

## EURO AREA

The sharp contraction in euro area activity appears to have ended sooner than anticipated, with further improvements in financial conditions, fiscal stimulus measures and stabilisation of export demand. However, headwinds from financial sector deleveraging and rising unemployment suggest that the recovery will be gradual. Despite the improved outlook, core inflation should continue to moderate until the end of 2010 due to substantial economic slack.

Low core inflation, tight credit conditions and a persistent negative output gap make it appropriate for the current expansionary monetary policy stance to be maintained until late 2010. Thereafter, emergency credit support measures should be withdrawn and policy rates gradually increased. Medium-term growth prospects would be enhanced by clear and credible plans for future fiscal consolidation and further structural measures to deepen the single market, enhance competitive pressures and strengthen financial supervision.

## Euro area: Demand and output

|                            | 2008                        | 2009   | 2010 | 2011 | Fourth quarter |      |      |
|----------------------------|-----------------------------|--|------|------|----------------|------|------|
|                            |                             |  |      |      | 2009           | 2010 | 2011 |
|                            | Current prices<br>€ billion | Percentage changes from previous year,<br>volume (2001 prices) |      |      |                |      |      |
| Private consumption        | 5 194.4                     | -1.0   | 0.0  | 1.1  | -0.7           | 0.4  | 1.3  |
| Government consumption     | 1 881.9                     | 2.3  | 1.1  | 0.8  | 2.1            | 0.7  | 0.9  |
| Gross fixed investment     | 1 986.6                     | -10.6  | -1.0 | 2.3  | -8.5           | 0.8  | 3.4  |
| Public                     | 243.5                       | 2.4  | 1.8  | -3.6 | 3.6            | 0.4  | -4.1 |
| Residential                | 537.4                       | -10.3  | -3.9 | 0.4  | -8.6           | -1.5 | 1.4  |
| Non-residential            | 1 205.7                     | -13.2  | -0.5 | 4.4  | -10.8          | 1.9  | 5.7  |
| Final domestic demand      | 9 062.9                     | -2.5   | 0.0  | 1.3  | -1.8           | 0.5  | 1.6  |
| Stockbuilding <sup>1</sup> | 36.4                        | -0.6   | 0.2  | 0.0  |                |      |      |
| Total domestic demand      | 9 099.2                     | -3.1   | 0.2  | 1.2  | -2.5           | 0.7  | 1.6  |
| Net exports <sup>1</sup>   | 102.1                       | -0.9   | 0.7  | 0.5  |                |      |      |
| GDP at market prices       | 9 201.3                     | -4.0   | 0.9  | 1.7  | -2.1           | 1.2  | 2.0  |

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

Covers the euro area countries that are members of the OECD.

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 86 database.

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