Eurozone

Highlights

- The healthy Q1 GDP result and the upward revision to growth in Q4 have led us to raise our Eurozone growth forecast for 2016 to an above-consensus 1.7%.
- The GDP breakdown for Q1 confirmed that domestic demand expanded at a robust pace, maintaining the revival seen in H2 last year. But the real driver behind the pick-up was an improvement in net trade following its strong drag on GDP at the end of last year.
- More recent data suggest that quarterly GDP growth will weaken this quarter, perhaps to 0.3%. But our view is that underlying growth prospects have improved and we expect a modest re-acceleration in the second half of the year.
- The ongoing strength of employment growth should to some extent shield real household spending from the expected pick-up in inflation in the months ahead. While nominal wage growth remains muted in the region as a whole, this may partly reflect the sustained period of weak inflation tempering pay deals. Although we certainly expect real wage growth to ease, we expect rising nominal wages (particularly in Germany) to offset some of the negative inflation effects.
- Another solid rise in investment in Q1 suggests that capital spending remains fairly resilient to external concerns. In this respect, the ongoing improvement in credit growth to firms bodes well too. Despite world GDP growth likely to post its slowest pace since 2009, we expect Eurozone investment to expand by 3.3% this year, the strongest annual rise since the onset of the global financial crisis.
- Overall, while downside risks certainly remain, there are encouraging signs that the Eurozone recovery is strengthening and broadening. Against this backdrop, we maintain our view that the ECB will not expand its unconventional measures further.

Forecast for Eurozone
(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.7	2.3	1.8	1.7	1.6
Private Consumption	0.8	1.7	1.8	1.6	1.4	1.3
Fixed Investment	1.3	2.7	3.3	3.0	3.0	2.5
Stockbuilding (% of GDP)	-0.1	-0.1	0.1	0.1	0.2	0.3
Government Consumption	0.8	1.3	1.5	1.2	1.1	1.2
Exports of goods and services	4.1	5.1	2.8	3.6	3.5	3.3
Imports of goods and services	4.5	5.9	4.2	4.0	3.7	3.4
GDP	0.9	1.6	1.7	1.7	1.7	1.6
Industrial Production	0.9	1.5	1.5	1.8	1.7	1.7
Consumer Prices	0.4	0.0	0.3	1.6	1.7	1.9
Current Balance (% of GDP)	2.5	3.2	3.0	2.7	2.6	2.4
Government Budget (% of GDP)	-2.6	-2.1	-1.8	-1.5	-1.1	-0.9
Short-Term Interest Rates (%)	0.2	0.0	-0.2	-0.3	-0.2	0.2
Long-Term Interest Rates (%)	2.0	1.2	1.0	1.4	2.1	2.7
Exchange rate (US$ per Euro)	1.33	1.11	1.10	1.07	1.07	1.10
Exchange rate (YEN per Euro)	140.7	134.3	123.8	126.7	133.4	137.1

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Forecast Overview

Q1 strength was broad based

In the third Q1 release, Eurozone GDP was revised back up to 0.6% – the second flash release had nudged the estimate down to 0.5%. In addition, as we had expected, Q4 quarterly growth was revised up from 0.3% to 0.4%.

In Q1, domestic demand grew at a healthy pace, expanding by 0.7% for the third quarter running. Over the past couple of quarters, there were also signs of the domestic recovery broadening away from household spending, supporting our view that growth will not fizzle out as the pick-up in inflation to more normal levels commences in H2.

However, the real driver of the improvement in overall growth has been a reduction in the drag from net trade since the middle of last year. Providing that the downward influence does not once again increase considerably, then the region should be able to continue grow at a healthy pace even if domestic demand slows.

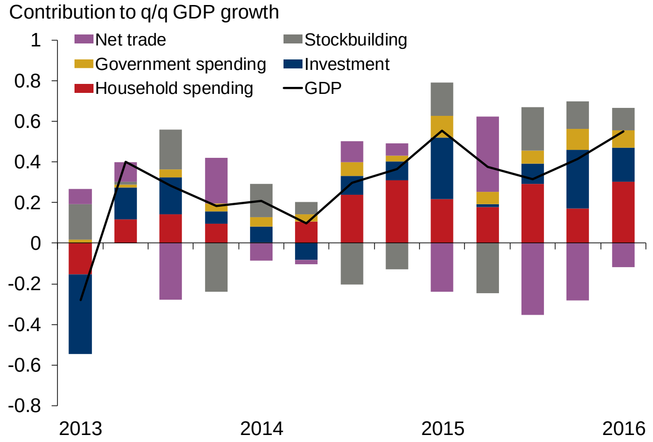
A feature of Q1 was that the recovery appeared to lose momentum as the quarter unfolded; this situation was particularly stark in the industrial sector where a strong rise in production in January was followed by steep falls in both February and March. And similar trends were seen in other variables, such as retail sales. While industrial production is likely to have risen strongly in April, the level will remain well below the Q1 average. As a result, the strong boost that the sector provided in Q1 will not be repeated in Q2, meaning that industry will be a drag on overall growth. For now, we have pencilled in a 0.3% rise in GDP this quarter, but there is a risk the result proves to be even weaker.

Domestic prospects still favourable

Looking through the quarterly volatility, our view is that the underlying pace of growth in H1 will have been better than in H2 last year. And after Q2's likely weakness, we expect a renewed pick-up in growth due to the following:

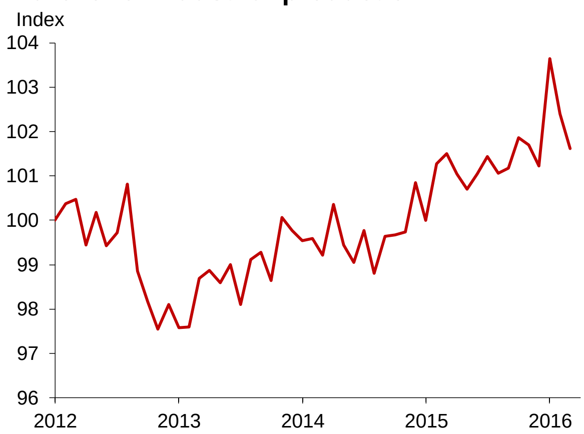
- **Labour market to support consumer spending** – admittedly, it is undoubtedly the case that one of the major upward influences on activity – low inflation – will fade over the coming quarters. While nominal wage growth has been very weak over recent years,

Eurozone: GDP



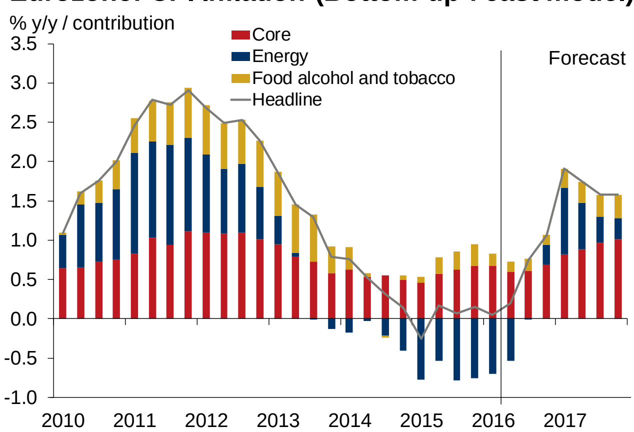
Source: Oxford Economics

Eurozone: Industrial production



Source : Oxford Economics/Haver Analytics

Eurozone: CPI Inflation (Bottom-up f'cast model)



Source : Oxford Economics/Haver Analytics the low inflation environment has resulted in a period of very robust real wage growth. Higher inflation will thus squeeze real incomes. In some economies, most notably Germany, we expect wage pressures to build in response to bottlenecks. More importantly, for the region as a whole there is little sign that the employment recovery is slowing. Accordingly, we see a pick-up in annual nominal disposable income growth over the next year, implying a steady rather than spectacular fall in real growth. The upshot is that household spending should rise broadly in line with last year's 1.7% increase both this year and next.

- **Investment to rise gradually** – investment expanded by a solid 0.8% in Q1 after Q4's 1.4% rise. The recent renaissance of bank lending to firms bodes well, particularly since some of the recent policy measures aimed at stimulating credit growth (corporate bond purchases, TLTRO II programme) have only begun in June. In response to recent events, we have boosted our investment forecasts for this year from 2.8% to 3.3%, which would be the strongest annual gain since 2007.
- **Export outlook remains lacklustre** – meanwhile, we still expect the euro exchange rate to depreciate this year and global trade growth to pick up a touch too. Reflecting the better than previously expected start to the year, we have also revised up our export forecast from 2.4% to a still fairly subdued 2.8%.

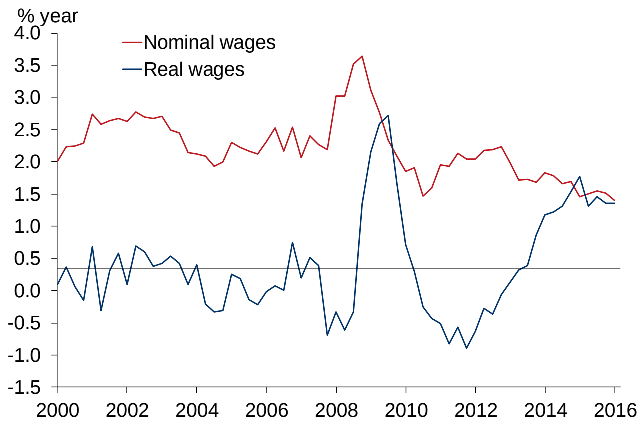
GDP growth in 2016 revised up to 1.7%

The upshot of all this is that we have raised our GDP growth forecast for this year from 1.6% to 1.7% – our 2017 forecast is unchanged at 1.7%, with a similar pace seen in 2018-19.

Given this and a 0.1% point upward revision to our CPI inflation forecast for next year to 1.6%, we still think that the ECB will choose not to loosen monetary policy further over the coming months. As a result, we see QE ending in March 2017 in line with the planned termination date.

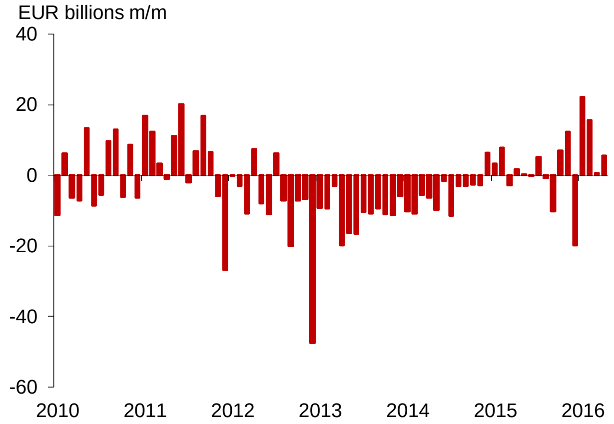
We continue to think that bond yields will climb from their record lows and see the 10-year German government bond yield rising from its current near-zero level to about 1% by the end of 2017.

Eurozone: Negotiated wages



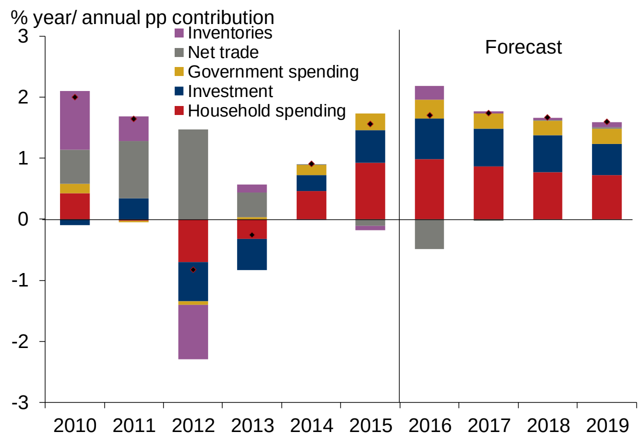
Source : Oxford Economics/Haver Analytics

Eurozone: Loans to non-financial firms (flows)



Source : Oxford Economics/Haver Analytics

Eurozone: GDP



Source: Haver Analytics/Oxford Economics

Risk Assessment

Overall risk in the Eurozone is expected to decline over the medium term. But while the current account is in surplus and austerity has significantly reduced the budget deficit, public and private sector indebtedness remain high. This could have ramifications for growth if the region were to suffer from a renewed period of deflation.

Emerging risks

Monetary policy reaching its limits – despite the ECB expanding its QE programme in late-2015 and again in March this year, together with further cuts in interest rates, market inflation expectations remain subdued and concerns about the negative side-effects of ongoing unconventional policy measures have risen. While we think that ECB could take further action if needed, there are limits to the degree that QE and other policies can be scaled up.

Suspension of Schengen – the influx of migrants has raised the risks of a permanent breakdown of the Shengen travel zone. Greater restrictions on travel would make it harder for tourists and workers to cross borders and make it more costly to move freight around the region. Some estimates have suggested that the cost to the region could exceed €10bn a year.

Key risk scenarios

Brexit fuels EU downturn – if a Brexit also resulted in an increasingly populist mood in the EU, then the spillovers could add to the direct effect of the UK leaving the EU. Sharper falls in sentiment and adverse financial market effects could result in Eurozone GDP growth of just 1.3% in 2017 and 1.1% in 2018, compared with our current forecasts of 1.7% for each year. If these spillover effects were avoided, then the slowdown would be less acute with growth of 1.6% next year and 1.5% in 2018.

Hard landing in China – a sustained slowdown in China combined with further US tightening have the scope to trigger a significant financial market response. In such a scenario, even economies such as the Eurozone that have limited trade and financial links with China could be hit hard. In this scenario, we assume that GDP growth in the Eurozone could be just 0.8% in 2017 and 0.5% in 2018, forcing further ECB policy action.

Risk index (0=no risk, 100=highest risk)

	2015	2016	2019
Europe	**19**	**19**	**14**
World average	30	31	28
Sovereign risk	16	17	13
Trade credit risk	29	29	17
Political risk	24	24	21
Regulatory risk	0	0	0

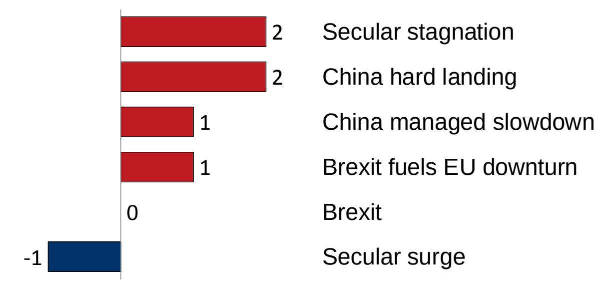
Risk warnings

GDP growth		External downsides, offset domestic upside risks
CPI inflation		Lowflation remains a risk
Current account balance		Surplus unlikely to narrow to a significant degree
Government balance		Deficit to narrow further
Government debt		Stable, albeit at a high level
External debt		Not a concern for the region as a whole

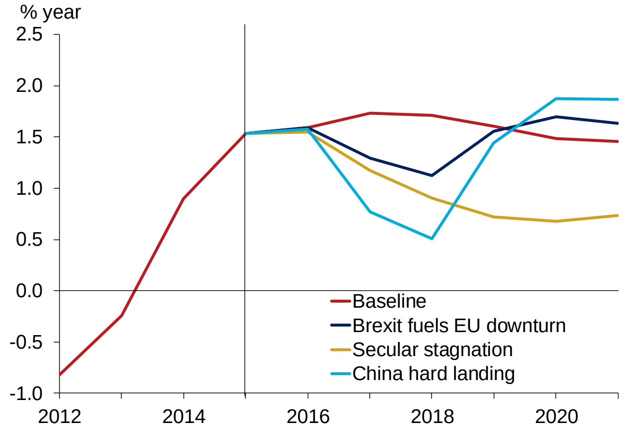
Risk scenarios

Impact of scenarios on risk index

Maximum impact of scenarios on risk index



Impact of scenarios on GDP growth



Source : Oxford Economics

Long-Term Prospects

Very slow recovery from crises

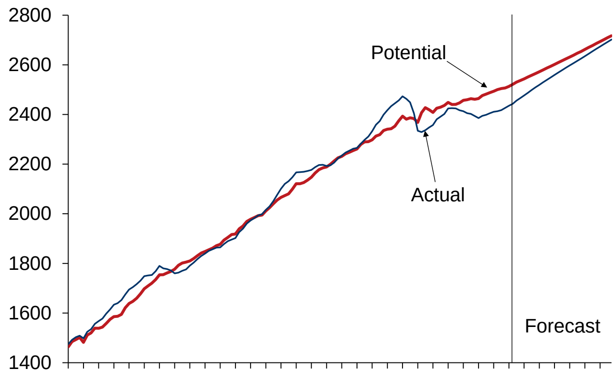
The global and Eurozone crises will leave their mark on growth for years to come. We estimate that the Eurozone's potential growth rate is only 1.2%, similar to our estimate for the past decade but far lower than the 1.8% estimate for the ten years to 2008.

While credit availability is improving, it is unlikely to be as free-flowing as in the pre-crisis years, hindering investment and the efficiency of capital allocation in the economy. Moreover, high unemployment for a prolonged period, especially among the young, will have long-lasting negative effects on skill levels and the ability to work. Combined with a shrinking population of working age, despite increases in the retirement age, these factors imply that availability and quality of labour will be constrained compared with the pre-crisis period. These factors will only be partly offset by further increases in the participation rate.

Some of the reforms implemented in the peripheral countries should help raise Eurozone productivity growth to at least what it was before 2008. But much more will be needed to offset other negative trends.

Eurozone: Actual & potential output

Euro bn 2010 prices



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	2005-2014	2015-2024
Potential GDP*	1.0	1.2
Employment at NAIRU	0.6	0.3
Capital Stock	1.5	1.2
Total Factor Productivity	0.1	0.6

*ln(Potential GDP)=0.65*ln(Employment at NAIRU) +0.35*ln(Capital Stock)+ln(Total Factor Productivity)

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

	2005-2009	2010-2014	2015-2019	2020-2024
GDP	0.8	0.7	1.7	1.4
Consumption	1.0	-0.1	1.6	1.2
Investment	0.1	-0.6	2.9	2.0
Government Consumption	2.1	0.3	1.2	1.2
Exports of Goods and Services	1.6	5.3	3.7	2.9
Imports of Goods and Services	1.9	3.8	4.3	2.9
Unemployment (%)	8.4	11.1	9.7	8.0
Consumer Prices	2.0	1.7	1.1	1.9
Current Balance (% of GDP)	-0.3	1.3	2.8	2.0
Exchange Rate (US$ per Euro)	1.3	1.3	1.1	1.2
General Government Balance (% of GDP)	-2.6	-3.9	-1.5	-0.5
Short-term Interest Rates (%)	3.1	0.6	-0.1	1.4
Long-term Interest Rates (%)	3.9	3.4	1.7	3.7
Working Population	0.4	0.1	0.1	-0.2
Labour Supply	0.8	0.2	0.3	0.0
Participation Ratio	75.6	76.4	76.8	77.5
Labour Productivity	0.0	0.9	0.8	1.2

Background

The creation of a single European currency was achieved in 1999, with notes and coins being introduced in 2002. The eleven initial members were Germany, France, Italy, Finland, Ireland, Netherlands, Belgium, Luxembourg, Austria, Portugal and Spain, with Greece joining European Monetary Union (EMU) in 2001 and introducing notes and coins at the same time as the other countries. Slovenia was the 13th member in January 2007, Malta and Cyprus joined a year later, Slovakia became the 16th member in January 2009, Estonia the 17th in January 2011, Latvia the 18th at the start of 2014 and Lithuania made it 19 at the beginning of 2015.

To qualify for membership of the Eurozone, countries have to pass a number of nominal convergence criteria set out in the Maastricht Treaty: the inflation rate should not exceed by more than 1.5% points the average inflation rate of the three EU countries with the lowest inflation; the government deficit should not exceed 3% of GDP and gross government debt should be no higher than 60% of GDP; countries should have been members of ERM II and have not devalued their currency in the previous two years; and long-term interest rates should not be more than 2% points higher than the average in the three EU countries with the lowest inflation. In practice, these conditions were applied quite loosely to the original EMU members, with elements of the fiscal criteria being selectively overlooked for Italy and Belgium (and then Greece) and with little attention as to whether the budget deficit was below 3% of GDP on a sustainable basis. However, the narrow failure of Lithuania to win approval for adopting the euro in 2007 suggests that the convergence criteria will be applied much more strictly to new EU members.

Joining EMU sees member countries pass control of monetary policy to the European Central Bank (ECB). The ECB is one of the most independent central banks in the world and was built on the lines of the German Bundesbank. Not only does the ECB have ‘operational’ independence – allowing it to set interest rates free from political control – but it also has ‘goal’ independence to set its own targets. The ECB objective is to achieve price stability and this is pursued through economic and monetary analysis; the ECB targets inflation of “below, close to, 2%” and maintains a reference target of 4.5% for M3 money supply growth. The two components of analysis were to act as a crosscheck, but economic analysis has taken precedence in recent years, with monetary targeting slipping into the background. Since 2008, the ECB initially focused on providing liquidity to banks via long-term loans. But more recently, attention has shifted towards asset purchases and the ECB is currently purchasing about €60bn of bonds per month.

National governments retain control of fiscal policy, although there are limits to their freedom in this area as specified in the Growth and Stability Pact, which essentially applies the fiscal requirements of the Maastricht Treaty on an ongoing basis. Even before the global crisis, a number of Eurozone countries had difficulty keeping their budget deficits below 3% of GDP and debt below 60% of GDP on a sustained basis and faced sanctions by the EC. However, the effectiveness of the Growth and Stability Pact against the major Eurozone economies of Germany, France and Italy proved limited, while smaller countries such as the Netherlands made painful adjustments when their deficit exceeded the 3% of GDP threshold and others observed the requirements stringently. This forced a re-interpretation of the Pact, which is now applied over the economic cycle.

The fallout from the financial crisis, and in particular the troubled fiscal situation faced by Cyprus, Greece, Italy, Ireland, Portugal, Slovenia and Spain, showed the limitations of the fiscal framework behind the single currency. The possibility of a debt default by Greece, coupled with the threat of contagion to Italy and Spain, put Eurozone leaders under immense pressure to come up with a rescue plan that would prevent the collapse of the single currency. However, there remain significant differences of opinion among the largest members regarding who should carry the burden and what mechanisms should be used to provide financial support to the European banking system. The measures proposed include a move towards a banking union that would sever the links between banks and their sovereigns. But political hurdles to closer integration and debt burden sharing remain very high. Changes to the Eurozone’s structure and institutions are likely to be slow at best.

Data & Forecasts

Key Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Industrial production	Unemploy -ment %	CPI	Business confidence (% balance)	Consumer confidence (% balance)	Exports	Imports	Trade balance (€ bn)
May	1.2	11.0	0.3	0.3	-6	2.7	0.1	18.3
Jun	2.0	11.0	0.2	0.1	-6	12.6	6.9	25.4
Jul	1.7	10.8	0.2	0.4	-7	7.1	0.4	31.5
Aug	2.3	10.7	0.2	0.2	-7	5.7	2.6	11.2
Sep	1.5	10.6	-0.1	0.3	-7	0.8	-0.6	19.9
Oct	2.2	10.6	0.0	0.5	-8	0.5	-0.7	24.3
Nov	2.0	10.5	0.1	0.4	-6	6.2	4.1	24.0
Dec	0.4	10.5	0.2	0.4	-6	4.0	3.1	25.8
2016								
Jan	3.7	10.4	0.4	0.3	-6	-2.0	-1.3	5.9
Feb	1.1	10.3	-0.2	0.1	-9	1.1	1.7	19.3
Mar	0.1	10.2	-0.1	0.1	-10	-2.7	-8.4	28.6
Apr	2.0	10.2	-0.2	0.2	-9	-	-	-
May	-	-	-0.1	0.3	-7	-	-	-

Financial Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Short rate %	Long rate %	Money Supply M3	Exchange rate $/€ avg.	Exchange rate €/£	Nominal effective exch. Rate	Share price DJ STOXX	Net FDI €bn
May	-0.01	1.34	5.0	1.11	1.39	95.4	3571	12.5
Jun	-0.01	1.67	4.9	1.12	1.39	95.9	3424	-16.7
Jul	-0.02	1.53	5.2	1.10	1.41	95.0	3601	7.2
Aug	-0.03	1.39	4.9	1.11	1.40	96.6	3270	2.0
Sep	-0.04	1.48	4.9	1.12	1.37	97.4	3101	-21.7
Oct	-0.05	1.20	5.2	1.12	1.37	97.2	3418	56.9
Nov	-0.09	1.16	5.0	1.07	1.42	94.3	3506	-70.4
Dec	-0.13	1.19	4.7	1.09	1.38	95.6	3268	50.5
2016								
Jan	-0.15	1.11	5.1	1.09	1.33	96.5	3045	-31.1
Feb	-0.18	1.04	4.9	1.11	1.29	98.0	2946	44.5
Mar	-0.23	0.93	5.0	1.11	1.28	97.3	3005	13.8
Apr	-0.25	0.96	4.6	1.13	1.26	98.0	3028	-
May	-0.26	0.97	-	1.13	1.28	97.9	3063	-

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EUROZONE — **TABLE 1 SUMMARY ITEMS**
Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE (C)	GROSS FIXED INVESTMENT (IF)	DOMESTIC DEMAND (%) (DOMD)	REAL GDP (GDP)	INDUSTRIAL PRODUCTION (IP)	UNEMPLOY-MENT RATE (%) (UP)	AVERAGE EARNINGS (ER)	WHOLE ECONOMY PRODUCT-IVITY (GDP/ET)	COMPETIT-IVENESS (2008=100) (MON)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2014	0.8	1.3	0.9	0.9	0.9	11.6	1.5	0.3	2.3	-1.3	0.4
2015	1.7	2.7	1.7	1.6	1.5	10.9	1.5	0.5	5.7	-1.9	0.0
2016	1.8	3.3	2.3	1.7	1.7	10.0	1.9	0.6	4.3	-2.6	0.3
2017	1.6	3.0	1.8	1.7	1.7	9.5	2.2	0.9	3.8	1.5	1.6
2018	1.4	3.0	1.7	1.7	1.7	9.2	2.4	1.0	4.1	2.1	1.7
2019	1.3	2.5	1.6	1.6	1.7	8.8	2.5	1.1	3.9	2.1	1.9
2014											
I	0.7	2.5	1.2	1.1	1.5	11.8	1.6	0.9	0.8	-1.5	0.7
II	0.6	1.2	1.0	0.8	0.8	11.6	1.4	0.2	1.4	-1.1	0.6
III	0.8	0.8	0.6	0.8	0.6	11.5	1.4	0.1	2.4	-1.2	0.4
IV	1.2	0.9	1.0	1.0	0.6	11.4	1.5	0.2	4.7	-1.5	0.2
2015											
I	1.6	2.0	1.5	1.3	1.5	11.2	1.4	0.5	5.9	-2.1	-0.3
II	1.7	2.6	1.4	1.6	1.3	11.0	1.5	0.7	6.1	-1.1	0.2
III	1.8	2.6	1.9	1.6	1.8	10.7	1.5	0.6	5.8	-1.9	0.1
IV	1.6	3.6	2.3	1.7	1.5	10.5	1.6	0.5	5.1	-2.4	0.2
2016											
I	1.7	2.9	2.1	1.7	1.6	10.3	1.6	0.3	4.8	-3.2	0.0
II	1.9	3.6	2.6	1.6	1.6	10.0	1.8	0.4	4.2	-3.6	-0.1
III	1.8	3.8	2.3	1.7	1.6	9.9	2.0	0.7	4.4	-2.5	0.4
IV	1.8	3.1	2.1	1.8	1.8	9.8	2.1	0.8	3.7	-1.1	0.9
2017											
I	1.7	3.0	1.8	1.7	1.2	9.7	2.1	0.8	3.5	1.2	1.7
II	1.6	3.0	1.9	1.8	1.9	9.6	2.2	1.0	3.8	1.3	1.6
III	1.6	3.1	1.8	1.8	2.0	9.5	2.2	1.0	4.0	1.5	1.6
IV	1.5	3.1	1.8	1.8	1.8	9.4	2.3	1.0	4.0	1.8	1.6
2018											
I	1.5	3.1	1.8	1.7	1.8	9.3	2.3	1.0	4.0	2.0	1.6
II	1.4	3.0	1.7	1.7	1.7	9.2	2.3	1.0	4.1	2.1	1.6
III	1.4	2.9	1.7	1.7	1.6	9.1	2.4	1.0	4.1	2.2	1.7
IV	1.3	2.8	1.6	1.6	1.6	9.0	2.4	1.0	4.1	2.2	1.8
2019											
I	1.3	2.6	1.6	1.6	1.6	8.9	2.5	1.0	4.0	2.2	1.9
II	1.3	2.5	1.6	1.6	1.7	8.8	2.5	1.1	3.9	2.2	1.9
III	1.3	2.4	1.6	1.6	1.7	8.8	2.5	1.1	3.9	2.1	1.9
IV	1.3	2.4	1.6	1.6	1.7	8.7	2.6	1.1	3.9	2.0	1.9

EUROZONE — **TABLE 2 SUMMARY ITEMS**

	TRADE BALANCE (EURO BN) (BVI)	CURRENT ACCOUNT (EURO BN) (BCU)	CURRENT ACCOUNT (% OF GDP) (BCU*100 /GDP!)	GOVERNMENT FINANCIAL BALANCE (EURO BN) (GB)	GOVERNMENT FINANCIAL BALANCE (% OF GDP) (GB*100 /GDP!)	SHORT-TERM INTEREST RATE (RSH)	LONG-TERM INTEREST RATE (RLG)	REAL SHORT-TERM INTEREST RATE (Note 1)	REAL LONG-TERM INTEREST RATE (Note 1)	EXCHANGE RATE US DOLLAR PER EURO (RXD)	EFFECTIVE EXCHANGE RATE 2010=100 (RX)
YEARS BEGINNING Q1											
2014	188.3	253.7	2.51	-261.5	-2.59	0.21	2.04	-0.22	1.61	1.33	123.6
2015	248.8	333.6	3.21	-215.2	-2.07	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	242.2	318.4	2.97	-197.0	-1.84	-0.24	0.98	-0.55	0.67	1.10	118.7
2017	220.8	299.7	2.70	-162.1	-1.46	-0.27	1.47	-1.91	-0.17	1.07	116.2
2018	220.0	292.5	2.55	-127.9	-1.11	-0.15	2.13	-1.81	0.47	1.07	116.1
2019	214.3	278.9	2.35	-106.5	-0.90	0.24	2.73	-1.65	0.84	1.10	117.6
2014											
I	42.1	63.5	2.53	-68.8	-2.74	0.30	2.65	-0.36	2.00	1.37	125.7
II	41.4	55.2	2.19	-66.9	-2.66	0.30	2.22	-0.26	1.66	1.37	125.2
III	43.4	64.6	2.55	-64.4	-2.55	0.16	1.79	-0.19	1.44	1.33	122.6
IV	61.3	70.4	2.76	-61.3	-2.40	0.08	1.50	-0.08	1.33	1.25	121.1
2015											
I	61.3	84.3	3.28	-58.0	-2.25	0.05	1.01	0.36	1.33	1.13	114.9
II	60.2	82.8	3.19	-54.9	-2.12	-0.01	1.27	-0.20	1.08	1.11	112.6
III	61.9	82.3	3.15	-52.3	-2.00	-0.03	1.36	-0.12	1.27	1.11	116.1
IV	65.4	84.3	3.20	-50.1	-1.90	-0.09	1.19	-0.26	1.03	1.10	116.1
2016											
I	63.8	72.7	2.74	-68.1	-2.57	-0.19	1.05	-0.23	1.01	1.10	119.0
II	57.4	89.6	3.35	-38.1	-1.43	-0.25	0.83	-0.18	0.90	1.13	120.0
III	59.0	75.7	2.81	-53.5	-1.99	-0.25	0.95	-0.62	0.58	1.10	118.3
IV	62.1	80.4	2.96	-37.3	-1.37	-0.27	1.12	-1.19	0.20	1.09	117.6
2017											
I	53.1	65.8	2.40	-58.2	-2.12	-0.30	1.24	-1.96	-0.43	1.08	117.2
II	53.2	82.8	3.00	-29.1	-1.05	-0.30	1.39	-1.95	-0.25	1.07	116.6
III	56.5	73.5	2.64	-43.8	-1.57	-0.26	1.55	-1.88	-0.07	1.06	115.8
IV	57.9	77.6	2.77	-31.1	-1.11	-0.23	1.70	-1.86	0.07	1.05	115.4
2018											
I	50.5	62.5	2.21	-51.2	-1.81	-0.20	1.86	-1.77	0.29	1.06	115.5
II	52.5	81.6	2.86	-18.2	-0.64	-0.17	2.04	-1.77	0.44	1.06	116.0
III	57.3	72.0	2.50	-35.0	-1.22	-0.14	2.21	-1.84	0.51	1.07	116.3
IV	59.7	76.4	2.63	-23.5	-0.81	-0.10	2.39	-1.87	0.63	1.08	116.6
2019											
I	50.6	61.5	2.10	-44.7	-1.53	0.15	2.55	-1.74	0.66	1.09	117.0
II	51.1	78.4	2.66	-13.3	-0.45	0.23	2.67	-1.65	0.79	1.09	117.4
III	54.9	67.5	2.27	-31.2	-1.05	0.27	2.79	-1.62	0.91	1.10	117.8
IV	57.7	71.5	2.38	-17.2	-0.57	0.30	2.92	-1.60	1.02	1.11	118.1

Note 1 : REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI

Long-Term Forecast for Eurozone

Annual percentage changes unless otherwise specified

	2005-2014	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
GDP	0.7	1.6	-0.8	-0.3	0.9	1.6	1.7	1.7	1.7	1.6	1.5	1.4	1.4	1.4	1.3	1.5
Consumption	0.5	0.0	-1.3	-0.6	0.8	1.7	1.8	1.6	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.4
Investment	-0.3	1.7	-3.1	-2.5	1.3	2.7	3.3	3.0	3.0	2.5	2.3	2.1	2.0	1.8	1.7	2.4
Government Consumption	1.2	-0.1	-0.2	0.2	0.8	1.3	1.5	1.2	1.1	1.2	1.2	1.3	1.2	1.2	1.2	1.2
Exports of Goods and Services	3.5	6.7	2.8	2.2	4.1	5.1	2.8	3.7	3.5	3.3	3.1	3.1	2.9	2.8	2.5	3.3
Imports of Goods and Services	2.8	4.4	-0.8	1.3	4.5	5.9	4.2	4.0	3.7	3.4	3.3	3.1	2.9	2.7	2.4	3.6
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	10.9	10.0	9.5	9.2	8.8	8.5	8.2	8.0	7.8	7.6	8.9
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.0	0.3	1.6	1.7	1.9	1.9	1.9	1.8	1.8	1.9	1.5
Current Balance (% of GDP)	0.5	0.4	1.3	2.1	2.5	3.2	3.0	2.7	2.6	2.4	2.1	2.0	2.0	2.0	2.0	2.4
Exchange Rate (US$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.10	1.07	1.07	1.10	1.13	1.15	1.18	1.21	1.24	1.14
General Government Balance (% of GDP)	-3.2	-4.2	-3.7	-3.0	-2.6	-2.1	-1.8	-1.5	-1.1	-0.9	-0.7	-0.6	-0.5	-0.4	-0.4	-1.0
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	-0.2	-0.3	-0.2	0.2	0.5	0.9	1.4	1.9	2.4	0.7
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.2	1.0	1.5	2.1	2.7	3.2	3.5	3.7	3.9	4.0	2.7
Working Population	0.2	0.0	0.2	0.2	0.1	0.2	0.2	0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	0.0
Labour Supply	0.5	0.2	0.8	0.0	0.1	0.2	0.3	0.3	0.3	0.1	0.0	0.0	0.0	-0.1	-0.1	0.1
Participation Ratio (%)	76.0	76.2	76.7	76.5	76.5	76.5	76.6	76.8	77.0	77.2	77.3	77.4	77.5	77.6	77.7	77.2
Labour productivity	0.5	1.5	-0.4	0.4	0.3	0.5	0.6	0.9	1.0	1.1	1.1	1.2	1.2	1.3	1.3	1.0
Employment	0.3	0.1	-0.4	-0.7	0.6	1.0	1.1	0.8	0.7	0.5	0.4	0.3	0.2	0.1	0.1	0.5
Output gap (% of potential GDP)	-0.8	-1.0	-2.4	-3.3	-3.3	-2.7	-2.0	-1.5	-1.2	-0.9	-0.7	-0.5	-0.4	-0.2	-0.1	-1.0

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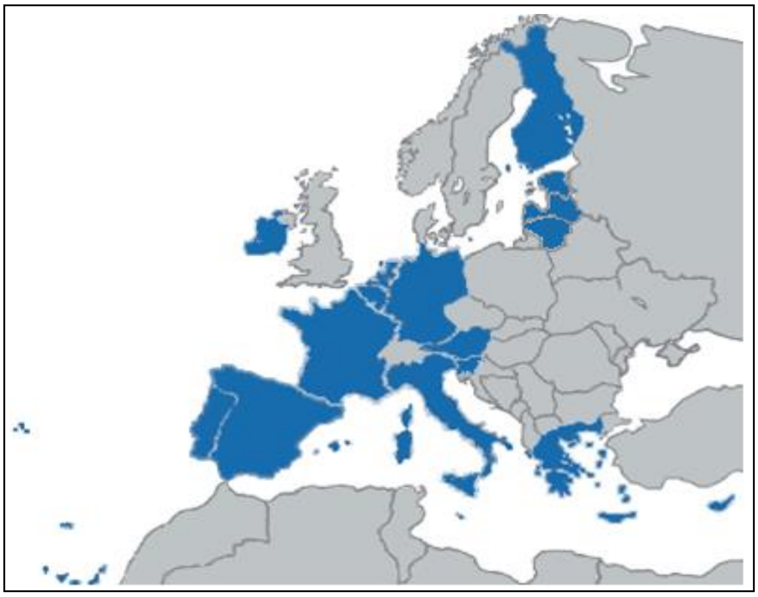
Key Facts

Politics

President of the ECB: Mario DRAGHI
Vice president of the ECB: Vítor CONSTANCIO
EC commissioner for Economic and Financial Affairs: Pierre MOSCOVICI
Chairman of Euro Group of Finance Ministers: Jeroen Dijsselbloem



Source : ECB
Member countries: Germany, France, Italy, Finland, Ireland, Netherlands, Belgium, Luxembourg, Austria, Portugal, Spain, Greece, Slovenia, Malta, Cyprus, Slovakia, Estonia, Latvia & Lithuania

Long-term economic & social development

	1980	1990	2000	2014*
GDP per capita (US$)	-	18220	20723	40201
Inflation (%)	9.9	4.2	2.2	0.4
Population (mn)	302	303	313	334
Urban population (% of total)	69.9	71.3	72.6	75.7
Life expectancy (years)	73.5	75.9	78.3	81.7

Source : Oxford Economics & World Bank

* 2014 or latest available year

Structure of GDP by output

	2014
Agriculture	1.7%
Industry	24.3%
Services	74.1%

Source : World Bank

Corruption perceptions index 2015

	Score
Developed economies (average)	76.0
Emerging economies (average)	37.8
Eurozone	68.9

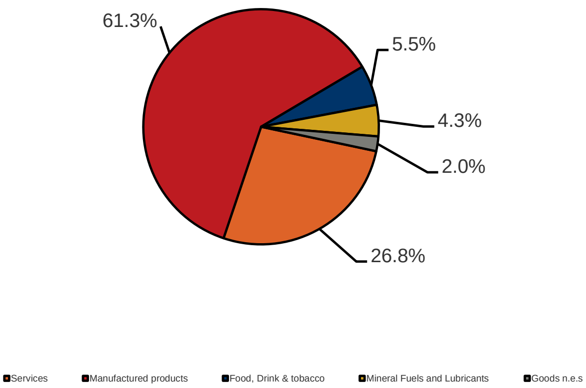
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2014*
Current account (US$ billion)	30	163	-167	337
Trade balance (US$ billion)	-22	65	-29	250
FDI (US$ billion)	-	-	29	-124
Govt budget (% of GDP)	-4	-7	0	-3
Govt debt (% of GDP)	14	68	67	92
Long-term interest rate	10	9	5	2
Oil production (000 bpd)	264	304	232	224
Oil consumption (000 bpd)	9716	10478	10930	9248

Source : Oxford Economics / World Bank / EIA

Composition of extra-EMU goods & services exports 2014



Source : Eurostat\ Haver Analytics

Destination of goods' exports 2014

Eurozone	45.8%
UK	7.0%
US	6.7%
China	3.7%
Switzerland	3.0%
Poland	2.9%

Source : Eurostat \ Haver Analytics