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PRESS RELEASE

The **European Forecasting Network** publishes its **Summer Report online**:
ECONOMIC OUTLOOK FOR THE EURO AREA IN 2012 AND 2013

The report provides updated forecasts and analyses of the macroeconomic situation for the Euro area.

Highlights

- In 2012 and 2013 we expect world production to grow modestly, since external conditions have deteriorated as growth dynamics appear to be declining in important emerging economies. However, the euro area crisis remains the central risk factor for the world economy.
- Euro area GDP is expected to decline 0.2 percent in 2012 when compared to 2011; for 2013 we expect fiscal policy to be a bit less restrictive and private investment to increase, with GDP expanding by 0.9%. The unemployment rate will remain well above 11%.
- In this context, the southern euro area member states will stay in recession this year, and most probably next year too, as the fiscal consolidation will go on, the structural reforms will need time to yield beneficial effects, and the real sector will be largely out of reach of the expansive monetary policy of the ECB because of the crisis of the financial sector. Elsewhere in the area, growth will be dampened by these deep recessions through several channels, such as a further weakening external demand and the postponement of spending decisions because of higher uncertainty. This will affect industrial production that, according to our expectations, this year will shrink by at least 1%.
- Important underlying assumptions of this forecast are that reforms will continue to be successfully implemented in the southern countries, there will be no major bank failures, and firms and households in the euro area will largely continue to act on the premise that policy will, in the long run, be able to master the euro area debt crisis. In fact, the ECB will probably still have the means to prevent a systemic financial crisis, but banking is now largely fragmented on national lines and the uncertainty in financial markets about the future of the currency union will be a heavy burden for the real economy.
- The important moderation of the international prices for energy since our last report has motivated a significant reduction in our expected inflation, now at 2.2% in 2012 and 1.3% in 2013. In a climate of slowing output growth, our inflation forecast increases the likelihood of new cuts in the ECB reference rate in the short or medium term.

The report is also freely downloadable from the EFN website: http://efn.eui.eu.
The European Forecasting Network is a research group of European institutions, founded in 2001. 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), Universidad de Barcelona
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