Eurozone

Highlights

- The 0.6% quarterly rise in Eurozone GDP in Q1 was the strongest in a year, and it also exceeded US and UK growth in the same period.
- Although Q1 growth was stronger than the consensus expectation, it was in line with the estimate from our GDP indicator. No breakdown is yet available, but the signs are that household spending and domestic demand remained strong.
- But the Q1 outturn is likely to have overstated the underlying pace of growth. The business surveys such as the composite PMI are consistent with the solid but unspectacular growth rates recorded in H2 last year. And the healthy rise in industrial production appears at odds with the ongoing weakness in the external sector. Meanwhile, construction may have benefited from a weather-related boost. Accordingly, we expect GDP growth to slow in Q2. That said, the 0.4% rise we have pencilled in still suggests some improvement in the underlying pace of growth in the first half of this year.
- Looking further ahead, we expect the ongoing labour market recovery and a modest pick-up in wage growth to ensure that household spending growth holds up reasonably well even as inflation begins to rise. Meanwhile, the ongoing strength of credit to firms, rising capacity utilisation and profit growth all suggest that the modest investment recovery will continue and perhaps build gather pace.
- The upshot is that we have left our GDP forecast for this year unchanged at a slightly above-consensus 1.6%, and we anticipate a modest acceleration to 1.7% in 2017. The expected slight pick-up in growth, together with a rise in CPI inflation to 1.4% next year, should mean that that the ECB unveils no further major policy support measures.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.7	2.1	1.8	1.8	1.6
Private Consumption	0.8	1.7	1.7	1.6	1.5	1.3
Fixed Investment	1.4	2.6	2.8	3.2	2.9	2.5
Stockbuilding (% of GDP)	-0.1	-0.1	0.1	0.1	0.2	0.3
Government Consumption	0.8	1.3	1.5	1.1	1.0	1.1
Exports of goods and services	4.1	4.9	2.4	3.6	3.3	3.2
Imports of goods and services	4.5	5.6	3.7	3.9	3.7	3.4
GDP	0.9	1.5	1.6	1.7	1.7	1.6
Industrial Production	0.9	1.6	1.4	1.9	1.9	1.8
Consumer Prices	0.4	0.0	0.3	1.5	1.7	1.9
Current Balance (% of GDP)	2.5	3.2	3.4	3.2	2.8	2.6
Government Budget (% of GDP)	-2.6	-2.1	-1.9	-1.4	-1.1	-0.9
Short-Term Interest Rates (%)	0.2	0.0	-0.2	-0.3	-0.1	0.2
Long-Term Interest Rates (%)	2.0	1.2	1.0	1.5	2.1	2.7
Exchange rate (US$ per Euro)	1.33	1.11	1.10	1.07	1.07	1.10
Exchange rate (YEN per Euro)	140.7	134.3	124.2	126.7	133.4	137.1

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Forecast Overview

Q1 GDP rise of 0.6% the strongest for a year

The Q1 GDP release confirmed our expectation that the Eurozone recovery regained momentum in early 2016. The 0.6% quarterly rise was in line with the estimate from our GDP indicator, and it was the strongest quarterly growth since Q1 2015. The expenditure breakdown is not available yet, but we expect that the solid pace of domestic demand growth in Q4 was maintained and that the drag from net trade receded.

It is unlikely that the Q1 pace of growth will be maintained. Industrial production probably expanded at its fastest pace in more than two years in Q1, which is at odds with the picture painted by other indicators, such as business surveys and exports, implying that growth will slow in Q2. Similarly, construction may have benefited from unseasonably favourable weather conditions. Although not a perfect guide to GDP growth, the composite PMI remained at a level that on past form is broadly consistent with quarterly GDP growth of about 0.3%.

We have pencilled in GDP growth of 0.4% in Q2. This would leave growth in H1 comfortably above the average of 0.3% recorded in H2 last year.

Domestic prospects still favourable

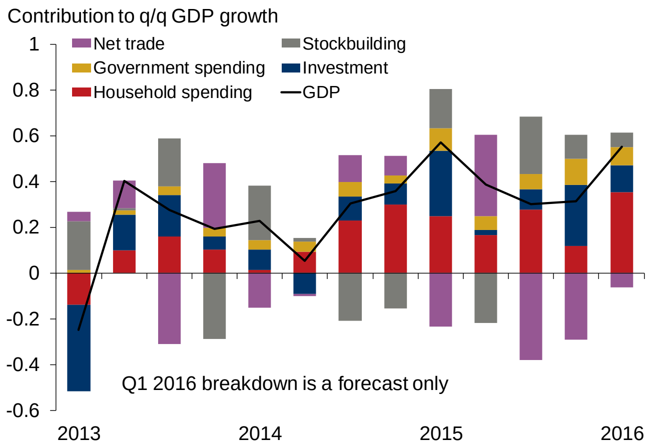
In addition, we expect the region to post solid growth in H2 this year and beyond. The key issues for the outlook are as follows:

- **Labour market to support consumer spending** – the ongoing labour market recovery and a modest pick-up in wage growth in the quarters ahead should mean that household spending continues to grow at a solid pace, even as inflation rises. Indeed, due to an upward revision to our forecast for consumer spending in Q1, we now expect private consumption to grow 1.7% in 2016, up from 1.6% last month.
- **Investment to rise gradually** – the 1.3% rise in investment in Q4 suggests that external uncertainty did not derail the investment recovery, which has accounted for about a third of the rise in GDP since the onset of the recovery in 2014. Lending to non-financial firms remains solid and other indicators of investment, such as profit growth and capacity utilisation, remain

Euro area GDP indicator

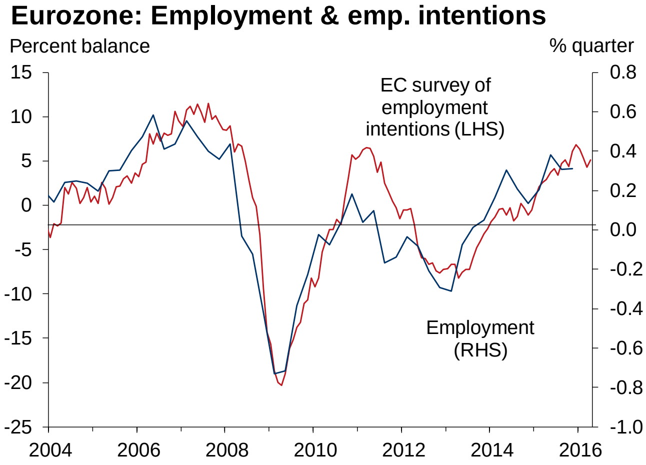
Source: Oxford Economics/Haver Analytics

Eurozone: GDP



Source: Oxford Economics

Eurozone: Employment & emp. intentions



Source : Oxford Economics/Haver Analytics consistent with solid, albeit unspectacular, growth in the quarters ahead. Against this backdrop, we expect investment growth this year to edge up to 2.8% from 2.6% in 2015, and to accelerate to over 3% in 2017.

- **Export outlook remains lacklustre** – recent export data have continued to disappoint, implying that net trade will continue to act as a drag on the recovery. But the drag should lessen as the year progresses and global demand improves. We still expect the euro to weaken this year, but we now see it falling to US$1.09 by the end of the year, compared with our previous forecast of US$1.05. This reflects a downward revision to our expected pace of Fed tightening. The more gradual depreciation could hinder the expected pick-up in exports, but the impact will probably be small.

On balance, we expect GDP to expand by 1.6% in 2016, unchanged from a month ago, and 1.7% in 2017.

Inflation to rise into ECB 'comfort zone'

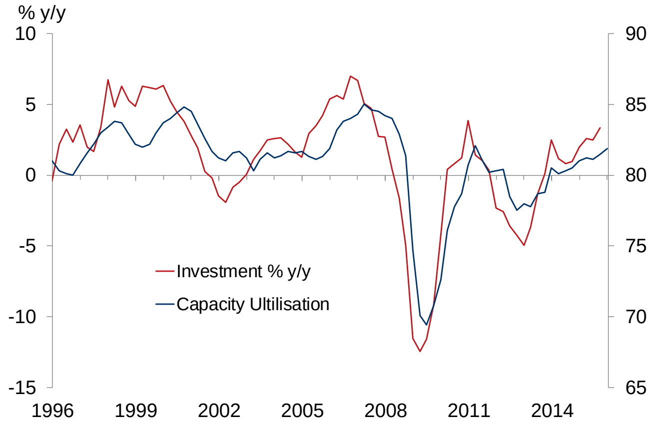
Although CPI inflation is likely to remain very subdued in the near term, we expect it to climb to around 1.5% in Q1 2017, after averaging just 0.3% in 2016. And if oil prices rise faster than we expect, an even sharper inflation pick-up is likely.

Given this, and concerns about the side-effects of the ECB's unconventional policy measures, we suspect that the growth and inflation outlook will be deemed strong enough by the ECB to warrant no additional policy action over and above the measures already outlined.

Our view is at odds with the current perceived wisdom. Around 60% of economists expect the ECB to announce further unconventional policy measures and markets appear to be pricing in an even higher probability. In the months ahead, we expect markets' inflation expectations to rise, bringing them closer to our view and with expectations of more ECB action to be scaled back.

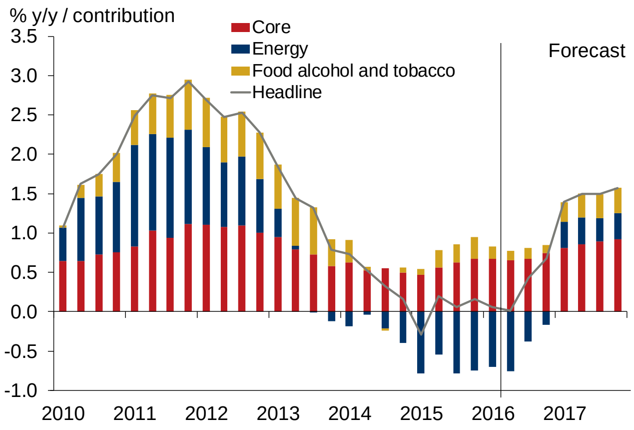
While this would put upward pressure on bond yields, there are reasons to believe that long-term bond yields will remain low by historical standards. But we still expect German ten-year government bond yields to rise to above 1% by the end of next year.

Euro area investment and capacity utilisation



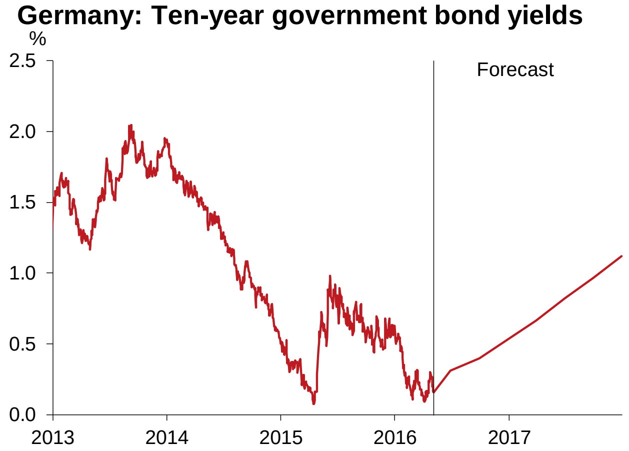
Source : Oxford Economics/Haver Analytics

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



Source : Oxford Economics/Haver Analytics

Germany: Ten-year government bond yields



Source : Oxford Economics/Haver Analytics

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Risk Assessment

Overall risk in the Eurozone is expected to decline over the medium term. But while the current account is in surplus and austerity has significantly reduced the budget deficit, public and private sector indebtedness remain high. This could have ramifications for growth if the region were to suffer from a renewed period of deflation.

Emerging risks

Monetary policy reaching its limits – despite the ECB expanding its QE programme in late-2015 and again in March this year, together with further cuts in interest rates, market inflation expectations remain subdued and concerns about the negative side-effects of ongoing unconventional policy measures have risen. While we think that ECB could take further action if needed, there are limits to the degree that QE and other policies can be scaled up.

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

Key risk scenarios

Weak commodity prices – if oil prices were to fall to around US$25pb, this would cause significant problems for energy companies and public finances of commodity producers, leading to wider financial market weakness. In the Eurozone, these negative effects would be limited. But while weaker exports would reduce growth too, the positive effect on real incomes and hence spending should ensure that any slowdown is fairly limited.

Hard landing in China – a sustained slowdown in China could have major spillover effects on the world economy. Given the Eurozone's limited trade and financial links with China, the direct effects of a China hard landing would not be great. But indirect effects on confidence might be larger, although these might be offset by more QE, suggesting that a recession could be avoided. Nonetheless, in this scenario GDP growth would average just over 1% a year in 2016-18.

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

	2015		2016		2019
Europe	**19**	→	**19**	↘	**14**
World average	30	↗	31	↘	28
Sovereign risk	16		17		13
Trade credit risk	29		29		17
Political risk	24		24		21
Regulatory risk	0		0		0

Risk warnings

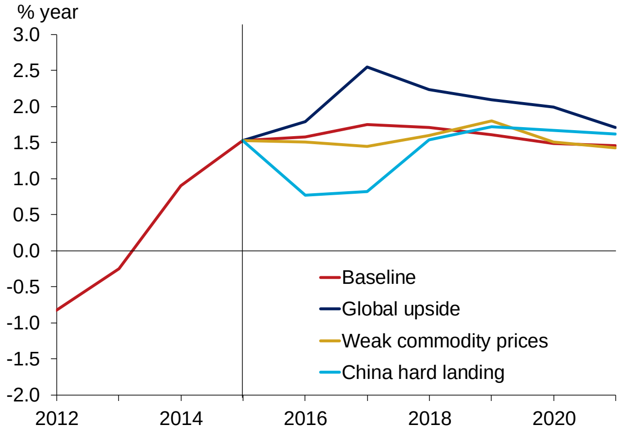
GDP growth	Amber	External downsides, offset domestic upside risks
CPI inflation	Green	Lowflation remains a risk
Current account balance	Green	Surplus unlikely to narrow to a significant degree
Government balance	Green	Deficit to narrow further
Government debt	Amber	Stable, albeit at a high level
External debt	Green	Not a concern for the region as a whole

Risk scenarios

Impact of scenarios on risk index

Maximum impact of scenarios on risk index

Impact of scenarios on GDP growth



Source : Oxford Economics

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Long-Term Prospects

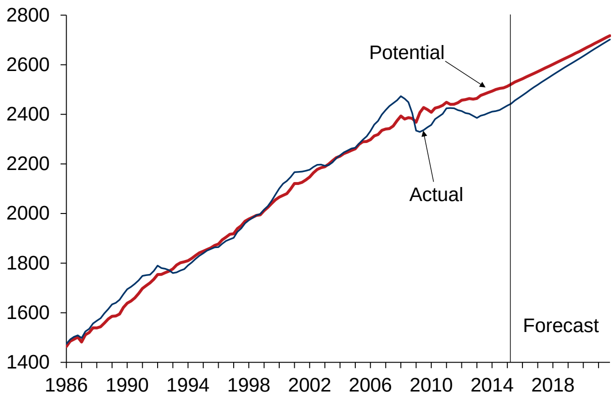
Very slow recovery from crises

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

While credit availability is improving, it is unlikely to be as free-flowing as in the pre-crisis years, hindering investment and the efficiency of capital allocation in the economy. Moreover, high unemployment for a prolonged period, especially among the young, will have long-lasting negative effects on skill levels and the ability to work. Combined with a shrinking population of working age, despite increases in the retirement age, these factors imply that availability and quality of labour will be constrained compared with the pre-crisis period. These factors will only be partly offset by further increases in the participation rate.

Some of the reforms implemented in the peripheral countries should help raise Eurozone productivity growth to at least what it was before 2008. But much more will be needed to offset other negative trends.

Eurozone: Actual & potential output



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	2005-2014	2015-2024
Potential GDP*	1.1	1.2
Employment at NAIRU	0.6	0.2
Capital Stock	1.5	1.2
Total Factor Productivity	0.1	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)

	2005-2009	2010-2014	2015-2019	2020-2024
GDP	0.8	0.7	1.6	1.4
Consumption	1.0	-0.1	1.6	1.2
Investment	0.1	-0.6	2.8	2.0
Government Consumption	2.1	0.3	1.2	1.2
Exports of Goods and Services	1.6	5.3	3.5	2.9
Imports of Goods and Services	1.9	3.8	4.1	2.9
Unemployment (%)	8.4	11.1	9.8	8.1
Consumer Prices	2.0	1.7	1.1	1.9
Current Balance (% of GDP)	-0.3	1.3	3.0	2.4
Exchange Rate (US$ per Euro)	1.3	1.3	1.1	1.2
General Government Balance (% of GDP)	-2.6	-3.9	-1.5	-0.5
Short-term Interest Rates (%)	3.1	0.6	-0.1	1.5
Long-term Interest Rates (%)	3.9	3.4	1.7	3.7
Working Population	0.4	0.1	0.1	-0.2
Labour Supply	0.8	0.2	0.3	0.0
Participation Ratio	75.6	76.4	76.8	77.5
Labour Productivity	0.0	0.9	0.8	1.2

Background

The creation of a single European currency was achieved in 1999, with notes and coins being introduced in 2002. The eleven initial members were Germany, France, Italy, Finland, Ireland, Netherlands, Belgium, Luxembourg, Austria, Portugal and Spain, with Greece joining European Monetary Union (EMU) in 2001 and introducing notes and coins at the same time as the other countries. Slovenia was the 13th member in January 2007, Malta and Cyprus joined a year later, Slovakia became the 16th member in January 2009, Estonia the 17th in January 2011, Latvia the 18th at the start of 2014 and Lithuania made it 19 at the beginning of 2015.

To qualify for membership of the Eurozone, countries have to pass a number of nominal convergence criteria set out in the Maastricht Treaty: the inflation rate should not exceed by more than 1.5% points the average inflation rate of the three EU countries with the lowest inflation; the government deficit should not exceed 3% of GDP and gross government debt should be no higher than 60% of GDP; countries should have been members of ERM II and have not devalued their currency in the previous two years; and long-term interest rates should not be more than 2% points higher than the average in the three EU countries with the lowest inflation. In practice, these conditions were applied quite loosely to the original EMU members, with elements of the fiscal criteria being selectively overlooked for Italy and Belgium (and then Greece) and with little attention as to whether the budget deficit was below 3% of GDP on a sustainable basis. However, the narrow failure of Lithuania to win approval for adopting the euro in 2007 suggests that the convergence criteria will be applied much more strictly to new EU members.

Joining EMU sees member countries pass control of monetary policy to the European Central Bank (ECB). The ECB is one of the most independent central banks in the world and was built on the lines of the German Bundesbank. Not only does the ECB have ‘operational’ independence – allowing it to set interest rates free from political control – but it also has ‘goal’ independence to set its own targets. The ECB objective is to achieve price stability and this is pursued through economic and monetary analysis; the ECB targets inflation of “below, close to, 2%” and maintains a reference target of 4.5% for M3 money supply growth. The two components of analysis were to act as a crosscheck, but economic analysis has taken precedence in recent years, with monetary targeting slipping into the background. Since 2008, the ECB initially focused on providing liquidity to banks via long-term loans. But more recently, attention has shifted towards asset purchases and the ECB is currently purchasing about €60bn of bonds per month.

National governments retain control of fiscal policy, although there are limits to their freedom in this area as specified in the Growth and Stability Pact, which essentially applies the fiscal requirements of the Maastricht Treaty on an ongoing basis. Even before the global crisis, a number of Eurozone countries had difficulty keeping their budget deficits below 3% of GDP and debt below 60% of GDP on a sustained basis and faced sanctions by the EC. However, the effectiveness of the Growth and Stability Pact against the major Eurozone economies of Germany, France and Italy proved limited, while smaller countries such as the Netherlands made painful adjustments when their deficit exceeded the 3% of GDP threshold and others observed the requirements stringently. This forced a re-interpretation of the Pact, which is now applied over the economic cycle.

The fallout from the financial crisis, and in particular the troubled fiscal situation faced by Cyprus, Greece, Italy, Ireland, Portugal, Slovenia and Spain, showed the limitations of the fiscal framework behind the single currency. The possibility of a debt default by Greece, coupled with the threat of contagion to Italy and Spain, put Eurozone leaders under immense pressure to come up with a rescue plan that would prevent the collapse of the single currency. However, there remain significant differences of opinion among the largest members regarding who should carry the burden and what mechanisms should be used to provide financial support to the European banking system. The measures proposed include a move towards a banking union that would sever the links between banks and their sovereigns. But political hurdles to closer integration and debt burden sharing remain very high. Changes to the Eurozone’s structure and institutions are likely to be slow at best.

Data & Forecasts

Key Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Industrial production	Unemploy -ment %	CPI	Business confidence (% balance)	Consumer confidence (% balance)	Exports	Imports	Trade balance (€ bn)
Apr	0.8	11.1	0.0	0.4	-5	9.2	5.6	21.0
May	1.5	11.0	0.3	0.3	-6	2.7	0.1	18.3
Jun	1.8	11.0	0.2	0.1	-6	12.6	6.8	25.6
Jul	1.7	10.8	0.2	0.4	-7	7.2	0.7	31.2
Aug	2.4	10.7	0.2	0.2	-7	5.7	2.8	10.9
Sep	1.5	10.6	-0.1	0.3	-7	0.8	-0.4	19.6
Oct	2.2	10.6	0.0	0.5	-8	0.4	-0.6	23.8
Nov	2.0	10.5	0.1	0.4	-6	6.2	4.4	23.6
Dec	0.3	10.4	0.2	0.4	-6	4.0	3.5	25.2
2016								
Jan	3.0	10.4	0.4	0.3	-6	-2.0	-2.8	8.0
Feb	0.9	10.4	-0.2	0.1	-9	1.3	2.1	19.0
Mar	-	10.2	-0.1	0.1	-10	-	-	-
Apr	-	-	-0.2	0.1	-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 €/£	Nominal effective exch. Rate	Share price DJ STOXX	Net FDI €bn
Apr	0.00	0.85	5.4	1.08	1.39	93.7	3616	-2.6
May	-0.01	1.34	5.0	1.11	1.39	95.4	3571	12.5
Jun	-0.01	1.67	4.9	1.12	1.39	95.9	3424	-16.7
Jul	-0.02	1.53	5.2	1.10	1.41	95.0	3601	7.2
Aug	-0.03	1.39	4.9	1.11	1.40	96.6	3270	2.0
Sep	-0.04	1.48	4.9	1.12	1.37	97.4	3101	-21.7
Oct	-0.05	1.20	5.2	1.12	1.37	97.2	3418	56.9
Nov	-0.09	1.16	5.0	1.07	1.42	94.3	3506	-70.4
Dec	-0.13	1.19	4.7	1.09	1.38	95.6	3268	50.5
2016								
Jan	-0.15	1.11	5.0	1.09	1.33	96.5	3045	16.5
Feb	-0.18	1.04	4.9	1.11	1.29	98.0	2946	46.6
Mar	-0.23	0.93	5.0	1.11	1.28	97.3	3005	-
Apr	-0.25	0.96	-	1.13	1.26	98.0	3028	-

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EUROZONE	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)	COMPETIT-IVENESS (2008=100) (MON)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2014	0.8	1.4	0.9	0.9	0.9	11.6	1.5	0.3	2.3	-1.3	0.4
2015	1.7	2.6	1.7	1.5	1.6	10.9	1.5	0.5	5.7	-1.9	0.0
2016	1.7	2.8	2.1	1.6	1.4	10.1	2.0	0.5	4.3	-2.2	0.3
2017	1.6	3.2	1.8	1.7	1.9	9.7	2.2	1.0	4.0	1.4	1.5
2018	1.5	2.9	1.8	1.7	1.9	9.3	2.4	1.1	4.2	2.1	1.7
2019	1.3	2.5	1.6	1.6	1.8	9.0	2.5	1.1	4.0	2.1	1.9
2014											
I	0.7	2.5	1.2	1.1	1.5	11.9	1.6	1.0	0.8	-1.5	0.7
II	0.7	1.2	1.0	0.8	0.8	11.6	1.4	0.2	1.4	-1.1	0.6
III	0.8	0.8	0.6	0.8	0.6	11.5	1.4	0.1	2.4	-1.2	0.4
IV	1.2	1.0	0.9	1.0	0.6	11.4	1.5	0.1	4.7	-1.5	0.2
2015											
I	1.6	2.0	1.4	1.3	1.5	11.2	1.4	0.4	5.9	-2.1	-0.3
II	1.7	2.6	1.4	1.6	1.4	11.0	1.5	0.7	6.1	-1.1	0.2
III	1.8	2.5	1.9	1.6	1.8	10.7	1.5	0.6	5.8	-1.9	0.1
IV	1.5	3.4	2.2	1.6	1.5	10.5	1.6	0.4	5.1	-2.4	0.2
2016											
I	1.7	2.5	2.0	1.6	1.6	10.3	1.6	0.2	4.8	-3.0	0.0
II	1.8	2.9	2.4	1.5	1.2	10.1	1.9	0.4	4.1	-3.0	-0.1
III	1.7	3.2	2.1	1.6	1.4	10.0	2.1	0.6	4.5	-2.0	0.4
IV	1.9	2.8	1.9	1.8	1.6	9.9	2.2	0.9	3.8	-0.7	0.9
2017											
I	1.6	3.0	1.7	1.6	1.3	9.8	2.2	0.9	3.6	1.4	1.5
II	1.6	3.3	1.8	1.7	2.1	9.7	2.2	1.0	4.1	1.1	1.5
III	1.6	3.2	1.9	1.8	2.2	9.7	2.3	1.1	4.2	1.4	1.5
IV	1.5	3.1	1.9	1.8	2.0	9.6	2.3	1.1	4.2	1.7	1.6
2018											
I	1.5	3.0	1.9	1.7	2.0	9.5	2.3	1.1	4.2	1.9	1.6
II	1.5	3.0	1.9	1.7	1.9	9.4	2.4	1.1	4.2	2.0	1.6
III	1.5	2.9	1.8	1.7	1.8	9.3	2.4	1.1	4.2	2.1	1.7
IV	1.4	2.8	1.7	1.7	1.8	9.2	2.5	1.1	4.2	2.2	1.7
2019											
I	1.4	2.6	1.7	1.7	1.8	9.1	2.5	1.1	4.1	2.2	1.9
II	1.4	2.5	1.7	1.6	1.8	9.0	2.5	1.1	4.0	2.2	1.9
III	1.3	2.4	1.6	1.6	1.8	8.9	2.6	1.1	4.0	2.1	1.9
IV	1.3	2.4	1.6	1.5	1.8	8.8	2.6	1.1	3.9	2.0	1.9

EUROZONE	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)	EXCHANGE RATE US DOLLAR PER EURO (RXD)	EFFECTIVE EXCHANGE RATE 2010=100 (RX)
YEARS BEGINNING Q1											
2014	188.5	253.7	2.51	-261.5	-2.59	0.21	2.04	-0.22	1.61	1.33	123.6
2015	247.4	333.6	3.21	-215.2	-2.07	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	257.8	361.4	3.38	-204.8	-1.91	-0.24	0.98	-0.54	0.68	1.10	118.8
2017	250.2	353.4	3.20	-158.0	-1.43	-0.26	1.47	-1.77	-0.05	1.07	115.6
2018	232.3	325.3	2.85	-122.5	-1.07	-0.14	2.15	-1.81	0.48	1.07	115.6
2019	228.3	308.8	2.61	-103.8	-0.88	0.19	2.74	-1.69	0.86	1.10	117.1
2014											
I	42.1	63.5	2.53	-68.8	-2.74	0.30	2.65	-0.36	2.00	1.37	125.7
II	41.5	55.2	2.19	-66.9	-2.66	0.30	2.22	-0.26	1.66	1.37	125.2
III	43.7	64.6	2.55	-64.4	-2.55	0.16	1.79	-0.19	1.44	1.33	122.6
IV	61.3	70.4	2.76	-61.3	-2.40	0.08	1.50	-0.08	1.33	1.25	121.1
2015											
I	61.5	84.3	3.28	-58.0	-2.25	0.05	1.01	0.36	1.33	1.13	114.9
II	60.2	82.8	3.19	-54.9	-2.12	-0.01	1.27	-0.20	1.08	1.11	112.6
III	61.4	82.3	3.16	-52.3	-2.01	-0.03	1.36	-0.12	1.27	1.11	116.1
IV	64.3	84.3	3.21	-50.1	-1.91	-0.09	1.19	-0.26	1.03	1.10	116.1
2016											
I	72.0	100.6	3.80	-70.0	-2.65	-0.19	1.05	-0.23	1.01	1.10	119.0
II	57.3	91.4	3.43	-39.0	-1.47	-0.25	0.84	-0.18	0.91	1.11	119.5
III	63.4	83.0	3.09	-56.1	-2.09	-0.25	0.99	-0.63	0.61	1.10	118.8
IV	65.1	86.5	3.20	-39.6	-1.46	-0.28	1.07	-1.14	0.21	1.09	117.9
2017											
I	70.2	95.6	3.50	-58.7	-2.15	-0.31	1.23	-1.80	-0.26	1.08	116.9
II	59.0	92.1	3.35	-28.3	-1.03	-0.28	1.39	-1.77	-0.10	1.07	115.9
III	61.3	82.6	2.98	-43.1	-1.55	-0.24	1.55	-1.74	0.05	1.06	115.1
IV	59.7	83.2	2.97	-27.9	-1.00	-0.21	1.69	-1.78	0.12	1.05	114.3
2018											
I	63.9	87.7	3.11	-49.1	-1.74	-0.18	1.87	-1.81	0.25	1.06	115.0
II	53.7	84.9	2.98	-15.8	-0.55	-0.15	2.06	-1.77	0.44	1.06	115.5
III	57.1	74.9	2.61	-35.1	-1.22	-0.12	2.24	-1.81	0.55	1.07	115.8
IV	57.6	77.8	2.69	-22.5	-0.78	-0.09	2.42	-1.84	0.67	1.08	116.2
2019											
I	62.7	84.4	2.89	-43.9	-1.51	0.09	2.55	-1.78	0.69	1.09	116.6
II	51.9	80.5	2.74	-11.7	-0.40	0.12	2.68	-1.74	0.81	1.09	116.9
III	56.0	70.5	2.38	-31.6	-1.07	0.25	2.81	-1.64	0.92	1.10	117.3
IV	57.7	73.5	2.46	-16.5	-0.55	0.28	2.93	-1.62	1.03	1.11	117.7

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

	2005-2014	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
GDP	0.7	1.6	-0.8	-0.2	0.9	1.5	1.6	1.7	1.7	1.6	1.5	1.5	1.4	1.4	1.3	1.5
Consumption	0.5	-0.1	-1.3	-0.6	0.8	1.7	1.7	1.6	1.5	1.3	1.3	1.3	1.2	1.2	1.2	1.4
Investment	-0.3	1.7	-3.2	-2.5	1.4	2.6	2.8	3.2	2.9	2.5	2.3	2.2	2.0	1.8	1.6	2.4
Government Consumption	1.2	-0.1	-0.2	0.2	0.8	1.3	1.5	1.1	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Exports of Goods and Services	3.5	6.7	2.8	2.2	4.1	4.9	2.4	3.6	3.3	3.2	3.2	3.1	2.9	2.8	2.5	3.2
Imports of Goods and Services	2.8	4.4	-0.9	1.4	4.5	5.6	3.7	3.9	3.7	3.4	3.3	3.1	2.9	2.7	2.4	3.5
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	10.9	10.1	9.7	9.3	9.0	8.6	8.3	8.1	7.8	7.6	8.9
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.0	0.3	1.5	1.7	1.9	1.9	1.9	1.8	1.8	1.9	1.5
Current Balance (% of GDP)	0.5	0.4	1.3	2.1	2.5	3.2	3.4	3.2	2.8	2.6	2.5	2.4	2.4	2.4	2.4	2.7
Exchange Rate (US$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.10	1.07	1.07	1.10	1.13	1.15	1.18	1.21	1.24	1.14
General Government Balance (% of GDP)	-3.2	-4.2	-3.7	-3.0	-2.6	-2.1	-1.9	-1.4	-1.1	-0.9	-0.7	-0.6	-0.5	-0.4	-0.4	-1.0
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	-0.2	-0.3	-0.1	0.2	0.6	0.9	1.4	1.9	2.4	0.7
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.2	1.0	1.5	2.1	2.7	3.2	3.5	3.7	3.9	4.0	2.7
Working Population	0.2	0.0	0.2	0.2	0.1	0.2	0.2	0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	0.0
Labour Supply	0.5	0.2	0.8	0.0	0.1	0.2	0.4	0.3	0.2	0.1	0.0	0.0	0.0	-0.1	-0.1	0.1
Participation Ratio (%)	76.0	76.2	76.7	76.5	76.5	76.5	76.6	76.8	77.0	77.2	77.3	77.4	77.5	77.6	77.7	77.2
Labour productivity	0.5	1.5	-0.4	0.5	0.3	0.5	0.5	1.0	1.1	1.1	1.1	1.1	1.2	1.3	1.2	1.0
Employment	0.3	0.1	-0.4	-0.7	0.6	1.0	1.1	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.5
Output gap (% of potential GDP)	-0.8	-1.2	-2.6	-3.4	-3.5	-2.9	-2.4	-2.0	-1.5	-1.2	-1.0	-0.8	-0.6	-0.4	-0.2	-1.3

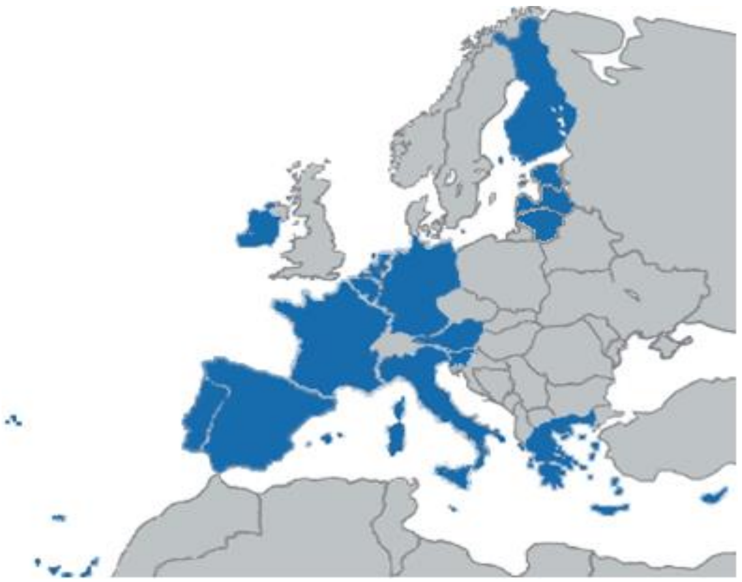
Key Facts

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

Long-term economic & social development

	1980	1990	2000	2014*
GDP per capita (US$)	-	18221	20724	40203
Inflation (%)	9.9	4.2	2.2	0.4
Population (mn)	302	303	313	334
Urban population (% of total)	69.9	71.3	72.6	75.7
Life expectancy (years)	73.5	75.9	78.3	81.7

Source : Oxford Economics & World Bank



Source : ECB

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

Structure of GDP by output

	2014
Agriculture	1.7%
Industry	24.3%
Services	74.1%

Source : World Bank

* 2014 or latest available year

Corruption perceptions index 2015

	Score
Developed economies (average)	76.0
Emerging economies (average)	37.8
Eurozone	68.9

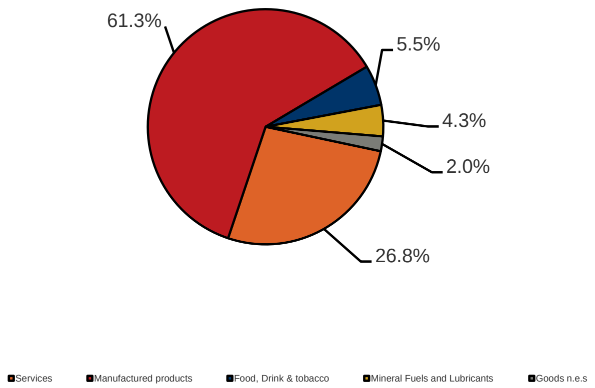
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2014*
Current account (US$ billion)	30	163	-167	337
Trade balance (US$ billion)	-22	65	-29	251
FDI (US$ billion)	-	-	29	-129
Govt budget (% of GDP)	-4	-7	0	-3
Govt debt (% of GDP)	14	68	67	92
Long-term interest rate	10	9	5	2
Oil production (000 bpd)	264	304	232	224
Oil consumption (000 bpd)	9716	10478	10930	9248

Source : Oxford Economics / World Bank / EIA

Composition of extra-EMU goods & services exports 2014



Source : Eurostat\ Haver Analytics

Destination of goods' exports 2014

Eurozone	45.8%
UK	7.0%
US	6.7%
China	3.7%
Switzerland	3.0%
Poland	2.9%

Source : Eurostat \ Haver Analytics