OXFORD ECONOMICS

Eurozone

Highlights

- In light of the tumbling price of oil and (to a lesser extent) renewed euro weakness we have made notable revisions to our forecast for the Eurozone economy for the coming couple of years. Based upon the new outlook for oil prices it seems likely that annual inflation will be negative for much of 2015, giving households a further boost to their spending power. As a result, we have increased our forecast for consumer spending growth in 2015 from 1.4% to 1.6%.
- In response to inflation tipping below zero we also expect the ECB to accelerate its asset purchases in 2015, starting with the meeting later this month. This should add a little further downward pressure to the euro, and support exporters in 2015-16. We have therefore revised up modestly our expectation for the Eurozone's current account surplus. Overall, we have increased our forecasts for GDP growth to 1.5% for 2015 (from 1.3%) and 1.8% for 2016 (from 1.7%).
- Nevertheless, given the need for fiscal restraint and private sector deleveraging, and with wage growth being constrained by the degree of labour market slack, medium-term growth will remain unimpressive by historical standards. Furthermore, with oil prices likely to rebound in the later years of the decade this will act as a drag on household income growth. We expect GDP growth to remain around 1.6-1.7% during 2017-18.
- In addition, a number of major risks persist. Most worryingly, although core inflation seems to be holding up in recent data, there remains the possibility that second round effects from the lower cost of energy start to erode core price growth in the coming months, and ultimately detach price expectations for the longer term. And on the political front, 2015 also has the potential to reignite Eurozone financial instability, with radical parties well placed ahead of elections in Greece and Spain.

Forecast for Eurozone
(Annual percentage changes unless specified)

	2013	2014	2015	2016	2017	2018
Domestic Demand	-0.9	0.7	1.2	1.7	1.6	1.6
Private Consumption	-0.6	0.9	1.6	1.5	1.4	1.3
Fixed Investment	-2.4	0.5	0.5	2.8	2.8	2.7
Government Consumption	0.2	0.8	0.3	0.5	0.7	0.8
Net exports (% of GDP)	4.1	4.3	4.5	4.6	4.7	4.7
GDP	-0.4	0.9	1.5	1.8	1.7	1.6
Industrial Production	-1.0	0.7	1.2	2.3	2.1	1.8
Consumer Prices	1.3	0.4	0.1	1.3	1.6	1.6
Current Account (% of GDP)	2.1	2.5	3.2	3.1	2.8	2.6
Government Budget (% of GDP)	-2.9	-2.6	-2.1	-1.7	-1.4	-1.1
Short-Term Interest rate (%)	0.2	0.2	0.1	0.1	0.1	0.1
Long-Term Interest Rates (%)	3.0	2.0	1.4	1.8	2.2	2.6
Exchange rate (US$ per Euro)	1.33	1.33	1.18	1.15	1.13	1.11
Exchange rate (YEN per Euro)	129.6	140.7	144.8	147.2	148.3	148.1

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Forecast Overview

Cheaper oil fuels domestic healing…

The second half of 2014 was a period of domestic healing for the Eurozone, with financial stability aiding business confidence, stabilising labour markets reassuring households, and the composition of (admittedly tepid) growth rotating from externally dependent manufacturing sectors to more domestically facing service firms.

In 2015 this dynamic is set to receive a boost from the ongoing plunge in oil prices. December's preliminary inflation data for the Eurozone indicated that the cost of energy had fallen by almost 7% in the previous 12 months (mostly in the final months of 2014 and as such possibly yet to feed through into household behaviour). Based upon our revised forecast for global oil prices we expect a further 4% fall in energy bills by end-2015. Taking into account this boost to household income we have raised our forecast for consumer spending growth in the Eurozone during 2015 from 1.4% to 1.6%, with our forecast for 2016 also up very slightly.

…will accelerate the ECB's plans…

For some commentators the slide in oil prices increases the risk of deflation in the Eurozone. True, annual headline CPI inflation is set to be negative through much of 2015. But we expect "core" inflation to remain closer to 1%, and the rise in oil prices to push inflation to 1.3% in 2016. But even so, price growth will still be well below the ECB's "close to but below 2%" target. We therefore expect the ECB to provide further clarity over its plans when it meets on 22 January. We foresee an announcement that the ECB will expand its balance sheet by €1trn through 2015, perhaps by buying private sector assets rather than sovereign bonds in light of well-aired objections from some Governing Council members, and doubts over the efficacy of such a measure.

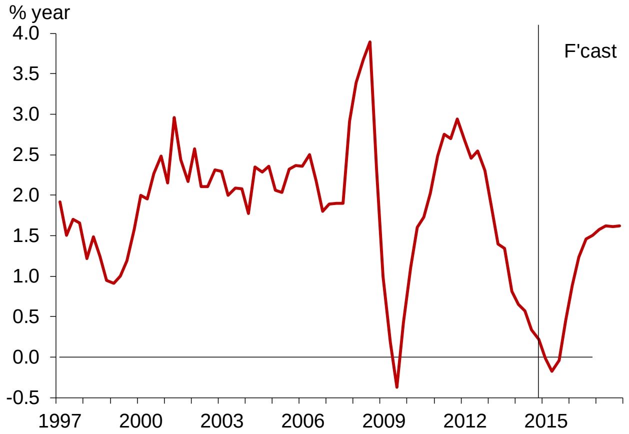
…and drive growth to 1.8% by 2016

An additional positive for the Eurozone in 2015-2016 comes from a weaker euro than previously expected, in light of a steeper rise in US short-term interest rates. At $1.18 in 2015 and $1.15 in 2016 this should boost net exports by around 0.1-0.2pp of GDP. Overall therefore, we have revised our forecasts for Eurozone GDP growth to 1.5% for 2015 (from 1.3%) and 1.8% for 2016 (from 1.7%). GDP in 2016 is set to be the strongest since the post-Lehman's rebound of 2010.

Eurozone PMI sub-components

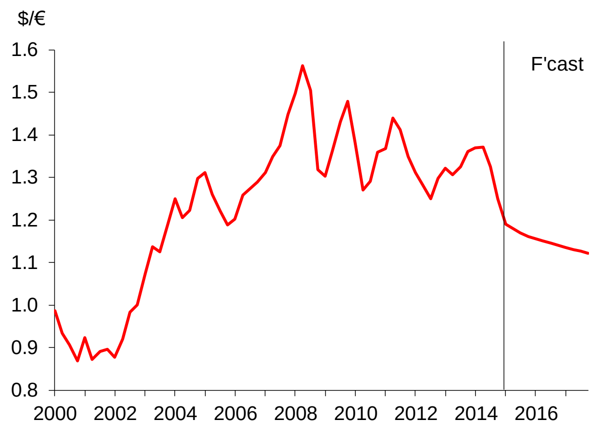
Source : Oxford Economics/Markit

Eurozone: Consumer price inflation



Source: Oxford Economics

Eurozone: $/€ exchange rate



Source: Oxford Economics/ Haver Analytics

Medium-term outlook subdued…

Unfortunately though, the near-term boost offered by lower energy prices does little to improve the medium-term outlook, which remains constrained by a number of structural problems. Principally, an extra few tenths of a percentage point on GDP growth are unlikely to meaningfully reduce the Eurozone's public debt burden. So although the period of emergency austerity is over, government spending growth will remain modest for the foreseeable future, and will not pick up above 1% until early in the next decade.

Furthermore, although unemployment edged down (at least at the Eurozone level) during 2014, and faster growth in 2015-16 will augment the improvement in the labour market, we expect the unemployment rate to remain above 11% by the end of 2015, and above 10% until mid-2018. Consequently, wage growth will remain subdued by historical standards, and after the temporary boost to household spending in 2015-16, consumer spending growth will ease back below 1.5%.

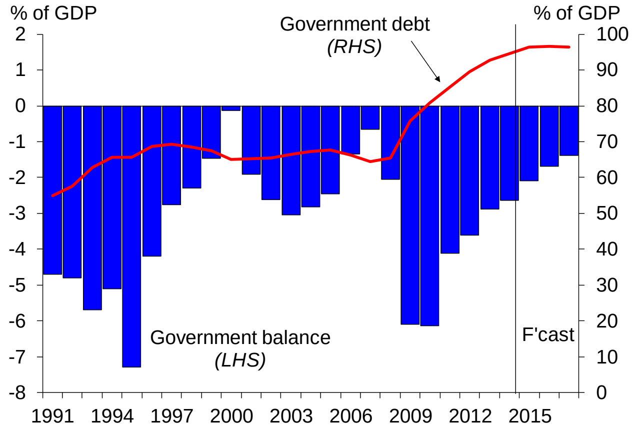
Finally, in spite of the ECB's best efforts to stimulate bank lending, the high degree of corporate indebtedness seems likely to inhibit firms from borrowing and investing too aggressively. We expect growth in total investment to rebound to around 3% over the medium term, a little way short of pre-crisis norms.

Ambitious reform would boost outlook

That said, prospects do vary somewhat across the Eurozone's various economies. In particular, the contrast between more reform-minded economies such as Spain and Ireland on the one hand, and countries where less has been achieved such as France and Italy is quite notable. We expect GDP growth of 2.5-3% per annum or so in the coming few years in the former and 1-1.5% per annum in the latter.

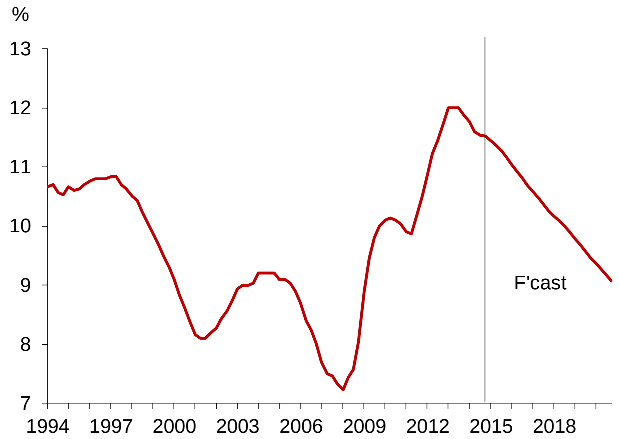
A more ambitious effort to improve labour market flexibility (the OECD estimates Spain's 2012 labour market reform is now creating around 25,000 permanent posts per month) as well as wider improvements to the business environment could help boost underlying growth potential in France and Italy. In turn this might ease medium-term fiscal risks and allow some near-term easing of fiscal policy to support growth. Such an approach has been long-advocated by Mario Draghi. However, given the political difficulties of implementing especially ambitious reforms in some economies, this remains very much an upside risk scenario.

Eurozone: Government finances



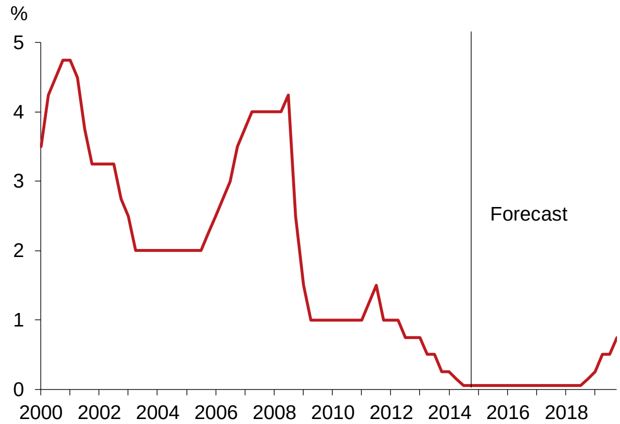
Source: Oxford Economics

Eurozone: Unemployment



Source: Oxford Economics

Eurozone: ECB refinancing rate



Source: Oxford Economics

Risk Assessment

Overall risk in the Eurozone is expected to decline slightly in the medium term. While the current account is in surplus and austerity has significantly reduced the budget deficit, public and private sector indebtedness remain high. The latter could have severe ramifications for growth prospects if the region suffered from a sustained period of price and wage deflation.

Emerging risks

Deflation – prior to the recent falls in the oil price we had anticipated a gradual pickup in the rate of price growth through 2015. But with energy costs more than offsetting modest increases in core inflation 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.

Domestic recovery gathers pace – the publication of the AQR and the ECB's pledge to return its balance sheet to its 2012 peak, combined with less austerity, the weaker euro and the boost to consumer income from declining oil prices, could cumulatively result in the domestic recovery gaining more traction than commonly assumed − particularly if the Russian-related 'uncertainty shock' fades.

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 around whether even a sovereign bond purchase programme would have the impact it might have done a year or two ago 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	29	28	26
Sovereign risk	16	16	16
Trade credit risk	39	33	30
Political risk	24	25	23
Regulatory risk	0	0	0

Risk warnings

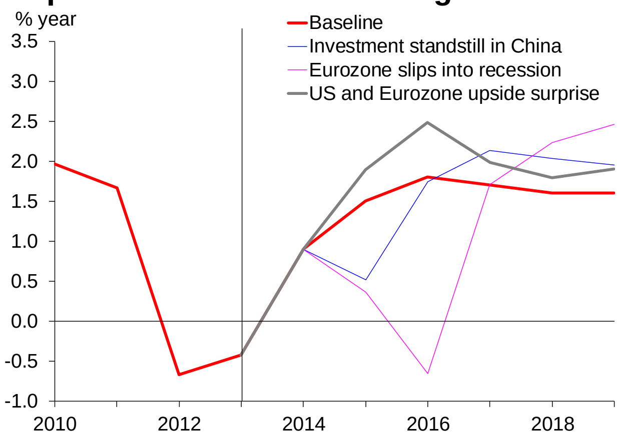
GDP growth	🟡	External factors point to near-term downside risks
CPI inflation	🟡	Deflation is a potential risk with major consequences
Current account balance	🟢	Region as a whole to remain in surplus
Government balance	🟢	Austerity has lowered deficit below SGP target
Government debt	🔴	High levels of debt provide little margin for future error
External debt	🟢	Not a major 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

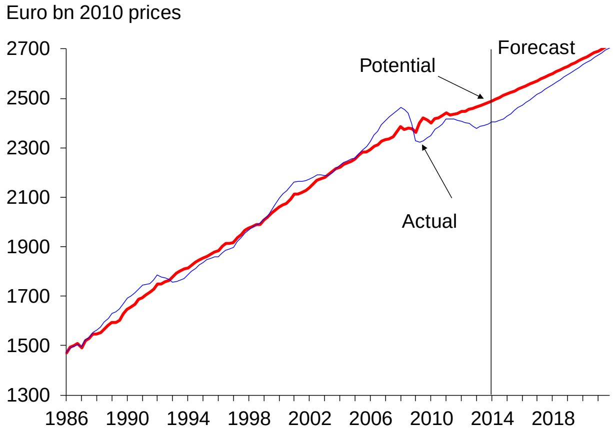
Very slow recovery from crises

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



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	1999-2008	2008-2018
Potential GDP*	1.82	0.93
Employment at NAIRU	1.02	0.15
Capital Stock	2.07	1.20
Total Factor Productivity	0.44	0.41

*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	1.3	1.4
Investment	2.9	-3.2	1.9	2.0
Government Consumption	2.0	0.6	0.6	1.1
Exports of Goods and Services	5.9	1.6	3.9	3.0
Imports of Goods and Services	5.7	0.3	3.9	3.2
Unemployment (%)	8.3	10.6	10.9	8.9
Consumer Prices	2.4	1.7	1.0	1.8
Current Balance (% of GDP)	-0.2	0.6	2.8	2.3
Exchange Rate (US$ per Euro)	1.32	1.34	1.18	1.10
General Government Balance (% of GDP)	-1.9	-4.6	-1.8	-0.7
Short-term Interest Rates (%)	3.3	0.8	0.1	1.5
Long-term Interest Rates (%)	4.0	3.8	2.0	3.6
Working Population	0.4	0.1	0.0	-0.2
Labour Supply	1.0	0.2	0.1	-0.2
Participation Ratio	75.1	76.4	76.8	77.1
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)
Dec	1.6	11.8	0.8	0.3	-13.5	4.0	1.7	13.6
2014								
Jan	2.1	11.8	0.8	0.2	-11.6	1.2	-2.6	0.5
Feb	1.9	11.8	0.7	0.4	-12.7	3.5	0.1	14.4
Mar	0.5	11.7	0.5	0.4	-9.2	-0.7	3.2	15.9
Apr	1.6	11.6	0.7	0.3	-8.6	-1.4	-2.2	14.9
May	0.8	11.6	0.5	0.4	-7.1	0.5	0.0	15.2
Jun	0.2	11.5	0.5	0.2	-7.5	3.2	2.8	16.5
Jul	1.8	11.6	0.4	0.2	-8.3	2.9	0.9	21.2
Aug	-0.6	11.5	0.4	0.2	-10.0	-3.2	-4.5	8.7
Sep	0.1	11.5	0.3	0.0	-11.4	8.5	4.2	18.1
Oct	1.0	11.5	0.4	0.1	-11.1	3.9	-0.5	24.0
Nov	-0.3	11.5	0.3	0.2	-11.5	-	-	-
Dec	-	-	-0.2	0.0	-10.9	-	-	-

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
Dec	0.27	3.31	1.0	1.37	1.19	108.8	3109	17.4
2014								
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	12.0
Mar	0.31	2.89	1.0	1.38	1.20	109.1	3162	18.0
Apr	0.33	2.61	0.8	1.38	1.21	108.7	3198	16.6
May	0.32	2.55	1.1	1.37	1.23	107.8	3245	-4.9
Jun	0.24	2.28	1.6	1.36	1.24	106.9	3228	-14.7
Jul	0.21	2.16	1.8	1.35	1.26	106.4	3116	9.2
Aug	0.19	1.99	2.0	1.33	1.25	105.8	3173	-0.6
Sep	0.10	1.85	2.5	1.29	1.26	104.4	3226	29.9
Oct	0.08	1.69	2.5	1.27	1.27	103.7	3113	1.8
Nov	0.08	1.62	3.1	1.25	1.26	104.1	3251	-
Dec	0.08	1.45	-	1.23	1.27	104.2	3146	-

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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	-10	12.0	18	0.3	14	-0.4	13
2014	0.9	0.5	0.7	0.9	0.7	116	17	0.4	18	-15	0.4
2015	16	0.5	12	15	12	113	19	10	3.3	-0.6	0.1
2016	15	2.8	17	18	2.3	10.9	2.3	13	4.0	15	13
2017	14	2.8	16	17	2.1	10.4	2.5	12	4.0	2.3	16
2018	13	2.7	16	16	18	10.0	2.5	12	3.9	18	16
2013											
I	-14	-4.7	-2.1	-12	-2.6	12.0	17	-0.2	2.1	0.7	19
II	-0.8	-3.0	-13	-0.6	-15	12.0	16	0.4	17	-0.4	14
III	-0.4	-14	-0.3	-0.3	-11	12.0	18	0.4	15	-0.8	13
IV	0.2	-0.4	0.1	0.4	12	119	2.1	0.8	0.4	-12	0.8
2014											
I	0.6	2.2	0.9	11	2.1	118	19	10	0.8	-15	0.6
II	0.7	0.9	0.8	0.8	0.9	116	17	0.4	14	-14	0.6
III	10	0.0	0.4	0.8	0.0	115	16	0.2	2.4	-18	0.3
IV	12	-11	0.6	0.8	-0.3	115	15	0.1	2.8	-13	0.2
2015											
I	15	-12	0.7	10	-0.2	115	14	0.3	3.3	-10	0.0
II	16	0.0	11	13	0.9	114	18	0.9	3.1	-0.6	-0.2
III	16	10	14	17	19	113	19	13	3.2	-0.4	0.0
IV	17	2.1	17	19	2.3	112	2.2	15	3.6	-0.3	0.5
2016											
I	17	2.6	17	19	2.4	110	2.2	14	3.9	0.4	0.9
II	16	2.8	17	18	2.4	10.9	2.3	13	4.0	13	12
III	15	2.8	17	18	2.3	10.8	2.4	12	4.0	2.0	15
IV	14	2.9	16	17	2.3	10.7	2.4	12	4.1	2.5	15
2017											
I	14	2.9	17	17	2.2	10.6	2.5	12	4.1	2.4	16
II	14	2.9	17	17	2.1	10.5	2.5	12	4.1	2.3	16
III	14	2.8	16	17	2.1	10.4	2.6	12	4.0	2.2	16
IV	14	2.8	16	16	2.0	10.3	2.6	12	4.0	2.1	16
2018											
I	14	2.7	15	16	19	10.2	2.5	12	3.9	2.0	16
II	13	2.7	16	16	19	10.1	2.5	12	3.9	19	16
III	13	2.7	16	16	18	10.0	2.6	12	3.9	18	16
IV	13	2.7	16	16	17	9.9	2.6	12	3.9	17	16

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	154.7	212.5	2.14	-284.7	-2.87	0.22	3.00	-113	165	133	120.8
2014	194.2	250.2	2.48	-265.4	-2.63	0.21	2.04	-0.23	160	133	123.6
2015	293.2	333.0	3.23	-215.9	-2.09	0.08	144	0.03	138	118	0.0
2016	281.9	326.6	3.07	-179.1	-168	0.07	184	-120	0.57	115	0.0
2017	256.1	305.2	2.78	-150.5	-137	0.07	2.24	-154	0.63	113	0.0
2018	240.4	293.5	2.59	-123.6	-109	0.09	2.65	-153	102	112	0.0
2013											
I	37.3	517	2.10	-77.2	-3.14	0.21	3.06	-164	120	132	118.8
II	40.6	59.9	2.42	-72.3	-2.92	0.21	2.82	-119	143	131	119.2
III	35.1	46.2	186	-68.7	-2.77	0.22	3.15	-112	180	132	121.7
IV	41.7	54.7	2.19	-66.5	-2.67	0.24	2.97	-0.57	2.16	136	123.7
2014											
I	42.4	59.2	2.36	-73.7	-2.94	0.30	2.66	-0.35	2.01	137	125.6
II	43.0	60.2	2.39	-614	-2.44	0.30	2.23	-0.27	166	137	125.1
III	46.2	70.9	2.81	-72.3	-2.87	0.17	180	-0.17	147	133	122.5
IV	62.5	59.9	2.37	-57.9	-2.29	0.08	146	-0.14	124	125	121.2
2015											
I	72.9	818	3.21	-59.7	-2.34	0.08	129	0.10	130	119	0.0
II	71.1	89.7	3.49	-54.1	-2.11	0.08	138	0.26	156	118	0.0
III	75.1	89.2	3.45	-55.0	-2.13	0.08	148	0.12	153	117	0.0
IV	74.2	72.4	2.78	-47.2	-181	0.08	159	-0.38	113	116	0.0
2016											
I	74.2	82.7	3.15	-46.6	-177	0.07	169	-0.81	0.80	116	0.0
II	68.7	88.7	3.35	-44.4	-167	0.07	179	-116	0.55	115	0.0
III	70.9	86.0	3.22	-44.9	-168	0.07	189	-139	0.43	115	0.0
IV	68.1	69.1	2.56	-43.3	-161	0.07	199	-143	0.49	114	0.0
2017											
I	67.5	77.7	2.86	-42.5	-156	0.07	2.09	-150	0.52	114	0.0
II	62.4	84.2	3.08	-38.8	-142	0.07	2.19	-155	0.57	113	0.0
III	64.3	79.0	2.86	-36.5	-132	0.07	2.29	-154	0.68	113	0.0
IV	61.9	64.3	2.31	-32.8	-118	0.07	2.39	-156	0.77	112	0.0
2018											
I	61.9	73.5	2.62	-32.8	-117	0.07	2.49	-155	0.88	112	0.0
II	58.2	810	2.87	-312	-110	0.07	2.60	-155	0.98	112	0.0
III	61.2	76.8	2.70	-310	-109	0.07	2.70	-156	107	111	0.0
IV	59.1	62.2	2.17	-28.5	-100	0.16	2.80	-147	117	111	0.0

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

Long-Term Forecast for Eurozone

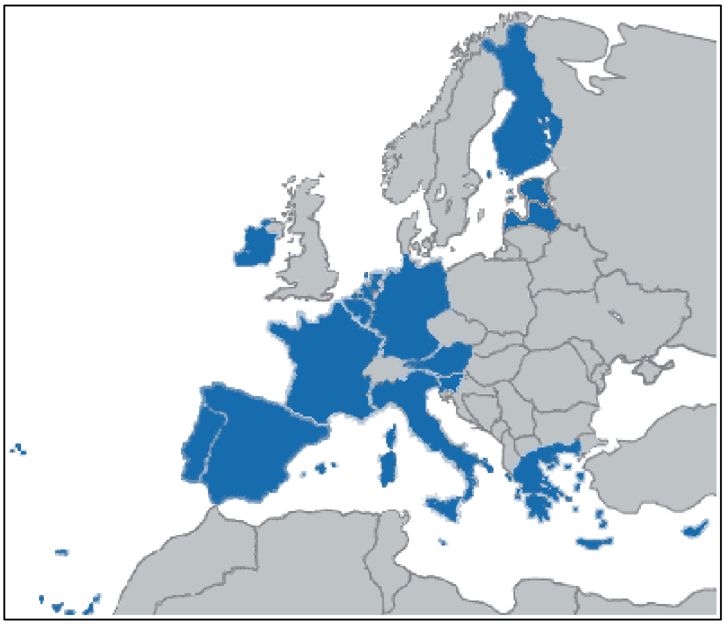
Annual percentage changes unless otherwise specified

	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	1.4	1.4	1.5
Consumption	0.6	0.8	0.2	-1.3	-0.6	0.9	1.6	1.5	1.4	1.3	1.3	1.4	1.4	1.4	1.3	1.4
Investment	-0.2	-0.5	1.7	-3.2	-2.4	0.5	0.5	2.8	2.8	2.7	2.5	2.1	2.0	1.9	1.8	1.9
Government Consumption	1.3	0.8	-0.2	-0.2	0.2	0.8	0.3	0.5	0.7	0.8	0.9	1.1	1.1	1.2	1.2	0.9
Exports of Goods and Services	3.7	10.9	6.7	2.6	2.1	3.6	3.8	4.3	4.1	3.8	3.5	3.2	3.0	2.8	2.7	3.5
Imports of Goods and Services	3.0	9.6	4.5	-1.0	1.2	3.4	3.5	4.3	4.2	4.0	3.7	3.4	3.1	2.9	2.8	3.5
Unemployment (%)	9.5	10.1	10.1	11.3	12.0	11.6	11.3	10.9	10.4	10.0	9.6	9.2	8.8	8.5	8.2	9.9
Consumer Prices	2.1	1.6	2.7	2.5	1.3	0.4	0.1	1.3	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.4
Current Balance (% of GDP)	0.2	-0.1	-0.1	1.5	2.1	2.5	3.2	3.1	2.8	2.6	2.5	2.4	2.3	2.3	2.2	2.6
Exchange Rate (US$ per Euro)	1.33	1.33	1.39	1.28	1.33	1.33	1.18	1.15	1.13	1.11	1.11	1.11	1.10	1.10	1.10	1.14
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	0.5	1.0	1.5	2.0	2.5	0.8
Long-term Interest Rates (%)	3.9	3.6	4.4	3.9	3.0	2.0	1.4	1.8	2.2	2.6	3.0	3.4	3.7	3.9	4.0	2.8
Working Population	0.2	0.0	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	0.1	0.0	-0.1	-0.1	-0.2	-0.3	-0.3	0.0
Participation Ratio (%)	75.8	76.2	76.3	76.7	76.6	76.6	76.7	76.9	77.0	77.1	77.1	77.1	77.1	77.1	77.0	77.0
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	1.2	1.3	1.3	1.1
Employment	0.3	-0.5	0.1	-0.5	-0.8	0.4	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.2	0.1	0.3
Output gap (% of potential GDP)	-0.2	-1.7	-0.9	-2.2	-3.5	-3.7	-3.3	-2.6	-2.0	-1.6	-1.2	-0.8	-0.5	-0.3	-0.1	-1.6

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



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

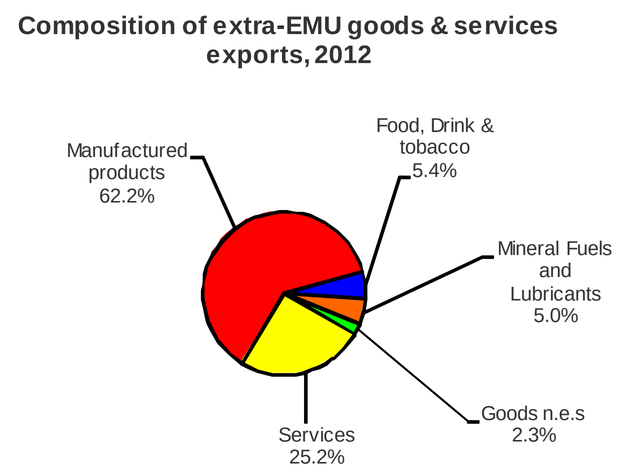
	Score
Developed economies (average)	74.5
Emerging economies (average)	37.3
Eurozone	66.5

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



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