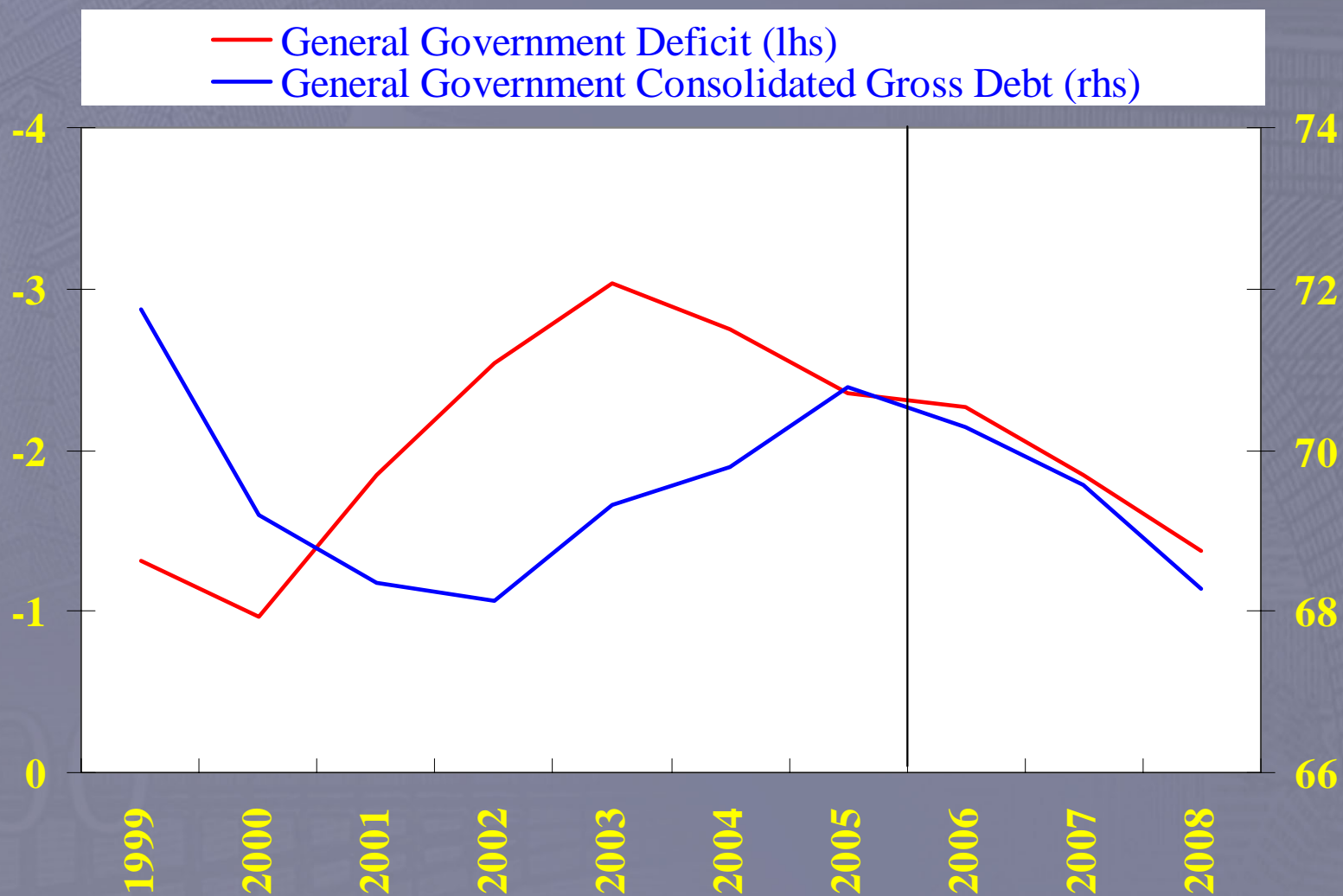
Source: ECB, BSI statistics.

Note: Latest observation: July 2006.

M3 growth: 7.8%; growth of loans to the private sector: 11.1%.

Public finances improving mainly due to the cycle

(as a percentage of GDP)



Sources: 1999-2004 European Commission, 2005, 2006 March 2006 EDP notification, 2007, 2008 stability programme updates December 2005 – February 2006.

Note: Vertical line indicates period when forecasts start.

Further efforts in adopting effective structural reforms are needed

	1995		2003	
	euro area	US	euro area	US
Overall index of Employment Protection Legislation (a)	2.83	0.20	2.34	0.20
Average tax wedge (b)	43.51	31.00	40.43	29.46
Gross domestic expenditure on R&D, % of GDP	1.81	2.49	1.88	2.67
Overall index of Product Market Regulation (c)	4.27	1.84	2.53	1.44

Sources: OECD, Eurostat.

- (a) The Employment Protection Legislation index measures restrictions on the ability of the employer to utilize labour (along a 0 - 6 scale). It includes dismissals protection, limitations on the use of fixed-term and temporary work agency contracts, regulations on working hours, other forms of regulations (such as parental/maternity leave, mandatory sick pay etc.). The higher the score, the stricter the regulation.
- (b) Employees' and employers' social security contributions plus personal income tax less transfer payments, as percentage of gross labour costs. The computation refers to a single person without children earning 100% of the average production wage.
- (c) The Product Market Regulation index is a cardinal measure that summarises regulatory provisions in seven non-manufacturing sectors: airlines, telecoms, electricity, gas, post, rail, and road freight. It is designed to express the stringency of regulation (along a 0 - 6 scale), from the least to most restrictive.