



Eurozone

Highlights

- Another quarter of steady but unspectacular GDP growth of 0.3% in Q4 last year, combined with little sign that any improvement in Q1 is on the cards, has prompted us to lower our Eurozone GDP growth forecast for 2016 from 1.8% to 1.6%.
- No GDP breakdown is yet available for Q4, but it appears that once again solid domestic demand growth was undermined by a drag from net trade. In the near term, the situation is unlikely to improve. While the business surveys are on past form still at levels that have been associated with healthy GDP expansion, these indicators have recently had a tendency to over-predict growth. In addition, they weakened in January. What is more, the recent financial market turmoil, ongoing concerns about the situation in China and the rising euro also support the view that exports and investment will be subdued at best in early 2016.
- But given our view that global demand growth will build later in the year, the export outlook should improve.
- Just as importantly, domestic demand fundamentals remain strong. In particular, there is little sign yet that the labour market recovery is slowing. Not only were there solid falls in the number of unemployed in Q4 last year, but business surveys also point to healthy employment growth in early 2016. And another substantial energy-related downward revision to our 2016 inflation forecast from 0.7% to 0.5% means that we expect real household disposable income growth this year to be the strongest since 2001, lifting consumer spending growth slightly to 1.7%.
- Despite the latest setback to growth prospects for 2016, we still think that there remain good reasons for optimism beyond the near term and see the economy expanding by a well above-trend 1.9% next year.

Forecast for Eurozone						
(Annual percentage changes unless specified)						
	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.5	1.9	2.0	1.9	1.7
Private Consumption	0.8	1.6	1.7	1.7	1.5	1.4
Fixed Investment	1.3	2.3	2.3	3.6	3.0	2.5
Stockbuilding (% of GDP)	-0.1	-0.3	-0.1	0.0	0.1	0.3
Government Consumption	0.8	1.5	1.3	1.0	1.0	1.1
Exports of goods and services	4.1	4.7	3.0	3.7	3.3	3.2
Imports of goods and services	4.5	5.2	3.8	4.1	3.7	3.4
GDP	0.9	1.5	1.6	1.9	1.8	1.6
Industrial Production	0.8	1.3	1.0	2.6	1.9	1.7
Consumer Prices	0.4	0.0	0.5	1.7	1.7	1.8
Current Balance (% of GDP)	2.4	3.0	3.4	3.1	2.8	2.5
Government Budget (% of GDP)	-2.6	-2.1	-1.8	-1.4	-1.0	-0.8
Short-Term Interest Rates (%)	0.2	0.0	-0.3	-0.3	0.0	0.5
Long-Term Interest Rates (%)	2.0	1.2	1.1	2.2	3.0	3.3
Exchange rate (US\$ per Euro)	1.33	1.11	1.07	1.06	1.09	1.11
Exchange rate (YEN per Euro)	140.7	134.3	131.9	134.6	137.7	140.3



Forecast Overview

H2 soft patch to extend into 2016

Although Q4's 0.3% quarterly rise in GDP was a pretty solid performance by the standards of the past few years, the figure was something of a disappointment compared to expectations late last year.

While no expenditure breakdown is yet available, it appears that the slowdown in the pace of GDP growth in H2 can be attributed almost entirely to the performance of net trade and investment. Needless to say, this is hardly a surprise given the uncertainty and economic weakness stemming from abroad. The slackening of the recovery in H2 did not by and large coincide with a drop in survey-based measures of activity and sentiment. Indeed, the composite PMI and EC Economic Sentiment Indicator (ESI) readings for Q4 were at multi-year highs. While this divergence could indicate that GDP growth will once again pick up steam in early 2016, we would be cautious about drawing such a conclusion.

For a start, in the initial stages of this year there has been little evidence of any improvement in the external environment, and financial market weakness is likely to continue to temper investment. Second, the key surveys of activity and sentiment all weakened in January, reflecting deterioration in both the industrial and service sectors. In addition, the industrial sector's weak end to 2015 suggests that there is a strong chance that it will act as a bigger drag on the economy in Q1 than in Q4. Construction growth could weaken too after a period of strong growth thanks to unseasonably good weather.

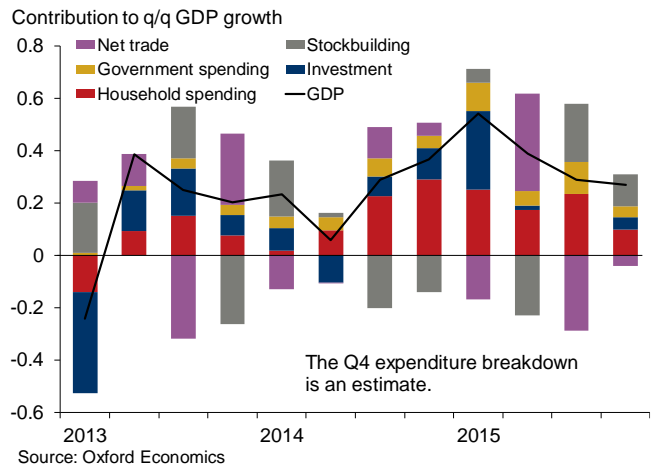
The upshot is that, in addition to the weaker than previously anticipated Q4 GDP outturn, we expect little if any acceleration in growth in Q1 this year.

...but domestic economy still in good shape

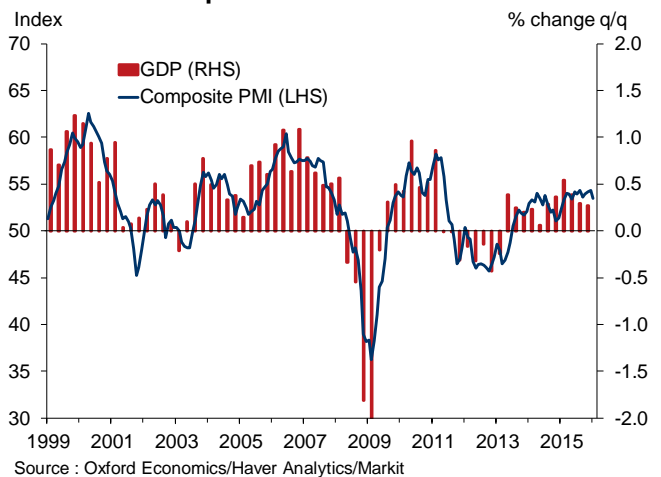
We remain optimistic about the prospects further ahead however. The key issues for the outlook are as follows:

- **Export outlook should improve** – although problems in emerging markets remain, we expect demand growth for Eurozone exports to strengthen in 2016. And the expected weakening of the euro should be a shock absorber if external conditions worsen.
- **Consumer spending prospects still bright** – further downward revisions to our oil price forecast have

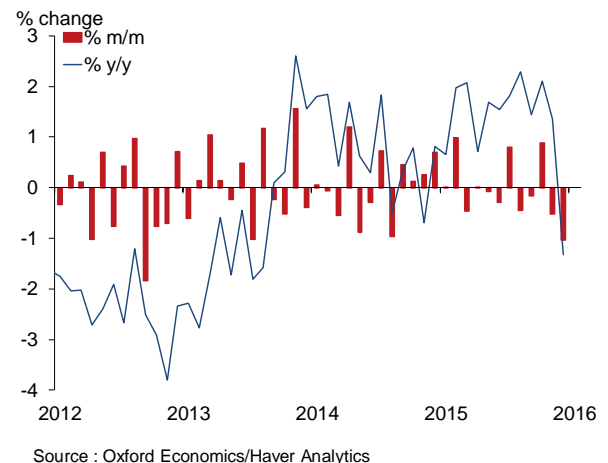
Eurozone: GDP



Eurozone Composite PMI & GDP



Eurozone: Industrial production





resulted in us lowering our 2016 CPI inflation forecast further. We now expect inflation to average 0.5% this year, down from 0.7% in January and 1.1% three months ago. Accordingly, the purchasing power of households' nominal incomes in 2016 will be better than we thought late last year. We also expect nominal income growth to be a little stronger, thanks in part to a small upward revision to our employment forecast. Employment appears on track to have grown at a solid pace in Q4 and there is little sign of any slowdown in the initial stages of this year. The upshot is that we expect real household disposable income growth to pick up from 2.1% in 2015 to 3.1% this year – the strongest since 2008. While we assume that households will be cautious in the early stages of the year and save more, we still expect consumer spending growth to drift up a touch from 1.8% in 2015 to 1.9% in 2016 from 1.6% last year.

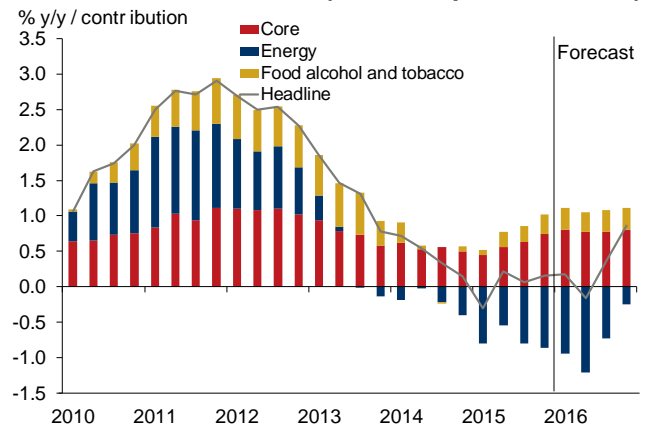
- **Investment prospects remain encouraging** – although sustained strength in household spending bodes well for investment, we have become a little more cautious about the outlook for the latter due to external developments. But the continued strength of business sentiment, rising profits and increased capacity utilisation are all positive factors, so we expect another year of over 2% investment growth, although a full-blown emerging market financial crisis would result in a much weaker rise. While recent developments are likely to have an adverse effect on investment, it is worth remembering that periods of turbulence and uncertainty over the past couple of years have not led to sharp falls in investment in the region as a whole.

The upshot is that we have lowered our GDP growth forecast for 2016 from 1.8% to 1.6%, before a pick-up to 1.9% next year.

Weakness to prompt further ECB action

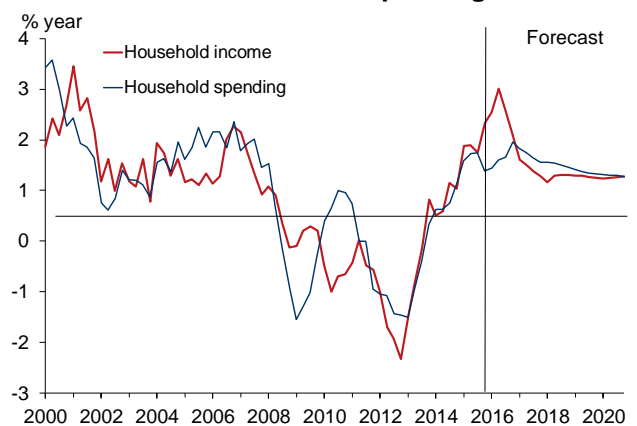
Given the weakening in market-based inflation expectations and a widely-held view within the ECB that doing too little to support growth is probably riskier than providing too much support, we expect the ECB to cut the deposit rate by 20bp in March and state that further reductions are likely, but leave the QE programme unchanged.

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



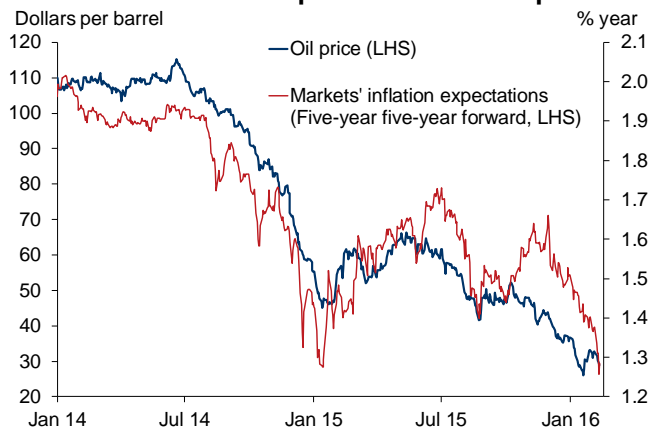
Source : Oxford Economics/Haver Analytics

Eurozone: Real household spending & income



Source : Oxford Economics/Haver Analytics

Eurozone: Inflation expectations and oil price



Source: Oxford Economics/Bloomberg



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

Monetary policy reaching its limits – despite the ECB expanding its QE programme late last year and the expectations that there are further measures to come, market inflation expectations have plunged and concerns about the impact of negative interest rates have increased. This has raised concerns that the benefits of more unconventional policy action will be offset by other problems, limiting the ECB's ability to respond to further adverse shocks.

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

Key risk scenarios

Secular stagnation – in this scenario, there is a sustained period of global demand weakness that policymakers are unable to offset. Low business investment also results in weaker productivity growth. Meanwhile, the subdued economy sees the natural rate of unemployment rising. Demand weakness thus has knock-on effects on potential output growth as well, leading to slower medium-term growth prospects.

Hard landing in China – a sustained slowdown in China 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. But indirect effects on confidence might be larger, although these may be offset by more QE, suggesting that a recession could be avoided. Nonetheless, in this scenario GDP growth would average just over 1% a year in 2016-18.

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

	2014	2015	2018
Europe	20	19	16
World average	29	30	28
Sovereign risk	16	16	15
Trade credit risk	31	29	23
Political risk	24	24	22
Regulatory risk	0	0	0

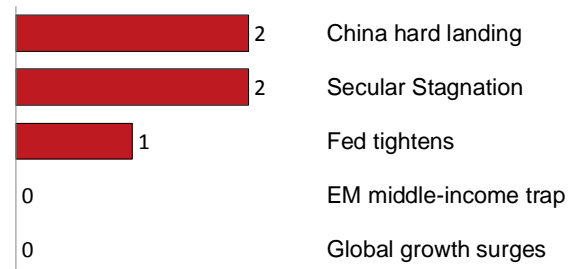
Risk warnings

GDP growth	●	External risks trump potential domestic upsides.
CPI inflation	●	Sustained deflation still a tail risk.
Current account balance	●	Further surpluses, despite weakening global outlook
Government balance	●	Deficit low and narrowing gradually.
Government debt	●	Stable but high.
External debt	●	Not a concern at a regional level.

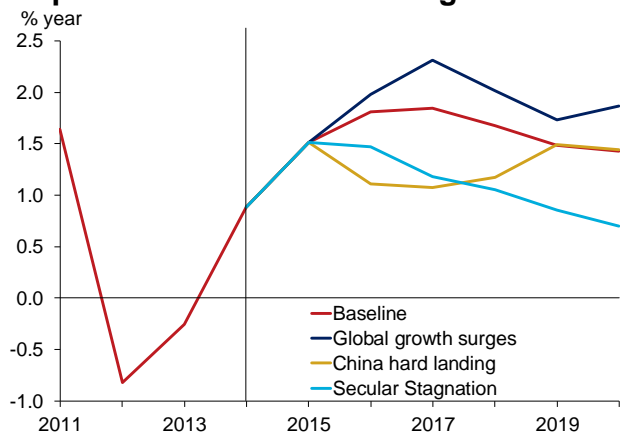
Risk scenarios

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

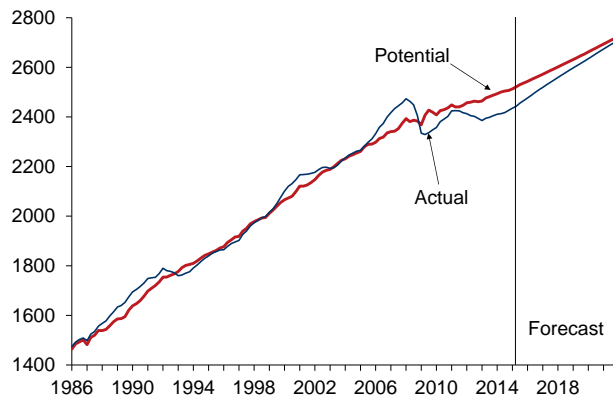
The global and Eurozone crises will leave their mark on growth for years to come. We estimate that the Eurozone's potential growth rate is only 1.2%, similar to our estimate for the past decade but far lower than the 1.8% estimate for the ten years to 2008.

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*	1.1	1.2
Employment at NAIRU	0.6	0.2
Capital Stock	1.5	1.1
Total Factor Productivity	0.1	0.7

* $\ln(\text{Potential GDP}) = 0.65 \cdot \ln(\text{Employment at NAIRU}) + 0.35 \cdot \ln(\text{Capital Stock}) + \ln(\text{Total Factor Productivity})$

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	2.7	1.9
Government Consumption	2.1	0.3	1.2	1.2
Exports of Goods and Services	1.6	5.3	3.6	2.9
Imports of Goods and Services	1.9	3.8	4.1	2.9
Unemployment (%)	8.4	11.1	10.0	8.5
Consumer Prices	2.0	1.7	1.1	1.8
Current Balance (% of GDP)	-0.4	1.2	3.0	2.3
Exchange Rate (US\$ per Euro)	1.3	1.3	1.1	1.2
General Government Balance (% of GDP)	-2.5	-3.9	-1.4	-0.5
Short-term Interest Rates (%)	3.1	0.6	0.0	1.9
Long-term Interest Rates (%)	3.9	3.4	2.1	3.8
Working Population	0.4	0.1	0.1	-0.2
Labour Supply	0.8	0.2	0.2	-0.1
Participation Ratio	75.6	76.4	76.8	77.5
Labour Productivity	0.0	0.9	0.9	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	Unemployment %	CPI	Business confidence (% balance)	Consumer confidence (% balance)	Exports	Imports	Trade balance (€ bn)
Jan	0.7	11.3	-0.6	0.2	-8	-0.2	-5.2	7.2
Feb	1.7	11.2	-0.3	0.1	-7	4.7	1.3	19.8
Mar	1.8	11.2	-0.1	0.2	-4	11.6	9.7	20.1
Apr	0.6	11.1	0.0	0.3	-5	9.1	5.4	21.3
May	1.4	11.0	0.3	0.3	-6	2.8	0.3	18.2
Jun	1.4	11.0	0.2	0.1	-6	12.6	7.0	25.3
Jul	1.5	10.8	0.2	0.4	-7	7.0	0.9	31.1
Aug	2.0	10.8	0.2	0.2	-7	5.5	2.7	11.0
Sep	1.4	10.6	-0.1	0.3	-7	0.8	-0.8	20.0
Oct	2.2	10.6	0.0	0.4	-8	0.4	-0.6	24.0
Nov	1.4	10.5	0.1	0.4	-6	5.8	4.1	23.7
Dec	-0.3	10.4	0.2	0.4	-6	3.4	3.4	24.3
2016								
Jan	-	-	0.4	0.3	-6	-	-	-

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
Jan	0.06	1.27	3.9	1.16	1.30	99.4	3351	-7.0
Feb	0.05	1.21	4.1	1.13	1.35	97.3	3599	21.2
Mar	0.03	0.96	4.7	1.08	1.38	94.6	3697	90.3
Apr	0.00	0.85	5.4	1.08	1.39	93.7	3616	-13.6
May	-0.01	1.34	5.0	1.11	1.39	95.4	3571	-8.1
Jun	-0.01	1.67	4.9	1.12	1.39	95.9	3424	-20.9
Jul	-0.02	1.53	5.2	1.10	1.41	95.0	3601	-12.8
Aug	-0.03	1.39	4.9	1.11	1.40	96.6	3270	-14.3
Sep	-0.04	1.48	4.9	1.12	1.37	97.4	3101	-4.3
Oct	-0.05	1.20	5.2	1.12	1.37	97.2	3418	-2.1
Nov	-0.09	1.16	5.0	1.07	1.42	94.3	3506	1.8
Dec	-0.13	1.19	4.7	1.09	1.38	95.6	3268	-
2016								
Jan	-0.15	1.11	-	1.09	1.33	96.5	3045	-



EUROZONE

TABLE 1 SUMMARY ITEMS
 Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE	GROSS FIXED INVESTMENT	DOMESTIC DEMAND (%)	REAL GDP	INDUSTRIAL PRODUCTION	UNEMPLOY- MENT RATE (%)	AVERAGE EARNINGS	WHOLE ECONOMY PRODUCT- IVITY (GDP/ET)	COMPETIT- IVENESS (2008=100)	PRODUCER PRICES	CONSUMER PRICES
	(C)	(IF)	(DOMD)	(GDP)	(IP)	(UP)	(ER)	(GDP/ET)	(MON)	(PPI)	(CPI)
YEARS BEGINNING Q1											
2014	0.8	1.3	0.9	0.9	0.8	11.6	1.5	0.3	2.3	-1.3	0.4
2015	1.6	2.3	1.5	1.5	1.3	10.9	1.4	0.4	5.7	-1.8	0.0
2016	1.7	2.3	1.9	1.6	1.0	10.3	2.1	0.6	3.9	-0.8	0.5
2017	1.7	3.6	2.0	1.9	2.6	9.9	2.3	1.2	4.0	1.5	1.7
2018	1.5	3.0	1.9	1.8	1.9	9.6	2.4	1.2	4.1	2.2	1.7
2019	1.4	2.5	1.7	1.6	1.7	9.2	2.6	1.1	3.9	2.1	1.8
2014											
I	0.6	2.5	1.2	1.1	1.5	11.8	1.7	0.9	0.8	-1.5	0.6
II	0.6	1.2	1.0	0.7	0.7	11.6	1.5	0.2	1.4	-1.1	0.6
III	0.8	0.7	0.5	0.8	0.6	11.6	1.4	0.0	2.4	-1.2	0.4
IV	1.2	0.9	0.9	0.9	0.4	11.5	1.6	0.1	4.7	-1.5	0.2
2015											
I	1.6	2.0	1.3	1.3	1.4	11.2	1.4	0.4	6.0	-2.1	-0.3
II	1.7	2.6	1.3	1.6	1.2	11.0	1.4	0.6	6.2	-1.1	0.2
III	1.7	2.2	1.7	1.6	1.7	10.7	1.3	0.5	5.8	-1.9	0.1
IV	1.4	2.5	1.8	1.5	1.1	10.5	1.6	0.3	5.1	-2.1	0.2
2016											
I	1.5	1.3	1.5	1.4	0.0	10.4	1.7	0.1	4.2	-1.2	0.3
II	1.6	2.0	2.0	1.5	0.7	10.3	2.1	0.4	3.8	-1.8	0.1
III	1.7	2.9	2.0	1.7	1.2	10.2	2.3	0.8	4.1	-0.7	0.5
IV	1.9	3.1	2.0	1.9	1.9	10.1	2.3	1.1	3.5	0.4	1.0
2017											
I	1.8	3.6	2.1	2.0	2.6	10.0	2.3	1.2	3.8	0.9	1.6
II	1.7	3.7	2.0	1.9	2.7	9.9	2.3	1.2	4.0	1.3	1.7
III	1.6	3.6	2.0	1.9	2.6	9.9	2.3	1.2	4.2	1.7	1.8
IV	1.6	3.3	2.0	1.8	2.4	9.8	2.3	1.1	4.2	2.0	1.8
2018											
I	1.6	3.2	2.0	1.8	2.2	9.7	2.3	1.2	4.1	2.2	1.8
II	1.5	3.0	1.9	1.8	2.0	9.6	2.3	1.2	4.1	2.2	1.7
III	1.5	2.9	1.9	1.7	1.8	9.5	2.4	1.2	4.1	2.2	1.7
IV	1.5	2.8	1.8	1.7	1.7	9.5	2.5	1.2	4.1	2.1	1.7
2019											
I	1.4	2.6	1.8	1.7	1.7	9.4	2.5	1.2	4.0	2.1	1.7
II	1.4	2.5	1.7	1.6	1.7	9.3	2.5	1.2	3.9	2.1	1.8
III	1.3	2.5	1.6	1.6	1.7	9.2	2.6	1.1	3.9	2.1	1.8
IV	1.3	2.4	1.6	1.5	1.7	9.1	2.6	1.1	3.8	2.0	1.8

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TABLE 2 SUMMARY ITEMS

	TRADE BALANCE (EURO BN)	CURRENT ACCOUNT (EURO BN)	CURRENT ACCOUNT (% OF GDP)	GOVERNMENT FINANCIAL BALANCE (EURO BN)	GOVERNMENT FINANCIAL BALANCE (% OF GDP)	SHORT-TERM INTEREST RATE	LONG-TERM INTEREST RATE	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)
	(BVI)	(BCU)	(BCU*100 /GDP)	(GB)	(GB*100 /GDP)	(RSH)	(RLG)	(Note 1)	(Note 1)	(RXD)	(RX)
YEARS BEGINNING Q1											
2014	190.1	245.6	2.43	-260.9	-2.58	0.21	2.04	-0.22	1.61	1.33	123.6
2015	247.5	313.1	3.01	-214.7	-2.07	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	269.3	363.8	3.40	-195.6	-1.83	-0.27	1.13	-0.74	0.66	1.07	117.2
2017	249.6	345.6	3.12	-154.3	-1.39	-0.32	2.16	-2.05	0.42	1.06	115.8
2018	229.0	319.3	2.79	-117.4	-1.03	-0.01	2.98	-1.72	1.27	1.09	116.8
2019	216.5	296.6	2.51	-96.5	-0.82	0.47	3.27	-1.30	1.50	1.11	118.0
2014											
I	42.3	57.0	2.27	-68.3	-2.72	0.30	2.65	-0.35	2.01	1.37	125.7
II	41.7	52.7	2.09	-66.1	-2.63	0.30	2.22	-0.27	1.66	1.37	125.2
III	44.0	64.9	2.56	-64.1	-2.53	0.16	1.79	-0.19	1.44	1.33	122.6
IV	62.1	71.0	2.78	-62.4	-2.45	0.08	1.50	-0.09	1.33	1.25	121.1
2015											
I	61.4	79.9	3.11	-74.8	-2.91	0.05	1.01	0.36	1.33	1.13	114.9
II	60.1	79.5	3.07	-41.5	-1.60	-0.01	1.27	-0.20	1.08	1.11	112.6
III	61.4	76.5	2.94	-55.4	-2.13	-0.03	1.36	-0.12	1.27	1.11	116.1
IV	64.6	77.1	2.94	-42.9	-1.64	-0.09	1.19	-0.26	1.03	1.10	116.1
2016											
I	72.8	97.8	3.71	-64.5	-2.44	-0.18	1.06	-0.43	0.81	1.09	118.1
II	61.4	94.8	3.56	-38.4	-1.44	-0.26	0.95	-0.35	0.86	1.07	117.7
III	63.8	85.6	3.19	-54.8	-2.04	-0.30	1.07	-0.80	0.57	1.06	117.0
IV	71.2	85.6	3.16	-38.0	-1.40	-0.33	1.44	-1.37	0.40	1.05	116.1
2017											
I	69.8	92.7	3.40	-55.4	-2.03	-0.36	1.62	-2.00	-0.02	1.06	115.8
II	56.9	90.1	3.27	-29.8	-1.08	-0.33	1.99	-2.02	0.30	1.06	115.7
III	57.9	81.5	2.93	-43.4	-1.56	-0.30	2.27	-2.08	0.49	1.07	115.8
IV	65.1	81.3	2.90	-25.7	-0.92	-0.27	2.75	-2.10	0.92	1.07	116.1
2018											
I	63.8	85.7	3.03	-46.0	-1.63	-0.13	2.87	-1.95	1.05	1.08	116.4
II	51.8	84.3	2.96	-18.3	-0.64	-0.08	2.94	-1.74	1.28	1.08	116.6
III	52.8	74.2	2.58	-34.7	-1.21	0.07	3.02	-1.61	1.34	1.09	116.9
IV	60.6	75.1	2.59	-18.4	-0.64	0.12	3.09	-1.57	1.41	1.10	117.2
2019											
I	60.1	80.9	2.77	-39.5	-1.35	0.41	3.17	-1.32	1.44	1.10	117.5
II	47.8	78.3	2.66	-13.3	-0.45	0.45	3.24	-1.31	1.48	1.11	117.8
III	49.8	68.2	2.30	-30.6	-1.03	0.49	3.30	-1.29	1.52	1.11	118.2
IV	58.8	69.2	2.31	-13.2	-0.44	0.53	3.37	-1.27	1.57	1.12	118.5

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

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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	1.5	1.6	1.9	1.8	1.6	1.5	1.4	1.4	1.4	1.3	1.5
Consumption	0.5	-0.1	-1.3	-0.6	0.8	1.6	1.7	1.7	1.5	1.4	1.3	1.3	1.2	1.2	1.2	1.4
Investment	-0.3	1.7	-3.2	-2.5	1.3	2.3	2.3	3.6	3.0	2.5	2.3	2.1	2.0	1.8	1.6	2.3
Government Consumption	1.2	-0.1	-0.2	0.2	0.8	1.5	1.3	1.0	1.0	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	4.7	3.0	3.7	3.3	3.2	3.2	3.1	2.9	2.8	2.5	3.2
Imports of Goods and Services	2.8	4.4	-0.9	1.3	4.5	5.2	3.8	4.1	3.7	3.4	3.3	3.1	2.9	2.7	2.5	3.5
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	10.9	10.3	9.9	9.6	9.2	9.0	8.7	8.5	8.3	8.1	9.2
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.0	0.5	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.9	1.5
Current Balance (% of GDP)	0.4	0.2	1.2	1.9	2.4	3.0	3.4	3.1	2.8	2.5	2.3	2.3	2.3	2.3	2.3	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	1.24	1.14
General Government Balance (% of GDP)	-3.2	-4.2	-3.7	-3.0	-2.6	-2.1	-1.8	-1.4	-1.0	-0.8	-0.6	-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	-0.3	-0.3	0.0	0.5	0.9	1.4	1.9	2.4	2.9	0.9
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.2	1.1	2.2	3.0	3.3	3.5	3.8	3.9	4.0	4.0	3.0
Working Population	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.5	0.2	0.8	0.0	0.2	0.2	0.4	0.3	0.2	0.1	0.0	0.0	-0.1	-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	77.1	77.3	77.4	77.5	77.6	77.6	77.1
Labour productivity	0.5	1.5	-0.4	0.4	0.3	0.4	0.6	1.2	1.2	1.1	1.2	1.2	1.2	1.3	1.3	1.1
Employment	0.3	0.1	-0.4	-0.7	0.6	1.0	1.0	0.7	0.6	0.5	0.3	0.2	0.2	0.1	0.1	0.5
Output gap (% of potential GDP)	-0.9	-1.2	-2.6	-3.5	-3.5	-3.0	-2.5	-1.9	-1.5	-1.2	-1.0	-0.8	-0.6	-0.4	-0.2	-1.3



Key Facts

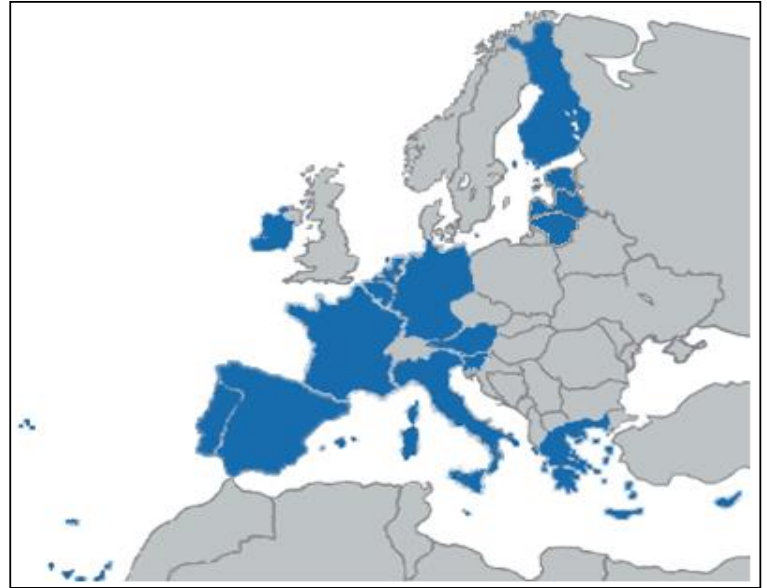
Politics

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

Long-term economic & social development

	1980	1990	2000	2014*
GDP per capita (US\$)	-	18231	20717	40219
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	81.4

Source : Oxford Economics & World Bank



Source : ECB

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

Structure of GDP by output

	2014
Agriculture	1.7%
Industry	24.3%
Services	74.1%

Source : World Bank

* 2014 or latest available year

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)	30	163	-168	326
Trade balance (US\$ billion)	-22	64	-29	253
FDI (US\$ billion)	-	-	29	-150
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)	271	313	240	222
Oil consumption (000 bpd)	9716	10478	10930	9312

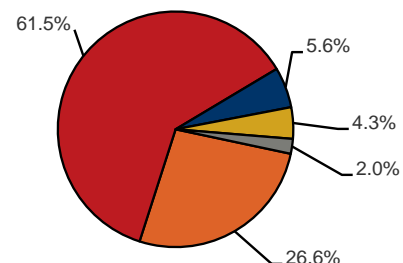
Source : Oxford Economics / World Bank / EIA

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

Composition of extra-EMU goods & services exports 2014



■ Services ■ Manufactured products ■ Food, Drink & tobacco ■ Mineral Fuels and Lubricants ■ Goods n.e.s.

Source : Eurostat \ Haver Analytics