

Box 9**Comparison with December 2002 Projections**

The major change to the projection assumptions compared with the Eurosystem staff macroeconomic projections published in the Monthly Bulletin in December 2002 is the higher nominal effective exchange rate of the euro, reflecting the appreciation of the euro by some 11% since November 2002. Further important changes in assumptions are the downward shift by about 90 basis points in both short-term rates and in market expectations for long-term interest rates. Furthermore, the assumptions regarding growth in the euro area external export markets have been revised downwards by about 1 percentage point for 2003 and by about 0.5 percentage point for 2004.

The ranges projected for real GDP growth have now been shifted downwards for both 2003 and 2004. The revisions are explained by a combination of two main factors. The first factor is the changes in the projection assumptions for the euro exchange rate and world trade, which imply lower extra-euro area export demand and thereby also reduced investment growth, notwithstanding the lower assumptions on interest rates. The second factor is the lower outturn for economic activity in early 2003 compared with the December 2002 projections. In this context, the projections now embody somewhat larger balance-sheet consolidation in the corporate sector.

The range projected for the annual rate of increase in the overall HICP has been shifted downwards for 2004. This is largely explained by the upward shift in the assumption on the nominal effective exchange rate of the euro and by the downward revisions to the projections for euro area domestic demand. The revisions to the annual average rates of increase in the overall HICP are also affected by the energy component of the HICP. The temporary spike in oil prices in the first quarter of 2003 mechanically raises the average annual rate of change in the energy component in 2003, but reduces it in 2004. The revisions to domestic cost factors in the euro area remain limited. Taking into account current wage settlements, growth in nominal compensation per employee has only been revised slightly downwards compared with the December 2002 projections. In combination with lower labour productivity growth, the projections for unit labour cost growth in 2003 have therefore been revised slightly upwards.

Comparison of macroeconomic projections

(average annual percentage changes)

| | 2002 | 2003 | 2004 |
|--------------------------|---------|---------|---------|
| HICP – June 2003 | 2.3 | 1.8-2.2 | 0.7-1.9 |
| HICP – December 2002 | 2.1-2.3 | 1.3-2.3 | 1.0-2.2 |
| Real GDP – June 2003 | 0.9 | 0.4-1.0 | 1.1-2.1 |
| Real GDP – December 2002 | 0.6-1.0 | 1.1-2.1 | 1.9-2.9 |