OXFORD ECONOMICS

Eurozone

Highlights

- Although the economic recovery in the Eurozone lost some momentum in Q2, we expect it to pick up again in H2 despite the weakening global backdrop and, in particular, mounting concerns about China.
- The 0.3% quarterly rise in Q2 GDP was weaker than Q1's 0.4%, but was still better than the average gain in 2014. A key factor behind the slowdown was probably weaker household spending – a sign that the impact of lower oil prices is beginning to fade. Indeed, Q2 retail sales rose by a modest 0.3% and consumer sentiment fell sharply in July. That said, the renewed fall in the oil price recently should help to limit the rise in CPI inflation in H2 2015 and, with other drivers of spending likely to remain supportive, spending should continue to expand at a solid pace compared with recent years.
- Encouragingly, the news from other sectors of the economy has been more positive, giving hope that exports and investment can take over the reins from households in H2. Despite the continued weakness of world trade, export growth accelerated in Q2 and the rise in the EC measure of firms' export orders to a four-year high in July was also encouraging, suggesting that the weak euro is indeed providing a boost. Given this and the broader improvement in sentiment, we still expect the moderate investment recovery of the past couple of years to move up a gear in H2 and heading into 2016.
- For 2015 as a whole, we expect GDP to grow by 1.4%, a touch weaker than last month, and then to accelerate to 1.8% in 2016. But downside risks remain. Further falls in global trade could undermine export growth and lead firms to postpone or scrap investment plans, particularly if accompanied by further weakness in financial markets. Meanwhile, there remains a strong chance that the third Greek bailout deal might eventually collapse, leaving Greece once again staring into the abyss.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.4	1.7	1.7	1.6	1.5
Private Consumption	1.0	1.7	1.4	1.2	1.3	1.3
Fixed Investment	1.2	1.2	2.5	2.9	2.7	2.3
Stockbuilding (% of GDP)	-0.2	-0.1	0.0	0.2	0.3	0.4
Government Consumption	0.6	1.0	0.7	0.8	0.9	1.0
Exports of goods and services	3.7	3.9	3.9	3.7	3.5	3.4
Imports of goods and services	4.0	4.3	3.9	3.9	3.8	3.6
GDP	0.9	1.4	1.8	1.7	1.6	1.5
Industrial Production	0.6	1.3	2.0	1.9	1.8	1.6
Consumer Prices	0.4	0.3	1.4	1.5	1.6	1.6
Current Balance (% of GDP)	2.1	2.7	2.7	2.5	2.5	2.4
Government Budget (% of GDP)	-2.4	-2.0	-1.6	-1.3	-1.1	-0.9
Short-Term Interest Rates (%)	0.21	0.01	0.00	0.01	0.17	0.48
Long-Term Interest Rates (%)	2.04	1.31	1.95	2.52	2.91	3.24
Exchange rate (US$ per Euro)	1.33	1.11	1.07	1.06	1.09	1.11
Exchange rate (YEN per Euro)	140.7	136.6	140.9	144.8	150.0	153.5

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Forecast Overview

Q2 slowdown reflected domestic factors

After a solid start to the year, the Eurozone recovery lost a little bit of momentum in Q2 as quarterly GDP growth slowed to 0.3% from 0.4% in Q1.

Although a breakdown of the figures is not yet available, the slowdown is likely to have reflected weaker domestic demand. Both household spending and investment growth will have been slower on a quarterly basis in Q2 than in Q1.

However, these slowdowns will have partly reflected a very strong start to the year. And some encouragement can be drawn from the fact that this weakness was probably partially offset by stronger export growth. What is more, the limited available survey data for Q3 is encouraging. The rise in the composite PMI in August meant that it is consistent with a pick-up in GDP growth this quarter – thus far in Q3, the average PMI reading is above both Q1 and Q2. All this suggests that the recent turmoil in Greece and weakening global growth prospects may not weigh especially heavily on near-term growth prospects.

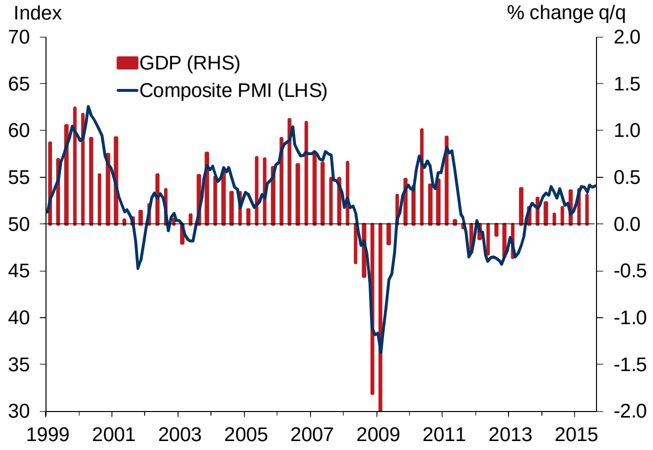
Prospects still hopeful for Q3 and beyond

Looking to Q3 and beyond, we remain optimistic about prospects for growth. This reflects a number of factors:

- **Household spending to remain a key driver** – in Q3, we estimate that quarterly household spending growth probably eased to about 0.3%. But if the recent drop in the oil price is sustained, then this should help to ensure that CPI inflation rises only gradually. And with nominal labour income likely to continue to grow at a solid pace by recent standards, household spending will remain an important pillar of the wider economic recovery – a view that is supported by the EC measure of consumer sentiment, which despite falling recently remains consistent with solid household spending. We see consumer spending growth of 1.7% this year and 1.4% in 2016. Despite slowing, the latter would still be a strong performance by recent historical standards.

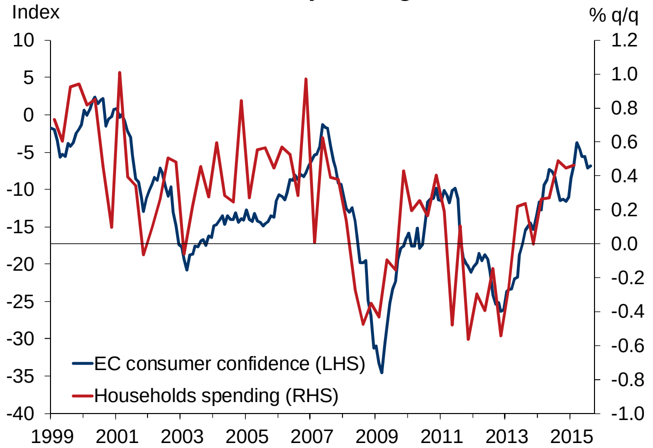
- **Exporters benefiting from weak euro** – further falls in global trade volumes in early Q2 confirm that the current environment remains challenging for exporters. However, exports appear to have expanded at a fairly

Eurozone Composite PMI & GDP



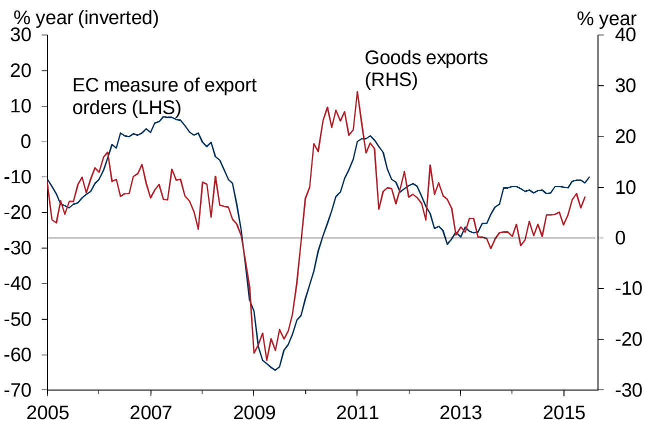
Source : Oxford Economics/Haver Analytics/Markit

Eurozone: Consumer spending & confidence



Source : Oxford Economics/Haver Analytics/Markit

Eurozone: Exports and export orders



Source: Oxford Economics/Haver Analytics healthy pace in Q2 as a result of earlier falls in the euro. And survey-based measures of export orders point to further rises to come. Our view remains that the acute weakness of global trade volumes in H1 2015 is unlikely to be a lasting phenomenon and that strengthening demand, combined with further falls in the euro, will ensure a steady pick-up in exports. But compared with the pre-crisis performance, export growth remains tepid.

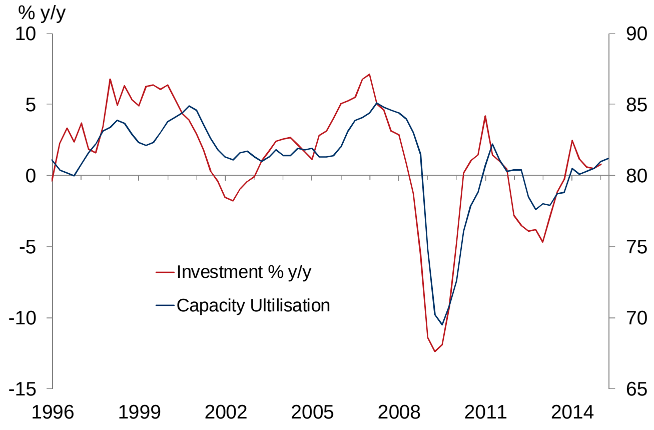
- **Investment may strengthen too** – after a sustained period of modest increases in investment in the past two years, the picture appears to have become more positive. For example, capacity utilisation in Q2 rose to 81.2, its highest level for four years. Equally, the recovery in consumer spending appears to be feeding through into an improvement in corporate profitability, with the Eurozone corporate gross operating surplus rising 1.9% on an annual basis in Q1 – its strongest in three years. Both of these indicators are closely correlated with investment spending and suggest that fundamentals are strong. Accordingly, despite European growth being somewhat delicately poised, we remain relatively confident that investment is well placed to take up some of the running next year and support overall GDP. We expect investment spending growth to more than double next year, rising to 2.5% in 2016 from 1.2% this year.

Baseline assumes recovery broadens

Overall, the recovery remains fragile and vulnerable to shocks, but there is also tentative evidence that it may be broadening. We expect GDP to expand by 1.4% this year and then 1.8% in 2016, before slowing gradually thereafter to around 1.6% a year in 2017-19.

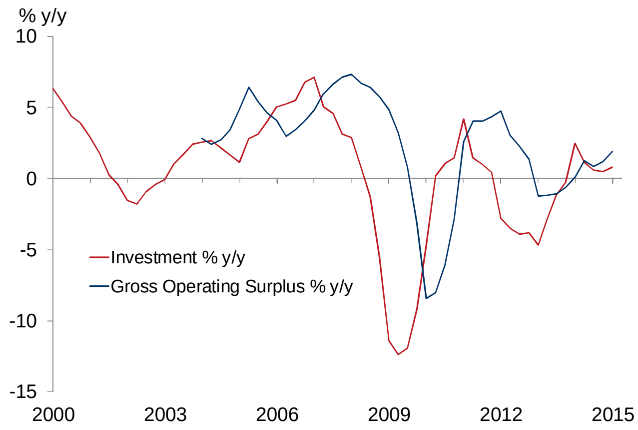
Concerns about growth abroad, and in China in particular, could undermine the external recovery and hamper investment. Meanwhile, Greece's long-term future in the Eurozone remains an ongoing concern, despite the recent agreement on a third bailout. Indeed, the recent leg of the Greek crisis has once again exposed the problems of monetary union without closer fiscal and political union. Regardless of Greece's future, if the Eurozone fails to take decisive steps towards closer integration, the risk of further fragmentation will build and could undermine growth prospects in the region as a whole, and in the most vulnerable economies in particular.

Euro area investment and capacity utilisation



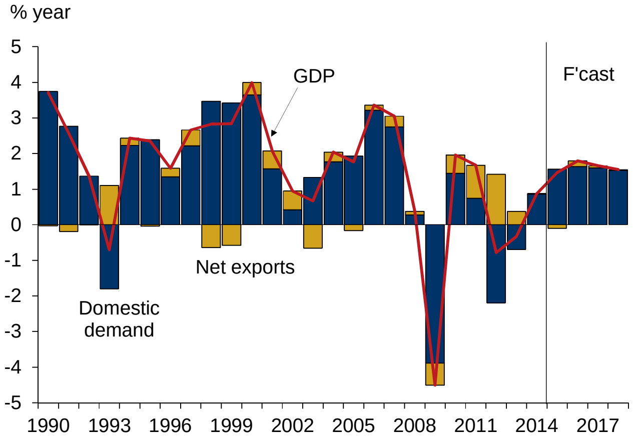
Source : Oxford Economics/Haver Analytics

Euro area investment and profits



Source : Oxford Economics/Haver Analytics

Eurozone: Contributions to GDP growth



Source: Oxford Economics

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Risk Assessment

Overall risk in the Eurozone is expected to decline slightly 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. The latter could have ramifications for growth if the region were to suffer from a renewed period of deflation.

Emerging risks

External weakness spreads – exporters are yet to reap much reward from the euro's fall because the positive effects have been offset by a contraction in global trade. We still expect export growth to pick up modestly, but failure to do so may prevent recovery from broadening to investment. In such a scenario, the overall economic recovery might lose rather than gain momentum.

Rise in bond yields dampens demand – the sharp spike in bond yields and the associated rise in the euro have the scope to slow the tailwinds that are currently helping the Eurozone recovery. Nonetheless, the risk of a further substantial rise may be limited. For a start, the rise partly reflects yields falling too far earlier in the year. What is more, we would expect any further significant rise to result in a policy response from the ECB.

Key risk scenarios

A Greek Eurozone exit – the risks of a Grexit remain despite Greece agreeing a third bailout. It will be a tall order for the next government to implement the agreed reforms and fiscal measures. If this ultimately triggers a relatively orderly exit that is contained and results in limited contagion, it would probably have only a modest and short-lived effect on activity. But a more disorderly exit that results in heightened uncertainty for rather longer and renewed concerns about the future of other peripheral economies could be enough to push the Eurozone back into recession.

Investment collapse in China – the recent run of weak news from China has raised concerns about a more sustained slowdown in China, which could have major spillover effects on the world economy. Given the Eurozone's limited trade and financial interlinkages with China, the direct effects of a China slowdown would not be great. While potential indirect effects on confidence might be larger, these may be offset to some degree by more QE, suggesting that a recession could be avoided.

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

	2014	2015	2018
Europe	**20**	**19**	**16**
World average	29	29	27
Sovereign risk	16	16	15
Trade credit risk	31	29	23
Political risk	25	24	22
Regulatory risk	0	0	0

Risk warnings

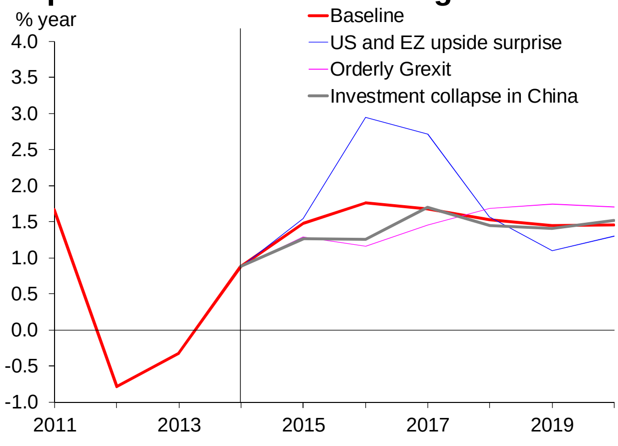
GDP growth		Downside risks mainly stem from abroad.
CPI inflation		Recent oil price fall could see inflation rise more
Current account balance		Surplus set to persist.
Government balance		Deficit will continue to narrow.
Government debt		Debt to limit scope for loser fiscal policy in future
External debt		Not a problem

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

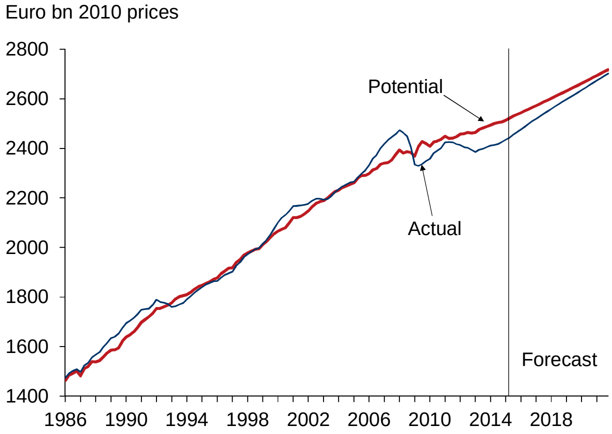
Very slow recovery from crises

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 1.1%, similar to our estimate for the past decade but far lower than the 1.8% estimate for the ten years to 2008.

The slow restructuring of the banking sector means that credit availability will be limited for a long time, hindering investment and affecting 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 the economy's 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



Source: Oxford Economics

Potential GDP and Its Components
Average Percentage Growth

	2005-2014	2015-2024
Potential GDP*	1.1	1.1
Employment at NAIRU	0.6	0.0
Capital Stock	1.5	1.4
Total Factor Productivity	0.2	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	1.6	1.4
Consumption	1.0	0.0	1.4	1.3
Investment	0.1	-0.7	2.3	1.8
Government Consumption	2.2	0.3	0.9	1.2
Exports of Goods and Services	1.6	5.2	3.7	2.9
Imports of Goods and Services	1.8	3.7	3.9	2.9
Unemployment (%)	8.4	11.1	10.5	8.8
Consumer Prices	2.0	1.7	1.3	1.7
Current Balance (% of GDP)	-0.5	1.0	2.6	2.6
Exchange Rate (US$ per Euro)	1.35	1.33	1.09	1.19
General Government Balance (% of GDP)	-2.5	-3.8	-1.4	-0.7
Short-term Interest Rates (%)	3.1	0.6	0.1	1.9
Long-term Interest Rates (%)	3.9	3.4	2.4	3.8
Working Population	0.4	0.0	-0.1	-0.2
Labour Supply	0.8	0.2	0.0	-0.1
Participation Ratio	75.3	76.2	76.8	77.1
Labour Productivity	0.1	0.9	1.1	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 the member country pass control of its 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 close to, but not exceeding, 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.

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Data & Forecasts

Key Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Industrial production (% yr)	Unemploy-ment (% point)	CPI (% yr)	Business confidence (% balance)	Consumer confidence (% balance)	Exports (% yr)	Imports (% yr)	Trade balance (€ bn)
Jul	1.8	11.6	0.4	0.2	-8.4	2.9	0.9	21.2
Aug	-0.4	11.5	0.4	0.2	-10.2	-3.2	-4.0	8.1
Sep	0.3	11.5	0.3	0.1	-11.5	8.6	4.1	18.3
Oct	1.0	11.5	0.4	0.1	-11.3	4.3	0.1	23.8
Nov	-0.3	11.5	0.3	0.2	-11.6	1.1	-1.7	20.8
Dec	0.6	11.3	-0.2	0.1	-11.0	8.5	1.8	23.9
2015								
Jan	0.6	11.3	-0.6	0.2	-8.5	-0.7	-5.6	7.4
Feb	1.7	11.2	-0.3	0.1	-6.7	4.3	1.0	19.8
Mar	1.8	11.2	-0.1	0.2	-3.7	11.0	9.1	20.6
Apr	0.7	11.1	0.0	0.3	-4.6	8.6	4.8	21.7
May	1.4	11.1	0.3	0.3	-5.6	2.5	-0.2	19.0
Jun	1.3	11.1	0.2	0.1	-5.6	12.3	6.6	26.4
Jul	-	-	0.2	0.4	-7.1	-	-	-

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
Jul	0.21	2.16	1.80	1.35	1.26	106.4	3116	7.1
Aug	0.19	1.99	2.1	1.33	1.25	105.8	3173	-2.1
Sep	0.10	1.85	2.5	1.29	1.26	104.4	3226	19.4
Oct	0.08	1.69	2.5	1.27	1.27	103.7	3113	12.3
Nov	0.08	1.62	3.1	1.25	1.26	104.1	3251	15.2
Dec	0.08	1.45	3.7	1.23	1.27	104.2	3146	-44.9
2015								
Jan	0.06	1.27	3.8	1.16	1.30	99.4	3351	-10.7
Feb	0.05	1.21	4.1	1.13	1.35	97.3	3599	32.2
Mar	0.03	0.96	4.7	1.08	1.38	94.6	3697	63.6
Apr	0.00	0.85	5.3	1.08	1.39	93.7	3616	-8.7
May	-0.01	1.34	5.0	1.11	1.39	95.4	3571	17.9
Jun	-0.01	1.67	5.0	1.12	1.39	95.9	3424	0.8
Jul	-0.02	1.53	-	1.10	1.41	95.0	3601	-

EURO ZONE — 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)	MONEY SUPPLY M3 (MON)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2014	1.0	1.2	0.9	0.9	0.6	11.6	1.6	0.3	2.3	-1.6	0.4
2015	1.7	1.2	1.4	1.4	1.3	11.1	1.9	0.7	5.6	-1.8	0.3
2016	1.4	2.5	1.7	1.8	2.0	10.8	2.3	1.3	4.1	1.5	1.4
2017	1.2	2.9	1.7	1.7	1.9	10.5	2.5	1.3	4.0	2.0	1.5
2018	1.3	2.7	1.6	1.6	1.8	10.1	2.4	1.2	4.1	1.8	1.6
2019	1.3	2.3	1.5	1.5	1.6	9.8	2.5	1.1	3.9	1.7	1.6
2014											
I	0.7	2.5	1.1	1.1	2.0	11.8	1.8	0.9	0.8	-1.5	0.6
II	0.8	1.2	0.9	0.8	0.6	11.7	1.5	0.2	1.4	-1.4	0.6
III	1.0	0.6	0.6	0.8	0.0	11.5	1.6	0.1	2.4	-1.8	0.3
IV	1.5	0.5	0.9	0.9	-0.2	11.4	1.6	0.0	4.7	-1.7	0.1
2015											
I	1.7	0.8	1.3	1.0	0.3	11.2	1.6	0.2	5.9	-2.6	-0.3
II	1.7	1.0	1.3	1.2	1.0	11.1	1.9	0.5	6.2	-1.9	0.2
III	1.6	1.4	1.6	1.6	1.8	11.1	2.0	1.0	5.9	-1.5	0.4
IV	1.6	1.7	1.6	1.6	2.1	11.0	2.1	1.0	4.6	-1.1	0.8
2016											
I	1.5	1.6	1.4	1.7	1.8	10.9	2.2	1.1	4.2	0.7	1.5
II	1.5	2.7	1.8	1.8	2.1	10.8	2.3	1.4	3.8	1.4	1.2
III	1.4	2.8	1.8	1.7	2.0	10.8	2.4	1.3	4.1	1.7	1.3
IV	1.3	2.8	1.8	1.8	2.0	10.7	2.4	1.4	4.1	2.2	1.5
2017											
I	1.2	2.9	1.8	1.7	2.0	10.6	2.5	1.3	4.0	2.1	1.4
II	1.2	2.8	1.7	1.7	1.9	10.5	2.5	1.3	4.0	2.0	1.5
III	1.2	2.8	1.6	1.6	1.9	10.4	2.4	1.2	4.0	2.0	1.5
IV	1.2	2.8	1.6	1.6	1.9	10.3	2.4	1.2	4.0	2.0	1.5
2018											
I	1.3	2.7	1.6	1.6	1.9	10.3	2.4	1.2	4.1	1.9	1.5
II	1.3	2.7	1.6	1.6	1.8	10.2	2.4	1.2	4.1	1.9	1.6
III	1.3	2.7	1.6	1.5	1.7	10.1	2.4	1.2	4.1	1.8	1.6
IV	1.3	2.6	1.6	1.5	1.7	10.0	2.5	1.2	4.1	1.7	1.6
2019											
I	1.3	2.5	1.5	1.5	1.6	9.9	2.5	1.2	4.0	1.7	1.6
II	1.3	2.4	1.5	1.5	1.6	9.8	2.5	1.1	3.9	1.7	1.6
III	1.3	2.3	1.5	1.5	1.5	9.7	2.6	1.1	3.9	1.7	1.7
IV	1.3	2.2	1.4	1.4	1.5	9.6	2.6	1.1	3.8	1.8	1.7

EURO ZONE — 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)	US DOLLAR PER EURO (RXD)	EFFECTIVE RATE (1995=100) (RX)
YEARS BEGINNING Q1											
2014	195.3	210.8	2.08	-247.2	-2.45	0.21	2.04	-0.21	1.62	1.33	123.9
2015	243.1	281.6	2.71	-209.4	-2.02	0.01	1.31	-0.26	1.04	1.11	113.5
2016	236.0	280.7	2.63	-172.1	-1.61	0.01	1.96	-1.38	0.57	1.07	111.8
2017	228.3	273.8	2.48	-142.9	-1.30	0.01	2.52	-1.46	1.05	1.06	111.9
2018	231.4	280.3	2.47	-120.4	-1.06	0.17	2.91	-1.40	1.34	1.09	113.5
2019	235.5	281.3	2.40	-111.3	-0.95	0.48	3.24	-1.17	1.60	1.11	115.4
2014											
I	42.6	49.3	1.96	-65.4	-2.60	0.30	2.65	-0.35	2.01	1.37	125.9
II	43.4	45.9	1.82	-62.8	-2.49	0.30	2.22	-0.27	1.65	1.37	125.3
III	46.6	57.7	2.28	-60.5	-2.39	0.17	1.79	-0.17	1.46	1.33	122.8
IV	62.8	57.8	2.27	-58.5	-2.30	0.08	1.50	-0.07	1.35	1.25	121.5
2015											
I	63.6	81.7	3.19	-61.8	-2.41	0.05	1.03	0.38	1.37	1.13	115.4
II	58.0	72.3	2.80	-51.6	-2.00	-0.01	1.29	-0.20	1.10	1.11	113.0
III	59.9	67.6	2.60	-52.2	-2.01	0.00	1.44	-0.39	1.06	1.10	112.8
IV	61.7	59.9	2.28	-43.9	-1.67	0.00	1.47	-0.85	0.62	1.09	112.9
2016											
I	60.4	86.6	3.28	-44.8	-1.69	0.00	1.67	-1.48	0.19	1.08	112.6
II	59.9	73.3	2.75	-43.2	-1.62	0.00	1.87	-1.23	0.63	1.07	112.0
III	58.5	65.1	2.43	-43.6	-1.62	0.01	2.07	-1.33	0.73	1.06	111.6
IV	57.1	55.8	2.06	-40.6	-1.50	0.01	2.22	-1.47	0.74	1.05	111.0
2017											
I	55.5	81.3	2.99	-38.9	-1.43	0.01	2.37	-1.43	0.92	1.06	111.4
II	57.6	71.5	2.61	-37.1	-1.35	0.01	2.47	-1.44	1.02	1.06	111.8
III	58.0	64.6	2.34	-35.6	-1.29	0.01	2.57	-1.47	1.09	1.07	112.1
IV	57.2	56.4	2.02	-31.3	-1.12	0.02	2.68	-1.50	1.16	1.07	112.5
2018											
I	55.7	82.1	2.92	-30.6	-1.09	0.12	2.78	-1.43	1.23	1.08	112.9
II	59.7	74.9	2.65	-30.4	-1.07	0.12	2.87	-1.45	1.29	1.09	113.3
III	58.8	65.6	2.30	-31.2	-1.09	0.22	2.95	-1.36	1.37	1.09	113.7
IV	57.1	57.7	2.01	-28.3	-0.98	0.22	3.03	-1.36	1.45	1.10	114.2
2019											
I	56.4	82.1	2.83	-28.0	-0.97	0.47	3.12	-1.14	1.50	1.10	114.7
II	60.6	75.1	2.57	-28.2	-0.97	0.48	3.20	-1.16	1.57	1.11	115.2
III	60.0	66.1	2.24	-29.1	-0.99	0.48	3.29	-1.18	1.63	1.12	115.7
IV	58.6	58.0	1.95	-26.0	-0.88	0.48	3.37	-1.20	1.69	1.12	116.2

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	1.7	-0.8	-0.3	0.9	1.4	1.8	1.7	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.5
Consumption	0.5	0.2	-1.3	-0.6	1.0	1.7	1.4	1.2	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3
Investment	-0.3	1.8	-3.5	-2.3	1.2	1.2	2.5	2.9	2.7	2.3	2.0	1.9	1.8	1.7	1.5	2.1
Government Consumption	1.2	-0.2	-0.1	0.2	0.6	1.0	0.7	0.8	0.9	1.0	1.1	1.2	1.2	1.2	1.2	1.0
Exports of Goods and Services	3.4	6.8	2.9	2.1	3.7	3.9	3.9	3.7	3.5	3.4	3.2	3.1	2.9	2.8	2.6	3.3
Imports of Goods and Services	2.8	4.6	-0.6	1.3	4.0	4.3	3.9	3.9	3.8	3.6	3.3	3.1	2.9	2.8	2.7	3.4
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	11.1	10.8	10.5	10.1	9.8	9.4	9.1	8.8	8.5	8.3	9.6
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.3	1.4	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.5
Current Balance (% of GDP)	0.3	0.1	1.2	1.8	2.1	2.7	2.7	2.5	2.5	2.4	2.4	2.5	2.6	2.6	2.7	2.6
Exchange Rate (US$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.07	1.06	1.09	1.11	1.14	1.16	1.19	1.21	1.23	1.14
General Government Balance (% of GDP)	-3.2	-4.1	-3.6	-2.9	-2.4	-2.0	-1.6	-1.3	-1.1	-0.9	-0.8	-0.8	-0.7	-0.6	-0.6	-1.0
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	0.0	0.0	0.2	0.5	0.9	1.4	1.9	2.4	2.9	1.0
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.3	2.0	2.5	2.9	3.2	3.5	3.8	3.9	4.0	4.0	3.1
Working Population	0.2	0.0	0.2	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.5	0.2	0.8	0.0	0.2	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	0.0
Participation Ratio (%)	75.7	75.9	76.3	76.4	76.5	76.6	76.7	76.8	76.8	76.9	77.0	77.0	77.1	77.1	77.2	76.9
Labour productivity	0.5	1.5	-0.3	0.4	0.3	0.7	1.3	1.3	1.2	1.1	1.2	1.2	1.2	1.2	1.3	1.2
Employment	0.3	0.1	-0.5	-0.7	0.6	0.7	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.1	0.0	0.3
Output gap (% of potential GDP)	-0.6	-0.9	-2.3	-3.4	-3.4	-3.0	-2.4	-1.9	-1.5	-1.2	-0.9	-0.7	-0.4	-0.3	-0.2	-1.3

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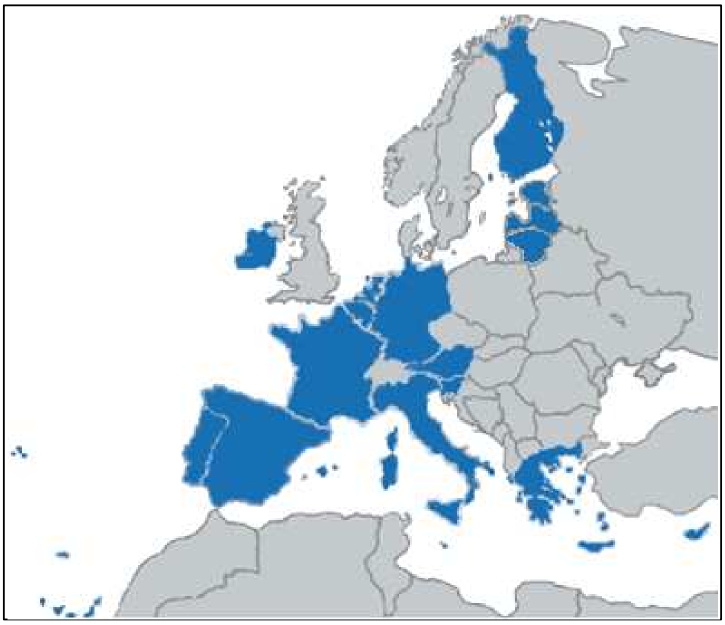
OXFORD ECONOMICS

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$)	-	18104	20608	40218
Inflation (%)	9.9	4.2	2.2	0.4
Population (mn)	287	305	315	334
Urban population (% of total)	69.9	71.3	72.6	75.5
Life expectancy (years)	73.6	76.0	78.3	81.6

Source : Oxford Economics & World Bank

* 2014 or latest available year

Structure of GDP by output

	2013
Agriculture	1.7%
Industry	24.6%
Services	73.7%

Source : WDI

Corruption perceptions index 2014

	Score
Developed economies (average)	75.1
Emerging economies (average)	37.8
Eurozone	67.6

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

Structural economic indicators

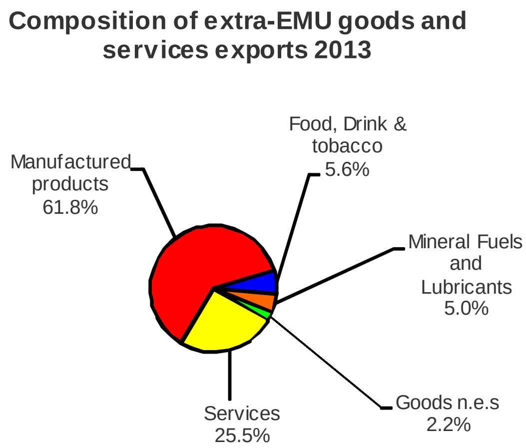
	1990	1995	2000	2014*
Current account (US$ billion)	31	167	-167	280
Trade balance (US$ billion)	-23	63	-29	260
FDI (US$ billion)	-	-	-25	-202
Govt budget (% of GDP)	-4.1	-7.3	-0.1	-2.4
Govt debt (% of GDP)	14.0	67.8	67.1	91.6
Long-term interest rate	10.9	8.7	5.4	2.0
Oil production (000 bpd)	271	313	240	222
Oil consumption (000 bpd)	9716	10478	10930	9312

Source : Oxford Economics / World Bank / EIA / ECB

Destination of goods' exports (2013)

Eurozone	46.0%
UK	6.8%
US	6.3%
China	3.5%
Switzerland	3.1%
Poland	2.7%

Source : Eurostat \ Haver Analytics



Source : Eurostat\ Haver Analytics