

Box 8

TECHNICAL ASSUMPTIONS ABOUT INTEREST RATES, EXCHANGE RATES, COMMODITY PRICES AND FISCAL POLICIES

The technical assumptions about interest rates and both energy and non-energy commodity prices are based on market expectations, with a cut-off date of 13 May 2009.¹ The assumption about short-term interest rates is of a purely technical nature. These rates are measured by the three-month EURIBOR, with market expectations derived from futures rates. The methodology implies that short-term interest rates remain broadly stable at around 1.2% between the second and last quarter of this year. In 2010, they are expected to increase to 1.6% on average. The market expectations for euro area ten-year nominal government bond yields imply a slight increase, from an average of 4.2% in 2009 to 4.6% in 2010. The baseline projection takes into account the current tightness of financing conditions but also includes the assumption that, over the projection horizon, bank lending rate spreads vis-à-vis the above-mentioned interest rates will narrow somewhat. Similarly, credit conditions are assumed to ease gradually over the horizon from their current tightness. As regards commodities, on the basis of the path implied by futures markets in the two-week period ending on the cut-off date, oil prices per barrel are assumed to average USD 54.5 in 2009 and USD 65.5 in 2010. International food prices are assumed to decline by 10.9% in 2009, before increasing again in 2010. The prices of other (i.e. non-energy and non-food) commodities in US dollars are assumed to decrease significantly, by 24.7%, in 2009 and to rise by 9.2% in 2010.

The technical assumption is also 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 1.33 in 2009 and 1.34 in 2010, and an effective exchange rate of the euro that is, on average, 0.6% lower in 2009 than the average for 2008 and 0.1% higher in 2010 than the average for 2009.

¹ Oil and food price assumptions are based on futures prices up to end-2010. For other commodities, prices are assumed to follow futures until the second quarter of 2010 and thereafter to develop in line with global economic activity.

Fiscal policy assumptions are based on individual euro area countries' national budget plans as available on 13 May 2009. 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.