**Box 9**

## 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 14 May 2013. 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 0.2% for 2013 and 0.3% for 2014. The market expectations for euro area ten-year nominal government bond yields imply an average level of 2.8% in 2013 and 3.1% in 2014. 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 bottom out in the second half of 2013 and to rise gradually thereafter. 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 fall from USD 112.0 in 2012 to USD 105.5 in 2013 and USD 100.0 in 2014. The prices of non-energy commodities in US dollars are assumed to fall by 5.6% in 2013, before increasing by 0.5% in 2014.[1]

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 1.31 throughout the projection horizon, which is 1.8% higher than in 2012. The effective exchange rate of the euro is assumed to appreciate by 2.8% in 2013 and remain unchanged in 2014.

Fiscal policy assumptions are based on individual euro area countries' national budget plans that were available on 22 May 2013. 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 commodity price assumptions are based on futures prices up to the end of the projection horizon. The prices of other non-energy hard commodities are assumed to follow futures until the first quarter of 2014 and thereafter to evolve in line with global economic activity. EU farm gate prices (in euro), which are now used for forecasting food consumer prices, are projected on the basis of an econometric model that takes into account developments in international food commodity prices. This is the first projection exercise in which these assumptions for EU farm gate prices have been used.