



## *Press Release*

<p style="text-align: center;"><b>EUROFRAME</b> <b>Economic Assessment of the Euro Area</b> December 2009</p>
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Today sees the launch of the EUROFRAME Group's latest report giving GDP and inflation projections for the euro area to 2011. The report also contains projections of key economic variables for the major euro area countries, the UK and the US. It analyses the effects on the euro area of the expansionary fiscal policies pursued in the US and in Asia.

Among the findings contained in the report are the following:

- We expect the UK economy to return to growth in the fourth quarter buoyed by the effects of the fiscal stimulus package (in particular the temporary cut in VAT) and the ensuing recovery in the rest of the world. EUROFRAME estimate the economy contracted by 4.6% this year, equal to the UK economy's contraction in 1931.
- EUROFRAME forecast a tentative recovery in the UK with GDP increasing by +1.1% in 2010 and +1.7% in 2011.
- In the longer term fiscal consolidation is needed, and a plan to cut the deficit should be made clear in the PBR. However, in the short term there is space for a further temporary fiscal package in the UK.
- On the basis of the latest available data EUROFRAME forecast a tentative recovery in the euro area with GDP increasing by +1.0% in 2010 and +2.0% in 2011. This reflects a general upward revision in the assessment of economic prospects.
- This report anticipates that the fiscal stance will be close to neutral in 2010 in the euro area as a whole but will be significantly tightened in 2011, slowing the pace of the recovery. This tightening will reflect the major deterioration in the overall public sector deficit of the euro area which has resulted from the current crisis.
- Compared to previous periods of economic recovery there are several reasons for this relatively modest upturn, including the unwinding of fiscal and monetary stimulus packages, limited domestic demand growth in key trading partner countries, a strong euro exchange rate and continued adjustment of household balance sheets.
- In some major euro area economies subsidy schemes have significantly moderated the rise in unemployment. However, unemployment in the euro area as a whole is forecast to continue rising well into 2010 and to stay at a high level afterwards.
- Given the moderate outlook for inflation, the ECB is expected to keep the main refinancing rate at 1% for the remainder of this year, but to raise it slowly in the course of 2010 and 2011 in line with the forecast recovery. We anticipate the ECB will raise the main refinancing rate to above 2% by the end of 2011.

**ENDS**

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A full copy of the EUROFRAME Group's latest report is available on:

[www.euroframe.org](http://www.euroframe.org)

**Notes for editors:**

The *EUROFRAME Group* comprises ten of the most respected economic forecasting and research institutes in Europe: NIESR (United Kingdom), CASE (Poland), CPB (Netherlands), DIW Berlin (Germany), ESRI (Ireland), ETLA (Finland), The Kiel Institute for the World Economy (Germany), OFCE (France), PROMETEIA (Italy) and WIFO (Austria). They combine their knowledge in providing quantitative analysis, forecasts and policy recommendations for the European Union and for national decision makers.

The EUROFRAME network was founded at the end of 1998. The history of co-operation between the EUROFRAME members includes nine years of experience in producing joint macroeconomic analyses and forecasts, both independently and for the European and national authorities, as well as organisation of joint conferences and round tables. The group has built up experience of producing consensus-based recommendations on European macroeconomic policy from a team with widely differing approaches and orientations.