Eurozone

Highlights

- Although recent trade and industry data suggest that emerging market weakness is taking a toll on these sectors, other indicators suggest that the rest of the Eurozone economy remains resilient for now.
- The 0.3% rise in Q3 GDP was not a disaster, but it was weaker than widely anticipated. And the weak tone of recent industrial data show that the sector lost momentum during Q3. So although industry boosted overall GDP growth last quarter, Q4 could prove to be rather weaker despite the renewed fall in the euro. Sustained falls in exports during Q3 suggest that this weakness stems from abroad.
- Encouragingly though, this weakness has been countered by the resilience of domestic demand. An important factor behind this has been strengthening household income growth. Given that the household savings rate has remained broadly unchanged, this has led to stronger household spending. Although real income growth will be adversely affected by the likely rise in inflation in the remainder of this year and 2016, the outlook for employment remains favourable, suggesting that any slowdown in household spending next year will be modest.
- We maintain our view that GDP growth will pick up from 1.5% this year to 1.8% in 2016 and 2017. But even this pace of growth is unlikely to be fast enough to lift inflation to the ECB target.
- Given this and the dovish rhetoric from ECB President Draghi, we see further policy action by the ECB in December. We expect the ECB to signal strongly that QE will continue beyond September 2016 and reduce the deposit rate. But a desire to avoid alienating the more hawkish members of the Council will probably mean that the ECB will stop short of announcing an expansion of the size of monthly asset purchases.

Forecast for Eurozone
(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.4	1.8	1.9	1.7	1.5
Private Consumption	0.9	1.7	1.6	1.5	1.4	1.3
Fixed Investment	1.3	1.6	2.5	3.1	2.8	2.4
Stockbuilding (% of GDP)	-0.1	-0.3	-0.1	0.1	0.3	0.3
Government Consumption	0.8	1.1	0.9	0.9	0.9	1.0
Exports of goods and services	3.9	4.6	3.7	3.7	3.3	3.2
Imports of goods and services	4.2	4.8	4.0	4.0	3.7	3.6
GDP	0.9	1.5	1.8	1.8	1.6	1.4
Industrial Production	0.6	1.1	1.7	2.0	1.8	1.6
Consumer Prices	0.4	0.1	1.1	1.5	1.5	1.6
Current Balance (% of GDP)	2.4	3.2	3.5	3.3	3.0	2.9
Government Budget (% of GDP)	-2.6	-2.1	-1.9	-1.5	-1.2	-1.0
Short-Term Interest Rates (%)	0.2	0.0	-0.1	-0.2	0.1	0.5
Long-Term Interest Rates (%)	2.0	1.2	1.5	2.3	2.9	3.2
Exchange rate (US$ per Euro)	1.3	1.1	1.1	1.1	1.1	1.1
Exchange rate (YEN per Euro)	140.7	134.0	132.7	134.6	137.7	140.4

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Forecast Overview

Fairly solid Q3 GDP rise of 0.3%...

While the latest Eurozone activity news has provided a few reasons for concern, due mainly to the weakness of industry, the economy as a whole still managed a solid, albeit unspectacular, 0.3% quarterly expansion in Q3.

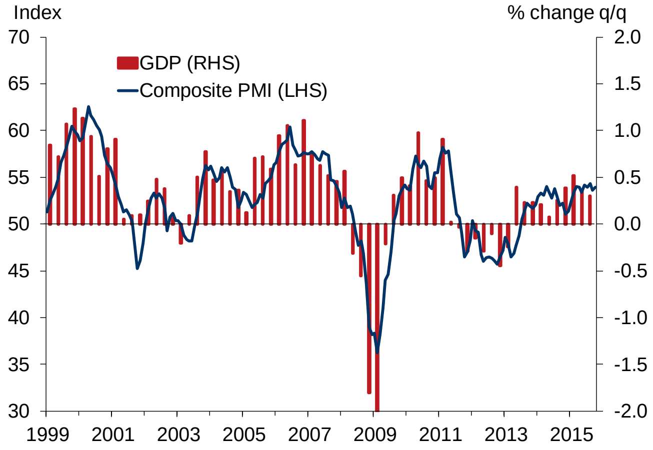
And both the composite PMI and EC Economic Sentiment Indicator rose in October and are in line with or above their Q3 averages, suggesting that solid growth was maintained at the start of Q4.

…and prospects remain fairly encouraging

We remain optimistic about the prospects for growth. The key issues for the outlook are as follows:

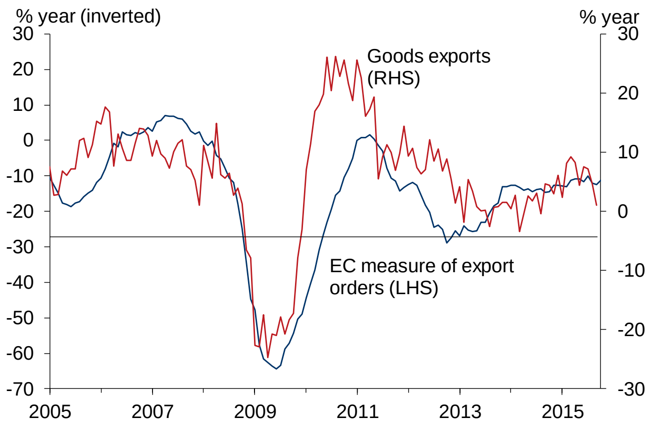
- **Emerging market weakness taking its toll** – one worry is that the summer weakness of industry and trade appears to have spread into September, suggesting that the emerging market slowdown may now be taking a toll on the sector. Eurozone industrial production fell for a second month running in September, while exports have also been weak over the summer. Nonetheless, survey-based measures of industrial sentiment and activity have held up rather better, suggesting that any recent weakness may exaggerate the underlying trends in the sectors.
- **But some grounds for optimism** – looking ahead, there are also some reasons for optimism. First, the euro has weakened in response to growing market expectations that the US will start to raise interest rates in December and that the ECB will loosen monetary policy. We expect this trend to continue over the coming months, which should be positive for exports. Second, although problems in the emerging world are a blow, a far bigger market for the region's exports is the developed world. Partly reflecting ongoing strength in the latter, we expect Eurozone exports to strengthen next year.
- **Domestic economy is resilient** – encouragingly, there is little sign that foreign developments are hampering prospects in the more domestically-focused sectors of the economy. Although service sector sentiment eased in October, this followed a sharp rise in September and points to further healthy growth

Eurozone Composite PMI & GDP



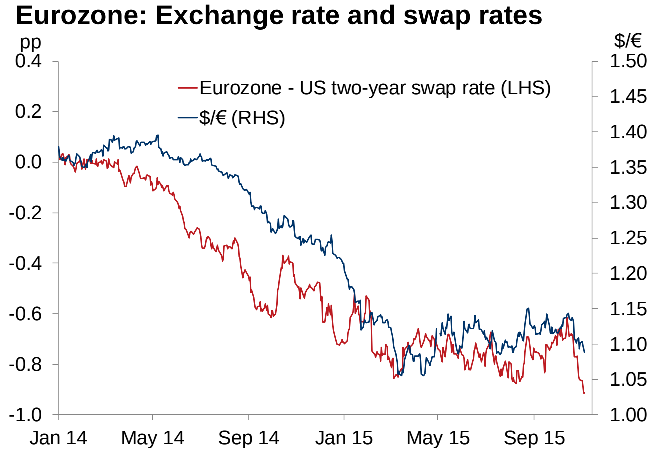
Source : Oxford Economics/Haver Analytics/Markit

Eurozone: Exports and export orders



Source: Oxford Economics/Haver Analytics

Eurozone: Exchange rate and swap rates



Source : Oxford Economics/Haver Analytics ahead, along with further increases in employment in the sector. Meanwhile, new car registrations and retail sales data indicate that household spending grew at a healthy pace in Q3, while the improving labour market situation suggests that the recovery should be able to withstand the gradual rise in inflation that is expected in the coming months.

- **Investment prospects remain encouraging** – the outlook for investment remains more uncertain. While fears about global demand prospects may prompt caution, the continued strength of business sentiment, rising profits (thanks in part to the weak euro) and increased capacity utilisation are all positive for equipment investment. For now, we are cautiously optimistic about the investment outlook.

ECB gearing up for more policy action

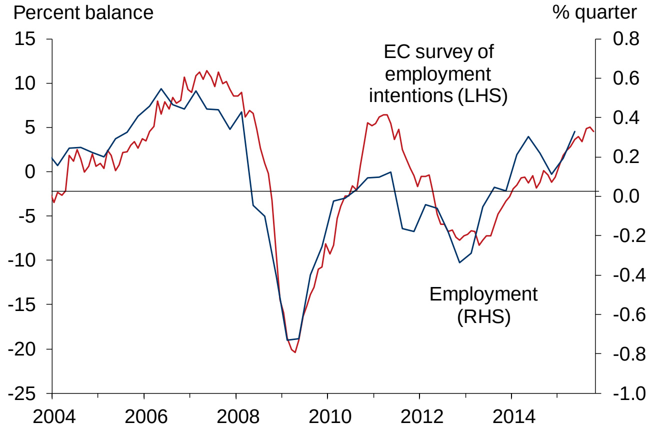
Overall, we still expect Eurozone GDP growth to pick up from 1.5% this year to 1.8% in 2016, a touch above the consensus forecast.

But while the economy looks set to expand above its trend rate, inflation is likely to remain well below the ECB's target of "below, but close, to 2%", presenting the central bank with a policy dilemma.

Recent comments suggest that a growing number of Governing Council members may be in favour of more policy action. Based on President Draghi's comments at October's interest rate meeting, the most plausible measures would be a further reduction in the deposit rate and probably an implicit or explicit commitment to an extension to the duration of the QE programme. But we suspect that a desire to avoid alienating the more hawkish members of the Council will mean that, barring any further major negative shocks, the ECB will stop short of announcing an expansion of the size of monthly asset purchases.

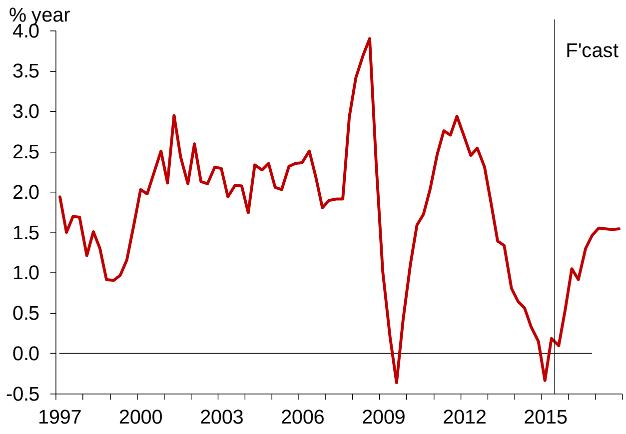
Even modest further action by the ECB, combined with a December US rate cut, would further highlight the contrasting future paths for monetary policy in the two economies, implying the recent weakness of the euro should be maintained – we still expect the euro to fall to around US$1.05 by the end of next year.

Eurozone: Employment & emp. intentions



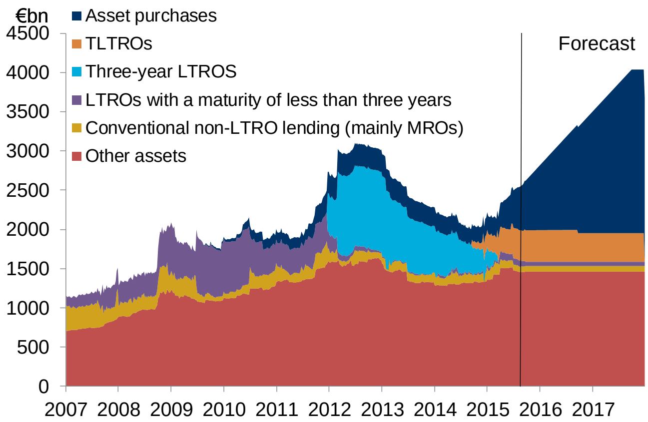
Source : Oxford Economics/Haver Analytics

Eurozone: Consumer price inflation



Source: Oxford Economics

Eurozone: ECB Balance sheet (asset side)



Source : Oxford Economics/Haver Analytics

Risk Assessment

Overall risk in the Eurozone is expected to decline slightly 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. The latter could have ramifications for growth if the region were to suffer from a renewed period of deflation.

Emerging risks

Oil price fall triggers new deflation fears – although inflation has picked up sharply from its January low, the recent fall in the oil price pushed it back into negative territory in September. Nonetheless, it would take further negative shocks to trigger a sustained period of falling prices. While deflation remains a tail risk, a sustained period of below-target inflation remains likely.

VW diesel scandal hits the car industry – the potential repercussions from the diesel scandal remain uncertain but one risk is that purchases of diesel vehicles fall into terminal decline as consumer switch to other formats, or policy changes put the diesel format at a competitive disadvantage. Given European car producers' specialism in diesel, such a shift could see carmakers lose market share to foreign competitors, with potentially major repercussions for industry.

Key risk scenarios

Grexit – it remains a tall order for the new Greek government to implement the agreed reforms and fiscal measures and a planned bailout payment for November has already been delayed. A relatively orderly exit that is contained and results in limited contagion, might have only a modest and short-lived effect on Eurozone activity. But a disorderly exit that results in heightened uncertainty for rather longer and renewed concerns about the future of other peripheral economies could be enough to push the Eurozone back into recession.

Investment collapse in China – a sustained slowdown in China could have major spillover effects on the world economy. Given the Eurozone's limited trade and financial interlinkages with China, the direct effects of a China slowdown would not be great. Potential indirect effects on confidence might be larger, but these may be offset to some degree by more QE, suggesting that a recession could be avoided.

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

	2014	2015	2018
Europe	**20**	**19**	**16**
World average	29	30	28
Sovereign risk	16	16	15
Trade credit risk	31	29	22
Political risk	25	24	22
Regulatory risk	0	0	0

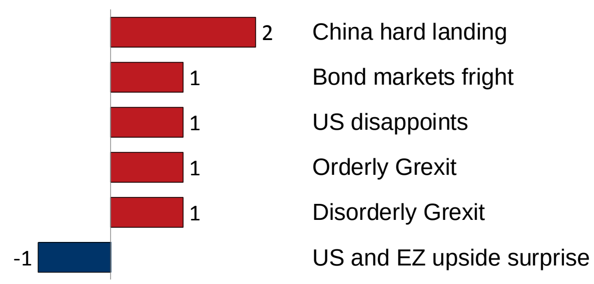
Risk warnings

GDP growth	● (amber)	Downside risk mainly from abroad
CPI inflation	● (green)	Sustained period of 'lowflation' likely
Current account balance	● (green)	Surplus here to stay
Government balance	● (green)	Deficit will narrow as recovery continues
Government debt	● (amber)	Debt limits scope for future fiscal stimulus
External debt	● (green)	Not a concern

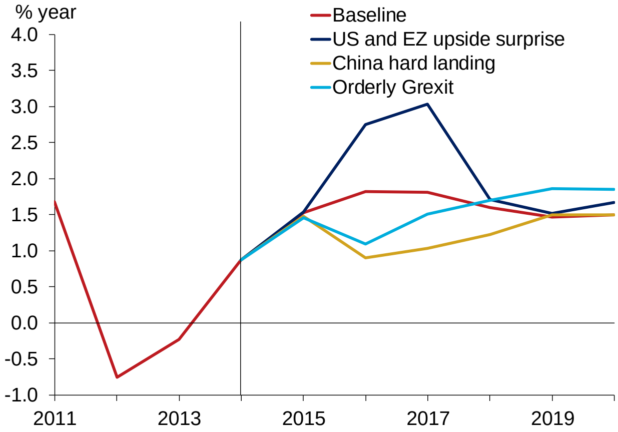
Risk scenarios

Impact of scenarios on risk index

Maximum impact of scenarios on risk index



Impact of scenarios on GDP growth



Source : Oxford Economics

Long-Term Prospects

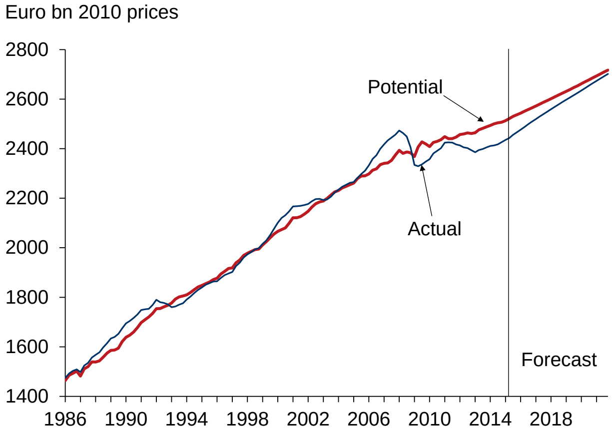
Very slow recovery from crises

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

While credit availability is improving, credit is unlikely to be as free-flowing as in the pre-crisis years, 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 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 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	2005-2014	2015-2024
Potential GDP*	1.1	1.2
Employment at NAIRU	0.6	0.2
Capital Stock	1.5	1.3
Total Factor Productivity	0.2	0.6

*ln(Potential GDP)=0.65*ln(Employment at NAIRU)+0.35*ln(Capital Stock)+ln(Total Factor Productivity)

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

	2005-2009	2010-2014	2015-2019	2020-2024
GDP	0.7	0.7	1.6	1.4
Consumption	1.0	0.0	1.5	1.3
Investment	0.1	-0.7	2.5	1.8
Government Consumption	2.1	0.3	1.0	1.2
Exports of Goods and Services	1.5	5.3	3.7	2.9
Imports of Goods and Services	1.8	3.8	4.0	2.9
Unemployment (%)	8.4	11.1	10.3	8.8
Consumer Prices	2.0	1.7	1.2	1.8
Current Balance (% of GDP)	-0.4	1.2	3.2	2.9
Exchange Rate (US$ per Euro)	1.3	1.3	1.1	1.2
General Government Balance (% of GDP)	-2.5	-3.9	-1.5	-0.6
Short-term Interest Rates (%)	3.1	0.6	0.1	1.9
Long-term Interest Rates (%)	3.9	3.4	2.2	3.8
Working Population	0.4	0.1	0.1	-0.2
Labour Supply	0.8	0.2	0.2	-0.1
Participation Ratio	75.6	76.4	76.7	77.3
Labour Productivity	0.0	0.9	1.0	1.2

Background

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

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

Joining EMU sees 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.

OXFORD ECONOMICS

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)
Oct	1.0	11.5	0.4	0.1	-11	3.9	0.5	22.3
Nov	-0.4	11.5	0.3	0.3	-12	0.8	-1.6	20.1
Dec	0.6	11.4	-0.2	0.2	-11	8.1	1.6	23.7
2015								
Jan	0.6	11.3	-0.6	0.2	-9	-0.2	-5.4	7.4
Feb	1.7	11.2	-0.3	0.2	-7	4.8	1.3	19.9
Mar	1.8	11.2	-0.1	0.3	-4	11.6	9.5	20.5
Apr	0.6	11.1	0.0	0.4	-5	9.1	5.1	21.7
May	1.4	11.0	0.3	0.4	-6	2.8	0.0	18.6
Jun	1.4	11.0	0.2	0.3	-6	12.7	6.5	26.3
Jul	1.4	10.9	0.2	0.4	-7	7.0	0.7	31.3
Aug	2.0	10.9	0.2	0.3	-7	5.5	2.8	10.8
Sep	1.2	10.8	-0.1	0.4	-7	0.9	-1.0	20.5
Oct	-	-	0.0	0.4	-8	-	-	-

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
Oct	0.08	1.69	2.5	1.27	1.27	103.7	3113	-4.2
Nov	0.08	1.62	3.1	1.25	1.26	104.1	3251	7.9
Dec	0.08	1.45	3.7	1.23	1.27	104.2	3146	-14.6
2015								
Jan	0.06	1.27	3.9	1.16	1.30	99.4	3351	-4.8
Feb	0.05	1.21	4.2	1.13	1.35	97.3	3599	20.8
Mar	0.03	0.96	4.7	1.08	1.38	94.6	3697	91.5
Apr	0.00	0.85	5.4	1.08	1.39	93.7	3616	-14.9
May	-0.01	1.34	5.0	1.11	1.39	95.4	3571	-5.8
Jun	-0.01	1.67	4.9	1.12	1.39	95.9	3424	-19.8
Jul	-0.02	1.53	5.3	1.10	1.41	95.0	3601	30.1
Aug	-0.03	1.39	4.9	1.11	1.40	96.6	3270	2.9
Sep	-0.04	1.48	4.9	1.12	1.37	97.4	3101	-
Oct	-0.05	1.20	-	1.12	1.37	97.2	3418	-

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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	0.9	1.3	0.9	0.9	0.6	11.6	1.6	0.3	2.3	-1.6	0.4
2015	1.7	1.6	1.4	1.5	1.1	11.0	1.7	0.6	5.5	-2.1	0.1
2016	1.6	2.5	1.8	1.8	1.7	10.6	2.3	1.1	3.4	0.9	1.1
2017	1.5	3.1	1.9	1.8	2.0	10.3	2.4	1.3	3.8	1.9	1.5
2018	1.4	2.8	1.7	1.6	1.8	9.9	2.4	1.1	3.9	1.8	1.5
2019	1.3	2.4	1.5	1.4	1.6	9.6	2.5	1.0	3.8	1.7	1.6
2014											
I	0.7	2.6	1.1	1.1	2.1	11.8	1.8	0.8	0.8	-1.5	0.6
II	0.7	1.2	0.8	0.7	0.8	11.6	1.6	0.1	1.4	-1.4	0.6
III	1.0	0.7	0.5	0.8	-0.1	11.5	1.6	0.0	2.4	-1.8	0.3
IV	1.4	0.8	1.0	0.9	-0.4	11.5	1.6	0.1	4.7	-1.7	0.1
2015											
I	1.7	1.8	1.4	1.2	0.4	11.2	1.5	0.4	6.0	-2.5	-0.3
II	1.9	1.9	1.4	1.5	0.7	11.0	1.6	0.7	6.2	-1.9	0.2
III	1.8	1.3	1.4	1.6	1.7	10.9	1.7	0.6	5.8	-2.3	0.1
IV	1.6	1.3	1.5	1.6	1.5	10.9	1.9	0.6	4.1	-1.6	0.5
2016											
I	1.6	0.9	1.3	1.5	1.2	10.8	2.0	0.6	3.5	-0.1	1.0
II	1.6	2.2	1.9	1.7	1.7	10.7	2.4	1.0	3.1	0.5	0.9
III	1.6	3.4	2.1	2.0	1.6	10.6	2.4	1.4	3.4	1.6	1.3
IV	1.7	3.6	2.1	2.1	2.1	10.5	2.4	1.5	3.6	1.7	1.5
2017											
I	1.6	3.3	2.0	2.0	2.1	10.4	2.4	1.4	3.6	1.8	1.5
II	1.5	3.2	1.9	1.9	2.0	10.3	2.4	1.3	3.7	1.8	1.5
III	1.5	3.0	1.9	1.8	2.0	10.2	2.4	1.2	3.8	1.9	1.5
IV	1.5	2.9	1.8	1.7	2.0	10.1	2.3	1.1	3.9	1.9	1.5
2018											
I	1.4	2.9	1.8	1.7	1.9	10.1	2.3	1.1	3.9	1.9	1.5
II	1.4	2.8	1.8	1.6	1.9	10.0	2.3	1.1	3.9	1.9	1.5
III	1.4	2.8	1.7	1.6	1.8	9.9	2.4	1.1	3.9	1.8	1.5
IV	1.3	2.7	1.6	1.5	1.7	9.8	2.4	1.0	3.9	1.7	1.5
2019											
I	1.3	2.6	1.6	1.5	1.7	9.7	2.5	1.0	3.8	1.7	1.6
II	1.3	2.5	1.5	1.4	1.6	9.6	2.5	1.0	3.8	1.7	1.6
III	1.3	2.3	1.5	1.4	1.5	9.6	2.5	1.0	3.8	1.7	1.6
IV	1.3	2.3	1.5	1.4	1.5	9.5	2.6	1.0	3.8	1.8	1.7

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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	194.0	245.6	2.42	-260.9	-2.58	0.21	2.04	-0.21	1.62	1.33	123.6
2015	274.2	332.7	3.20	-215.9	-2.08	-0.01	1.22	-0.12	1.11	1.11	114.8
2016	283.7	371.7	3.47	-199.6	-1.86	-0.11	1.53	-1.26	0.38	1.07	115.3
2017	271.6	360.9	3.26	-161.1	-1.45	-0.15	2.29	-1.69	0.75	1.06	114.8
2018	264.5	348.9	3.05	-132.3	-1.16	0.10	2.94	-1.43	1.41	1.09	116.1
2019	259.1	341.1	2.89	-114.4	-0.97	0.52	3.24	-1.10	1.62	1.11	117.2
2014											
I	43.1	58.4	2.32	-68.3	-2.71	0.30	2.65	-0.35	2.01	1.37	125.7
II	42.6	51.1	2.02	-66.1	-2.62	0.30	2.22	-0.27	1.65	1.37	125.2
III	46.0	66.3	2.61	-64.1	-2.53	0.16	1.79	-0.17	1.46	1.33	122.6
IV	62.4	69.8	2.74	-62.4	-2.44	0.08	1.50	-0.07	1.35	1.25	121.1
2015											
I	58.9	81.1	3.15	-57.7	-2.24	0.05	1.02	0.38	1.35	1.13	114.9
II	64.3	79.0	3.05	-52.3	-2.02	-0.01	1.29	-0.19	1.11	1.11	112.6
III	75.8	86.9	3.33	-53.8	-2.06	-0.03	1.38	-0.11	1.29	1.11	116.1
IV	75.3	85.6	3.26	-52.0	-1.98	-0.06	1.17	-0.55	0.69	1.09	115.5
2016											
I	74.9	102.1	3.86	-52.6	-1.99	-0.08	1.29	-1.08	0.29	1.08	116.0
II	65.5	95.7	3.59	-50.4	-1.89	-0.10	1.44	-0.97	0.58	1.07	115.7
III	71.2	88.7	3.29	-49.2	-1.83	-0.12	1.60	-1.37	0.35	1.06	115.3
IV	72.0	85.2	3.14	-47.3	-1.74	-0.14	1.76	-1.61	0.29	1.05	114.4
2017											
I	71.2	96.9	3.54	-44.4	-1.62	-0.16	1.94	-1.70	0.40	1.06	114.2
II	62.4	92.4	3.35	-41.3	-1.50	-0.16	2.17	-1.70	0.63	1.06	114.5
III	68.3	87.1	3.13	-39.3	-1.41	-0.16	2.40	-1.69	0.87	1.07	115.1
IV	69.7	84.5	3.01	-36.1	-1.29	-0.13	2.64	-1.66	1.11	1.07	115.4
2018											
I	69.2	93.6	3.31	-34.6	-1.22	0.00	2.82	-1.54	1.28	1.08	115.7
II	60.8	90.2	3.17	-33.6	-1.18	0.03	2.90	-1.48	1.40	1.08	115.9
III	66.5	83.4	2.91	-33.2	-1.16	0.16	2.98	-1.37	1.45	1.09	116.2
IV	67.9	81.7	2.82	-30.8	-1.07	0.19	3.06	-1.34	1.52	1.10	116.4
2019											
I	67.5	91.0	3.12	-29.8	-1.02	0.47	3.13	-1.11	1.55	1.10	116.8
II	58.9	87.6	2.98	-29.1	-0.99	0.50	3.20	-1.08	1.62	1.11	117.1
III	65.1	81.6	2.76	-29.2	-0.99	0.54	3.27	-1.09	1.64	1.11	117.4
IV	67.5	80.9	2.71	-26.4	-0.88	0.55	3.34	-1.13	1.66	1.12	117.7

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

Long-Term Forecast for Eurozone

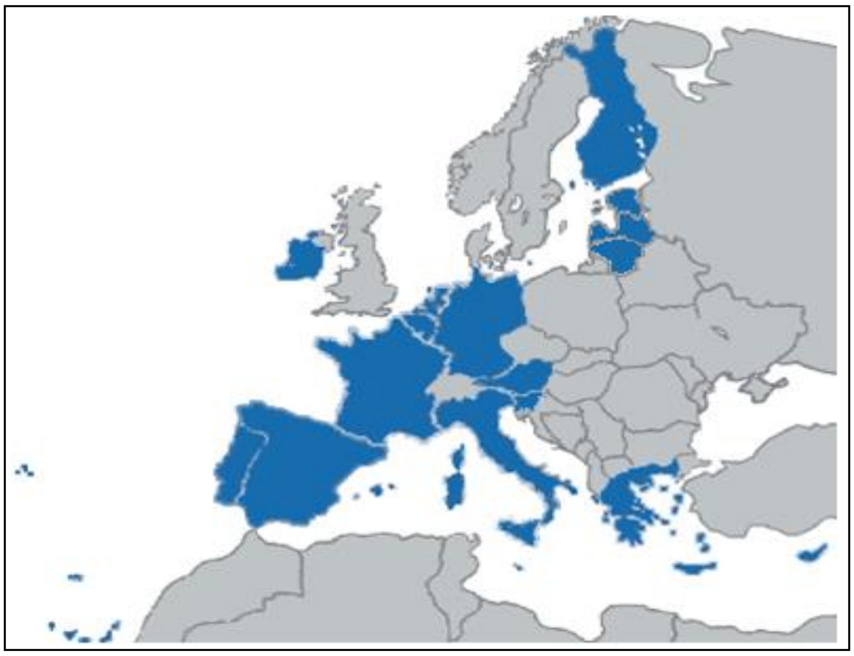
Annual percentage changes unless otherwise specified

	2005-2014	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
GDP	0.7	1.7	-0.8	-0.2	0.9	1.5	1.8	1.8	1.6	1.4	1.5	1.5	1.5	1.4	1.4	1.5
Consumption	0.5	0.0	-1.2	-0.6	0.9	1.7	1.6	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.4
Investment	-0.3	1.8	-3.4	-2.6	1.3	1.6	2.5	3.1	2.8	2.4	2.1	2.0	1.8	1.7	1.5	2.2
Government Consumption	1.2	-0.1	-0.1	0.2	0.8	1.1	0.9	0.9	0.9	1.0	1.1	1.2	1.3	1.3	1.2	1.1
Exports of Goods and Services	3.4	6.8	2.9	2.2	3.9	4.6	3.7	3.7	3.3	3.2	3.2	3.1	2.9	2.8	2.5	3.3
Imports of Goods and Services	2.8	4.5	-0.7	1.4	4.2	4.8	4.0	4.0	3.7	3.6	3.3	3.1	2.9	2.7	2.5	3.5
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	11.0	10.6	10.3	9.9	9.6	9.3	9.0	8.8	8.6	8.3	9.5
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.1	1.1	1.5	1.5	1.6	1.7	1.8	1.8	1.8	1.8	1.5
Current Balance (% of GDP)	0.4	0.2	1.2	1.9	2.4	3.2	3.5	3.3	3.0	2.9	2.8	2.8	2.9	3.0	3.0	3.0
Exchange Rate (US$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.07	1.06	1.09	1.11	1.14	1.16	1.19	1.21	1.23	1.14
General Government Balance (% of GDP)	-3.2	-4.2	-3.7	-3.0	-2.6	-2.1	-1.9	-1.5	-1.2	-1.0	-0.8	-0.7	-0.6	-0.5	-0.5	-1.1
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	-0.1	-0.2	0.1	0.5	0.9	1.4	1.9	2.4	2.9	1.0
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.2	1.5	2.3	2.9	3.2	3.5	3.7	3.9	4.0	4.0	3.0
Working Population	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.5	0.2	0.8	0.0	0.2	0.2	0.3	0.2	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.2	0.1
Participation Ratio (%)	76.0	76.2	76.7	76.5	76.5	76.5	76.6	76.7	76.8	77.0	77.1	77.2	77.3	77.4	77.5	77.0
Labour productivity	0.5	1.5	-0.3	0.4	0.3	0.6	1.1	1.3	1.1	1.0	1.1	1.2	1.2	1.3	1.3	1.1
Employment	0.3	0.1	-0.4	-0.7	0.6	0.9	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.1	0.1	0.4
Output gap (% of potential GDP)	-0.6	-0.9	-2.4	-3.3	-3.4	-3.1	-2.5	-1.9	-1.5	-1.4	-1.2	-1.0	-0.8	-0.5	-0.4	-1.4

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



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

Long-term economic & social development

	1980	1990	2000	2014*
GDP per capita (US$)	-	18231	20715	40293
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	81.4

Source : Oxford Economics & World Bank

* 2014 or latest available year

Structure of GDP by output

	2014
Agriculture	1.7%
Industry	24.4%
Services	73.9%

Source : World Bank

Corruption perceptions index 2014

	Score
Developed economies (average)	75.1
Emerging economies (average)	37.8
Eurozone	67.6

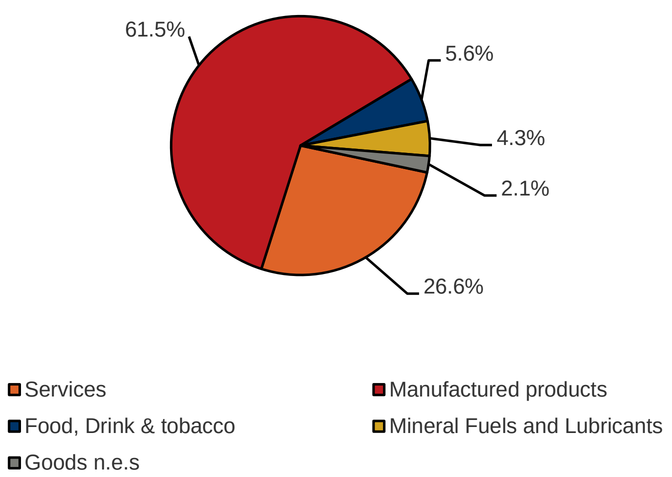
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2014*
Current account (US$ billion)	30	161	-167	326
Trade balance (US$ billion)	-23	63	-29	258
FDI (US$ billion)	-	-	29	-141
Govt budget (% of GDP)	-4	-7	0	-3
Govt debt (% of GDP)	14	68	67	92
Long-term interest rate	11	9	5	2
Oil production (000 bpd)	271	313	240	222
Oil consumption (000 bpd)	9716	10478	10930	9312

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

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