Eurozone

Highlights

- Although Q1's Eurozone GDP expansion was a bit weaker than we had expected, the limited available data for Q2 are fairly encouraging and suggest that another quarter of solid growth by Eurozone standards is on the cards.
- What's more, while Q1's 0.4% rise may have been on the lower side of expectations, Q4's modest upward revision and the breakdown offered signs of encouragement. Quarterly household spending growth picked up from 0.4% to 0.5% in response to the oil price windfall. While the sharp rise in inflation since the start of Q1 will act as a headwind on household spending in Q2 and beyond, this may be offset by a strengthening labour market as domestic healing continues, suggesting that our forecast for growth of 1.8% this year still looks reasonable.
- Another plus was a further pick-up investment growth. At 0.8%, the quarterly gain was steady rather than spectacular, but it provides hope that the recovery is beginning to broaden.
- Our central view is still that investment and exports – the latter grew only sluggishly in Q1 – will make larger contributions to growth as the effects of the weaker euro, stronger demand and the ECB's efforts to boost the supply of credit gradually take effect. As a result, we see GDP growth picking up from an above-trend 1.6% this year to 1.8% in 2016.
- Nonetheless, the recovery remains fragile and thus susceptible to shocks. Weaker than assumed global trade growth, a Greek exit (to which we attach a near 50% probability), or renewed rises in the euro could all undermine the recovery, resulting in rather slower growth. Against this backdrop, we continue to think that early tapering by the ECB is unlikely. Indeed, on the back of the fairly dovish comments by President Draghi at June's interest rate press conference, increased bond purchases would be more likely than not if these downside risks emerged.

Forecast for Eurozone
(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.7	1.8	1.7	1.6	1.5
Private Consumption	1.0	1.8	1.5	1.3	1.3	1.3
Fixed Investment	1.2	1.7	2.8	2.8	2.7	2.3
Stockbuilding (% of GDP)	-0.2	0.0	0.1	0.3	0.4	0.4
Government Consumption	0.6	1.0	0.8	0.8	0.9	1.0
Exports of goods and services	3.7	3.7	3.8	3.8	3.7	3.5
Imports of goods and services	4.0	4.3	3.8	3.9	4.0	3.7
GDP	0.9	1.6	1.8	1.7	1.6	1.5
Industrial Production	0.6	1.5	2.1	2.0	1.9	1.7
Consumer Prices	0.4	0.3	1.5	1.5	1.6	1.6
Current Balance (% of GDP)	2.4	2.6	2.4	2.4	2.5	2.5
Government Budget (% of GDP)	-2.4	-2.1	-1.7	-1.4	-1.1	-1.0
Short-Term Interest Rates (%)	0.21	0.05	0.05	0.05	0.20	0.50
Long-Term Interest Rates (%)	2.04	1.25	1.84	2.43	2.84	3.19
Exchange rate (US$ per Euro)	1.33	1.11	1.07	1.06	1.09	1.11
Exchange rate (YEN per Euro)	140.7	136.9	140.9	144.8	150.0	153.5

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Forecast Overview

Q1 GDP data paint a positive picture

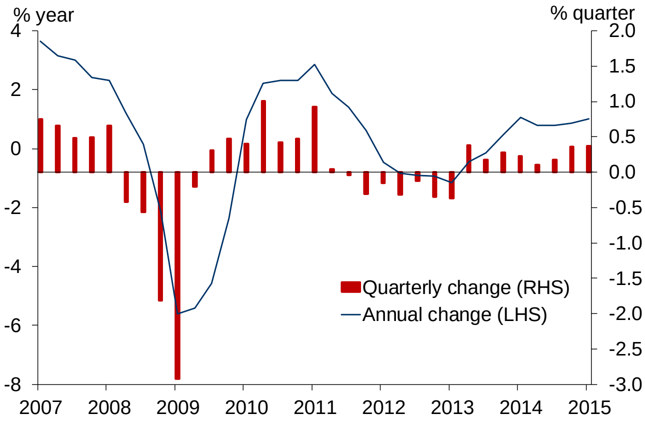
Despite staging the joint strongest quarterly GDP increase of the recovery in Q1, the 0.4% rise in was a little bit weaker than we had anticipated as a result of a sharper than expected slowdown in German GDP growth. But Germany's weakness is likely to prove temporary and the improvements in France and Italy were encouraging.

There are also signs that having lost a bit of momentum over the course of Q1, the economy has picked up a gear in the initial stages of Q2. Retail sales and new car registrations recorded solid rises in April, while the country-level data are consistent with a pick-up in exports and industrial production. While the business surveys point to broadly similar GDP growth in Q2 as Q1, our view is that a modest further pick-up should not be ruled out.

We still expect the economic recovery will gain momentum over the coming quarters. Our forecast is predicated on the following views:

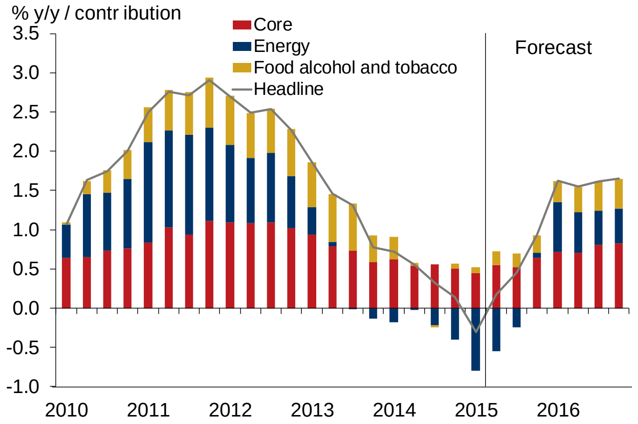
- **Solid household spending prospects –** a key development over the past month has been the sharp core-driven rise in CPI inflation to 0.3%, well above January's low of -0.6%. Further rises seem likely, which will reduce real income growth. For now at least, higher inflation has not had a noticeable impact on consumer sentiment. And the early indications for Q2 based on the available retail sales and new car registration data are encouraging, implying that another quarter of 0.5% or so growth is feasible in Q2. What's more, the recent rises in survey-based measures of firms' employment intentions suggest that some of the reduction in real wage growth may be offset by a bit of a pick-up in employment. And given the recent rise in the savings rate, household spending may slow by less than real income growth over the coming quarters. The upshot is that we expect a further period of solid household spending growth and a rise of 1.8% over 2015 as a whole. Thereafter we see a gradual slowdown to 1.2% by 2018.
- **Exports may be at a turning point –** Q1's GDP breakdown confirmed that net trade was a drag on the recovery last quarter: while import growth accelerated in response to stronger domestic demand, export growth rose by just 0.6% on the quarter, the weakest outturn since the beginning of 2014. Nonetheless, by comparison, both the US and UK recorded falls in

Eurozone: GDP



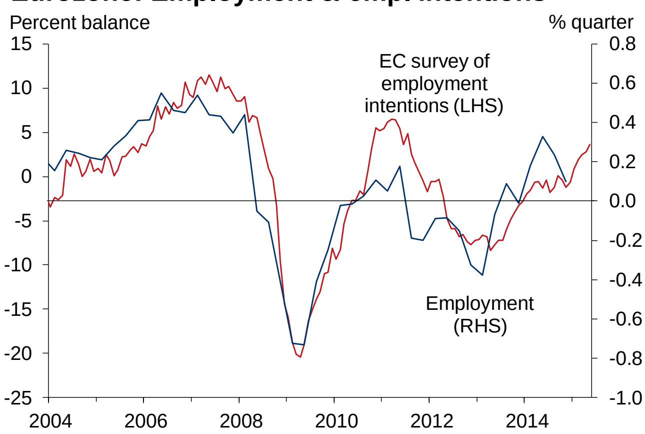
Source : Oxford Economics/Haver Analytics

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



Source : Oxford Economics/Haver Analytics

Eurozone: Employment & emp. intentions



Source : Oxford Economics/Haver Analytics exports in Q1, reflecting the decline in world trade volumes and suggesting that the euro has helped to shield the currency bloc from the external slowdown. What's more, solid rises in German and French export values in April suggest that further rises in exports may be on the cards in Q2. While the weak global trade backdrop is certainly a worry and could prevent the recovery from broadening to exports and investment, our central view remains that export growth will pick up steadily reducing the drag on the economy from net trade.

- **ECB measures supporting investment** – another positive from the Q1 breakdown was the quarterly rise in investment of 0.8%. While the increase was hardly spectacular, it was the third quarterly rise in a row and provided hope that the recovery is broadening thanks in part to the ECB's measures to support bank lending and reduce bond yields and market interest rates.

The upshot is that while the recovery remains fragile and vulnerable to shocks, there is also tentative evidence that the recovery is broadening. We expect the economy to expand by 1.6% this year and 1.8% in 2016 before slowing gradually thereafter.

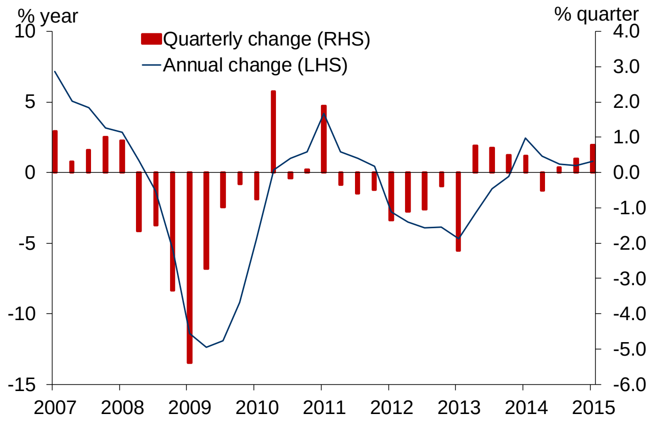
Draghi signals bond volatility is here to stay

The rollercoaster rise for Eurozone bonds has continued over the past month. While we think that much of the pick-up reflected a mispricing of yields in the early stages of this year, technical factors have almost certainly exacerbated the rise and increased volatility.

Draghi's acknowledgement that volatility was here to stay at June's press conference dashed the hopes of some that the ECB would take action to reduce volatility (in the light of Cœuré's earlier comments) and this development pushed bonds yields higher. But more generally, the tone at the press conference was fairly dovish and reinforced our view that an early tapering of QE is unlikely. Indeed, Draghi hinted that bond purchases could be stepped up if an unintended monetary tightening took place.

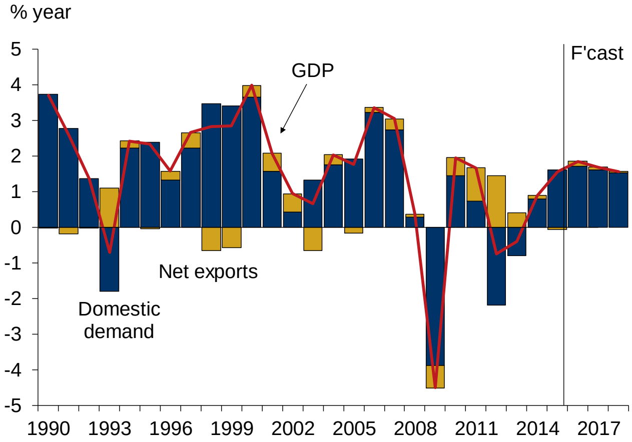
In the near term, we expect German ten-year bond yields to fall back a bit and average about 0.75% in Q3. One potential trigger for a fall back could be a renewed fall in core inflation – we believe that May's rise largely reflected one-off factors. But looking further ahead we still see further rises in yields as market interest rate expectations converge on our own.

Eurozone: Investment



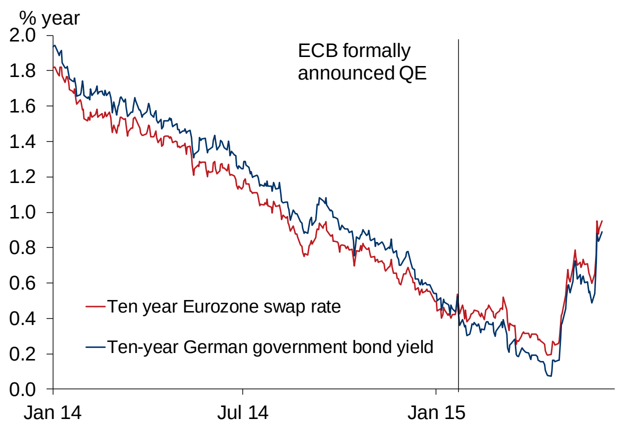
Source : Oxford Economics/Haver Analytics

Eurozone: Contributions to GDP growth



Source: Oxford Economics

Eurozone: Interest Rates



Source : Oxford Economics/Haver Analytics/Bloomberg

OXFORD ECONOMICS

Risk Assessment

Overall risk in the Eurozone is expected to decline slightly in the medium term. 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 severe ramifications for growth prospects if the region suffered from a sustained period of price and wage deflation.

Emerging risks

External weakness spreads – exporters are yet to reap much in the way of reward from the euro's fall because the positive effects have been offset by a contraction in global trade in Q1. We expect export growth to pick-up modestly. But failure to do so could hinder the recovery spreading from consumer spending 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 has the scope to reduce the tailwinds that the Eurozone recovery currently benefits from. 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's more, we would expect further significant rise to result in a policy response from the ECB.

Key risk scenarios

A Greek Eurozone exit – the risks of an exit continue to build and in the event of Greece leaving the Eurozone, recovery would suffer. A relatively orderly exit that was well managed and resulted in limited contagion would probably have only modest short-lived effects on activity. But a more disorderly exit that resulted in heightened uncertainty for rather longer and renewed concerns about the future of other peripheral economies could be enough to push the Eurozone 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 region'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

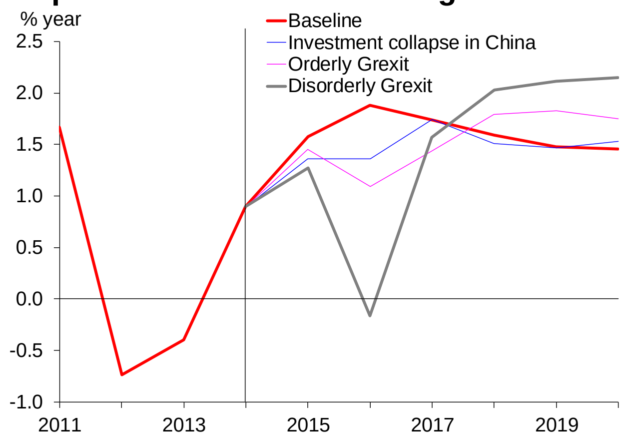
GDP growth	🟡	Downside risks from Greece and weaker global trade.
CPI inflation	🟢	Lowflation rather than deflation main concern.
Current account balance	🟢	Surpluses to persist.
Government balance	🟢	Deficit likely to narrow steadily.
Government debt	🟡	Debt level limit future wriggle room.
External debt	🟢	Not a concern.

Risk scenarios

Impact of scenarios on risk index

Maximum impact of scenarios on risk index

Impact of scenarios on GDP growth



Source : Oxford Economics

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Long-Term Prospects

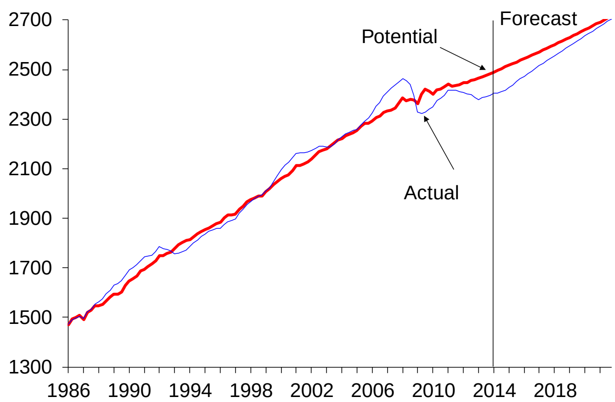
Very slow recovery from crises

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.

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 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	1.2
Employment at NAIRU	0.5	0.1
Capital Stock	1.5	1.7
Total Factor Productivity	0.2	0.5

*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	1.5	1.3
Investment	0.1	-0.7	2.5	1.9
Government Consumption	2.2	0.3	0.9	1.2
Exports of Goods and Services	1.6	5.2	3.7	3.0
Imports of Goods and Services	1.8	3.7	3.9	3.1
Unemployment (%)	8.5	11.1	10.1	8.4
Consumer Prices	2.0	1.7	1.3	1.7
Current Balance (% of GDP)	-0.5	1.2	2.5	2.7
Exchange Rate (US$ per Euro)	1.35	1.33	1.09	1.19
General Government Balance (% of GDP)	-2.5	-3.8	-1.5	-0.8
Short-term Interest Rates (%)	3.1	0.6	0.2	1.9
Long-term Interest Rates (%)	3.9	3.4	2.3	3.8
Working Population	0.4	0.0	-0.1	-0.2
Labour Supply	0.8	0.2	0.1	-0.2
Participation Ratio	75.3	76.1	76.8	76.9
Labour Productivity	0.1	0.9	1.1	1.3

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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, has put Eurozone leaders under immense pressure to come up with a rescue plan that would prevent the collapse of the single currency. However, there are 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. However, 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 and erratic.

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)
May	0.6	11.7	0.5	0.4	-7.1	0.3	0.2	14.7
Jun	0.0	11.6	0.5	0.3	-7.5	3.2	3.2	16.1
Jul	1.8	11.6	0.4	0.2	-8.3	2.9	0.9	21.2
Aug	-0.5	11.5	0.4	0.2	-10.1	-3.2	-4.1	8.1
Sep	0.3	11.5	0.3	0.1	-11.4	8.6	4.2	18.2
Oct	1.0	11.5	0.4	0.1	-11.1	4.3	-0.1	23.9
Nov	-0.3	11.5	0.3	0.2	-11.6	1.0	-1.8	20.9
Dec	0.7	11.4	-0.2	0.1	-10.9	8.3	1.4	24.1
2015								
Jan	0.6	11.3	-0.6	0.2	-8.5	-0.6	-5.8	7.8
Feb	1.6	11.2	-0.3	0.1	-6.7	4.3	-0.2	21.4
Mar	1.8	11.2	-0.1	0.2	-3.7	10.9	7.2	23.4
Apr	-	11.1	0.0	0.3	-4.6	-	-	-
May	-	-	0.3	0.3	-5.5	-	-	-

Financial Indicators: Eurozone Percentage changes on a year earlier unless otherwise stated								
	Short rate %	Long rate %	Money Supply (M3)	Exchange rate $/€ avg.	Exchange rate €/£ avg.	Nominal effective exch. rate	Share price DJ STOXX	Net FDI € bn
May	0.32	2.55	1.10	1.37	1.23	107.8	3245	-6.2
Jun	0.24	2.28	1.6	1.36	1.24	106.9	3228	-7.5
Jul	0.21	2.16	1.8	1.35	1.26	106.4	3116	5.8
Aug	0.19	1.99	2.1	1.33	1.25	105.8	3173	-1.6
Sep	0.10	1.85	2.5	1.29	1.26	104.4	3226	18.3
Oct	0.08	1.69	2.5	1.27	1.27	103.7	3113	4.3
Nov	0.08	1.62	3.1	1.25	1.26	104.1	3251	26.9
Dec	0.08	1.45	3.7	1.23	1.27	104.2	3146	-26.1
2015								
Jan	0.06	1.27	3.8	1.16	1.30	99.4	3351	5.5
Feb	0.05	1.21	4.1	1.13	1.35	97.3	3599	1.7
Mar	0.03	0.96	4.6	1.08	1.38	94.6	3697	-44.9
Apr	0.00	0.85	5.3	1.08	1.39	93.7	3616	-
May	-0.01	1.34	-	1.11	1.39	95.5	3571	-

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	1.8	1.7	1.7	1.6	1.5	11.0	1.8	0.9	5.1	-1.1	0.3
2016	1.5	2.8	1.8	1.8	2.1	10.5	2.4	1.3	3.7	1.8	1.5
2017	1.3	2.8	1.7	1.7	2.0	10.1	2.5	1.2	3.0	2.3	1.5
2018	1.3	2.7	1.6	1.6	1.9	9.7	2.4	1.2	2.3	1.8	1.6
2019	1.3	2.3	1.5	1.5	1.7	9.3	2.6	1.2	0.9	1.7	1.6
2014											
I	0.7	2.5	1.1	1.1	1.9	11.8	1.7	0.9	0.8	-1.5	0.6
II	0.8	1.2	0.9	0.8	0.7	11.7	1.4	0.2	1.4	-1.4	0.6
III	1.0	0.6	0.6	0.8	-0.1	11.5	1.5	0.1	2.4	-1.8	0.3
IV	1.5	0.5	0.9	0.9	-0.2	11.5	1.6	0.0	4.7	-1.7	0.1
2015											
I	1.7	0.8	1.3	1.0	0.6	11.2	1.4	0.3	5.9	-2.6	-0.3
II	1.9	1.4	1.7	1.5	1.2	11.0	1.9	0.7	5.3	-0.9	0.1
III	1.8	2.0	1.9	1.8	2.0	10.9	2.0	1.2	5.4	-0.7	0.4
IV	1.8	2.4	2.1	2.0	2.3	10.8	2.0	1.3	4.0	-0.3	0.9
2016											
I	1.7	2.4	1.9	2.0	1.8	10.7	2.3	1.3	3.6	1.6	1.5
II	1.6	3.0	1.8	1.9	2.2	10.6	2.3	1.4	3.9	1.3	1.4
III	1.5	3.0	1.8	1.8	2.2	10.5	2.4	1.3	3.8	2.0	1.4
IV	1.4	2.9	1.7	1.7	2.1	10.4	2.4	1.2	3.6	2.5	1.5
2017											
I	1.3	2.8	1.7	1.7	2.1	10.3	2.5	1.3	3.3	2.4	1.5
II	1.3	2.9	1.7	1.7	2.0	10.1	2.5	1.2	3.1	2.3	1.5
III	1.3	2.9	1.7	1.7	2.0	10.0	2.5	1.2	3.0	2.2	1.5
IV	1.3	2.8	1.7	1.6	1.9	9.9	2.4	1.2	2.8	2.1	1.5
2018											
I	1.3	2.8	1.6	1.6	1.9	9.8	2.4	1.2	2.6	2.0	1.6
II	1.3	2.7	1.6	1.6	1.9	9.8	2.4	1.2	2.4	1.9	1.6
III	1.3	2.7	1.6	1.6	1.8	9.7	2.5	1.2	2.2	1.8	1.6
IV	1.3	2.6	1.6	1.5	1.8	9.6	2.5	1.2	2.0	1.7	1.6
2019											
I	1.3	2.5	1.5	1.5	1.8	9.5	2.5	1.2	1.6	1.7	1.6
II	1.3	2.4	1.5	1.5	1.7	9.4	2.5	1.2	1.2	1.7	1.6
III	1.3	2.3	1.5	1.5	1.7	9.3	2.6	1.2	0.5	1.7	1.6
IV	1.3	2.2	1.4	1.5	1.6	9.2	2.6	1.2	0.3	1.8	1.6

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	196.0	240.2	2.38	-245.9	-2.43	0.21	2.04	-0.21	1.62	1.33	123.9
2015	216.0	265.0	2.55	-218.2	-2.10	0.05	1.25	-0.24	0.97	1.11	113.9
2016	213.3	260.7	2.44	-185.1	-1.73	0.05	1.84	-1.41	0.38	1.07	112.7
2017	219.7	267.8	2.43	-153.3	-1.39	0.05	2.43	-1.47	0.92	1.06	113.4
2018	232.0	281.4	2.47	-129.8	-1.14	0.20	2.84	-1.38	1.26	1.09	114.7
2019	248.2	295.8	2.52	-119.4	-1.02	0.50	3.19	-1.12	1.57	1.11	116.2
2014											
I	42.3	59.0	2.35	-65.1	-2.59	0.30	2.65	-0.35	2.01	1.37	125.9
II	43.9	57.8	2.30	-62.5	-2.48	0.30	2.22	-0.27	1.65	1.37	125.3
III	46.7	66.1	2.61	-60.2	-2.38	0.17	1.79	-0.17	1.46	1.33	122.8
IV	63.2	57.3	2.25	-58.1	-2.28	0.08	1.50	-0.07	1.35	1.25	121.5
2015											
I	63.5	76.5	2.98	-56.9	-2.22	0.05	1.03	0.32	1.31	1.13	115.4
II	45.8	71.7	2.78	-55.2	-2.14	0.05	1.19	-0.05	1.09	1.11	113.6
III	50.2	65.7	2.52	-56.3	-2.16	0.05	1.45	-0.36	1.04	1.10	113.2
IV	56.5	51.1	1.95	-49.8	-1.90	0.05	1.33	-0.86	0.43	1.09	113.3
2016											
I	58.1	70.9	2.68	-49.2	-1.86	0.05	1.54	-1.48	0.01	1.08	112.9
II	49.5	72.5	2.72	-46.2	-1.74	0.05	1.75	-1.33	0.37	1.07	112.6
III	50.5	66.1	2.46	-46.0	-1.71	0.05	1.96	-1.35	0.56	1.06	112.7
IV	55.2	51.2	1.89	-43.7	-1.61	0.05	2.11	-1.48	0.59	1.05	112.5
2017											
I	57.8	70.5	2.58	-42.8	-1.57	0.05	2.27	-1.46	0.76	1.06	112.9
II	50.4	73.6	2.68	-39.4	-1.43	0.05	2.38	-1.46	0.87	1.06	113.3
III	53.0	69.0	2.49	-37.3	-1.35	0.05	2.49	-1.47	0.98	1.07	113.6
IV	58.5	54.7	1.96	-33.9	-1.21	0.05	2.60	-1.48	1.07	1.07	113.9
2018											
I	61.1	74.3	2.64	-34.0	-1.21	0.15	2.70	-1.41	1.15	1.08	114.2
II	53.7	77.3	2.73	-32.5	-1.15	0.15	2.79	-1.43	1.21	1.09	114.5
III	55.9	72.1	2.52	-32.7	-1.14	0.25	2.88	-1.33	1.30	1.09	114.8
IV	61.3	57.6	2.00	-30.5	-1.06	0.25	2.97	-1.34	1.39	1.10	115.3
2019											
I	64.4	77.6	2.67	-31.0	-1.07	0.50	3.06	-1.10	1.46	1.10	115.7
II	57.4	80.7	2.76	-29.9	-1.02	0.50	3.15	-1.11	1.54	1.11	116.0
III	60.2	75.9	2.57	-30.4	-1.03	0.50	3.24	-1.13	1.61	1.12	116.4
IV	66.1	61.7	2.07	-28.2	-0.95	0.50	3.32	-1.15	1.68	1.12	116.7

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

Long-Term Forecast for Eurozone

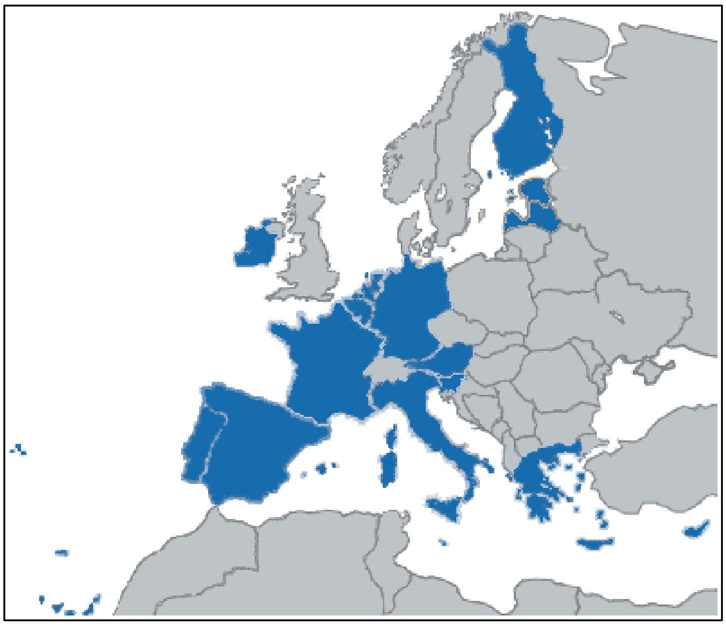
Annual percentage changes unless otherwise specified

	2005-2014	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
GDP	0.7	1.7	-0.8	-0.3	0.9	1.6	1.8	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.5
Consumption	0.5	0.2	-1.3	-0.6	1.0	1.8	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.4
Investment	-0.3	1.8	-3.5	-2.3	1.2	1.7	2.8	2.8	2.7	2.3	2.1	1.9	1.8	1.8	1.6	2.2
Government Consumption	1.2	-0.2	-0.1	0.2	0.6	1.0	0.8	0.8	0.9	1.0	1.1	1.2	1.2	1.3	1.3	1.1
Exports of Goods and Services	3.4	6.8	2.9	2.1	3.7	3.7	3.8	3.8	3.7	3.5	3.3	3.2	3.0	2.9	2.8	3.4
Imports of Goods and Services	2.8	4.6	-0.6	1.3	4.0	4.3	3.8	3.9	4.0	3.7	3.4	3.2	3.1	3.0	2.9	3.5
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	11.0	10.5	10.1	9.7	9.3	9.0	8.7	8.4	8.2	8.0	9.3
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.3	1.5	1.5	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.5
Current Balance (% of GDP)	0.3	-0.1	1.5	2.2	2.4	2.6	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7	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	-2.1	-1.7	-1.4	-1.1	-1.0	-0.9	-0.9	-0.8	-0.8	-0.7	-1.2
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	1.2	1.8	2.4	2.8	3.2	3.5	3.7	3.9	4.0	4.0	3.1
Working Population	0.2	0.0	0.2	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.5	0.1	0.7	0.0	0.2	0.1	0.2	0.1	0.0	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2	-0.1
Participation Ratio (%)	75.7	75.9	76.3	76.3	76.5	76.6	76.7	76.8	76.9	77.0	77.0	77.0	76.9	76.9	76.9	76.9
Labour productivity	0.5	1.5	-0.3	0.4	0.3	0.9	1.3	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.2
Employment	0.2	0.1	-0.5	-0.7	0.6	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.0	0.3
Output gap (% of potential GDP)	-0.5	-0.9	-2.2	-3.2	-3.4	-3.0	-2.4	-1.8	-1.5	-1.2	-0.9	-0.6	-0.4	-0.2	0.0	-1.2

Key Facts

Politics

President of the ECB: Mario DRAGHI
Vice president of the ECB: Vítor CONSTANCIO
EC commissioner for Economic and Monetary Affairs:
Olli Rehn
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

Long-term economic & social development

	1980	1990	2000	2013*
GDP per capita (US$)	-	18088	19904	38309
Inflation (%)	9.9	4.2	2.2	1.3
Population (mn)	287	305	315	333
Urban population (% of total)	69.7	70.9	72.4	75.8
Life expectancy (years)	73.6	76.0	78.3	81.3

Source : Oxford Economics & World Bank

* 2013 or latest available year

Structure of GDP by output

	2010
Agriculture	1.6%
Industry	26.3%
Services	72.0%

Source : WDI

Corruption perceptions index 2013

	Score
Developed economies (average)	74.5
Emerging economies (average)	37.3
Eurozone	66.5

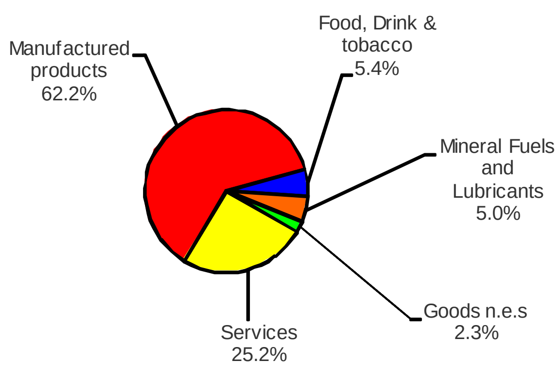
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2013*
Current account (US$ billion)	10	54	-95	306
Trade balance (US$ billion)	-23	63	-27	210
FDI (US$ billion)	-	-	-25	-4
Govt budget (% of GDP)	-4.1	-7.5	-0.1	-3.0
Govt debt (% of GDP)	13.6	67.6	67.3	94.6
Long-term interest rate	10.9	8.7	5.4	3.0
Oil production (000 bpd)	271	313	240	238
Oil consumption (000 bpd)	9715	10483	10927	9611

Source : Oxford Economics / World Bank / EIA / ECB

Composition of extra-EMU goods & services exports, 2012



Source : Eurostat\ Haver Analytics

Destination of goods' exports (2012)

Eurozone	46.3%
UK	6.6%
US	6.4%
China	3.4%
Switzerland	3.3%
Poland	2.6%

Source : Eurostat \ Haver Analytics