



The **European Forecasting Network** publishes its **Summer Report** online : "*The Economic Outlook for the Euro Area in 2010 and 2011*"

The European Forecasting Network (EFN) is a research group of European institutions^[1], founded in 2001 under the auspices of the European Commission, and currently partly financially supported by the European University Institute (EUI, based in Florence, Italy), which is coordinating the report under the responsibility of Prof. Massimiliano Marcellino. The objective of the EFN is to provide updated forecasts and analyses of the macroeconomic situation for the Euro area. It publishes four quarterly reports.

The Highlights of the Summer Report are:

- The world economy is recovering, largely driven by upswings in most emerging market economies. Although growth in these regions is apparently calming down at present, the euro area will still be benefiting from the momentum of a healthily expanding world trade for much of the remaining year.
- Rising exports will be the main driver of the recovery in the euro area during the first half of 2010. We expect euro area GDP to grow by around 1.0% in 2010 and 1.6% in 2011, respectively. Due to this increase in external demand, the growth rate of the industrial production index has also gained momentum: during 2010 the industrial production index is expected to grow around 7%, though only at about 3% in 2011.
- In the coming winter, the momentum coming from external demand will decline and the effects of fiscal consolidation in Europe will increasingly be felt, but private consumption and investment should then recover and more than offset the negative effects from the slowdown in exports and the fiscal tightening.
- The main risks for this forecast come, once again, from turmoil in financial markets: At present, worries about the financial strength of some euro area states and banks appear to amplify each other. Banks suffer from overexposure to public debt of dubious quality, while governments face the risk of new burdens from failing banks, in particular due to their overexposure to ailing construction sectors.
- Inflation is expected to remain stable around a 1.5% year on year rate during 2010 and 2011. These projections assume a mild increase in oil prices during the forecasting horizon and a relatively stable euro/dollar exchange rate.

The Summer Report 2009/2010 is freely downloadable from the EFN website:
<http://efn.eui.eu>

For further information, please contact Professor Massimiliano Marcellino at +39 055 4685 956 or 928. Comments and suggestions are welcome.

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- University of Birmingham, Department of Economics
- The Halle Institute for Economic Research (IWH), Germany
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