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## Economic Outlook for the Euro Area in 2011 and 2012

The [European University Institute](#) has published a report from the [European Forecasting Network](#), predicting the major economic and policy trends for the Euro Area in 2011 and 2012. The research group summarised their findings thus:

In most advanced economies, strained public finances compel central banks to keep their expansive course, while interest rates in most emerging markets continue to be relatively low, if compared to their high potential growth rates. Thus, expansive monetary policies throughout the world, while giving cause for concern regarding long run macroeconomic stability, brighten the growth prospects for 2011.

Developments in the group of countries that are neither booming nor in stagnation will be pivotal for the euro area economy in 2011. Economic sentiment indicators appear to suggest that important core countries are benefiting more and more from the upswing in Germany. In addition, the crisis of confidence in 2010 has weakened the common currency and thus improved the competitiveness of firms producing in the euro area.

We expect euro area GDP to grow by around 1.7% in 2011 and 1.6% in 2012, not enough to bring the unemployment rate back below 10%. In addition, this forecast is made under the assumption that the fiscal crisis will not drastically damage financial conditions and economic confidence of firms and households. This serious downward risk is indicated by present sovereign risk spreads that price in a high probability for some form of debt restructuring that would implicate sizable losses for private creditors. In such a case, the stability of the European banking sector would be at stake, as it is a major creditor of the sovereign debtors that face a crisis of confidence.

Due to the higher external demand, industrial production remained quite strong in the second semester and forecasts have been revised upwards. We expect industrial production to grow a 7.1% during this year and close to 3.0% in both 2011 and 2012.

Inflation expectations have risen slightly since the last report, pushed by energy and goods prices. We forecast a 2.0% average inflation rate in 2011 that will drop to 1.7% in 2012.

[Click here to read the full report: http://www.eui.eu/Documents/RSCAS/Research/EFN/Reports/EFN2010Winter.pdf](http://www.eui.eu/Documents/RSCAS/Research/EFN/Reports/EFN2010Winter.pdf)

*The [European Forecasting Network](#) is a research group of European institutions, founded in 2001. is a research group of*

European institutions, founded in 2001 under the auspices of the European Commission, and currently partly financially supported by the Schuman Centre at the European University Institute.

The objective of the EFN is to provide a critical analysis of the current economic situation in the euro area, short-term forecasts of the main macroeconomic and financial variables, policy advice, and in-depth study of topics of particular relevance for the working of the European Economic and Monetary Union. The EFN publishes four quarterly reports.

The participating institutions are:

- RSCAS, European University Institute (EUI), Italy
- Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), France
- University of Birmingham, Department of Economics
- The Halle Institute for Economic Research (IWH), Germany
- The Department of Economics, European University Institute (EUI), Italy
- Anàlisi Quantitativa Regional (AQR), Universitat de Barcelona
- Instituto Flores de Lemus (IFL), Universitat Carlos III, Madrid, Spain
- Department of Applied Economics (DAE), University of Cambridge, UK

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