Eurozone

Highlights

- By its own recent standards, the Eurozone made a solid start to 2015. Nonetheless, thanks mainly to unexpected weakness in Germany, the 0.4% q/q rise in GDP was a bit weaker than our activity indicator had suggested. The slower than anticipated start to the year has prompted us to revise down our forecast for the year from 1.7% to 1.6%.
- Another cause for concern is that the consumer sector, which has been a key driver of the recovery, may fare less well as the year progresses as the sugar rush from lower oil prices fades. Indeed, retail sales data show that growth has steadily weakened this year and fell in March, suggesting that household spending growth may weaken in Q2. More generally, measures of business activity and sentiment eased in April, too, although it should be noted that they remain above their Q1 averages.
- Admittedly, on the consumer side there remain lots of positives, implying that spending growth should not slow too dramatically. Consumer sentiment continues to rise, employment should steadily increase and while real wage growth will slow as inflation rises, it will remain strong by historic standards this year.
- What's more, we expect export and investment growth to gradually build momentum. Although the euro has drifted higher recently, we expect it to weaken again over the coming quarters and fall back to $1.05 or so by end 2016. While fairly weak global growth will constrain export growth we expect a gradual improvement over the year. And stronger demand, combined with greater access to credit, should also ensure modest investment growth this year and a further strengthening in 2016.
- In all then, we expect GDP growth of 1.6% this year and 1.9% in 2016. While this would be a marked improvement on last year, it will not be enough to bring about an early tapering of quantitative easing by the ECB.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2013	2014	2015	2016	2017	2018
Domestic Demand	-0.8	0.8	1.5	1.8	1.7	1.6
Private Consumption	-0.6	1.0	1.7	1.6	1.4	1.3
Fixed Investment	-2.4	1.0	1.1	2.9	2.9	2.7
Stockbuilding (% of GDP)	-0.2	-0.3	0.0	0.1	0.2	0.3
Government Consumption	0.2	0.7	0.5	0.5	0.7	0.8
Exports of goods and services	2.2	3.7	3.7	4.2	4.1	3.8
Imports of goods and services	1.4	3.8	3.8	4.2	4.2	4.0
GDP	-0.4	0.9	1.6	1.9	1.7	1.6
Industrial Production	-1.1	0.6	1.5	2.2	2.0	1.9
Consumer Prices	1.3	0.4	0.1	1.2	1.4	1.6
Current Balance (% of GDP)	1.9	2.1	2.3	2.1	2.0	2.1
Government Budget (% of GDP)	-2.9	-2.4	-2.0	-1.7	-1.3	-1.1
Short-Term Interest Rates (%)	0.22	0.21	0.05	0.05	0.05	0.20
Long-Term Interest Rates (%)	2.99	2.04	1.17	1.71	2.27	2.67
Exchange rate (US$ per Euro)	1.33	1.33	1.11	1.07	1.06	1.09
Exchange rate (YEN per Euro)	129.6	140.7	136.7	140.9	144.8	150.0

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

Forecast Overview

Q1 disappoints due to weak foreign demand

While the Eurozone recovery built momentum in Q1, the pick-up in GDP growth from 0.3% to 0.4% was not as strong as we had anticipated. From a country perspective, the surprise reflected weakness in Germany, where growth slowed from 0.7% to 0.3%.

The available data suggest that quarterly domestic demand growth increased from 0.1% to 0.7% or so. Net trade reduced GDP as a result of import growth outpacing exports. In other words, the sugar rush from lower oil prices was partly offset by subdued demand from abroad.

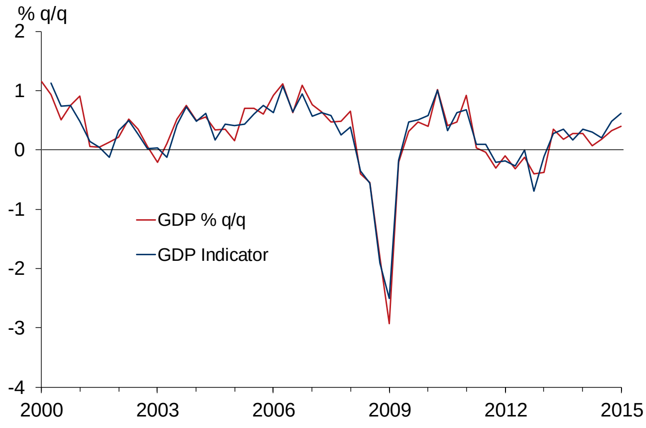
Recent data have on balance been a bit of a disappointment. The monthly data suggest that the economy lost a bit of momentum as Q1 progressed, suggesting that the pace of growth may not be maintained in Q2. This is supported by the fact that the business surveys inched down a touch in April. Note that the composite PMI, which tends been a good guide to growth, is now consistent with quarterly growth of 0.3% or so.

But propsects remain solid

The weaker than expected start to the year has prompted us to revise down GDP growth for 2015 from 1.7% to 1.6%. But we still hold the view that the economic recovery will gain momentum over the coming quarters. Our forecast is predicated on the following views:

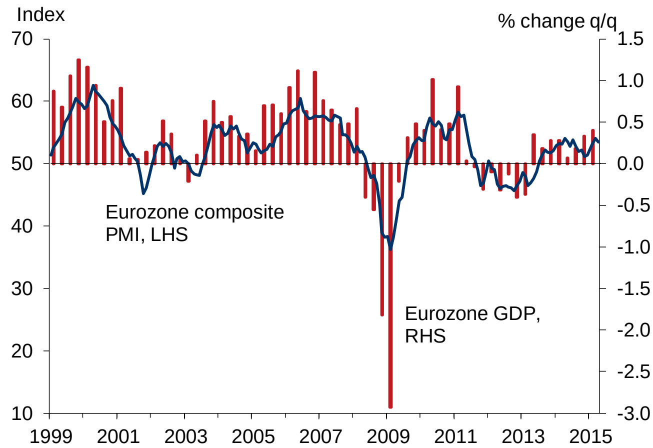
- **Solid household spending prospects –** over Q1, annual inflation has become less negative and unless there are renewed sharp falls in the oil price, inflation will rise further in the months ahead – we see inflation rising back above 1% at the start of next year and rising to about 1.4% by the end of 2016. Other things equal, this should result in real wage growth easing from its current high rates. Admittedly, we would not rule out wage growth rising too, particularly in Germany where the unemployment rate is at a record low – employment should also strengthen modestly. But any rise will be weaker than the pick-up in inflation, implying that real wage growth will ease, and with it household spending, albeit from strong levels. We expect spending growth to slow slightly from 1.7% this year to 1.6% in 2016, with a further easing to 1.4% in 2017. But while these figures may not sound strong, they would still mark an improvement on growth in each of the past seven years.

Euro area GDP indicator



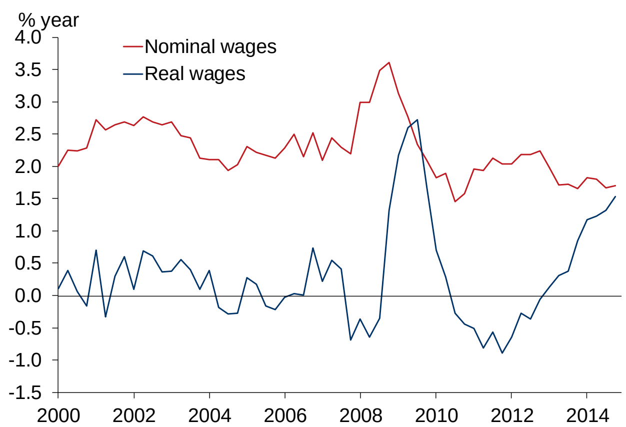
Source: Oxford Economics/Haver Analytics

Eurozone Composite PMI & GDP



Source : Oxford Economics/Haver Analytics/Markit

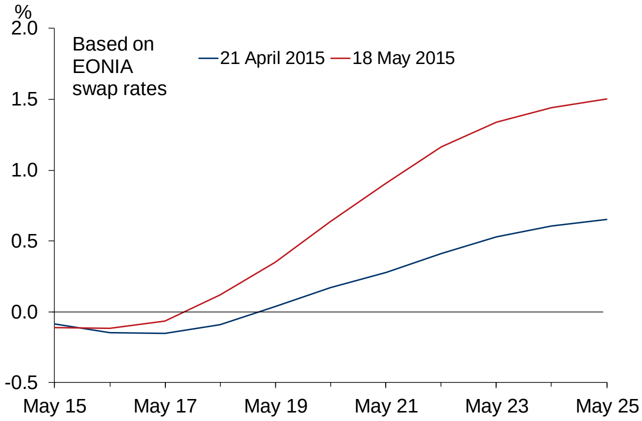
Eurozone: Negotiated wages



Source : Oxford Economics/Haver Analytics

- **Exports and investment to provide modest support –** the weak euro, which has been driven by the expected diverging monetary policy trends in the Eurozone and other developed economies, should prove a boon for exporters and will help to support a revival in export growth. This, combined with the plunge in the oil price, will also allow many firms to improve their margins and may eventually also boost investment. But with demand in the Eurozone's major export markets likely to grow only slowly, any export upturn this year is likely to be steady rather than spectacular. And the large amount of uncertainty, coupled with concerns about the situation in Greece, will also weigh on investment. For this year at least, neither exports nor investment are likely to provide much of a boost to the economy

Eurozone: Interest rate expectations (fwds)



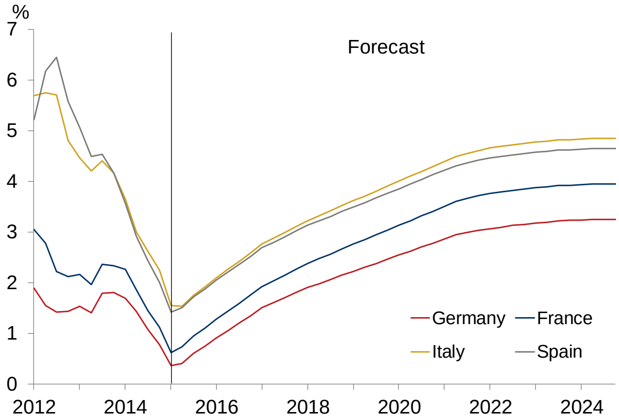
Source : Oxford Economics/Bloomberg

Bond yields look set to climb higher

After plunging in the build-up to and the initial stages of the ECB's quantitative easing (QE) programme, government bond yields have recently surged on the back of rising market interest rate expectations. Admittedly, renewed falls are by no means out of the question: the ECB will continue to be a major buyer of bonds and a further softening in the data could also trigger a reversal of the recent rise.

But we have long considered market interest rate expectations to be too low and believe that the recent rises in market rates may mark the start of a more sustained trend. We expect bond yields to continue to rise steadily over the coming quarters, and ten-year bunds to rise above 1% by next spring. But a much sharper rebound can by no means be ruled out. Against this backdrop, fears that the ECB will not be able to find enough bonds to buy to meet its existing QE targets should subside.

Eurozone: Bond yield forecasts (%)

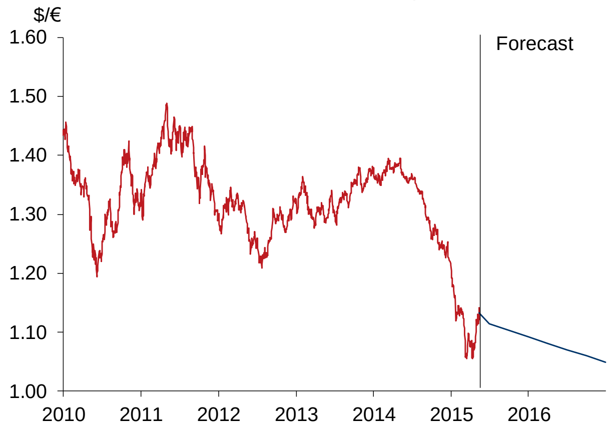


Source : Oxford Economics/Haver Analytics

Renewed falls in euro likely

The rise in Eurozone rate expectations, easing fears of deflation and Q1's weak US GDP figures helped to push the euro back well above the $1.10 level. But despite our relative optimism about the recovery and our view that markets' medium and longer-term interest rate expectations are too low, we still think that the euro will experience renewed falls. If we are right that the weak US Q1 GDP numbers were a blip and healthy wage growth is in the pipeline, stronger growth in the US and tighter monetary policy should ensure a renewed rotation towards US assets. We see the euro falling gradually to $1.05 late next year.

Eurozone: Dollar/Euro Exchange rate



Source : Oxford Economics/Haver Analytics

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 as weak external demand has offset any potential boost. While we expect export growth to pick-up modestly, 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.

Return to inflation – CPI inflation now appears to have passed its trough and even modest rises in the oil price combined with further falls in the euro will likely push inflation back above 1% next year. Were the oil price and hence inflation to climb more sharply than we expect, then there is a risk of the ECB tapering sooner than assumed.

Key risk scenarios

A Greek Eurozone exit – ongoing tensions between Eurozone and Greek policymakers combined with the growing cash flow problems that the government faces, suggest that the crisis could soon reach a head and some form of exit cannot be ruled out. An exit would be most severe for Greece, but confidence effects could result in stagnation in the nearer term for the region as a whole. In addition, the remaining Eurozone governments would probably face a currency risk premium on their borrowing costs which could put some public debt to GDP ratios on an unsustainable trajectory.

Oil price – a further $20 per barrel fall in the oil price could add to the already considerable support for real incomes benefitting Eurozone households and firms. Stronger domestic demand could result in GDP growth in 2016 surging to 3% or more.

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

	2014	2015	2018
Europe	**20**	**20**	**17**
World average	29	30	27
Sovereign risk	16	16	14
Trade credit risk	31	31	25
Political risk	25	24	22
Regulatory risk	0	0	0

Risk warnings

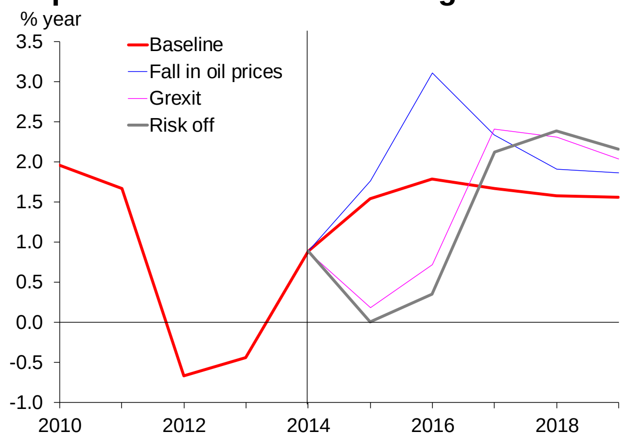
GDP growth		Greece a near term risk to growth.
CPI inflation		Inflation likely to turn positive by year end.
Current account balance		Low oil price to boost surplus position.
Government balance		Deficit to narrow as growth strengthens.
Government debt		But high debt levels limit room for looser fiscal policy.
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

Long-Term Prospects

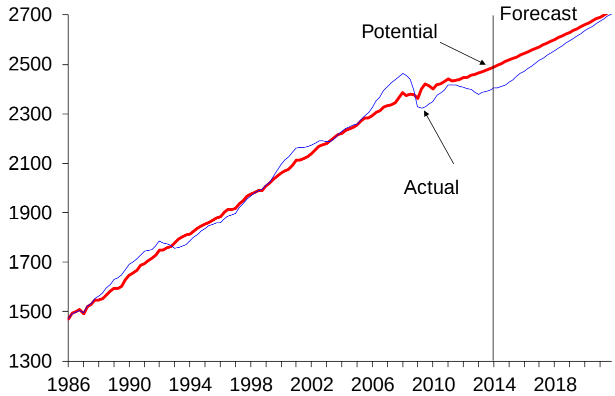
Very slow recovery from crises

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

	2004-2013	2014-2023
Potential GDP*	1.1	1.2
Employment at NAIRU	0.6	0.1
Capital Stock	1.6	1.6
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)

	2004-2008	2009-2013	2014-2018	2019-2023
GDP	2.1	-0.4	1.5	1.5
Consumption	1.5	-0.4	1.4	1.3
Investment	2.9	-3.3	2.1	2.0
Government Consumption	2.0	0.6	0.6	1.1
Exports of Goods and Services	5.9	1.6	3.9	3.2
Imports of Goods and Services	5.7	0.4	4.0	3.2
Unemployment (%)	8.4	10.7	10.7	8.8
Consumer Prices	2.4	1.7	1.0	1.7
Current Balance (% of GDP)	-0.3	0.6	2.2	2.3
Exchange Rate (US$ per Euro)	1.32	1.34	1.13	1.16
General Government Balance (% of GDP)	-1.9	-4.6	-1.7	-0.8
Short-term Interest Rates (%)	3.3	0.8	0.1	1.4
Long-term Interest Rates (%)	4.0	3.7	2.0	3.6
Working Population	0.4	0.1	0.0	-0.2
Labour Supply	1.0	0.2	0.3	-0.2
Participation Ratio	74.3	75.4	76.5	76.8
Labour Productivity	0.9	0.3	1.0	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 has increasingly focused on providing liquidity to banks, with in particular two sets of three-year loans granted in December 2011 and February 2012.

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)
Apr	1.3	11.7	0.7	0.3	-8.6	-1.6	-2.5	14.9
May	0.6	11.6	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	16.0
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	-0.7	-5.7	7.6
Feb	1.6	11.3	-0.3	0.1	-6.7	4.1	0.4	20.3
Mar	1.8	11.3	-0.1	0.2	-3.7	-	-	-
Apr	-	-	0.0	0.3	-4.6	-	-	-

Financial Indicators: Eurozone Percentage changes on a year earlier unless otherwise stated	Short rate %	Long rate %	Money Supply (M3)	Exchange rate $/€ avg.	Exchange rate €/£ avg.	Nominal effective exch. rate	Share price DJ STOXX	Net FDI € bn
Apr	0.33	2.61	0.80	1.38	1.21	108.7	3198	9.2
May	0.32	2.55	1.1	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	2.0	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	1.2
Nov	0.08	1.62	3.1	1.25	1.26	104.1	3251	31.0
Dec	0.08	1.45	3.6	1.23	1.27	104.2	3146	-27.1
2015								
Jan	0.06	1.27	3.7	1.16	1.30	99.4	3351	6.0
Feb	0.05	1.21	4.0	1.13	1.35	97.3	3599	4.3
Mar	0.03	0.96	4.6	1.08	1.38	94.6	3697	-
Apr	0.00	0.85	-	1.08	1.39	93.7	3616	-

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	1.0	0.8	0.9	0.6	11.6	1.6	0.3	2.3	-1.6	0.4
2015	1.7	1.1	1.5	1.6	1.5	11.1	1.9	0.9	5.4	-1.2	0.1
2016	1.6	2.9	1.8	1.9	2.2	10.6	2.3	1.3	4.2	1.8	1.2
2017	1.4	2.9	1.7	1.7	2.0	10.2	2.5	1.3	3.3	2.3	1.4
2018	1.3	2.7	1.6	1.6	1.9	9.8	2.4	1.2	2.5	1.8	1.6
2019	1.3	2.3	1.5	1.5	1.7	9.4	2.5	1.2	1.3	1.7	1.6
2014											
I	0.7	2.3	1.0	1.1	1.9	11.8	1.7	0.9	0.7	-1.5	0.6
II	0.8	1.1	0.9	0.8	0.7	11.6	1.4	0.2	1.4	-1.4	0.6
III	1.1	0.4	0.6	0.8	-0.1	11.5	1.5	0.1	2.4	-1.8	0.3
IV	1.4	0.3	0.7	0.9	-0.2	11.5	1.6	0.0	4.7	-1.7	0.1
2015											
I	1.6	0.1	1.1	1.0	0.5	11.3	1.5	0.2	5.9	-2.6	-0.3
II	1.7	0.9	1.4	1.5	1.2	11.2	1.9	0.8	5.5	-1.1	-0.1
III	1.6	1.5	1.7	1.8	2.1	11.1	2.0	1.2	5.6	-0.9	0.2
IV	1.6	1.8	2.0	2.0	2.3	10.9	2.1	1.4	4.4	-0.4	0.6
2016											
I	1.6	2.5	1.7	2.0	2.0	10.8	2.2	1.3	4.2	1.4	1.2
II	1.6	3.0	1.8	1.9	2.2	10.7	2.3	1.3	4.3	1.3	1.2
III	1.6	3.1	1.8	1.8	2.2	10.6	2.4	1.3	4.2	2.0	1.2
IV	1.5	3.1	1.8	1.8	2.2	10.5	2.4	1.2	3.9	2.5	1.4
2017											
I	1.5	3.0	1.7	1.8	2.1	10.4	2.5	1.3	3.6	2.4	1.4
II	1.4	2.9	1.7	1.8	2.0	10.3	2.5	1.3	3.4	2.3	1.4
III	1.4	2.9	1.7	1.7	2.0	10.2	2.5	1.3	3.2	2.2	1.5
IV	1.4	2.8	1.6	1.7	1.9	10.1	2.5	1.3	3.0	2.1	1.5
2018											
I	1.3	2.8	1.6	1.6	1.9	10.0	2.4	1.3	2.8	2.0	1.6
II	1.3	2.7	1.6	1.6	1.9	9.9	2.4	1.3	2.6	1.9	1.6
III	1.3	2.7	1.6	1.6	1.8	9.8	2.5	1.2	2.4	1.8	1.6
IV	1.3	2.6	1.5	1.5	1.8	9.7	2.5	1.2	2.2	1.7	1.6
2019											
I	1.3	2.5	1.5	1.5	1.8	9.6	2.5	1.2	1.9	1.7	1.6
II	1.3	2.4	1.5	1.5	1.7	9.5	2.5	1.2	1.6	1.7	1.6
III	1.3	2.3	1.5	1.5	1.7	9.4	2.6	1.2	1.2	1.7	1.6
IV	1.3	2.2	1.4	1.5	1.6	9.3	2.6	1.2	0.6	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	195.9	216.8	2.14	-245.9	-2.43	0.21	2.04	-0.21	1.62	1.33	123.9
2015	238.0	243.1	2.34	-211.5	-2.04	0.05	1.17	-0.06	1.06	1.11	114.4
2016	225.7	227.3	2.12	-177.4	-1.66	0.05	1.71	-1.20	0.46	1.07	113.1
2017	231.8	226.2	2.05	-145.0	-1.31	0.05	2.27	-1.39	0.83	1.06	113.3
2018	250.3	241.9	2.12	-121.2	-1.06	0.20	2.67	-1.38	1.10	1.09	114.7
2019	266.5	253.9	2.16	-111.0	-0.94	0.50	3.03	-1.13	1.41	1.11	116.2
2014											
I	42.6	49.1	1.95	-65.1	-2.59	0.30	2.65	-0.35	2.01	1.37	125.9
II	43.2	46.1	1.83	-62.5	-2.48	0.30	2.22	-0.27	1.65	1.37	125.3
III	46.7	56.7	2.24	-60.2	-2.37	0.17	1.79	-0.17	1.46	1.33	122.8
IV	63.5	64.9	2.55	-58.1	-2.28	0.08	1.50	-0.07	1.35	1.25	121.5
2015											
I	63.8	62.8	2.45	-55.1	-2.15	0.05	1.03	0.34	1.33	1.13	115.4
II	54.4	61.9	2.40	-53.6	-2.08	0.05	1.05	0.11	1.11	1.12	114.1
III	56.7	58.0	2.23	-54.7	-2.10	0.05	1.28	-0.12	1.11	1.10	114.1
IV	63.1	60.4	2.30	-48.0	-1.83	0.05	1.31	-0.57	0.70	1.09	114.1
2016											
I	59.1	56.7	2.15	-47.3	-1.79	0.05	1.47	-1.13	0.29	1.08	113.8
II	53.6	60.5	2.27	-44.3	-1.66	0.05	1.63	-1.13	0.45	1.07	113.3
III	54.5	54.5	2.03	-44.0	-1.64	0.05	1.79	-1.20	0.54	1.06	112.9
IV	58.5	55.5	2.05	-41.7	-1.54	0.05	1.94	-1.32	0.58	1.05	112.4
2017											
I	56.6	53.1	1.95	-40.8	-1.50	0.05	2.10	-1.34	0.71	1.06	112.8
II	53.9	59.1	2.15	-37.3	-1.36	0.05	2.21	-1.36	0.81	1.06	113.2
III	57.6	55.5	2.00	-35.2	-1.27	0.05	2.32	-1.40	0.87	1.07	113.5
IV	63.7	58.5	2.09	-31.6	-1.13	0.05	2.43	-1.46	0.92	1.07	113.8
2018											
I	61.9	58.5	2.08	-31.9	-1.13	0.15	2.54	-1.41	0.99	1.08	114.2
II	58.9	63.4	2.24	-30.4	-1.07	0.15	2.63	-1.43	1.05	1.09	114.5
III	61.9	58.5	2.05	-30.6	-1.07	0.25	2.72	-1.33	1.14	1.09	114.8
IV	67.7	61.4	2.13	-28.4	-0.98	0.25	2.81	-1.33	1.23	1.10	115.3
2019											
I	66.1	62.5	2.15	-28.8	-0.99	0.50	2.90	-1.10	1.30	1.10	115.7
II	62.9	66.4	2.27	-27.8	-0.95	0.50	2.99	-1.11	1.37	1.11	116.0
III	65.8	61.2	2.07	-28.3	-0.96	0.50	3.08	-1.14	1.44	1.12	116.4
IV	71.6	63.9	2.15	-26.1	-0.88	0.50	3.16	-1.16	1.51	1.12	116.7

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

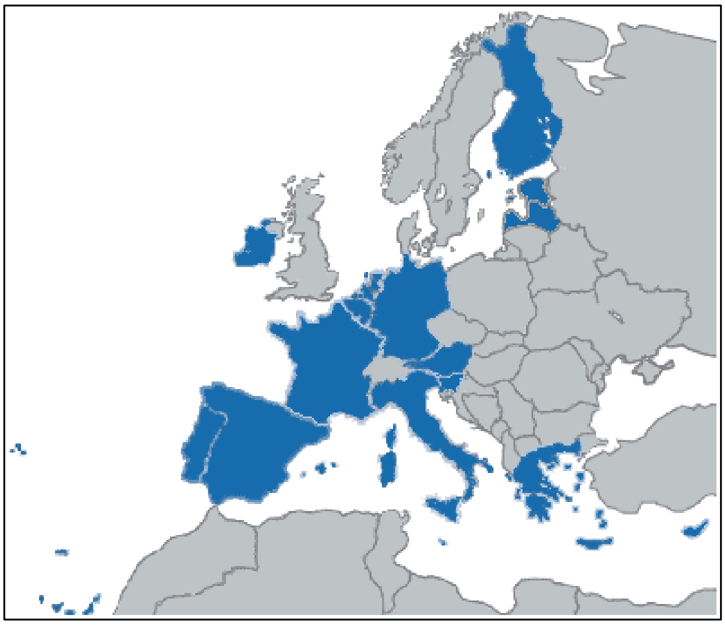
	2004-2013	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
GDP	0.8	2.0	1.7	-0.7	-0.4	0.9	1.6	1.9	1.7	1.6	1.5	1.5	1.5	1.5	1.4	1.5
Consumption	0.6	0.8	0.2	-1.3	-0.6	1.0	1.7	1.6	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.4
Investment	-0.2	-0.6	1.7	-3.5	-2.4	1.0	1.1	2.9	2.9	2.7	2.3	2.0	1.9	1.8	1.8	2.0
Government Consumption	1.3	0.8	-0.2	-0.1	0.2	0.7	0.5	0.5	0.7	0.8	0.9	1.0	1.2	1.2	1.3	0.9
Exports of Goods and Services	3.8	10.8	6.8	2.7	2.2	3.7	3.7	4.2	4.1	3.8	3.5	3.2	3.1	3.0	2.9	3.5
Imports of Goods and Services	3.0	9.6	4.5	-0.9	1.4	3.8	3.8	4.2	4.2	4.0	3.7	3.4	3.2	3.0	2.9	3.6
Unemployment (%)	9.5	10.2	10.2	11.4	12.0	11.6	11.1	10.6	10.2	9.8	9.4	9.1	8.7	8.4	8.2	9.7
Consumer Prices	2.1	1.6	2.7	2.5	1.3	0.4	0.1	1.2	1.4	1.6	1.6	1.7	1.7	1.7	1.7	1.3
Current Balance (% of GDP)	0.2	0.1	0.1	1.2	1.9	2.1	2.3	2.1	2.0	2.1	2.2	2.2	2.3	2.3	2.4	2.2
Exchange Rate (US$ per Euro)	1.33	1.33	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	1.15
General Government Balance (% of GDP)	-3.2	-6.1	-4.1	-3.6	-2.9	-2.4	-2.0	-1.7	-1.3	-1.1	-0.9	-0.9	-0.8	-0.8	-0.7	-1.3
Short-term Interest Rates (%)	2.1	0.8	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	0.8
Long-term Interest Rates (%)	3.9	3.6	4.4	3.9	3.0	2.0	1.2	1.7	2.3	2.7	3.0	3.4	3.7	3.9	4.0	2.8
Working Population	0.3	0.1	0.0	0.2	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.6	0.1	0.1	0.7	0.0	0.2	1.0	0.2	0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	0.0
Participation Ratio (%)	74.8	75.2	75.3	75.7	75.6	75.7	76.4	76.6	76.7	76.8	76.8	76.8	76.8	76.7	76.7	76.6
Labour productivity	0.6	2.5	1.5	-0.2	0.3	0.3	0.9	1.3	1.3	1.2	1.2	1.2	1.2	1.3	1.3	1.1
Employment	0.3	-0.6	0.1	-0.5	-0.7	0.6	0.7	0.6	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.4
Output gap (% of potential GDP)	-0.2	-1.7	-0.9	-2.2	-3.1	-3.4	-3.0	-2.3	-1.7	-1.3	-1.1	-0.9	-0.6	-0.4	-0.2	-1.5

Economist: Ben May, Senior Eurozone Economist | +44(0)20 7620 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 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

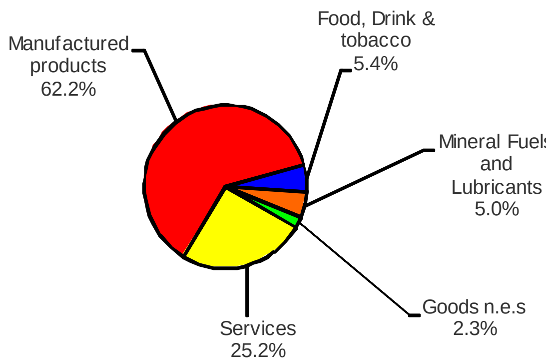
Source : Oxford Economics / World Bank / EIA / ECB

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

Composition of extra-EMU goods & services exports, 2012



Source : Eurostat\ Haver Analytics