Box 13

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

The technical assumptions about interest rates and commodity prices are based on market expectations, with a cut-off date of 17 November 2011.[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 average level for these short-term interest rates of 1.4% for 2011, 1.2% for 2012 and 1.4% for 2013. The market expectations for euro area ten-year nominal government bond yields imply an average level of 4.4% in 2011, 5.3% in 2012 and 5.6% in 2013. Reflecting the path of forward market interest rates and the gradual pass-through of changes in market rates to lending rates, both short-term and long-term bank lending rates are expected to gradually increase further over the entire projection horizon. Credit supply conditions for the euro area as a whole are expected

1 Oil and food price assumptions are based on futures prices up to the end of the projection horizon. The prices of other commodities are assumed to follow futures until the fourth quarter of 2012 and thereafter to evolve in line with global economic activity.

to overall weigh negatively on activity. As regards commodity prices, on the basis of the path implied by futures markets in the two-week period ending on the cut-off date, the price of a barrel of Brent crude oil is assumed to average USD 111.5 in 2011, USD 109.4 in 2012 and USD 104.0 in 2013. The prices of non-energy commodities in US dollars are assumed to rise by 17.8% in 2011, to fall by 7.3% in 2012 and to increase by 4.3% in 2013.

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 an exchange rate of USD per EUR of 1.40 in 2011, and 1.36 in 2012 and 2013. On average, the effective exchange rate of the euro is assumed to remain unchanged in 2011 and to depreciate by 0.9% in 2012.

Fiscal policy assumptions are based on individual euro area countries' national budget plans that were available on 25 November 2011. 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.