



# The Current Economic Situation



## Key concepts

### Gross Domestic Product (GDP)

is the value of all goods and services produced in a geographical region over a period of time (years, quarters, months).

**GDP growth** tells you by how much GDP increased in a given year or quarter. It is usually expressed as a percentage. In normal times, GDP growth is positive. In a recession, it turns negative.

Some part of the increase in GDP over a given period may be due to increases in the prices of goods and services (inflation). **Real GDP growth** tells you how much of the increase in GDP is due to increased production of goods and services, i.e. after stripping out inflation.

The **unemployment rate** is a measure of how much of the labor force is not employed. An unemployed worker is someone who is without a job, but has been actively seeking one.

**Inflation** is the rise in the general level of prices of goods and services in an economy over a period of time.

## The Euro Area Economic Situation – December 2011

The euro area economy has come to a virtual standstill in the latter part of 2011 and will take time to pick up again. The global financial crisis that began in the US in 2008 caused the deepest recession since the 1930s and a sharp rise in government deficits and debt. This in turn led to a crisis in investor confidence in the ability of some “peripheral” euro area countries (namely, Greece, Ireland and Portugal) to pay back those debts. These three nations now rely on other euro area members and the International Monetary Fund for financial assistance as private investors are no longer willing to lend to them and markets grow increasingly wary of the entire euro area. Market fears regarding unsustainable debt levels have spread to Italy and Spain, putting pressure on European banks, which in turn has led to investor uncertainty toward even the “core” euro area countries (France, Germany and others). Resolving the debt crisis is an urgent and ongoing process for the European Union, which is currently working on a plan to provide further funds to Greece; expand the emergency assistance fund available to all troubled member countries; recapitalize banks; promote economic growth; and deepen euro area economic governance.

The November 2011 European Commission economic forecast predicts slow but positive growth for 2011, supported by a strong performance in the first quarter (Jan.-March 2011). But GDP growth is expected to virtually halt toward the end of 2011. Unemployment is again rising and stands at a very high level of over 10% in the euro area. After increasing in the first part of 2011 inflation is forecast to come down slowly to within the ECB’s preferred range (“close to but below 2%”) after its peak from prior sharp increases in energy and commodity prices.

### Euro Area Economic Indicators

Forecast

	2009	2010	2011	2012	2013
GDP growth (real)	-4.1%	1.7%	1.5%	0.5%	1.3%
Unemployment rate	9.5%	10.0%	10.0%	10.1%	10.0%
Inflation	0.3%	1.6%	2.6%	1.7%	1.6%

Sources: Eurostat, European Commission



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## GDP Growth

After the deep recession caused by the economic and financial crisis, during which the euro area GDP shrank by 4% in 2009, the economy remains fragile. The latest forecast from the European Commission shows that economic growth is slowing after a strong start to 2011. The European Commission now anticipates that GDP growth in the euro area will be quite weak in the second half of 2011, with some euro area member countries already experiencing negative growth (recession). For 2011, euro area real GDP growth is expected to be 1.5%, slowing to just 0.5% in 2012.

## Unemployment Rate

During the recession, the **unemployment rate** rose from 7.5% in 2008 to 9.5% in 2009. Since mid-2010, the euro area unemployment rate has stabilized at around 10% but has started to rise in recent months due to worsening economic conditions and drastic spending cuts in several euro area member countries. While the unemployment rate is forecast to remain around 10%, it is far too high and is expected to remain high on account of a number of factors, including economic uncertainty, firms having employees work longer hours rather than hiring new workers, and rising youth unemployment. A large disparity exists in unemployment rates between euro area countries. The unemployment rate in Austria and the Netherlands is only around 4½%. But it is over 14% in Ireland and over 20% in Spain.

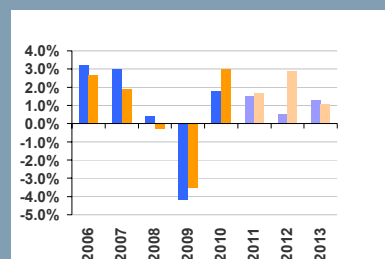
## Inflation

In recessions, **inflation** tends to fall. This is because consumers cut back on their spending, which makes it harder for firms to raise prices. In 2009, inflation fell to only 0.3% as a result of the recession. Since then, inflation has increased again, mainly due to a recent surge in energy and commodity prices. It is now above the ECB's target of an inflation rate of "close to, but below 2%". However, when stripping out these more volatile prices, the inflation rate is still quite low and expected to slow to under 2% in 2012. Nevertheless, the ECB needs to monitor price developments closely, in keeping with its mandate of ensuring low, stable inflation ("price stability").

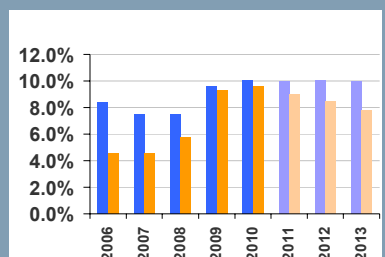
## Charts and Figures



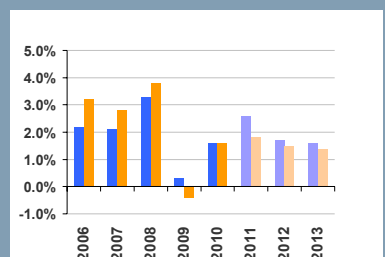
Real GDP Growth Rate



Unemployment Rate



Inflation Rate



Source: Eurostat  
European Commission