

Box 9

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 12 November 2009.¹ The assumption about short-term interest rates is of a purely technical nature. Short-term rates are measured by the three-month EURIBOR, with market expectations derived from futures rates. The methodology gives an overall average level of short-term interest rates of 1.2% for 2009 and 2010. They are assumed to increase thereafter to 2.4% in 2011. The market expectations for euro area ten-year nominal government bond yields imply an average level of 4.0% in 2009, increasing slightly to 4.1% in 2010 and to 4.6% in 2011. The baseline projection takes into account the recent improvements in financing conditions and assumes that, over the projection horizon, bank lending rate spreads vis-à-vis the above-mentioned interest rates will narrow somewhat. Similarly, credit supply conditions are assumed to ease gradually over the horizon. 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 62.2 in 2009, USD 81.4 in 2010 and USD 85.9 in 2011. The prices of non-energy commodities in US dollars are estimated to have decreased significantly, by 22.3%, in 2009 and assumed to rise by 24.7% in 2010, followed by a more modest increase of 4.0% in 2011.

Bilateral exchange rates are assumed to 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 1.39 in 2009 and 1.49 in 2010 and 2011, and an effective exchange rate of the euro that, on average, appreciates by 0.8% in 2009 and by a further 2.2% in 2010.

Fiscal policy assumptions are based on individual euro area countries' national budget plans as available on 20 November 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.

¹ Oil and food price assumptions are based on futures prices up to end-2011. For other commodities, prices are assumed to follow futures up to end-2010 and thereafter to develop in line with global economic activity.