

# Contents

<b>1 Moderate Economic Recovery</b>	3
<b>2 Slower Growth of Potential Output</b>	5
<b>3 Fiscal Situation Remains Critical</b>	6
<b>4 Stability and Growth Pact: Balance the Budget</b>	8
<b>5 Gradual Tightening of Monetary Policy Ahead</b>	10
<b>6 An Empirical Taylor Rule for the ECB</b>	12
<b>7 Only Slightly Higher Wage Increases</b>	15
<b>8 Outlook: Recovery Loses Momentum</b>	17
<b>References</b>	19

*This report was completed on September 22, 2004, and prepared for the 70th Kieler Konjunkturgespräch (September 27/28, 2004).*