



Eurozone

Highlights

- This year should see the Eurozone recovering to positive, albeit modest, growth after two years of contraction. But the pace of recovery is likely to be very different across member states.
- Divergence is nothing new, but the divide is no longer a simple one between 'core' and 'peripheral' countries. While the outlook remains relatively positive for Germany, Ireland and, to a lesser extent, Spain, it is bleak for France, Belgium and Finland.
- External demand will play a key part in the forecast recovery in the Eurozone this year. Helped by stronger US growth, we expect exports to contribute 1.5% points to growth this year, up from 0.5% points in 2013.
- As the year progresses and the recovery becomes more entrenched, domestic demand should start to pick up too. However, two major hurdles – which will not be overcome this year – will prevent stronger domestic spending. First, while unemployment should stabilise this year, it will do so at a high level – forecast GDP growth of below 1% leaves no room for net job creation. Second, businesses are likely to face continued tight credit conditions, constraining their ability to invest.
- One source of upside risk to domestic spending is on the government side. With much less pressure from financial markets and the European Commission, governments may allow some fiscal slippage.
- And 2014 may also be the year when Eurozone monetary policy diverges markedly from US policy. While the Fed is preparing to reduce the level of monetary stimulus, the ECB could well ease monetary policy further, especially given very low inflation. This was hinted at during the January ECB press conference, although what form this monetary easing could take is unclear.

Forecast for Eurozone

(Annual percentage changes unless specified)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|
| Domestic Demand | -2.2 | -1.0 | 0.6 | 1.3 | 1.3 | 1.5 |
| Private Consumption | -1.4 | -0.5 | 0.6 | 1.2 | 1.2 | 1.4 |
| Fixed Investment | -3.9 | -3.2 | 1.4 | 2.5 | 2.5 | 2.5 |
| Government Consumption | -0.6 | 0.3 | 0.0 | 0.3 | 0.5 | 0.8 |
| Net exports (% of GDP) | 4.3 | 4.8 | 5.1 | 5.2 | 5.3 | 5.5 |
| GDP | -0.6 | -0.4 | 0.9 | 1.4 | 1.5 | 1.6 |
| Industrial Production | -3.0 | -1.1 | 1.7 | 2.3 | 2.2 | 1.9 |
| Consumer Prices | 2.5 | 1.4 | 1.0 | 1.5 | 1.8 | 1.7 |
| Current Account (% of GDP) | 1.4 | 2.1 | 2.2 | 2.0 | 1.9 | 1.9 |
| Government Budget (% of GDP) | -3.7 | -2.9 | -2.6 | -2.1 | -1.7 | -1.4 |
| Short-Term Interest rate (%) | 0.6 | 0.2 | 0.3 | 0.3 | 0.3 | 0.5 |
| Long-Term Interest Rates (%) | 3.9 | 3.0 | 2.9 | 3.3 | 3.6 | 3.9 |
| Exchange rate (US\$ per Euro) | 1.28 | 1.33 | 1.30 | 1.25 | 1.22 | 1.20 |
| Exchange rate (YEN per Euro) | 102.5 | 129.6 | 139.6 | 140.4 | 137.9 | 133.4 |



Forecast Overview

Divergent growth pattern to continue

Divergent performance across member states has been a feature of the Eurozone economy over the past three years. In 2014, economic growth across the Eurozone will improve, but significant differences between countries will remain. The pattern of divergence is shifting, however, away from the 'core' versus 'periphery' divide of past years. Stark differences in economic developments are appearing within the core and within the periphery.

This is illustrated by the latest survey indicators. While the composite PMIs for Ireland, Germany and Spain were comfortably in expansion territory, Italy's PMI suggests stagnation in the economy while France's PMI points to further contraction in economic activity

Recent developments in unemployment show a similar picture. The number of unemployed rose sharply in the year to November in Italy, and, to a lesser extent, France, while it stabilised or fell in Spain, Germany and Ireland.

These divergences are reflected in our forecast. We have revised the outlook for Ireland up significantly as recent data point to much more robust domestic demand than previously expected. We now expect Irish GDP growth of 1.8% this year and German GDP growth should also be robust at more than 1.5%. By contrast, GDP growth in France is forecast at only 0.5%, significantly below the Eurozone average of 0.9%.

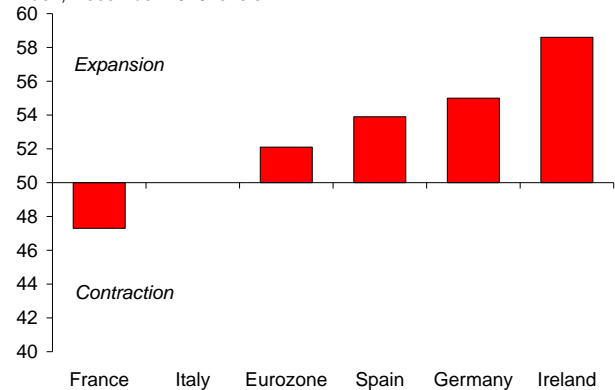
Divergences are likely to continue beyond 2014, partly due to policy constraints. Governments in the fiscally weaker countries cannot afford counter-cyclical fiscal policy and there is little the ECB can do to iron out divergences using monetary measures.

ECB's 'strong emphasis' on low rates

Our current forecast does not expect a further interest rate cut by the ECB. But an additional easing of monetary policy is a significant risk. Such an easing could take the form either of a lowering of the repo rate or through more non-standard measures – such as negative rates for banks' deposits at the ECB or a fresh liquidity injection. At the January ECB press conference, President Draghi stated that the central bank was ready to "take further decisive action if required".

Composite PMIs

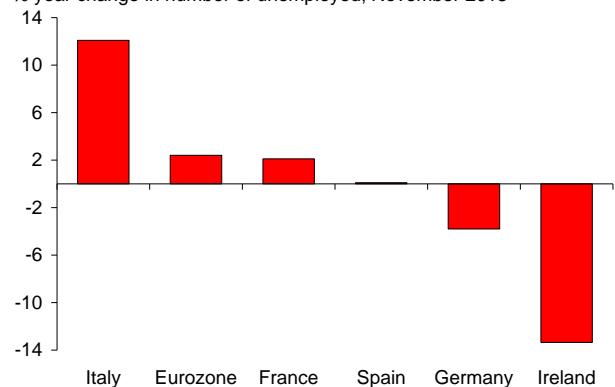
Index, December 2013 levels



Source : Oxford Economics/Markit

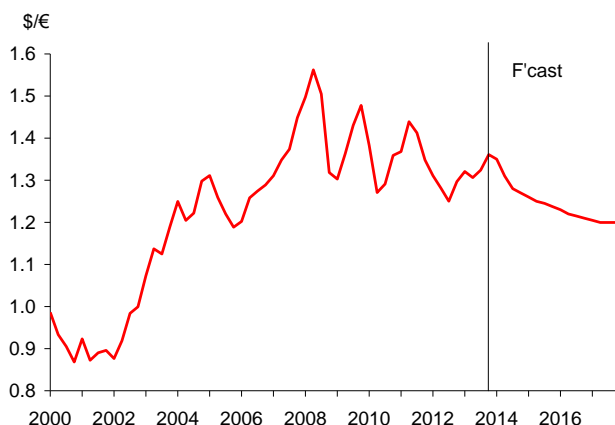
Unemployment

% year change in number of unemployed, November 2013



Source : Oxford Economics/Haver Analytics

Eurozone: \$/€ exchange rate



Source: Oxford Economics/ Haver Analytics



Regardless of ECB moves, our forecast already implies some loosening of monetary conditions in 2014-15 through a weakening of the exchange rate. We expect the euro to decline to around US\$1.27 by end-2014 and US\$1.23 by end-2015 as stronger US growth and asset purchase 'tapering' benefits the US dollar. This will be a key factor supporting growth – and also warding off the risk of deflation (we forecast just 1% inflation this year). If the depreciation does not materialise, there will be a case for a significant easing of monetary policy.

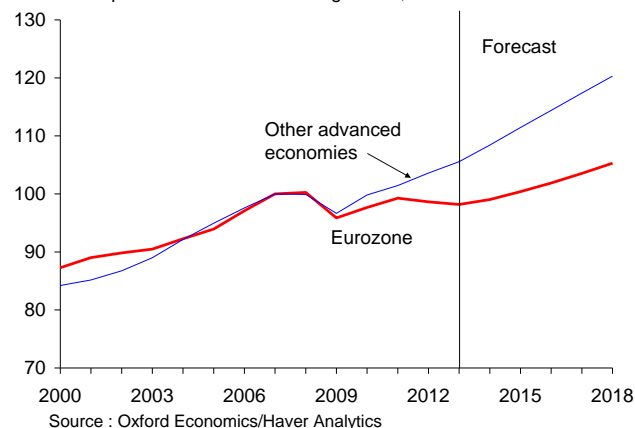
Eurozone lagging behind

The robust recovery we forecast in a number of advanced economies (including the US, the UK and Japan) will contrast with low growth in the Eurozone over the next few years. After a 0.9% expansion in 2014, we forecast GDP growth at just 1.5% pa in 2015-18 – by 2018, the level of Eurozone GDP will only be 5% higher than before the global financial crisis. Growth in the Eurozone will be hampered by a number of factors that will take years to resolve:

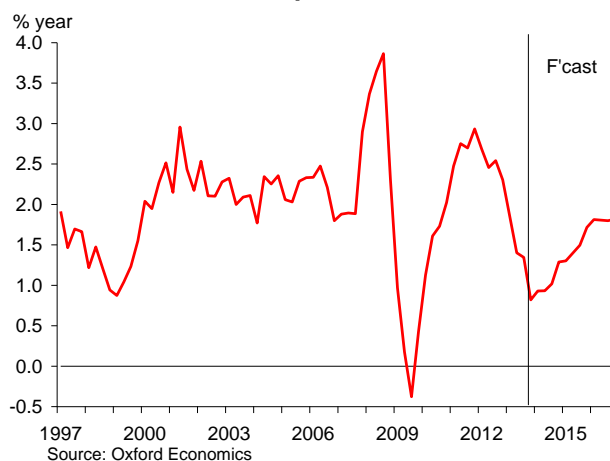
- **Deflation risk** – with an output gap estimated at around 4% of GDP in 2014, the risks to our inflation forecast are on the downside and deflation is a possibility. Deflation means that debt cannot be eroded by inflation so that deleveraging would need to happen via outright debt reduction – constraining spending. Deflation would also tend to raise the private and public sector debt burdens, reviving the risk of a euro break-up.
- **Banking sector restructuring** – the decision on a Single Resolution Authority for banks at the end of last year is a further small step towards banking union. But banking systems remain largely the responsibility of individual governments, so that the fragmentation of the Eurozone banking sector seen in recent years will persist. Businesses and households in the most vulnerable countries will continue to face tight credit conditions.
- **But fiscal constraints will ease** – one source of relief to the Eurozone economy is an easing in the pace of fiscal tightening. Fiscal policy will remain a drag on growth this year but by much less than in 2011-13. And with much less pressure from markets and the European Commission to reduce budget deficits, governments may allow some fiscal slippage. Higher public spending is a source of upside risk to our forecast.

GDP

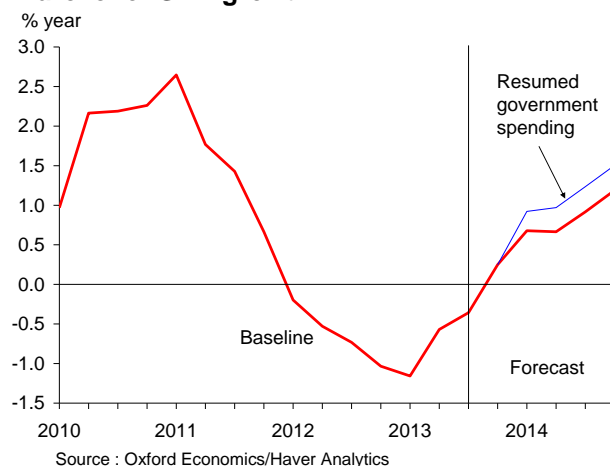
At constant prices and market exchange rates, 2007=100



Eurozone: Consumer price inflation



Eurozone: GDP growth





Long-Term Prospects

Very slow recovery from crises

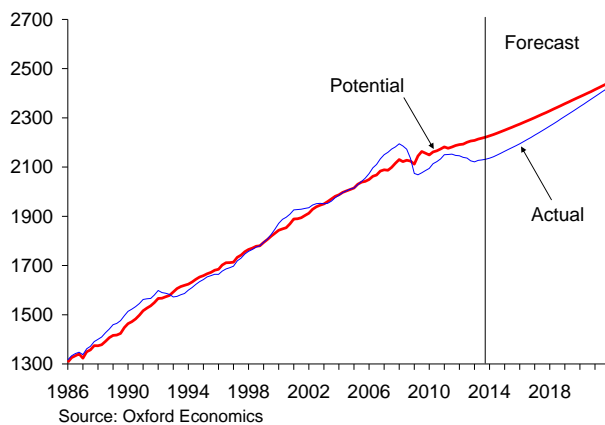
The global and Eurozone crises will leave their mark on growth for years to come. We estimate that the Eurozone's potential growth rate is only 1.1%. This compares with 1.3% in the past decade, itself significantly affected by the crisis, and 1.8% in the 10 years to 2008.

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 from around 76% today to 77.3% by 2022.

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

Euro bn 2005 prices



Potential GDP and Its Components Average Percentage Growth

| | 2003-2012 | 2013-2022 |
|---------------------------|-----------|-----------|
| Potential GDP* | 1.3 | 1.1 |
| Employment at NAIRU | 0.6 | 0.2 |
| Capital Stock | 1.5 | 1.0 |
| Total Factor Productivity | 0.4 | 0.7 |

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

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

| | 2003-2007 | 2008-2012 | 2013-2017 | 2018-2022 |
|--|-----------|-----------|-----------|-----------|
| GDP | 2.2 | -0.3 | 1.0 | 1.7 |
| Consumption | 1.6 | -0.1 | 0.8 | 1.6 |
| Investment | 3.4 | -3.5 | 1.1 | 2.2 |
| Government Consumption | 1.8 | 1.0 | 0.4 | 1.1 |
| Exports of Goods and Services | 5.9 | 1.5 | 3.3 | 3.2 |
| Imports of Goods and Services | 6.2 | 0.4 | 3.0 | 3.2 |
| Unemployment (%) | 8.7 | 9.8 | 12.0 | 10.6 |
| Consumer Prices | 2.2 | 2.1 | 1.5 | 1.6 |
| Current Balance (% of GDP) | 0.2 | -0.1 | 2.0 | 1.8 |
| Exchange Rate (US\$ per Euro) | 1.25 | 1.37 | 1.26 | 1.21 |
| General Government Balance (% of GDP) | -2.1 | -4.5 | -2.1 | -0.8 |
| Short-term Interest Rates (%) | 2.8 | 1.7 | 0.3 | 2.9 |
| Long-term Interest Rates (%) | 4.0 | 4.0 | 3.3 | 4.6 |
| Working Population | 0.4 | 0.1 | 0.0 | -0.1 |
| Labour Supply | 1.0 | 0.4 | 0.1 | 0.1 |
| Participation Ratio | 74.0 | 75.6 | 76.2 | 77.0 |
| Labour Productivity | 1.0 | 0.1 | 0.9 | 1.3 |



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 and Latvia the 18th at the start of 2014.

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. However, 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 remains 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) |
| Dec | -2.6 | 11.9 | 2.2 | -1.0 | -26.3 | -3.2 | -5.0 | 9.8 |
| 2013 | | | | | | | | |
| Jan | -2.5 | 12.0 | 2.0 | -1.0 | -23.9 | 4.7 | 1.7 | -5.1 |
| Feb | -2.5 | 12.0 | 1.8 | -0.7 | -23.6 | -1.4 | -6.9 | 9.4 |
| Mar | -1.7 | 12.0 | 1.7 | -0.8 | -23.5 | -0.7 | -9.8 | 21.2 |
| Apr | -0.7 | 12.1 | 1.2 | -1.0 | -22.2 | 8.8 | 1.5 | 13.9 |
| May | -1.9 | 12.1 | 1.4 | -0.8 | -21.8 | -0.3 | -5.6 | 14.2 |
| Jun | -0.3 | 12.1 | 1.6 | -0.7 | -18.8 | -2.9 | -5.2 | 15.9 |
| Jul | -1.9 | 12.1 | 1.6 | -0.5 | -17.4 | 3.1 | 0.3 | 18.2 |
| Aug | -1.6 | 12.1 | 1.3 | -0.2 | -15.6 | -6.0 | -7.6 | 7.1 |
| Sep | 0.2 | 12.1 | 1.1 | -0.2 | -14.9 | 2.9 | 1.5 | 10.9 |
| Oct | 0.3 | 12.1 | 0.7 | 0.0 | -14.5 | 1.2 | -3.5 | 17.2 |
| Nov | 2.8 | 12.1 | 0.9 | 0.3 | -15.4 | - | - | - |
| Dec | - | - | 0.8 | 0.3 | -13.6 | - | - | - |

| 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 |
| Dec | 0.19 | 2.10 | 3.5 | 1.31 | 1.23 | 102.0 | 2636 | 3.8 |
| 2013 | | | | | | | | |
| Jan | 0.20 | 2.40 | 3.4 | 1.33 | 1.20 | 104.2 | 2703 | -10.9 |
| Feb | 0.22 | 2.86 | 3.1 | 1.34 | 1.16 | 106.0 | 2634 | 2.2 |
| Mar | 0.21 | 3.03 | 2.5 | 1.30 | 1.16 | 104.5 | 2624 | -15.3 |
| Apr | 0.21 | 2.86 | 3.2 | 1.30 | 1.18 | 105.0 | 2712 | -12.2 |
| May | 0.20 | 2.69 | 2.9 | 1.30 | 1.18 | 105.5 | 2770 | -15.9 |
| Jun | 0.21 | 3.07 | 2.4 | 1.32 | 1.17 | 106.3 | 2603 | -20.7 |
| Jul | 0.22 | 3.10 | 2.2 | 1.31 | 1.16 | 106.5 | 2768 | -2.9 |
| Aug | 0.23 | 3.10 | 2.3 | 1.33 | 1.16 | 107.2 | 2721 | -7.2 |
| Sep | 0.22 | 3.41 | 2.0 | 1.33 | 1.19 | 106.7 | 2893 | -6.5 |
| Oct | 0.23 | 3.16 | 1.4 | 1.36 | 1.18 | 107.8 | 3068 | -1.9 |
| Nov | 0.22 | 3.17 | 1.5 | 1.35 | 1.19 | 107.4 | 3087 | - |
| Dec | 0.27 | 3.31 | - | 1.37 | 1.19 | 108.8 | 3109 | - |



EURO ZONE

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) | MONEY SUPPLY M3 | PRODUCER PRICES | CONSUMER PRICES |
|---------------------------|--------------------------|------------------------------|--------------------|-------------|--------------------------|-------------------------------|---------------------|---|-----------------------|--------------------|--------------------|
| | (C) | (IF) | (DOMD) | (GDP) | (IP) | (UP) | (ER) | (GDP/ET) | (MON) | (PPI) | (CPI) |
| YEARS BEGINNING Q1 | | | | | | | | | | | |
| 2012 | -1.4 | -3.9 | -2.2 | -0.6 | -3.0 | 11.4 | 1.8 | 0.0 | 2.8 | 2.5 | 2.5 |
| 2013 | -0.5 | -3.2 | -1.0 | -0.4 | -1.1 | 12.1 | 1.6 | 0.4 | 1.5 | -0.4 | 1.4 |
| 2014 | 0.6 | 1.4 | 0.6 | 0.9 | 1.7 | 12.2 | 1.6 | 0.8 | 1.4 | 0.6 | 1.0 |
| 2015 | 1.2 | 2.5 | 1.3 | 1.4 | 2.3 | 12.1 | 2.3 | 1.1 | 2.9 | 2.2 | 1.5 |
| 2016 | 1.2 | 2.5 | 1.3 | 1.5 | 2.2 | 11.9 | 2.7 | 1.1 | 3.6 | 2.2 | 1.8 |
| 2017 | 1.4 | 2.5 | 1.5 | 1.6 | 1.9 | 11.6 | 2.6 | 1.1 | 3.7 | 1.9 | 1.7 |
| 2012 | | | | | | | | | | | |
| I | -1.3 | -2.7 | -1.7 | -0.2 | -2.5 | 10.9 | 2.1 | 0.3 | 3.0 | 3.4 | 2.7 |
| II | -1.3 | -3.9 | -2.4 | -0.5 | -3.0 | 11.3 | 1.9 | 0.2 | 3.0 | 2.3 | 2.5 |
| III | -1.6 | -4.2 | -2.5 | -0.7 | -2.9 | 11.5 | 1.8 | -0.1 | 2.5 | 2.3 | 2.5 |
| IV | -1.5 | -4.8 | -2.3 | -1.0 | -3.6 | 11.8 | 1.4 | -0.3 | 2.9 | 2.0 | 2.3 |
| 2013 | | | | | | | | | | | |
| I | -1.2 | -5.6 | -2.1 | -1.2 | -2.7 | 12.0 | 1.7 | -0.1 | 2.1 | 0.8 | 1.9 |
| II | -0.6 | -3.5 | -1.3 | -0.6 | -1.5 | 12.1 | 1.5 | 0.4 | 1.8 | -0.4 | 1.4 |
| III | -0.4 | -2.5 | -0.6 | -0.4 | -1.2 | 12.1 | 1.4 | 0.5 | 1.5 | -0.8 | 1.3 |
| IV | 0.2 | -1.3 | 0.0 | 0.3 | 1.0 | 12.2 | 1.8 | 0.7 | 0.4 | -1.0 | 0.8 |
| 2014 | | | | | | | | | | | |
| I | 0.5 | 0.9 | 0.4 | 0.7 | 1.4 | 12.2 | 1.3 | 0.7 | 0.8 | -0.7 | 0.9 |
| II | 0.5 | 1.2 | 0.6 | 0.7 | 1.5 | 12.3 | 1.5 | 0.6 | 0.9 | 0.6 | 0.9 |
| III | 0.6 | 1.4 | 0.4 | 0.9 | 1.8 | 12.3 | 1.7 | 0.8 | 1.5 | 1.0 | 1.0 |
| IV | 0.8 | 1.9 | 0.9 | 1.2 | 2.0 | 12.2 | 1.8 | 1.0 | 2.2 | 1.7 | 1.3 |
| 2015 | | | | | | | | | | | |
| I | 1.0 | 2.3 | 1.1 | 1.3 | 2.1 | 12.2 | 2.0 | 1.0 | 2.5 | 2.0 | 1.3 |
| II | 1.2 | 2.5 | 1.3 | 1.4 | 2.3 | 12.1 | 2.2 | 1.1 | 2.8 | 2.2 | 1.4 |
| III | 1.3 | 2.5 | 1.3 | 1.4 | 2.3 | 12.1 | 2.4 | 1.1 | 3.0 | 2.3 | 1.5 |
| IV | 1.3 | 2.5 | 1.3 | 1.4 | 2.3 | 12.1 | 2.6 | 1.1 | 3.2 | 2.4 | 1.7 |
| 2016 | | | | | | | | | | | |
| I | 1.2 | 2.5 | 1.3 | 1.4 | 2.3 | 12.0 | 2.6 | 1.1 | 3.4 | 2.4 | 1.8 |
| II | 1.2 | 2.5 | 1.3 | 1.4 | 2.2 | 12.0 | 2.7 | 1.1 | 3.5 | 2.3 | 1.8 |
| III | 1.2 | 2.5 | 1.3 | 1.5 | 2.1 | 11.9 | 2.7 | 1.1 | 3.6 | 2.2 | 1.8 |
| IV | 1.3 | 2.5 | 1.4 | 1.5 | 2.0 | 11.8 | 2.7 | 1.1 | 3.7 | 2.1 | 1.8 |
| 2017 | | | | | | | | | | | |
| I | 1.3 | 2.5 | 1.4 | 1.6 | 2.0 | 11.7 | 2.6 | 1.1 | 3.7 | 2.0 | 1.8 |
| II | 1.4 | 2.5 | 1.4 | 1.6 | 1.9 | 11.7 | 2.6 | 1.1 | 3.8 | 1.9 | 1.8 |
| III | 1.4 | 2.5 | 1.5 | 1.6 | 1.9 | 11.6 | 2.6 | 1.1 | 3.7 | 1.8 | 1.7 |
| IV | 1.4 | 2.5 | 1.5 | 1.6 | 1.9 | 11.5 | 2.5 | 1.1 | 3.5 | 1.7 | 1.6 |

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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) | US DOLLAR PER EURO (RXD) | EFFECTIVE RATE (1995=100) |
|---------------------------|-------------------------------|---------------------------------|----------------------------------|---|--|--------------------------------|-------------------------------|--|---|--------------------------------------|---------------------------------|
| | (BVI) | (BCU) | (BCU*100 /GDP) | (GB) | (GB*100 /GDP) | (RSH) | (RLG) | (Note 1) | (Note 1) | (RXD) | (RX) |
| YEARS BEGINNING Q1 | | | | | | | | | | | |
| 2012 | 86.6 | 128.4 | 1.35 | -349.4 | -3.68 | 0.57 | 3.92 | -1.92 | 1.42 | 1.29 | 115.5 |
| 2013 | 152.7 | 203.4 | 2.12 | -275.4 | -2.88 | 0.22 | 3.00 | -1.13 | 1.65 | 1.33 | 120.8 |
| 2014 | 179.1 | 214.1 | 2.19 | -254.8 | -2.61 | 0.30 | 2.92 | -0.75 | 1.88 | 1.30 | 121.7 |
| 2015 | 174.9 | 196.1 | 1.95 | -209.8 | -2.09 | 0.29 | 3.28 | -1.19 | 1.80 | 1.25 | 118.6 |
| 2016 | 180.8 | 195.8 | 1.89 | -177.1 | -1.71 | 0.28 | 3.62 | -1.53 | 1.81 | 1.22 | 115.8 |
| 2017 | 187.6 | 198.8 | 1.85 | -149.4 | -1.39 | 0.46 | 3.90 | -1.25 | 2.18 | 1.20 | 114.8 |
| 2012 | | | | | | | | | | | |
| I | 12.7 | 19.3 | 0.82 | -91.0 | -3.84 | 1.04 | 4.29 | -1.64 | 1.61 | 1.31 | 116.9 |
| II | 18.2 | 31.4 | 1.33 | -88.3 | -3.72 | 0.69 | 4.17 | -1.76 | 1.71 | 1.28 | 115.9 |
| III | 26.6 | 37.0 | 1.56 | -86.0 | -3.62 | 0.36 | 3.89 | -2.18 | 1.35 | 1.25 | 113.3 |
| IV | 29.0 | 40.7 | 1.72 | -84.1 | -3.55 | 0.20 | 3.32 | -2.11 | 1.02 | 1.30 | 115.8 |
| 2013 | | | | | | | | | | | |
| I | 36.4 | 50.4 | 2.12 | -85.3 | -3.59 | 0.21 | 3.06 | -1.64 | 1.20 | 1.32 | 118.8 |
| II | 40.5 | 58.2 | 2.43 | -55.0 | -2.30 | 0.21 | 2.82 | -1.20 | 1.42 | 1.31 | 119.2 |
| III | 35.7 | 48.3 | 2.02 | -69.1 | -2.88 | 0.22 | 3.15 | -1.12 | 1.80 | 1.32 | 121.7 |
| IV | 40.2 | 46.5 | 1.93 | -65.9 | -2.74 | 0.24 | 2.97 | -0.58 | 2.15 | 1.36 | 123.7 |
| 2014 | | | | | | | | | | | |
| I | 45.2 | 62.4 | 2.58 | -68.1 | -2.81 | 0.29 | 2.87 | -0.64 | 1.94 | 1.35 | 123.7 |
| II | 44.4 | 61.2 | 2.51 | -63.7 | -2.62 | 0.30 | 2.88 | -0.63 | 1.95 | 1.31 | 122.0 |
| III | 46.5 | 47.0 | 1.92 | -62.9 | -2.57 | 0.30 | 2.94 | -0.72 | 1.92 | 1.28 | 120.7 |
| IV | 43.0 | 43.5 | 1.76 | -60.1 | -2.44 | 0.30 | 3.01 | -0.99 | 1.72 | 1.27 | 120.3 |
| 2015 | | | | | | | | | | | |
| I | 45.2 | 58.2 | 2.34 | -57.8 | -2.33 | 0.29 | 3.12 | -1.01 | 1.82 | 1.26 | 119.9 |
| II | 42.3 | 54.8 | 2.19 | -52.4 | -2.09 | 0.29 | 3.23 | -1.11 | 1.83 | 1.25 | 119.1 |
| III | 45.0 | 42.4 | 1.68 | -51.3 | -2.03 | 0.29 | 3.34 | -1.21 | 1.84 | 1.25 | 118.2 |
| IV | 42.4 | 40.7 | 1.60 | -48.3 | -1.90 | 0.29 | 3.43 | -1.43 | 1.71 | 1.24 | 117.4 |
| 2016 | | | | | | | | | | | |
| I | 45.9 | 57.4 | 2.24 | -48.4 | -1.89 | 0.29 | 3.51 | -1.53 | 1.70 | 1.23 | 116.8 |
| II | 43.9 | 54.9 | 2.13 | -44.5 | -1.72 | 0.28 | 3.59 | -1.52 | 1.78 | 1.22 | 116.0 |
| III | 46.7 | 42.6 | 1.63 | -43.9 | -1.69 | 0.28 | 3.66 | -1.52 | 1.86 | 1.22 | 115.4 |
| IV | 44.3 | 40.9 | 1.56 | -40.3 | -1.53 | 0.28 | 3.73 | -1.54 | 1.91 | 1.21 | 115.1 |
| 2017 | | | | | | | | | | | |
| I | 47.6 | 57.7 | 2.18 | -40.8 | -1.54 | 0.28 | 3.80 | -1.51 | 2.00 | 1.21 | 114.8 |
| II | 45.4 | 55.4 | 2.07 | -37.3 | -1.40 | 0.28 | 3.86 | -1.48 | 2.11 | 1.20 | 114.7 |
| III | 48.4 | 43.6 | 1.62 | -37.3 | -1.39 | 0.53 | 3.93 | -1.17 | 2.24 | 1.20 | 114.9 |
| IV | 46.1 | 42.1 | 1.55 | -33.9 | -1.25 | 0.77 | 4.01 | -0.85 | 2.38 | 1.20 | 114.8 |

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

| | 2003-2012 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2013-2022 |
|--|-----------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----------|
| GDP | 0.9 | -4.4 | 1.9 | 1.6 | -0.6 | -0.4 | 0.9 | 1.4 | 1.5 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.3 |
| Consumption | 0.7 | -0.9 | 1.0 | 0.3 | -1.4 | -0.5 | 0.6 | 1.2 | 1.2 | 1.4 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.2 |
| Investment | -0.1 | -12.7 | -0.6 | 1.7 | -3.9 | -3.2 | 1.4 | 2.5 | 2.5 | 2.5 | 2.4 | 2.3 | 2.2 | 2.1 | 2.0 | 1.6 |
| Government Consumption | 1.4 | 2.6 | 0.6 | -0.1 | -0.6 | 0.3 | 0.0 | 0.3 | 0.5 | 0.8 | 0.9 | 1.1 | 1.2 | 1.2 | 1.2 | 0.7 |
| Exports of Goods and Services | 3.7 | -12.3 | 11.4 | 6.6 | 2.7 | 1.1 | 3.4 | 4.0 | 4.1 | 4.0 | 3.8 | 3.4 | 3.1 | 2.9 | 2.7 | 3.2 |
| Imports of Goods and Services | 3.3 | -10.8 | 9.8 | 4.6 | -0.8 | 0.0 | 3.0 | 4.1 | 4.1 | 4.0 | 3.7 | 3.4 | 3.1 | 2.9 | 2.7 | 3.1 |
| Unemployment (%) | 9.2 | 9.6 | 10.1 | 10.2 | 11.4 | 12.1 | 12.2 | 12.1 | 11.9 | 11.6 | 11.3 | 11.0 | 10.6 | 10.3 | 9.9 | 11.3 |
| Consumer Prices | 2.1 | 0.3 | 1.6 | 2.7 | 2.5 | 1.4 | 1.0 | 1.5 | 1.8 | 1.7 | 1.5 | 1.5 | 1.6 | 1.7 | 1.8 | 1.6 |
| Current Balance (% of GDP) | 0.1 | -0.2 | 0.0 | 0.1 | 1.4 | 2.1 | 2.2 | 2.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 | 1.8 | 1.9 |
| Exchange Rate (US\$ per Euro) | 1.31 | 1.39 | 1.33 | 1.39 | 1.28 | 1.33 | 1.30 | 1.25 | 1.22 | 1.20 | 1.20 | 1.20 | 1.20 | 1.21 | 1.22 | 1.23 |
| General Government Balance (% of GDP) | -3.3 | -6.4 | -6.2 | -4.1 | -3.7 | -2.9 | -2.6 | -2.1 | -1.7 | -1.4 | -1.1 | -0.9 | -0.8 | -0.6 | -0.6 | -1.5 |
| Short-term Interest Rates (%) | 2.3 | 1.2 | 0.8 | 1.4 | 0.6 | 0.2 | 0.3 | 0.3 | 0.3 | 0.5 | 1.4 | 2.4 | 3.0 | 3.5 | 3.9 | 1.6 |
| Long-term Interest Rates (%) | 4.0 | 3.8 | 3.6 | 4.4 | 3.9 | 3.0 | 2.9 | 3.3 | 3.6 | 3.9 | 4.2 | 4.4 | 4.6 | 4.8 | 5.0 | 4.0 |
| Working Population | 0.3 | 0.0 | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 | -0.2 | -0.2 | -0.1 |
| Labour Supply | 0.7 | 0.2 | 0.1 | 0.3 | 0.7 | 0.0 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| Participation Ratio (%) | 74.8 | 75.5 | 75.5 | 75.6 | 76.0 | 75.9 | 76.1 | 76.2 | 76.4 | 76.5 | 76.7 | 76.9 | 77.0 | 77.1 | 77.3 | 76.6 |
| Labour productivity | 0.6 | -2.6 | 2.4 | 1.4 | 0.0 | 0.4 | 0.8 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.4 | 1.3 | 1.1 |
| Employment | 0.4 | -1.8 | -0.5 | 0.3 | -0.7 | -0.8 | 0.1 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 |
| Output gap (% of potential GDP) | -0.3 | -3.2 | -2.2 | -1.5 | -2.8 | -4.1 | -4.1 | -3.8 | -3.4 | -3.0 | -2.5 | -2.0 | -1.5 | -1.0 | -0.6 | -2.6 |

Key Facts

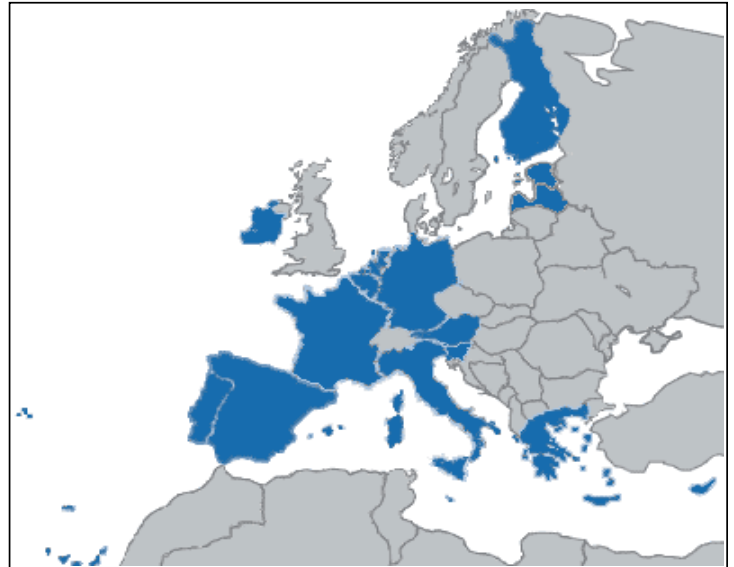
Politics

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

Long-term economic & social development

| | 1980 | 1990 | 2000 | 2012* |
|-------------------------------|------|-------|-------|-------|
| GDP per capita (US\$) | - | 18088 | 19881 | 36668 |
| Inflation (%) | 9.9 | 4.2 | 2.2 | 2.5 |
| Population (mn) | 287 | 305 | 315 | 332 |
| 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



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

Structure of GDP by output

| | 2010 |
|-------------|-------|
| Agriculture | 1.6% |
| Industry | 26.3% |
| Services | 72.0% |

Source : WDI

* 2012 or latest available year

Corruption perceptions index 2012

| | Score |
|-------------------------------|-------------|
| Developed economies (average) | 74.8 |
| Emerging economies (average) | 38.0 |
| Eurozone | 66.6 |

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

Structural economic indicators

| | 1990 | 1995 | 2000 | 2012* |
|--------------------------------|------|-------|-------|-------|
| Current account (US\$ billion) | 10 | 54 | -94 | 165 |
| Trade balance (US\$ billion) | -23 | 63 | -29 | 111 |
| FDI (US\$ billion) | - | - | -25 | -107 |
| Govt budget (% of GDP) | -4.1 | -7.5 | -0.1 | -3.7 |
| Govt debt (% of GDP) | 13.5 | 67.4 | 67.1 | 91.2 |
| Long-term interest rate | 10.9 | 8.7 | 5.4 | 3.9 |
| Oil production (000 bpd) | 271 | 313 | 240 | 227 |
| Oil consumption (000 bpd) | 9715 | 10483 | 10927 | 9493 |

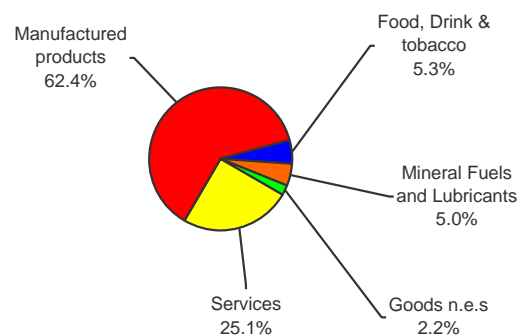
Source : Oxford Economics / World Bank / EIA / ECB

Destination of goods' exports (2012)

| | |
|-------------|-------|
| Eurozone | 46.2% |
| UK | 6.6% |
| US | 6.4% |
| China | 3.5% |
| Switzerland | 3.3% |
| Poland | 2.6% |

Source : Eurostat \ Haver Analytics

Composition of extra-EMU goods & services exports, 2012



Source : Eurostat \ Haver Analytics