

22nd October 2007

Economic policies for full employment in Europe

**SLIGHTLY LOWER EURO AREA GROWTH RATE OF  
2% IN 2008 AFTER BETTER THAN EXPECTED  
GROWTH RATE (2.5%) IN 2007 SAYS ELNEP'S  
UPDATED FORECAST**

A better than expected growth rate in 2007 but a slightly slower growth rate in 2008: six months on from its original forecast the European Labour Network for Economic Policy (ELNEP)\*, today (22<sup>nd</sup> October 2007), releases an update to its original forecast. While euro area growth has been slightly more robust than projected in 2007, its prospects now look slightly weaker for 2008. This is due in part to rising oil prices, the impact of the current turmoil on financial markets and the strong appreciation of the euro against the US Dollar. ELNEP now expects GDP to expand by a rate of 2.5% instead of 2.2% for 2007 and 2.0% instead of 2.1% in 2008. Moreover the risks of a more serious economic downturn have increased.

Growth in the euro area was unexpectedly strong in the first half of this year, driven by strong investment and (except in Germany) private consumption, on the back of an improved labour market: unemployment fell to 6.9% in August, almost a full percentage point lower than a year earlier. Net exports also expanded strongly, especially in the second quarter, despite the previous appreciation of the euro.

However, the pace of the expansion is certain to slow in the coming months, reducing the forecast for 2008. The impact of financial market turmoil over the summer on the euro area economy going forward is at present uncertain. Clearly, financing costs have risen and confidence indicators have been hit. More fundamentally, the sharp appreciation of the euro to around USD 1.40, a slowing of global growth, and the lagged effects of past interest rate rises will all work to slow the European economy.

While the central forecast for 2008, at 2.0%, is only slightly below the ELNEP Spring forecast, downside risks in the form of a marked appreciation of the euro and more restrictive credit conditions in the wake of financial-market turmoil have intensified. Policymakers, especially the ECB, need to be conscious of such risks and prepared to take prompt counter-action should they materialise.

Note to editors: The ELNEP updated forecast is issued in October of each year following the initial forecast that is published in April. This year's original forecast entitled "keeping the European Recovery on Track" can be downloaded from the ELNEP or ETUI-REHS website.

[Click here](#) to download the updated forecast.

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\*The **ELNEP** was founded in autumn 2006 to provide a counterweight to mainstream policy advice in Europe. The participating institutes identified a worrying lack of diversity in the European economic policy debate, which is biased heavily towards the supply side and exhibits a knee-jerk preference for 'market' solutions over social institutions.

The analytical and forecasting activities of the **ELNEP** put greater emphasis on macro policies and consider both demand and supply side measures to be crucial in supporting growth and employment.

The network pays particular attention to issues of the labour market, employment, wages and income distribution, and wherever appropriate takes a European, rather than national, perspective: policies that may work in a single country may be counterproductive at European level.

The members of the network are financially and intellectually independent. At the same time they have institutional links to national labour movements. The regional diversity of the network ensures in-depth expertise at country level.

Currently the **ELNEP** comprises seven institutes and one individual university researcher. The present members of the network are:

**AGORA** (Stockholm, Sweden); **Arbeiterkammer Wien** (Vienna, Austria); **Economic Council of the Labour Movement** (ECLM, Copenhagen, Denmark); **European Trade Union Institute for Research, Education and Health and Safety** (ETUI-REHS, Brussels, Belgium); **Institut de Recherches Economiques et Sociales** (IRES, Paris, France); **Labour Institute for Economic Research** (LIER, Helsinki, Finland); **Macroeconomic Policy Institute** (IMK, Düsseldorf, Germany); **Carlos Rodriguez Gonzalez** (Universidad del País Vasco, Bilbao, Spain).

