

**TECHNICAL ASSUMPTIONS**

The Eurosystem staff projections are based on a series of assumptions about interest rates, exchange rates, oil prices and fiscal policies.

The technical assumptions about interest rates and both oil and non-energy commodity prices are based on market expectations. With regard to short-term interest rates as measured by the three-month EURIBOR, market expectations are measured by forward rates as at 14 November 2006, reflecting a snapshot of the yield curve at that point in time. This implies an increase from an average of 3.1% in 2006 to an average of 4.0% in 2007, and a slight decline to an average of 3.8% in 2008. The market expectations for euro area ten-year nominal government bond yields as at 14 November 2006 imply a flat profile, with an average of 3.8% in 2006, 2007 and 2008. On the basis of the path implied by futures markets in the two-week period ending on 14 November 2006, annual average oil prices are assumed to be USD 65.5 per barrel in 2006, USD 64.6 per barrel in 2007 and USD 67.2 per barrel in 2008. The average annual increase in non-energy commodity prices in US dollars is assumed to be 28.8% in 2006, 15.2% in 2007 and 3.7% in 2008.

The technical assumption is made that bilateral exchange rates remain unchanged over the projection horizon at the average levels prevailing in the two-week period ending on 14 November 2006. This implies a EUR/USD exchange rate of 1.28 and an effective exchange rate of the euro that is 1.6% higher than the average for 2005.

Fiscal policy assumptions are based on national budget plans in the individual euro area countries. They include all policy measures that have already been approved by parliament or that have been specified in detail and are very likely to pass the legislative process.