OXFORD ECONOMICS

Eurozone

Highlights

- Recent Eurozone data support the view that the recovery shifted up a gear around the turn of the year. With the full effects of the oil price plunge and the weakening euro yet to be felt, the Eurozone looks on track to continue to perform strongly in the early stages of 2015, too. Although the risks of Russia and/or Greece unsettling the recovery have increased, our view remains that the Eurozone will surprise to the upside in 2015.
- Admittedly, the 0.3% quarterly rise in GDP in Q4 was solid rather than spectacular. But the available data suggest that the rise reflected strengthening domestic demand, which we expect to continue this year.
- In addition to the ongoing domestic healing, which prompted household spending growth to surprise to the upside in 2014, households are benefitting from the drop in energy prices. In Q4, retail sales rose at their strongest quarterly pace since 2005. Given the further sharp falls in the oil price since then, a further period of strength appears on the cards.
- What's more, it is not just stronger household spending that should support the recovery. The ECB's decision to undertake sovereign Quantitative Easing (QE) has helped to push the euro and government bond yields lower, adding to the substantial monetary easing that has already taken place since the summer. While the weaker euro is unlikely to lead to super-charged growth, it should ensure that export growth strengthens over the course of this year. Meanwhile, the drop in bond yields and further signs that banks are becoming more willing to lend suggest that investment will also pick-up this year.
- While geopolitical risks hang over the currency bloc, our central view is that 2015 will be the year that the Eurozone recovery finally gets going. We expect GDP growth to rise by an above consensus 1.5% this year and 1.8% in 2016.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2013	2014	2015	2016	2017	2018
Domestic Demand	-0.9	0.7	1.3	1.7	1.6	1.6
Private Consumption	-0.6	0.9	1.7	1.5	1.4	1.4
Fixed Investment	-2.4	0.7	0.5	2.8	2.8	2.7
Stockbuilding (% of GDP)	-0.1	-0.3	-0.1	0.0	0.1	0.2
Government Consumption	0.2	0.8	0.2	0.5	0.6	0.8
Exports of goods and services	2.1	3.7	4.0	4.5	4.1	3.7
Imports of goods and services	1.2	3.5	3.7	4.5	4.3	4.0
GDP	-0.4	0.9	1.5	1.8	1.7	1.6
Industrial Production	-1.0	0.7	1.5	2.4	2.0	1.8
Consumer Prices	1.3	0.4	-0.2	1.1	1.4	1.6
Current Balance (% of GDP)	2.2	2.4	3.0	2.7	2.5	2.5
Government Budget (% of GDP)	-2.9	-2.6	-2.1	-1.7	-1.4	-1.1
Short-Term Interest Rates (%)	0.22	0.21	0.08	0.07	0.07	0.09
Long-Term Interest Rates (%)	3.00	2.05	0.86	0.81	1.15	1.56
Exchange rate (US$ per Euro)	1.33	1.33	1.07	1.01	1.01	1.02
Exchange rate (YEN per Euro)	129.6	140.7	129.0	129.8	132.1	135.4

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Forecast Overview

Recovery finally picking up steam

After a disappointing mid-year, the Eurozone ended 2014 on a positive note, with GDP expanding by a solid – at least by Eurozone standards – 0.3% on the quarter. This was the joint strongest quarterly increase since the onset of the current recovery.

Households the new growth engine

Admittedly, it would be unwise to read too much into one quarterly outturn. And in any case, by US and UK standards, Q4's outturn is nothing to get too excited about. But there are several reasons why we think that the recovery may have finally picked up a gear and that the economy is on track to perform more strongly than the consensus expectation this year.

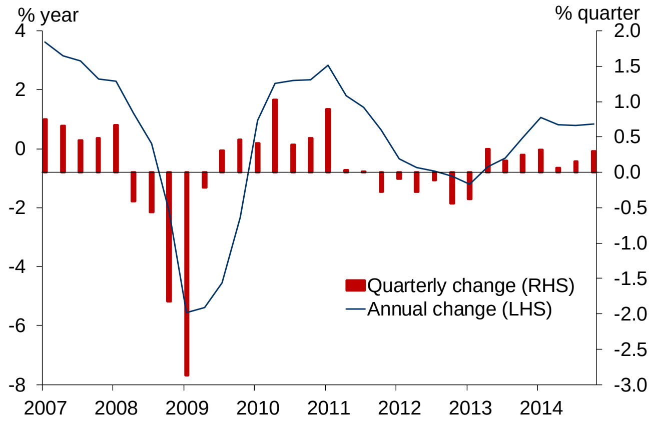
- **Stronger household spending** – the gradual and ongoing recovery in household spending appears to have been glossed over by others. Last year, household spending was stronger than widely anticipated. A key factor for the turnaround was that after several years acting as a drag on spending, employment began to rise.

  Although we expect employment growth to strengthen only slightly this year, real wages, which have recently picked-up sharply in response to the oil-related slump in CPI inflation, are on track to remain at pretty high levels by historical standards. We expect households' real disposable incomes to increase by 2.5% this year, the strongest gain since 2001 and substantially better than our September estimate of 1.0%. In response, we expect this to prompt household spending to pick up from 0.9% last year to 1.7%. But even this could be too cautious. Spending growth is likely to slow gradually to about 1.4% by 2018, as income growth eases. But this would still be a pretty healthy rate by recent historical standards.

- **Weaker euro** – by committing to a sovereign QE programme in January, the ECB has crossed the Rubicon and demonstrated beyond doubt that it can and will use all the potential weapons in its armoury.

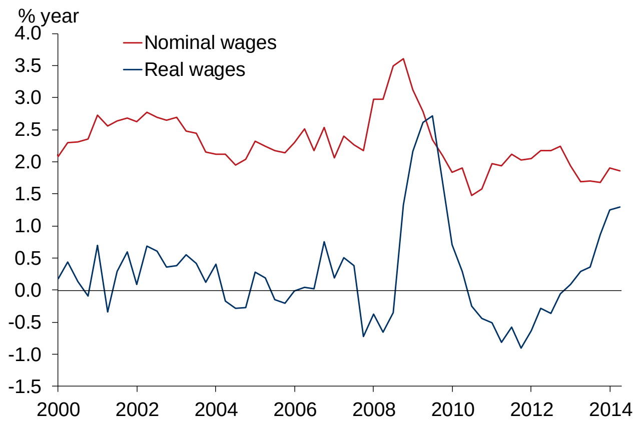
  The euro has already fallen sharply, reflecting the observation that the ECB and the Federal Reserve appear to be heading in opposite directions: the Fed gearing up for an interest rate increase and the ECB belatedly undertaking QE. With the monetary policy

Eurozone: GDP



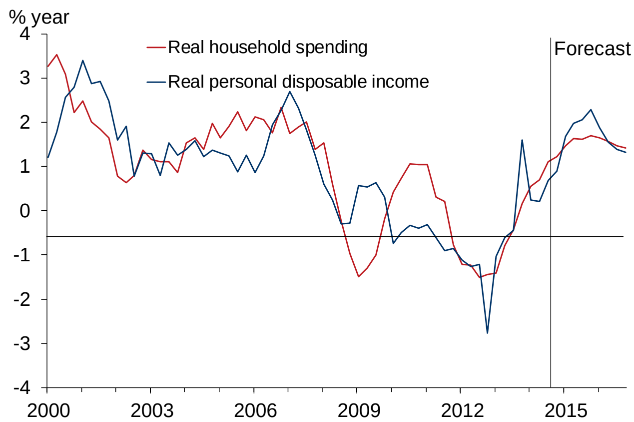
Source : Oxford Economics/Haver Analytics

Eurozone: Negotiated wages



Source : Oxford Economics/Haver Analytics

Eurozone: Household spending and real income



Source : Oxford Economics/Haver Analytics divergence set to widen, we now expect the euro to fall to near parity against the dollar by the autumn.

This is likely to be the key transmission channel of QE to the wider economy. The improvement in competitiveness should ensure a gradual pick-up in export growth and help to boost exporters' profit margins. Admittedly, a period of robust export growth may be too much to hope for thanks to fairly subdued global trade growth (at least by pre-crisis standards). But stronger export growth and the sharp fall in the value of energy imports should prompt the current account surplus to swell to 3% of GDP this year.

- **Better credit environment** – the introduction of the ECB as a major purchaser of government bonds will push down government bond yields, which in turn could result in lower long-term borrowing rates for firms. This, combined with further signs that banks are loosening credit conditions, should provide a stable base from which investment can pick up. Encouragingly, banks reported that demand for loans from firms to fund fixed investment is increasing, suggesting that investment prospects are already starting to improve. However, given the uncertainties created by events in Russia and Greece, we remain cautious about near-term investment prospects. Accordingly, 2016 may be the year that investment really gets going.

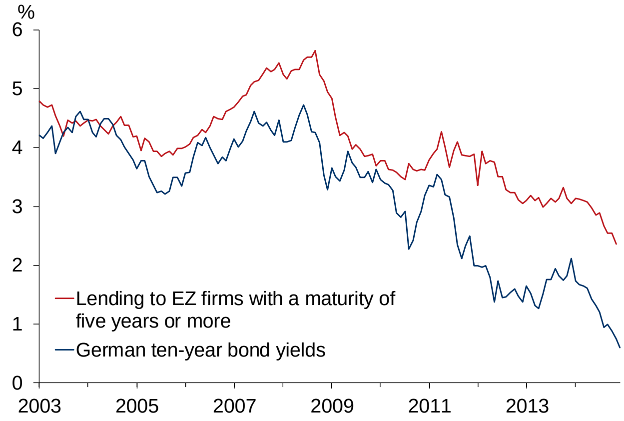
2015 GDP forecast raised slightly

The upshot is that we expect GDP to expand by 1.5% this year, well above the consensus forecast of 1.1%. In 2016, growth should pick up a touch as the investment recovery gains steam. But thereafter growth should gradually slow to 1.6% by 2018.

In the near term, there is a risk that a worsening situation in Russia leads to further sanctions, hitting exports and sentiment. Similarly, a sustained period of uncertainty surrounding Greece's future and/or an exit from the currency bloc could also lead to great caution by firms and households, resulting in rather weaker domestic demand than we have assumed.

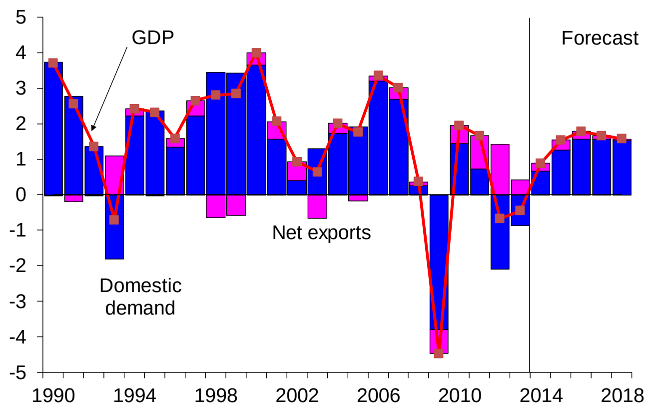
Meanwhile, despite the fall in headline CPI inflation into negative territory, we do not see this energy-related fall in inflation turning into more sustained and widespread falls in prices. For now at least, we think that recent price developments are a positive for the region and are unlikely to trigger a period of 'bad deflation'.

Eurozone: Borrowing costs



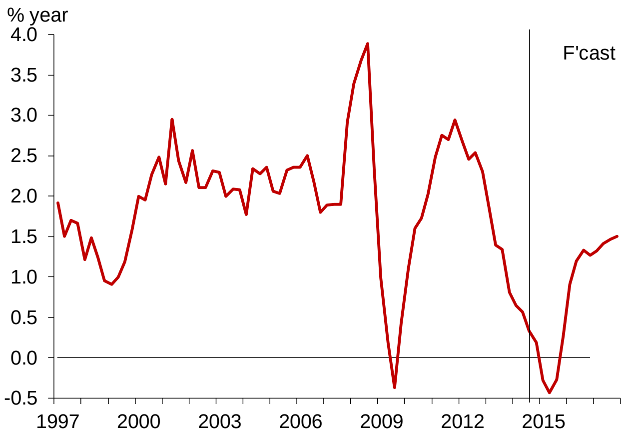
Source : Oxford Economics/Haver Analytics

Eurozone: Contributions to GDP growth



Source: Oxford Economics

Eurozone: Consumer price inflation



Source: Oxford Economics

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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

Deflation – prior to the recent falls in oil prices we had anticipated a gradual pickup in the rate of price growth through 2015. But with energy costs plunging, headline inflation looks set to remain in negative territory for most of this year. With core inflation also at a record low, there is an ongoing risk that inflation expectations become detached, undermining the ECB's ability to get inflation back towards 2% even over the medium term. This would have severe implications for debt sustainability.

Greek exit – ongoing tensions between Eurozone and Greek policymakers suggest neither side is willing to make significant concessions to facilitate a compromise on the austerity and reform process in Greece. While both sides will wish to avoid a Greek exit, such an outcome is a distinct risk. Not only would this push Greece back into recession, contagion effects could undermine the Eurozone recovery and prompt a renewed surge in peripheral government bond yields.

Key risk scenarios

Eurozone slips into recession – although the region is recovering gently, the sluggish pace of growth means a relatively modest shock could push the economy back into recession. Moreover, in light of limited fiscal space as well as uncertainties over the impact further QE might have compared to the past when yields were much higher, it is not clear that policymakers would be able to do a great deal to support growth.

Investment standstill in China – we have revised down our expectation for growth in China and consequently demand for capital goods from the Eurozone that have been central to China's economic development over recent decades. However, with key risks in the financial sector threatening a more severe slowdown there remains the possibility of a greater impact on the Eurozone. This would push the Eurozone back towards another year of near-zero growth.

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

	2013	2014	2017
Europe	**22**	**20**	**19**
World average	30	29	28
Sovereign risk	16	16	16
Trade credit risk	39	31	30
Political risk	24	25	23
Regulatory risk	0	0	0

Risk warnings

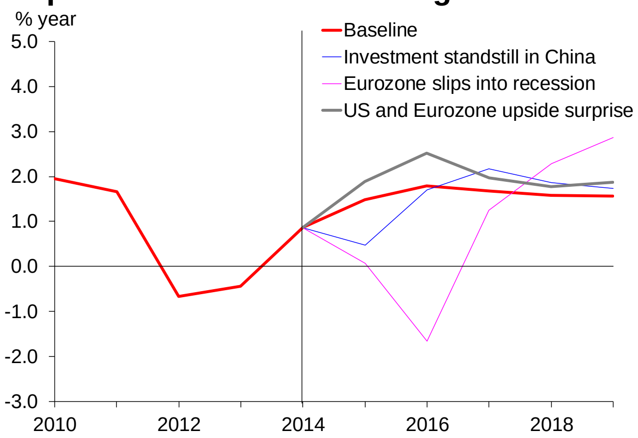
GDP growth		External factors and Greece pose near-term threats
CPI inflation		Sustained deflation remains a potential concern
Current account balance		Surplus to persist, even if energy prices return to highs
Government balance		Recovery will lead to further narrowing of the deficit
Government debt		High debt limits potential for any fiscal loosening
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

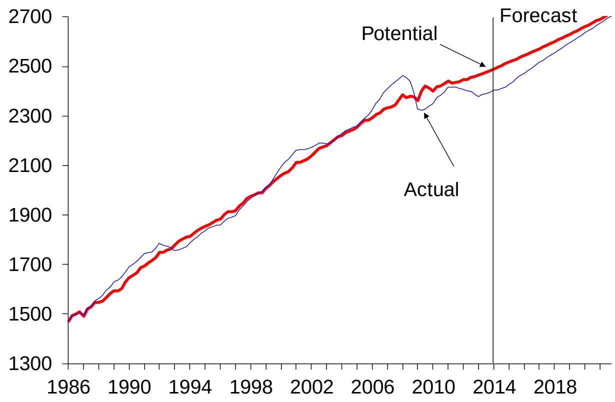
The global and Eurozone crises will leave their mark on growth for years to come. We estimate that the Eurozone's potential growth rate is only 1.1%, in line with our estimate for the past decade, itself significantly affected by the crisis, and 1.8% in the 10 years to 2008.

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.

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 2010 prices



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	1999-2008	2008-2018
Potential GDP*	1.82	0.95
Employment at NAIRU	1.02	0.16
Capital Stock	2.17	1.20
Total Factor Productivity	0.40	0.43

*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	-3.2	1.9	2.0
Government Consumption	2.0	0.6	0.6	1.2
Exports of Goods and Services	5.9	1.6	4.0	3.1
Imports of Goods and Services	5.7	0.3	4.0	3.2
Unemployment (%)	8.3	10.6	10.7	8.8
Consumer Prices	2.4	1.7	0.9	1.7
Current Balance (% of GDP)	0.0	0.6	2.6	2.5
Exchange Rate (US$ per Euro)	1.32	1.34	1.08	1.09
General Government Balance (% of GDP)	-1.9	-4.6	-1.8	-0.7
Short-term Interest Rates (%)	3.3	0.8	0.1	1.1
Long-term Interest Rates (%)	4.0	3.8	1.3	2.7
Working Population	0.4	0.1	0.0	-0.2
Labour Supply	1.0	0.2	0.1	-0.2
Participation Ratio	74.2	75.3	75.7	75.9
Labour Productivity	0.8	0.3	1.0	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. 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.

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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)
Jan	2.1	11.8	0.8	0.2	-11.6	1.2	-2.5	0.5
Feb	1.8	11.8	0.7	0.3	-12.7	3.5	0.2	14.4
Mar	0.5	11.7	0.5	0.3	-9.3	-0.7	3.1	16.0
Apr	1.6	11.6	0.7	0.2	-8.6	-1.4	-2.1	14.9
May	0.7	11.6	0.5	0.3	-7.1	0.5	0.1	15.2
Jun	0.1	11.5	0.5	0.2	-7.5	3.3	3.0	16.4
Jul	1.8	11.6	0.4	0.2	-8.3	2.9	1.0	21.1
Aug	-0.6	11.5	0.4	0.2	-10.1	-3.1	-4.3	8.5
Sep	0.1	11.5	0.3	0.1	-11.4	8.6	4.2	18.2
Oct	0.9	11.5	0.4	0.1	-11.1	4.1	-0.2	24.0
Nov	-0.5	11.5	0.3	0.2	-11.6	0.9	-2.2	21.2
Dec	0.0	11.4	-0.2	0.2	-10.9	8.1	1.0	24.3
2015								
Jan	-	-	-0.6	0.2	-8.5	-	-	-

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
Jan	0.29	3.21	1.2	1.36	1.21	108.3	3014	-3.9
Feb	0.29	3.09	1.3	1.37	1.21	108.2	3149	8.0
Mar	0.31	2.89	1.0	1.38	1.20	109.1	3162	16.9
Apr	0.33	2.61	0.8	1.38	1.21	108.7	3198	14.0
May	0.32	2.55	1.1	1.37	1.23	107.8	3245	-3.1
Jun	0.24	2.28	1.6	1.36	1.24	106.9	3228	-11.9
Jul	0.21	2.16	1.8	1.35	1.26	106.4	3116	9.4
Aug	0.19	1.99	2.0	1.33	1.25	105.8	3173	-2.5
Sep	0.10	1.85	2.5	1.29	1.26	104.4	3226	20.7
Oct	0.08	1.69	2.5	1.27	1.27	103.7	3113	-1.0
Nov	0.08	1.62	3.1	1.25	1.26	104.1	3251	28.1
Dec	0.08	1.45	3.6	1.23	1.27	104.2	3146	-
2015								
Jan	0.06	1.27	-	1.16	1.30	99.4	3351	-

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											
2013	-0.6	-2.4	-0.9	-0.4	-1.0	12.0	1.8	0.3	1.4	-0.4	1.3
2014	0.9	0.7	0.7	0.9	0.7	11.6	1.7	0.4	2.3	-1.6	0.4
2015	1.7	0.5	1.3	1.5	1.5	11.2	1.8	1.0	4.2	-0.5	-0.2
2016	1.6	2.8	1.7	1.8	2.4	10.7	2.3	1.3	4.2	1.5	1.1
2017	1.4	2.9	1.6	1.7	2.0	10.3	2.5	1.2	4.1	2.3	1.4
2018	1.4	2.7	1.6	1.6	1.8	9.9	2.5	1.2	3.9	1.8	1.6
2013											
I	-1.4	-4.7	-2.1	-1.2	-2.7	12.0	1.7	-0.2	2.1	0.7	1.9
II	-0.8	-3.0	-1.3	-0.6	-1.5	12.0	1.6	0.4	1.7	-0.4	1.4
III	-0.4	-1.4	-0.3	-0.3	-1.1	12.0	1.8	0.4	1.5	-0.8	1.3
IV	0.2	-0.4	0.1	0.4	1.2	11.9	2.1	0.8	0.4	-1.2	0.8
2014											
I	0.6	2.2	0.9	1.1	2.1	11.8	1.9	1.0	0.8	-1.5	0.6
II	0.7	0.9	0.8	0.8	1.0	11.6	1.7	0.4	1.4	-1.4	0.6
III	1.0	0.0	0.4	0.8	0.0	11.5	1.6	0.2	2.4	-1.7	0.3
IV	1.3	-0.4	0.6	0.9	-0.4	11.5	1.4	0.1	4.7	-1.7	0.2
2015											
I	1.6	-0.9	0.8	1.0	0.0	11.3	1.4	0.3	4.6	-1.0	-0.3
II	1.7	0.2	1.2	1.5	1.1	11.2	1.8	0.9	4.4	-0.6	-0.4
III	1.7	1.1	1.5	1.8	2.2	11.1	1.9	1.3	4.5	-0.4	-0.3
IV	1.7	1.6	1.7	1.9	2.7	11.0	2.2	1.4	3.2	0.1	0.3
2016											
I	1.6	2.5	1.7	1.9	2.5	10.9	2.3	1.3	4.1	0.4	0.9
II	1.6	2.8	1.7	1.8	2.5	10.8	2.3	1.3	4.2	1.3	1.1
III	1.5	2.9	1.6	1.8	2.3	10.7	2.3	1.3	4.3	2.0	1.3
IV	1.5	2.9	1.7	1.7	2.3	10.6	2.4	1.2	4.3	2.5	1.3
2017											
I	1.4	2.9	1.7	1.7	2.2	10.5	2.4	1.2	4.2	2.4	1.3
II	1.4	2.9	1.7	1.7	2.1	10.4	2.5	1.3	4.1	2.3	1.4
III	1.4	2.8	1.6	1.7	2.0	10.2	2.5	1.2	4.0	2.2	1.4
IV	1.4	2.8	1.6	1.6	1.9	10.1	2.5	1.2	3.9	2.1	1.5
2018											
I	1.4	2.7	1.6	1.6	1.9	10.0	2.5	1.2	3.9	2.0	1.5
II	1.4	2.7	1.6	1.6	1.8	10.0	2.5	1.2	3.9	1.9	1.5
III	1.4	2.8	1.6	1.6	1.8	9.9	2.5	1.2	4.0	1.8	1.6
IV	1.4	2.7	1.6	1.6	1.8	9.8	2.5	1.3	3.9	1.7	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											
2013	154.9	214.2	2.16	-284.7	-2.87	0.22	3.00	-1.13	1.65	1.33	120.8
2014	200.9	244.3	2.42	-266.6	-2.64	0.21	2.05	-0.21	1.62	1.33	123.6
2015	273.5	305.7	2.96	-217.8	-2.11	0.08	0.86	0.26	1.04	1.07	108.6
2016	256.8	292.3	2.75	-180.2	-1.69	0.07	0.81	-1.07	-0.33	1.01	104.7
2017	244.4	279.1	2.54	-151.2	-1.38	0.07	1.15	-1.33	-0.25	1.01	105.4
2018	245.1	279.9	2.47	-124.3	-1.10	0.09	1.56	-1.46	0.01	1.02	106.6
2013											
I	37.6	52.1	2.12	-77.2	-3.14	0.21	3.06	-1.64	1.20	1.32	118.8
II	40.7	60.7	2.45	-72.3	-2.92	0.21	2.82	-1.19	1.43	1.31	119.2
III	35.0	46.8	1.89	-68.7	-2.77	0.22	3.15	-1.12	1.80	1.32	121.7
IV	41.6	54.6	2.19	-66.5	-2.67	0.24	2.97	-0.57	2.16	1.36	123.7
2014											
I	42.7	59.0	2.35	-74.4	-2.96	0.30	2.66	-0.35	2.01	1.37	125.6
II	43.1	57.9	2.30	-60.8	-2.42	0.30	2.23	-0.27	1.66	1.37	125.1
III	46.3	66.1	2.62	-73.0	-2.90	0.17	1.80	-0.17	1.47	1.33	122.5
IV	68.8	61.3	2.42	-58.4	-2.30	0.08	1.50	-0.07	1.35	1.25	121.2
2015											
I	71.8	82.8	3.25	-60.2	-2.36	0.08	1.00	0.38	1.30	1.14	113.4
II	65.6	80.0	3.11	-54.8	-2.13	0.08	0.87	0.51	1.31	1.08	109.6
III	65.4	75.5	2.92	-55.4	-2.14	0.08	0.78	0.35	1.05	1.04	106.7
IV	70.7	67.4	2.58	-47.5	-1.82	0.08	0.78	-0.20	0.51	1.01	104.8
2016											
I	66.9	79.4	3.02	-47.0	-1.79	0.07	0.78	-0.82	-0.11	1.01	104.7
II	61.2	76.7	2.89	-44.7	-1.69	0.07	0.79	-1.06	-0.35	1.01	104.6
III	62.2	72.4	2.71	-45.1	-1.69	0.07	0.79	-1.18	-0.46	1.01	104.8
IV	66.5	63.9	2.37	-43.5	-1.62	0.07	0.89	-1.20	-0.38	1.01	104.9
2017											
I	62.4	75.4	2.78	-42.6	-1.57	0.07	1.00	-1.24	-0.32	1.01	105.2
II	58.0	73.3	2.68	-39.0	-1.42	0.07	1.10	-1.30	-0.27	1.01	105.3
III	59.6	69.3	2.51	-36.7	-1.33	0.07	1.20	-1.37	-0.23	1.01	105.6
IV	64.4	61.0	2.20	-33.0	-1.19	0.07	1.31	-1.42	-0.18	1.01	105.6
2018											
I	61.3	75.5	2.70	-33.0	-1.18	0.07	1.41	-1.44	-0.10	1.01	106.0
II	57.8	73.2	2.60	-31.3	-1.11	0.07	1.51	-1.48	-0.03	1.02	106.4
III	60.4	69.5	2.44	-31.2	-1.10	0.07	1.62	-1.50	0.05	1.02	106.8
IV	65.6	61.6	2.15	-28.7	-1.00	0.16	1.72	-1.42	0.13	1.03	107.2

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

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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	1.5	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.5
Consumption	0.6	0.8	0.2	-1.3	-0.6	0.9	1.7	1.5	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.4
Investment	-0.2	-0.5	1.7	-3.2	-2.4	0.7	0.5	2.8	2.8	2.7	2.5	2.2	2.0	1.9	1.8	2.0
Government Consumption	1.3	0.8	-0.2	-0.2	0.2	0.8	0.2	0.5	0.6	0.8	1.0	1.1	1.2	1.2	1.3	0.9
Exports of Goods and Services	3.7	10.9	6.7	2.6	2.1	3.7	4.0	4.5	4.1	3.7	3.5	3.2	3.1	3.0	2.9	3.6
Imports of Goods and Services	3.0	9.6	4.5	-1.0	1.2	3.5	3.7	4.5	4.3	4.0	3.7	3.4	3.1	3.0	2.9	3.6
Unemployment (%)	9.5	10.1	10.1	11.3	12.0	11.6	11.2	10.7	10.3	9.9	9.5	9.1	8.7	8.4	8.2	9.8
Consumer Prices	2.1	1.6	2.7	2.5	1.3	0.4	-0.2	1.1	1.4	1.6	1.7	1.7	1.7	1.8	1.8	1.3
Current Balance (% of GDP)	0.3	-0.1	-0.1	1.5	2.2	2.4	3.0	2.7	2.5	2.5	2.4	2.5	2.5	2.6	2.6	2.6
Exchange Rate (US$ per Euro)	1.33	1.33	1.39	1.28	1.33	1.33	1.07	1.01	1.01	1.02	1.04	1.06	1.09	1.11	1.14	1.09
General Government Balance (% of GDP)	-3.2	-6.1	-4.1	-3.6	-2.9	-2.6	-2.1	-1.7	-1.4	-1.1	-0.9	-0.8	-0.7	-0.6	-0.5	-1.2
Short-term Interest Rates (%)	2.1	0.8	1.4	0.6	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.6	1.0	1.5	2.0	0.6
Long-term Interest Rates (%)	3.9	3.6	4.4	3.9	3.0	2.0	0.9	0.8	1.2	1.6	2.0	2.4	2.8	3.1	3.4	2.0
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	0.2	0.8	-0.1	0.0	0.2	0.2	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	0.0
Participation Ratio (%)	74.7	75.1	75.2	75.6	75.4	75.5	75.6	75.8	75.9	75.9	76.0	76.0	75.9	75.9	75.9	75.8
Labour productivity	0.6	2.5	1.5	-0.2	0.3	0.4	1.0	1.3	1.2	1.2	1.2	1.2	1.3	1.3	1.4	1.2
Employment	0.3	-0.5	0.1	-0.5	-0.8	0.5	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.3
Output gap (% of potential GDP)	-0.2	-1.7	-0.9	-2.2	-3.6	-3.8	-3.4	-2.7	-2.2	-1.7	-1.3	-1.0	-0.7	-0.4	-0.2	-1.7

OXFORD ECONOMICS

Key Facts

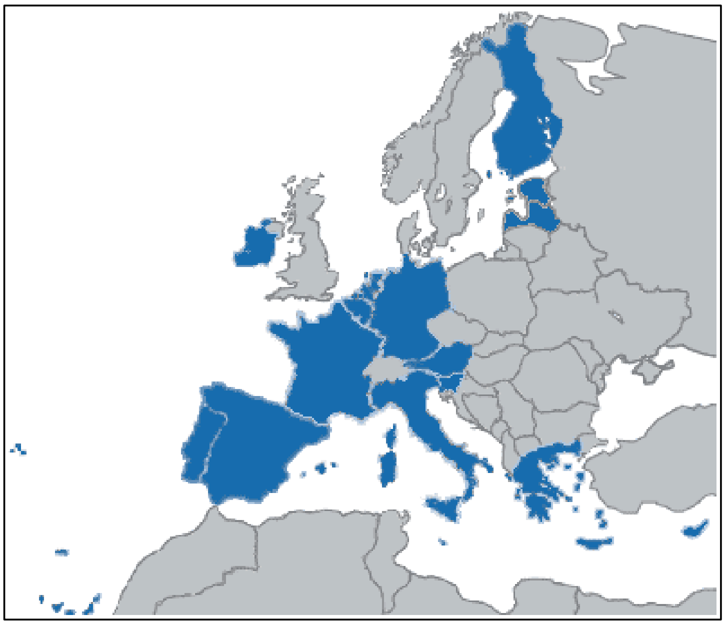
Politics

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	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



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

* 2013 or latest available year

Corruption perceptions index 2013

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

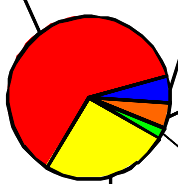
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

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