EURO AREA—STATISTICAL ISSUES

Euro-area statistics have improved significantly since 1999, both in scope and timeliness. There is now a plethora of economic time series covering history and current developments available on the Eurostat and ECB websites; GDP flash estimates are published less than two months after the end of a quarter; and inflation flash estimates are available at the end of the reference month.

But considerable gaps remain, in particular on the income side of the national accounts, on labor markets, on external trade, and on the flow of funds:

- Data for the income side of the national accounts either lag significantly or are non-existent. As a result, private household behavior in particular is difficult to analyze. A lack of standardized data at the country level for many members seems to be the main obstacle.

- On labor market data, better quality and sampling should help improve the statistics by 2005, when labor market surveys will be conducted every quarter throughout the area. A continuous labor force survey promises to provide better information on hours worked and detailed labor force breakdowns based on demographic characteristics and type of jobs. However, prospects for improving the timeliness of data on labor costs are dim. The publication delay has been reduced from 90 to 80 days after the end of the quarter and new regulations will only allow a reduction to about 70 days.

- The link between balance of payments data at the country and area-wide level is still tenuous, owing to measurement problems regarding intra-area trade, transfers, and capital flows. Efforts to reconcile the discrepancies are underway. There is also a need to upgrade the quality and scope of extra-area trade data.

- Annual flow-of-funds data for the area as a whole are now available, but the provision of more up-to-date information and, in particular, quarterly data would be useful. The ECB has indicated that procedures are being introduced that envision shortening the time lag for annual data to six months, from a current lag of nine months.

As regards fiscal data, a key input to fiscal surveillance under the SGP, a *Code of Best Practice* was adopted in 2003 to improve the timeliness and quality of data. However, large revisions to general government data remain frequent and continue to raise questions about data integrity. Moreover, the discrepancies between accrual- and cash-based fiscal data in some countries remain uncomfortably large. At the same time, the procedures leading to Eurostat decisions on fiscal accounting issues were streamlined and accelerated.

INTERNATIONAL MONETARY FUND

Euro Area Policies

Supplementary Information

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1. This supplement reports on **economic and financial developments in the euro area** since the issuance of the staff report. The new information does not alter the thrust of the staff appraisal.

2. **The area's export-led recovery remains on track.** The latest indicators support the staff report's outlook for a continued gradual recovery. In particular, industrial production in May rose at a solid pace (0.7 percent; m-o-m). But the indicators also suggest that, particularly in Germany, the transmission of growth momentum from external to final domestic demand remains sluggish, as illustrated by the weakening of area-wide retail sales in May (-0.9 percent; m-o-m).

3. **The outlook for medium-term price stability remains favorable, although headline inflation eased only slightly in June.** With oil prices at elevated levels, headline inflation declined only moderately to 2.4 percent in June, from 2.5 percent in May. At the same time, core inflation (headline excluding energy, food, alcohol, and tobacco) ticked up to 1.9 percent, after several months at 1.8 percent. On the wage front, there are, however, no clear signs that the energy-driven spike in inflation has caused a rise in wage pressures. Indeed, high-profile plant level agreements in Germany and France to raise weekly work hours without compensation are viewed as boding well for continued medium-term wage moderation. They also seem to point to greater labor market flexibility at the grassroots than sometimes perceived.

4. In **financial markets**, equity prices and bond yields have eased moderately since the issuance of the staff report, in line with developments in the United States. Inflation expectations in bond markets—based on ten-year break-even inflation rates—also declined, after peaking at 2.4 percent, but remain above 2 percent. During the first three weeks of July, the euro appreciated by 1½ percent against the U.S. dollar, reflecting in part expectations that the monetary tightening cycle in the United States is likely to proceed at a more measured pace than previously assumed.