Eurozone

Highlights

- The news of the past month supports our initial assessment that the UK referendum result will be primarily a political rather than economic shock. As a result, we maintain our above-consensus assessment for the Eurozone growth outlook.
- The flash Eurozone GDP release for Q2 revealed that GDP growth in the region as a whole slowed in the build-up to the UK referendum. However, the 0.3% q/q rise was in line with our June forecast and the slowdown was largely down to temporary supports to growth in Q1 coming to an end. The big picture is that GDP growth in H1 averaged a solid 0.4% per quarter.
- Since then, fears that the recovery could be undermined by Brexit-related financial market weakness or fading sentiment appear to have receded. While equity prices have not fully reversed the post Brexit plunges, the falls seem unlikely to trigger major wealth-related effects on activity. Meanwhile, ten-year government bond yields have fallen, dampening fears of Brexit reigniting the Eurozone crisis. Finally, the closely-watched PMI and EC survey indicators both inched up in July.
- One concern is the slump in bank equity prices, which will raise the banks' cost of capital and could discourage lending. Indeed, the ECB itself has expressed such concerns. However, July's bank lending survey reported a further loosening in credit conditions, suggesting that for now this is just a downside risk to the outlook.
- In all, the story, which we have been telling for some time, that stronger underlying domestic fundamentals will ensure that the solid economic recovery continues, remains firmly intact. While we have assumed that Brexit has some negative effects on exports and investment in particular, we still expect a period of above-trend growth with the economy expanding by 1.6% this year and 1.5% in the following two years, which is a bit more optimistic than the consensus.

Forecast for Eurozone
(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.7	2.0	1.6	1.6	1.6
Private Consumption	0.8	1.7	1.6	1.4	1.4	1.3
Fixed Investment	1.3	2.7	2.8	2.7	2.9	2.5
Stockbuilding (% of GDP)	-0.1	-0.1	0.1	0.1	0.1	0.2
Government Consumption	0.8	1.3	1.4	1.2	1.1	1.1
Exports of goods and services	4.1	5.1	2.3	2.8	2.8	2.8
Imports of goods and services	4.5	5.9	3.2	3.1	3.1	3.0
GDP	0.9	1.6	1.6	1.5	1.5	1.5
Industrial Production	0.9	1.5	1.3	1.6	1.4	1.6
Consumer Prices	0.4	0.0	0.3	1.7	1.6	1.8
Current Balance (% of GDP)	2.5	3.2	3.3	2.9	2.6	2.3
Government Budget (% of GDP)	-2.6	-2.1	-1.9	-1.5	-1.2	-1.0
Short-Term Interest Rates (%)	0.2	0.0	-0.3	-0.3	-0.2	0.2
Long-Term Interest Rates (%)	2.0	1.2	0.8	1.4	2.1	2.7
Exchange rate (US$ per Euro)	1.33	1.11	1.10	1.06	1.06	1.09
Exchange rate (YEN per Euro)	140.7	134.3	119.3	113.9	118.1	121.5

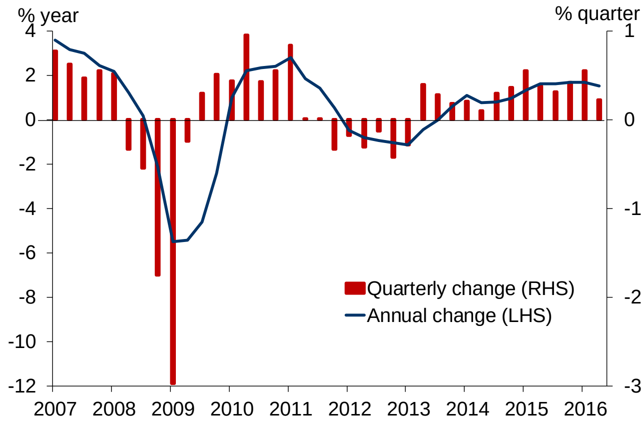
Economist: Ben May, Lead Eurozone Economist | +44(0)20 7620 8779 | e-mail: bmay@oxfordeconomics.com

Forecast Overview

GDP growth slowed pre-Brexit

The flash GDP release for Q2 revealed that the Eurozone economy expanded by 0.3% in Q2, in line with our forecast from a month ago, but much weaker than the 0.6% rise in Q1. Nonetheless, we think that the slowdown does not provide an accurate gauge of the underlying situation. Q1's strong expansion mainly reflected a burst in industrial production that was always likely to be partly reversed in Q2. Indeed, the fact that GDP still increased by 0.3% last quarter provides a degree of comfort and means that the average pace of growth in H1 was a solid 0.4% per quarter.

Eurozone: GDP



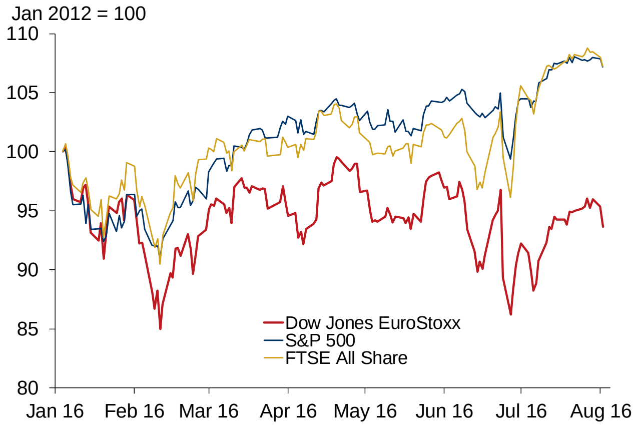
Source : Oxford Economics/Haver Analytics

Brexit, what Brexit?

Of course, the key near-term forecast issue is the degree to which Brexit will undermine growth prospects. Our initial assessment was that the UK's decision to leave the EU would be a political shock rather than an economic one and events over the past month or so appear to have vindicated that view.

Perhaps the biggest concern was that sharp falls in equity prices or a surge in peripheral bonds could have negative spillover effects for the economy. But ignoring the day-to-day volatility, the Dow Jones EuroStoxx index is only modestly lower than it was immediately before the Brexit vote. There have been sharper falls in Italian and Spanish equity indices. But in the grand scheme of things, these falls seem unlikely to trigger significant knock-on effects on activity. Meanwhile, German ten-year government bond yields have fallen sharply and this decline has typically more than offset any rise in bond spreads elsewhere in the Eurozone.

Global: Equity indices (local currency terms)

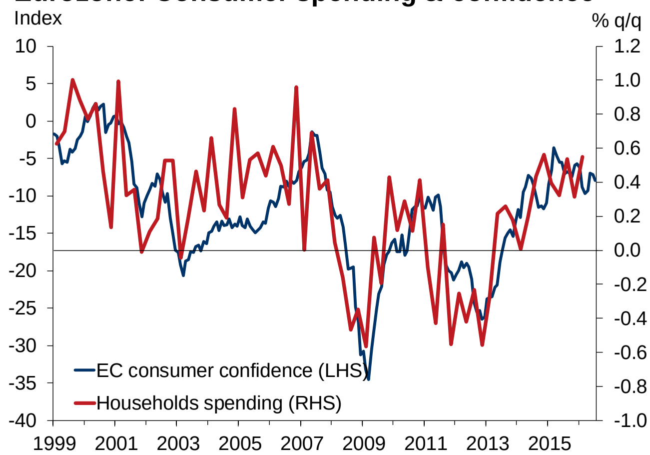


Source : Oxford Economics/Haver Analytics

Another source of comfort is that, since the referendum, support for the EU appears to have risen within the region. While this upturn might not be sustained, it perhaps calms fears that the UK's decision to leave will spark a further rise in populism and more referenda on EU membership.

But perhaps the biggest relief has been the response of business and households to the UK's decision. In July, both the composite PMI and EC Economic Sentiment Indicator (ESI) inched up and while the EC consumer sentiment index, a component of the ESI, edged down it still points to pretty solid household spending growth.

Eurozone: Consumer spending & confidence



Source : Oxford Economics/Haver Analytics/Markit

Bank's equity price weakness a concern

A growing worry is the further weakness of bank equity prices, which have continued to fall post the EBA stress tests. Previously, lagged changes in equity prices have been strongly correlated with changes in lending to non-financial firms. The recent plunge in the former suggests that the recent renaissance in lending to firms could go into reverse in the second half of this year.

While the ECB has expressed concerns about the effects of weak bank equity prices on bank lending, the signals from the ECB's July Bank Lending Survey are that lending conditions have continued to be loosened over recent months and that banks expect this to continue over the next quarter or so. In the near term we continue to expect lending to expand. Nonetheless, if the ECB provides further policy support, it is likely to seek measures that do not push bank profits down further. Accordingly, we think that the ECB will be reluctant to reduce the deposit rate again or expand QE and our baseline remains no major further policy action.

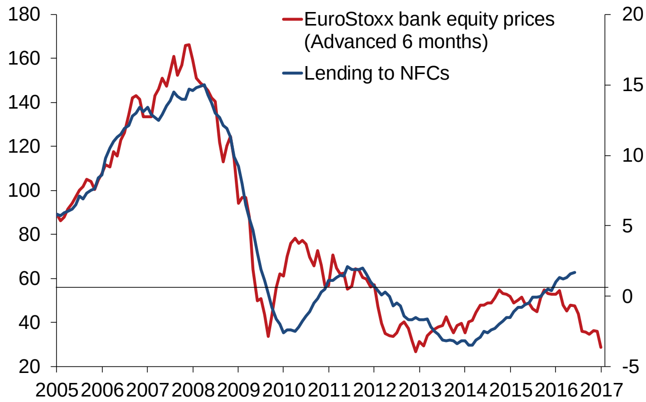
Eurozone to weather the Brexit storm

Overall therefore, our view of the medium-term outlook is essentially unchanged from last month. We expect GDP growth to ease from 1.6% this year (down slightly from 1.7% a month ago, reflecting slightly weaker assessment of H2 prospects) to 1.5% in 2017, 2018 and 2019. The post-Brexit vote consensus outlook for GDP growth appears to be about 1.2% (excluding forecasters who have not adjusted their forecasts since 23rd June).

The big picture remains that domestic demand prospects are still pretty solid thanks to the recovering labour market, little or no austerity at a region wide level and easing credit conditions, amongst other things.

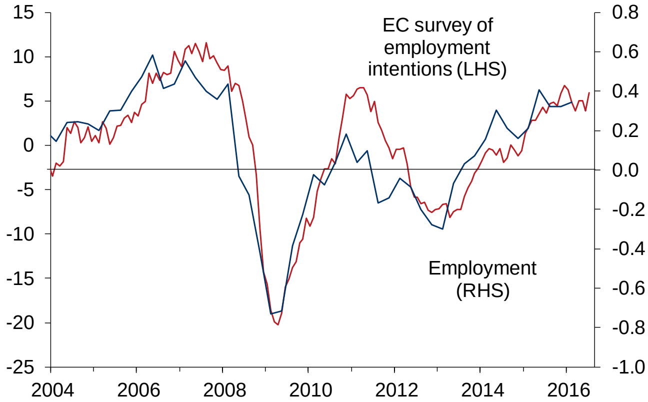
While the ECB has said that it is willing to act, it has also hinted that further policy action may not be forthcoming in September. With inflation set to rise sharply and the recovery likely to remain on track our baseline view is that the ECB will not cut interest rates further or expand the QE programme, particularly given that the negative impact of such action on the banks could offset by any broader gains. If the ECB does decide that further policy action is warranted, we expect it to focus on more direct targeted measures to increase the supply of credit. One such possibility might be to make the TLTRO II conditions even more attractive for banks.

Eurozone: Lending to firms & bank equity prices



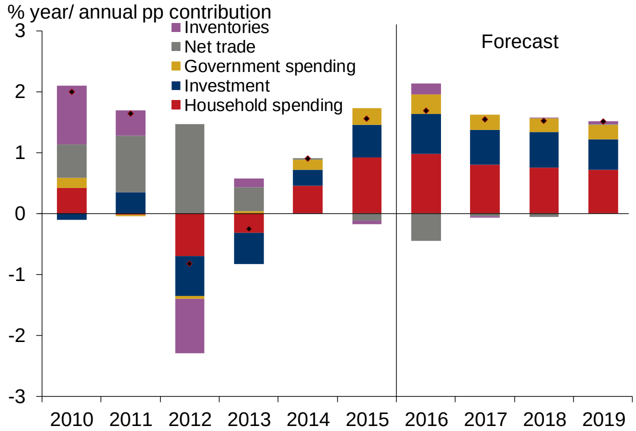
Source: Oxford Economics/Haver Analytics

Eurozone: Employment & emp. intentions



Source : Oxford Economics/Haver Analytics

Eurozone: GDP



Source: Haver Analytics/Oxford Economics

Risk Assessment

While Brexit is an obvious political risk for the Eurozone, we think that the economic effects are unlikely to be substantial. More generally, while the current account is in surplus and austerity has significantly reduced the budget deficit, public and private sector indebtedness remain high and will only moderate slowly in the likely low inflation environment of the next few years.

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. The ECB could take further action if needed, but there are limits to the degree that QE and other policies can be scaled up.

Another credit crunch – plunging bank equity prices may discourage banks from lending as their cost of capital rises. And if ongoing profitability concerns morph into wider worries about solvency then the risk of a contraction in credit would swell. For now, there is little sign of any adverse impact on credit supply, but it is a situation that needs close monitoring.

Key risk scenarios

Hard landing in China – a sustained slowdown in China and a 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 0.6% in 2017 and 0.3% in 2018, forcing further ECB policy action.

Secular stagnation – if the poor post-financial market crisis performance of the developed world persists, leading to sustained investment weakness and soft employment growth, while lack of policy space limits the scope for policymakers to act, then future potential growth could weaken. A combination of poor demographics and weaker productivity growth as a result of the above could see Eurozone GDP growth significantly weaker for a sustained period in this scenario.

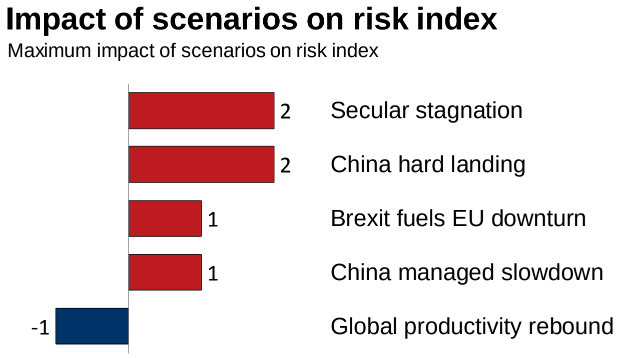
Risk index (0=no risk, 100=highest risk)

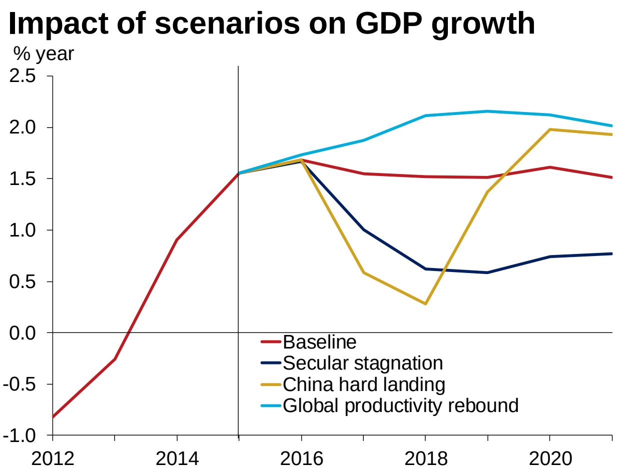
	2015		2016		2019
Europe	**19**	↘	**18**	↘	**14**
World average	30	↗	31	↘	28
Sovereign risk	16		17		13
Trade credit risk	29		27		18
Political risk	24		24		21
Regulatory risk	0		0		0

Risk warnings

GDP growth	amber	Risks broadly balanced.
CPI inflation	green	Lowflation still a risk.
Current account balance	green	Surplus set to persist.
Government balance	green	Deficit likely to remain small.
Government debt	amber	High but falling gradually.
External debt	green	Not a concern.

Risk scenarios





Source : Oxford Economics

OXFORD ECONOMICS

Long-Term Prospects

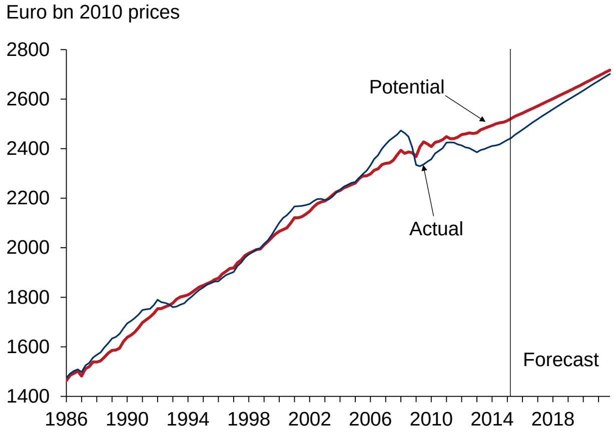
Very slow recovery from crises

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 1.3%, 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



Source: Oxford Economics

Potential GDP and Its Components
Average Percentage Growth

	2005-2014	2015-2024
Potential GDP*	1.0	1.3
Employment at NAIRU	0.6	0.3
Capital Stock	1.5	1.1
Total Factor Productivity	0.1	0.7

*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	1.5
Consumption	1.0	-0.1	1.5	1.3
Investment	0.1	-0.6	2.7	2.1
Government Consumption	2.1	0.3	1.2	1.2
Exports of Goods and Services	1.6	5.3	3.1	2.8
Imports of Goods and Services	1.9	3.8	3.7	2.8
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	2.9	2.0
Exchange Rate (US$ per Euro)	1.3	1.3	1.1	1.2
General Government Balance (% of GDP)	-2.6	-3.9	-1.6	-0.6
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	76.9	77.6
Labour Productivity	0.0	0.9	0.7	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. While the ECB cut interest rates aggressively in the aftermath of the global financial crisis, it was rather more conservative than other central banks such as the Fed and the Bank of England and expanded its balance sheet less aggressively. Since Mario Draghi became President of the ECB in 2011, the ECB has taken bolder action to support the economy and boost inflation. In January 2015, the ECB finally began its own QE programme and in March 2016 it raised the monthly purchase target from €60bn to €80bn.

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. However, even these looser rules have been relaxed for many economies and this runs the risk of governments running pro-cyclical fiscal policies.

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.

OXFORD ECONOMICS

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)
Jul	1.8	10.8	0.2	0.4	-7	7.0	0.6	31.1
Aug	2.4	10.7	0.2	0.2	-7	5.7	2.6	11.2
Sep	1.6	10.6	-0.1	0.3	-7	0.8	-0.6	19.8
Oct	2.2	10.6	0.0	0.5	-8	0.5	-0.7	24.2
Nov	1.9	10.5	0.1	0.4	-6	6.4	4.3	23.9
Dec	0.3	10.5	0.2	0.4	-6	4.2	3.3	25.8
2016								
Jan	3.6	10.4	0.4	0.3	-6	-2.1	-0.9	5.3
Feb	1.0	10.3	-0.2	0.1	-9	1.2	2.0	18.8
Mar	0.1	10.2	-0.1	0.1	-10	-2.2	-8.1	29.1
Apr	2.1	10.2	-0.2	0.2	-9	-0.9	-5.3	27.5
May	0.6	10.1	-0.1	0.3	-7	1.9	-2.2	24.6
Jun	-	10.1	0.1	0.2	-7	-	-	-
Jul	-	-	0.2	0.4	-8	-	-	-

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	-0.02	1.53	5.0	1.10	1.41	95.0	3601	11.2
Aug	-0.03	1.39	4.7	1.11	1.40	96.6	3270	4.9
Sep	-0.04	1.48	4.7	1.12	1.37	97.4	3101	-26.5
Oct	-0.05	1.20	5.0	1.12	1.37	97.2	3418	58.8
Nov	-0.09	1.16	4.8	1.07	1.42	94.3	3506	-86.3
Dec	-0.13	1.19	4.5	1.09	1.38	95.6	3268	66.7
2016								
Jan	-0.15	1.11	5.1	1.09	1.33	96.5	3045	-31.9
Feb	-0.18	1.04	5.0	1.11	1.29	98.0	2946	45.0
Mar	-0.23	0.93	5.1	1.11	1.28	97.3	3005	30.5
Apr	-0.25	0.96	4.6	1.13	1.26	98.0	3028	7.9
May	-0.26	0.97	4.9	1.13	1.28	97.9	3063	36.8
Jun	-0.27	0.88	5.0	1.12	1.26	97.3	2865	-
Jul	-0.29	0.62	-	1.11	1.19	97.6	2991	-

Economist: Ben May, Lead Eurozone Economist | Tel: +44 207 620 8779 | e-mail: bmay@oxfordeconomics.com

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	1.3	0.3	2.4	-1.3	0.4
2015	1.7	2.7	1.7	1.6	1.5	10.9	1.4	0.5	5.7	-1.9	0.0
2016	1.6	2.8	2.0	1.6	1.3	10.1	1.7	0.4	4.9	-2.7	0.3
2017	1.4	2.7	1.6	1.5	1.6	9.6	2.2	0.8	4.2	1.5	1.7
2018	1.4	2.9	1.6	1.5	1.4	9.2	2.4	0.9	4.0	2.2	1.6
2019	1.3	2.5	1.6	1.5	1.6	8.9	2.5	1.0	3.8	2.2	1.8
2014											
I	0.7	2.5	1.2	1.1	1.5	11.9	1.4	0.9	0.8	-1.5	0.7
II	0.6	1.2	1.0	0.8	0.9	11.6	1.2	0.2	1.4	-1.1	0.6
III	0.8	0.8	0.6	0.8	0.6	11.5	1.2	0.0	2.4	-1.2	0.4
IV	1.2	0.9	1.0	1.0	0.6	11.4	1.4	0.1	5.0	-1.5	0.2
2015											
I	1.6	2.0	1.5	1.3	1.4	11.2	1.3	0.4	6.0	-2.1	-0.3
II	1.7	2.6	1.4	1.6	1.3	11.0	1.5	0.6	6.2	-1.1	0.2
III	1.8	2.6	1.9	1.6	2.0	10.7	1.5	0.5	5.9	-1.9	0.1
IV	1.6	3.6	2.3	1.7	1.4	10.5	1.5	0.4	4.8	-2.4	0.2
2016											
I	1.7	2.9	2.1	1.7	1.5	10.3	1.5	0.3	4.7	-3.2	0.0
II	1.7	2.9	2.3	1.6	1.1	10.1	1.7	0.4	4.9	-4.0	-0.1
III	1.5	3.1	1.9	1.6	1.0	9.9	1.8	0.5	5.3	-2.5	0.4
IV	1.5	2.3	1.7	1.6	1.5	9.8	2.0	0.6	4.7	-1.1	1.0
2017											
I	1.3	2.2	1.4	1.5	1.0	9.7	2.0	0.6	4.5	1.2	1.7
II	1.4	2.9	1.7	1.6	1.8	9.6	2.2	0.7	4.1	1.6	1.7
III	1.4	2.8	1.7	1.6	1.9	9.6	2.2	0.8	4.1	1.5	1.6
IV	1.4	2.9	1.7	1.6	1.5	9.5	2.2	0.9	4.1	1.8	1.6
2018											
I	1.4	2.9	1.7	1.5	1.5	9.4	2.3	0.9	4.0	2.0	1.6
II	1.4	2.9	1.6	1.5	1.4	9.3	2.4	0.9	4.0	2.2	1.6
III	1.4	2.9	1.6	1.5	1.3	9.2	2.4	0.9	4.0	2.2	1.6
IV	1.4	2.7	1.6	1.5	1.4	9.1	2.4	0.9	4.0	2.3	1.7
2019											
I	1.3	2.6	1.6	1.5	1.5	9.0	2.5	0.9	3.9	2.3	1.7
II	1.3	2.5	1.6	1.5	1.6	8.9	2.4	1.0	3.8	2.2	1.8
III	1.3	2.5	1.6	1.5	1.7	8.8	2.5	1.0	3.8	2.2	1.8
IV	1.3	2.4	1.6	1.6	1.8	8.7	2.6	1.1	3.8	2.1	1.8

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	178.8	253.5	2.51	-260.9	-2.58	0.21	2.04	-0.22	1.61	1.33	123.6
2015	240.9	332.8	3.20	-215.6	-2.07	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	259.0	351.8	3.28	-201.4	-1.88	-0.26	0.83	-0.60	0.49	1.10	120.0
2017	236.5	317.2	2.87	-169.0	-1.53	-0.28	1.42	-1.93	-0.23	1.06	118.6
2018	223.9	297.8	2.61	-140.6	-1.23	-0.15	2.11	-1.77	0.50	1.06	118.0
2019	209.6	273.8	2.32	-123.2	-1.05	0.24	2.74	-1.55	0.96	1.09	118.8
2014											
I	40.2	66.3	2.64	-68.7	-2.73	0.30	2.65	-0.36	2.00	1.37	125.7
II	39.5	54.1	2.15	-66.7	-2.65	0.30	2.22	-0.26	1.66	1.37	125.2
III	40.4	62.7	2.48	-64.2	-2.54	0.16	1.79	-0.19	1.44	1.33	122.6
IV	58.8	70.4	2.76	-61.2	-2.40	0.08	1.50	-0.08	1.33	1.25	121.1
2015											
I	57.3	86.3	3.35	-58.0	-2.25	0.05	1.01	0.36	1.33	1.13	114.9
II	60.2	82.7	3.19	-55.0	-2.12	-0.01	1.27	-0.20	1.08	1.11	112.6
III	57.6	80.8	3.10	-52.4	-2.01	-0.03	1.36	-0.12	1.27	1.11	116.1
IV	65.9	83.1	3.16	-50.2	-1.91	-0.09	1.19	-0.26	1.03	1.10	116.1
2016											
I	65.6	87.4	3.30	-51.1	-1.93	-0.19	1.05	-0.23	1.00	1.10	119.0
II	64.7	98.8	3.71	-50.4	-1.89	-0.26	0.89	-0.15	0.99	1.13	119.4
III	60.5	80.4	2.99	-54.1	-2.01	-0.30	0.57	-0.73	0.14	1.10	120.8
IV	68.3	85.1	3.14	-45.7	-1.69	-0.30	0.82	-1.27	-0.15	1.09	120.6
2017											
I	61.8	73.4	2.69	-47.7	-1.75	-0.31	1.13	-2.02	-0.58	1.07	119.9
II	58.3	86.8	3.15	-42.8	-1.55	-0.30	1.36	-1.99	-0.33	1.06	118.9
III	55.3	76.2	2.75	-40.5	-1.46	-0.26	1.52	-1.86	-0.08	1.05	118.1
IV	61.1	80.8	2.89	-38.0	-1.36	-0.23	1.68	-1.86	0.05	1.05	117.8
2018											
I	56.3	67.6	2.40	-40.5	-1.44	-0.20	1.84	-1.79	0.25	1.05	117.8
II	54.6	82.6	2.91	-35.1	-1.24	-0.17	2.02	-1.74	0.44	1.06	118.0
III	52.9	71.1	2.48	-32.7	-1.14	-0.14	2.20	-1.78	0.56	1.06	118.1
IV	60.0	76.6	2.65	-32.2	-1.12	-0.10	2.39	-1.75	0.74	1.07	118.3
2019											
I	53.6	63.1	2.17	-33.9	-1.16	0.15	2.55	-1.56	0.83	1.07	118.5
II	50.6	76.3	2.60	-31.2	-1.06	0.23	2.68	-1.54	0.91	1.08	118.7
III	48.7	64.2	2.17	-29.6	-1.00	0.27	2.80	-1.53	1.01	1.09	118.8
IV	56.7	70.2	2.35	-28.6	-0.96	0.30	2.93	-1.55	1.08	1.10	119.0

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

OXFORD ECONOMICS

Long-Term Forecast for Eurozone

Annual percentage changes unless otherwise specified

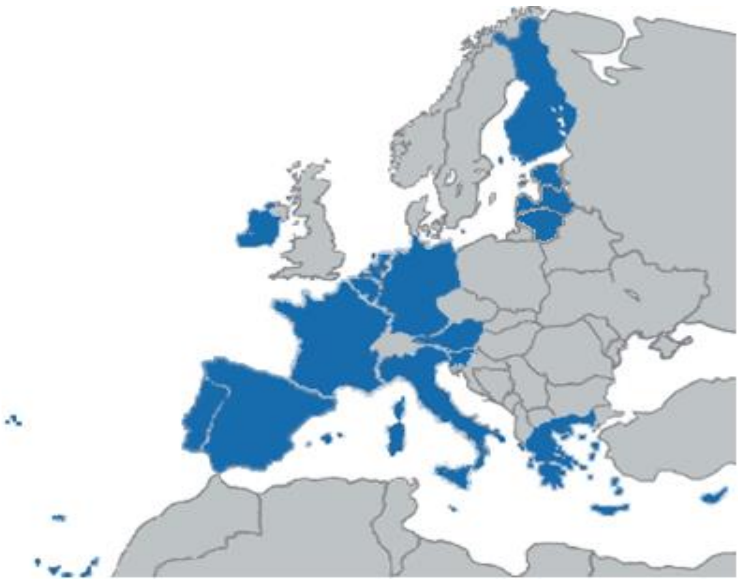
	2005-2014	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
GDP	0.7	1.6	-0.8	-0.3	0.9	1.6	1.6	1.5	1.5	1.5	1.6	1.5	1.5	1.4	1.3	1.5
Consumption	0.5	0.0	-1.3	-0.6	0.8	1.7	1.6	1.4	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.4
Investment	-0.3	1.7	-3.1	-2.5	1.3	2.7	2.8	2.7	2.9	2.5	2.4	2.3	2.1	1.9	1.7	2.4
Government Consumption	1.2	-0.1	-0.2	0.2	0.8	1.3	1.4	1.2	1.1	1.1	1.2	1.2	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	2.3	2.8	2.8	2.8	2.9	2.9	2.9	2.7	2.5	3.0
Imports of Goods and Services	2.8	4.4	-0.8	1.3	4.5	5.9	3.2	3.1	3.1	3.0	3.0	2.9	2.8	2.7	2.5	3.2
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	10.9	10.1	9.6	9.2	8.9	8.5	8.2	8.0	7.7	7.6	8.9
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.0	0.3	1.7	1.6	1.8	1.9	1.8	1.9	1.9	1.9	1.5
Current Balance (% of GDP)	0.5	0.4	1.3	2.1	2.5	3.2	3.3	2.9	2.6	2.3	2.1	2.0	2.0	1.9	1.9	2.4
Exchange Rate (US$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.10	1.06	1.06	1.09	1.11	1.14	1.17	1.20	1.23	1.13
General Government Balance (% of GDP)	-3.2	-4.2	-3.7	-3.0	-2.6	-2.1	-1.9	-1.5	-1.2	-1.0	-0.8	-0.7	-0.6	-0.5	-0.4	-1.1
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	-0.3	-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	0.8	1.4	2.1	2.7	3.2	3.6	3.8	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	-0.1	-0.1	-0.2	-0.2	-0.2	0.0
Labour Supply	0.5	0.2	0.8	0.0	0.2	0.2	0.4	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	76.6	76.6	76.7	76.9	77.1	77.3	77.4	77.5	77.6	77.7	77.7	77.2
Labour productivity	0.5	1.5	-0.4	0.4	0.3	0.5	0.4	0.8	0.9	1.0	1.2	1.2	1.3	1.3	1.3	1.0
Employment	0.3	0.1	-0.4	-0.6	0.6	1.1	1.2	0.8	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.5
Output gap (% of potential GDP)	-0.7	-1.0	-2.4	-3.3	-3.0	-2.2	-1.8	-1.6	-1.5	-1.3	-1.0	-0.7	-0.5	-0.3	-0.2	-1.1

Economist: Ben May, Lead Eurozone Economist | Tel: +44 207 620 8779 | e-mail: bmay@oxfordeconomics.com

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	74.0%

Source : World Bank

Corruption perceptions index 2015

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

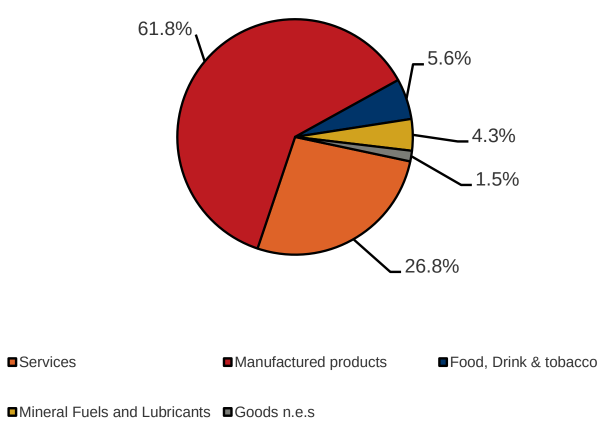
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2014*
Current account (US$ billion)	30	163	-167	337
Trade balance (US$ billion)	-24	62	-33	238
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	45.9%
UK	7.1%
US	6.8%
China	3.7%
Switzerland	3.0%
Poland	2.9%

Source : Eurostat \ Haver Analytics

Economist: Ben May, Lead Eurozone Economist | Tel: +44 207 620 8779 | e-mail: bmay@oxfordeconomics.com