



Press Release

EUROFRAME
Economic Assessment of the Euro Area
November 2008

Today sees the launch of the EUROFRAME Group's latest report¹ giving GDP and inflation projections for the Euro area. The report also contains projections of key economic variables for the major EU countries and the US. It analyses the possible effects of co-ordinated expansionary fiscal policy. The report reviews the origins of the current financial crisis and draws lessons from the impact of previous financial crises on the real economy.

Among the findings contained in the report are the following:

- On the basis of the latest available data it is anticipated that GDP in the Euro area will fall by 0.4% in 2009. Very modest growth of +0.5% is anticipated for 2010 with a return to a more satisfactory performance of +1.6% in 2011. GDP is also expected to fall next year in the US, Japan and the UK. Unemployment is projected to rise steeply in the Euro area in the coming years, while government budget positions will deteriorate. Uncertainty on the short-term outlook is currently huge and the developments may even be more negative than projected here.
- The rate of inflation in the Euro area should fall to 1.7% in 2009 and 1.4% in 2010. While there is a significant possibility of a fall in prices in the US in the second half of 2009 and 2010, inflation in the Euro area is expected to remain positive through to the end of 2010. As a consequence of the reduction in inflationary pressures, it is expected that the ECB will reduce its rate of interest to 2% at some point over the next 6 months.
- Were it not for the financial crisis in the US, and contagion to the EU financial system, growth in the Euro area would have remained around 1% in 2009. This highlights the significance for the Euro area economy of the world financial crisis. Research, described in this report, highlights the urgency of co-ordinated action to recapitalise the banking system in the EU and in the US. In the absence of adequate measures, shortage of credit could prolong the current recession well into 2010.
- This report considers the likely impact of a co-ordinated fiscal stimulus involving the Euro area, the UK and the US and contrasts the results with the effects if each region

¹ Euroframe published bi-annual reports over the period 2005 – 2007 funded by the European Commission. The ten economic research institutes participating in Euroframe are continuing to publish a joint report once a year.

undertook a fiscal stimulus on its own. The results suggest that there are benefits from co-ordinated action rather than individual action.

- The report considers the likely long-term consequences of the current financial crisis for the level of GDP. The results presented in the paper suggest that a small permanent increase in the risk premium, and a consequential increase in the long-term cost of capital, could reduce the level of GDP in the US and the UK in the long-term by around one per cent. The impact on the Euro area would be less negative.

The *EUROFRAME Group* comprises ten of the most respected economic forecasting and research institutes in Europe.²

Web site: www.euroframe.org

² CASE (Poland), CPB (Netherlands), DIW Berlin (Germany), ESRI (Ireland), ETLA (Finland), The Kiel Institute for the World Economy (Germany), NIESR (United Kingdom), OFCE (France), PROMETEIA (Italy) and WIFO (Austria)