

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 a cut-off date of 11 May 2007. With regard to short-term interest rates as measured by the three-month EURIBOR, market expectations are measured by forward rates, reflecting a snapshot of the yield curve at the cut-off date. This implies an increase from the mid-May level of 4.0% to an average of 4.2% in 2007, and a further increase to an average of 4.5% in 2008. The market expectations for euro area ten-year nominal government bond yields imply a flat profile around the mid-May level of 4.2%, with an average of 4.2% in 2007 and 4.3% in 2008. On the basis of the path implied by futures markets in the two-week period ending on the cut-off date, annual average oil prices are assumed to be USD 65.0 per barrel in 2007 and USD 69.9 per barrel in 2008. The average annual increase in non-energy commodity prices in US dollars is assumed to be 22.0% in 2007 and 4.9% 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 the cut-off date. This implies a EUR/USD exchange rate of 1.36 and an effective exchange rate of the euro that is 3.7% higher than the average for 2006.

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 national parliaments or that have been specified in detail by governments and are likely to pass the legislative process.