OXFORD ECONOMICS

Eurozone

Highlights

- Latest PMI readings suggest a fourth consecutive quarter of underlying GDP growth of around 0.2-0.3% in Q3 2014 (temporary construction effects were at fault for the slowdown in Q2). Meanwhile the labour market continues to tentatively improve, albeit unevenly, and household confidence along with it. That said, forward-looking industry indicators are pointing to a softer patch in Q4, possibly due to events in Ukraine and fragile confidence in China. We expect Eurozone GDP growth of 0.8% in 2014 overall.
- Looking ahead, even if geopolitical tensions persist, 2015 should see an accelerating recovery. Exporters will benefit from stronger demand in advanced economies and also feel the full benefits of a weakening euro. And although the effects of measures announced by the ECB through 2014 on bank lending remain unclear, they should help to loosen credit standards, supporting business investment.
- Meanwhile, although consumer spending will be constrained in parts of the region by high levels of household debt, the gradual improvement in the labour market suggest that households may spend a bit more freely next year. Overall we expect GDP growth to pick up to about 1.3% in 2015, and 1.7% in 2016. But several constraints will keep growth around 0.5pp below the average over the decade to 2007 – including restrained government spending, and modest consumer spending growth by historical standards, as households also deleverage.
- But deflation remains a threat. There are good reasons to believe recent inflation outturns represent a trough, and a depreciating euro should help nudge price rises to 0.9% next year and 1.4% the year after. But at such limp rates and with high unemployment and still fragile business sentiment, it would not take an especially powerful shock to push the Eurozone back towards deflation.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2013	2014	2015	2016	2017	2018
Domestic Demand	-0.9	0.8	1.1	1.6	1.5	1.6
Private Consumption	-0.6	0.8	1.3	1.4	1.5	1.5
Fixed Investment	-2.8	0.5	1.3	2.9	2.7	2.6
Government Consumption	0.2	0.7	0.3	0.6	0.7	0.8
Net exports (% of GDP)	4.7	4.7	4.9	5.0	5.2	5.3
GDP	-0.4	0.8	1.3	1.7	1.7	1.7
Industrial Production	-1.1	0.8	1.5	2.5	2.2	1.9
Consumer Prices	1.3	0.5	0.9	1.4	1.5	1.6
Current Account (% of GDP)	2.4	2.5	2.5	2.4	2.4	2.4
Government Budget (% of GDP)	-3.0	-2.7	-2.2	-1.9	-1.5	-1.2
Short-Term Interest rate (%)	0.2	0.2	0.1	0.1	0.3	0.8
Long-Term Interest Rates (%)	3.0	2.1	1.9	2.1	2.4	3.1
Exchange rate (US$ per Euro)	1.33	1.33	1.24	1.21	1.20	1.19
Exchange rate (YEN per Euro)	129.6	139.1	137.2	135.2	133.0	131.5

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Forecast Overview

Solid third quarter, but soft patch in Q4?

The Eurozone recovery continued through the summer, with PMI readings indicating GDP growth of around 0.3% in Q3 2014 – a fourth consecutive quarter of modest growth (accounting for temporary weakness in German construction in Q2). Alongside this, the labour market seems to have turned – employment was up 350,000 in Q2, the largest rise since 2008. Consumers also seem to be responding to normalizing conditions, with retail sales picking up through 2014, and up 1.2% in August alone.

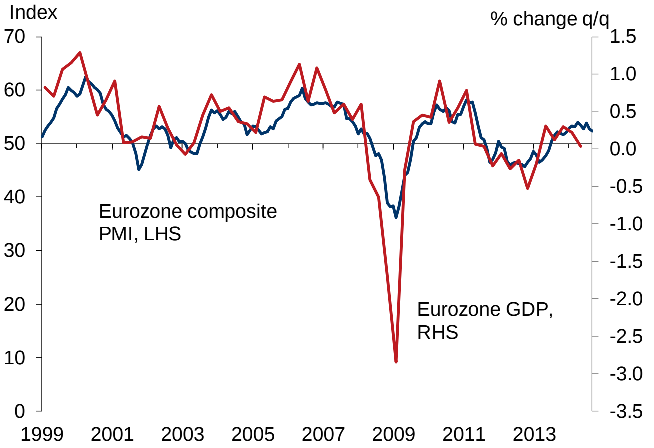
We suspect the final quarter of the year will see a softer patch though. While average PMI readings for Q3 were consistent with growth of 0.3%, the composite activity indicator nevertheless eased slightly through the quarter, and forward looking components of the manufacturing survey in particular suggested lower activity in the final quarter. We expect GDP growth of 0.2% in Q4, yielding 0.8% for 2014 overall.

Fundamentals support pick up from 2015

Nevertheless the Eurozone should continue its tentative recovery from 2015. Barring an intensifying conflict in Ukraine or a more serious slowdown in China, exports should continue to recover over the next couple of years, aided by strengthening demand in advanced economies in particular. A weakening euro (reaching $1.22 by end-2015) will also support exports, particularly in countries that have done least to improve competitiveness. Exports should grow by just short of 4% in 2015, and just above 4% thereafter.

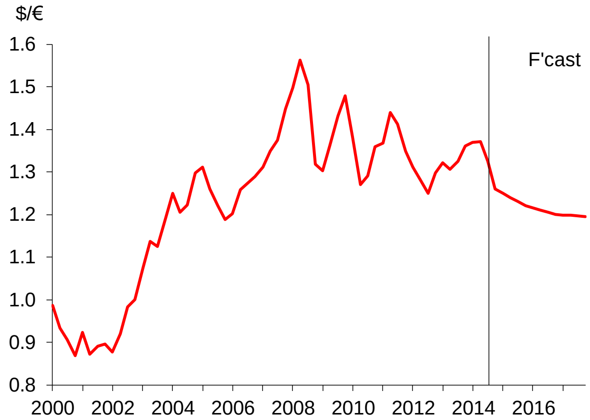
Encouraged by rising foreign demand, and with spare capacity narrowing, firms will step up capital spending. Nevertheless, with credit standards for bank lending little eased since the dark days of 2012-2013, firms' ability to fund investment hinges upon the ECB's success in restoring normality to the Eurozone's banking system. In this context the weak demand for TLTROs in September was viewed by some as a disappointment, but demand at the second round in December (post-publication of the ECB's Asset Quality Review) should be somewhat stronger. Combined with ECB efforts to reinvigorate the market for Asset-Backed Securities (banks bundling together business and consumer loans and selling them on), this should drive an expansion of bank lending from early 2015. In turn, this will support investment growth of 1.3% in 2015 and 2.9% the year after.

Eurozone Composite PMI & GDP



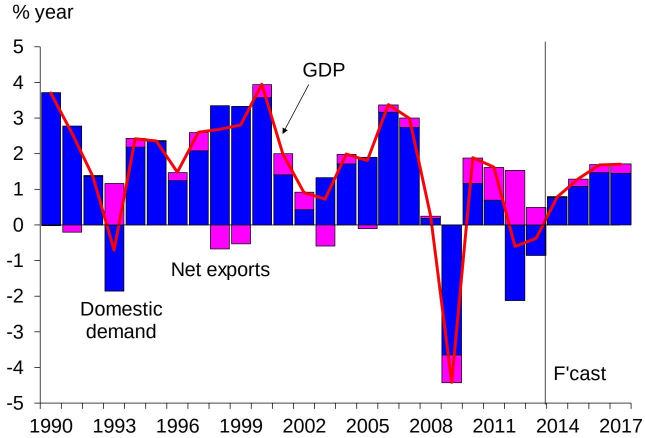
Source : Oxford Economics/Haver Analytics/Markit

Eurozone: $/€ exchange rate



Source: Oxford Economics/ Haver Analytics

Eurozone: Contributions to GDP growth



Source: Oxford Economics

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But constraints on medium-term recovery

Increased business confidence and capital spending will encourage firms to increase hiring over the coming couple of years. Nevertheless, with around 18.5m currently unemployed in the Eurozone (11.5% of the workforce), we do not expect the unemployment rate to dip below 10% until 2019. As such, household incomes and consumer spending will rebound only gradually. With inflation set to remain low, nominal wage growth of 2-2.5% will yield modest real income gains, enough to spur consumption growth to 1.3% in 2015, picking up to 1.5% in subsequent years. But the pace of consumer spending growth will remain constrained at around 0.5pp slower than in the decade to 1997.

Furthermore, although emergency austerity would seem to be over, governments will remain constrained for some years. Low bond yields have eased the burden of interest payments, and there are calls for increased flexibility in the treatment of public investment in fiscal targets. But nevertheless fiscal policy will remain focused on the stabilization of public debt ratios. As such, we expect a very modest fiscal drag to remain from 2015 onwards, limiting government spending growth to 0.5-1% per year.

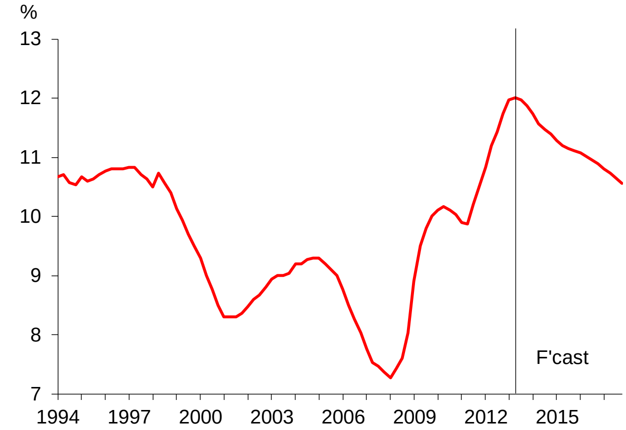
Overall therefore, we expect Eurozone growth to remain restricted to around 1.7% in the medium term – some 0.5pp or so below the average in the decade to 2007.

And ogre of deflation not yet banished

Moreover, the Eurozone is by no means free of the threat of deflation. Latest data (+0.3% in the year to September) should mark the trough for inflation, with the euro's depreciation through 2014 set to feed through to consumer prices in the months to come. Firms' pricing power should also recover gradually as the recovery takes hold. As such we expect inflation to accelerate from 0.5% in 2014 to 0.9% in 2015 and 1.6% by 2018.

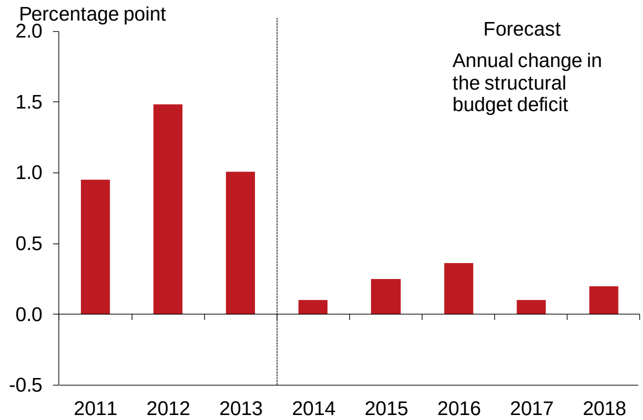
But we remain concerned about the risk of deflation. Several shocks (e.g. escalating conflict in Ukraine, a sharper slowdown in China, or a rebound in the euro) could tip the Eurozone back towards economic stagnation and slow or negative price rises. With minimal room for governments to launch a fiscal stimulus in response, averting a damaging period of deflation and deleveraging would rely on a swift response from the ECB. In light of internal tensions between governing council members over recent policy moves, we are loathe to assume this would necessarily be forthcoming.

Eurozone: Unemployment



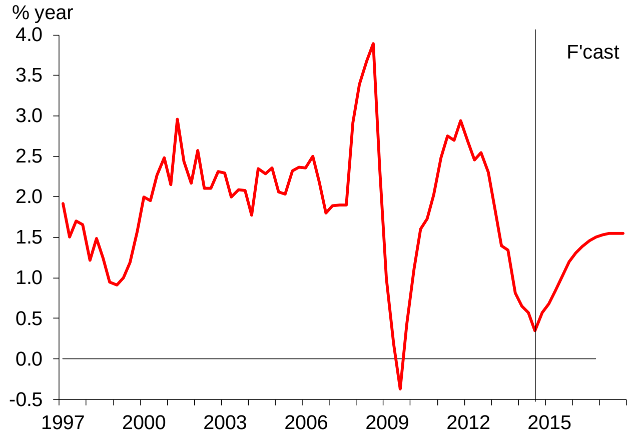
Source: Oxford Economics

Eurozone: Fiscal stance



Source : Oxford Economics/Haver Analytics

Eurozone: Consumer price inflation



Source: Oxford Economics

Long-Term Prospects

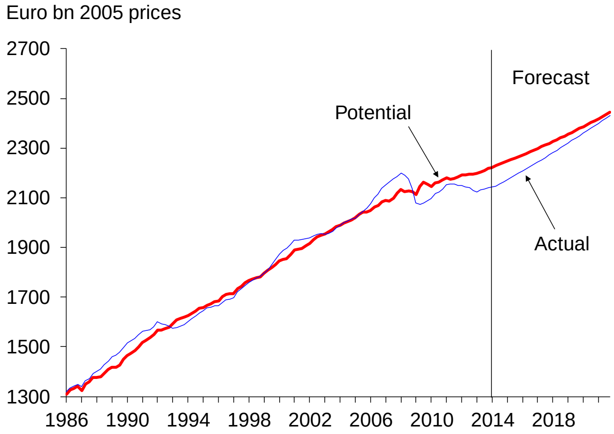
Very slow recovery from crises

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%. This compares with 1.3% in the past decade, itself significantly affected by the crisis, and 1.8% in the 10 years to 2008.

The slow restructuring of the banking sector means that credit availability will be limited for a long time, hindering investment and affecting the efficiency of capital allocation in the economy. Moreover, high unemployment for a prolonged period, especially among the young, will have long-lasting negative effects on skill levels and ability to work. Combined with a shrinking population of working age, despite increases in the retirement age, these factors imply that availability and quality of labour will be constrained compared with the pre-crisis period. These factors will only be partly offset by further increases in the participation rate.

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*	1.84	0.94
Employment at NAIRU	0.99	0.11
Capital Stock	2.12	1.15
Total Factor Productivity	0.45	0.46

*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	1.4	1.6
Consumption	1.5	-0.3	1.3	1.4
Investment	2.9	-3.8	2.0	2.1
Government Consumption	2.0	0.5	0.6	1.2
Exports of Goods and Services	5.8	1.7	3.8	3.0
Imports of Goods and Services	5.7	0.4	3.8	3.0
Unemployment (%)	8.4	10.6	11.0	9.4
Consumer Prices	2.4	1.7	1.2	1.7
Current Balance (% of GDP)	-0.2	0.8	2.5	2.5
Exchange Rate (US$ per Euro)	1.32	1.34	1.23	1.18
General Government Balance (% of GDP)	-1.9	-4.7	-1.9	-0.8
Short-term Interest Rates (%)	3.3	0.8	0.3	2.2
Long-term Interest Rates (%)	4.0	3.8	2.3	4.2
Working Population	0.4	0.1	0.0	-0.2
Labour Supply	0.9	0.2	0.1	0.0
Participation Ratio	74.7	75.8	76.0	76.7
Labour Productivity	0.9	0.3	1.0	1.3

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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)
Sep	0.1	12.0	1.1	-0.2	-14.8	3.0	1.4	11.3
Oct	0.4	11.9	0.7	-0.1	-14.4	1.4	-2.9	16.6
Nov	2.6	11.9	0.9	0.2	-15.3	-1.9	-4.8	17.0
Dec	1.6	11.8	0.8	0.2	-13.5	4.1	1.4	14.1
2014								
Jan	2.2	11.8	0.8	0.2	-11.6	1.2	-2.5	0.7
Feb	1.9	11.7	0.7	0.3	-12.7	3.3	0.3	14.5
Mar	0.5	11.7	0.5	0.3	-9.2	-0.7	3.4	15.8
Apr	1.5	11.6	0.7	0.2	-8.6	-1.4	-2.2	15.1
May	0.6	11.6	0.5	0.3	-7.1	0.4	-0.1	15.4
Jun	0.1	11.5	0.5	0.2	-7.5	3.0	2.6	16.7
Jul	1.7	11.5	0.4	0.2	-8.3	2.6	0.8	21.2
Aug	-	11.5	0.4	0.2	-10.0	-	-	-
Sep	-	-	0.3	0.1	-11.4	-	-	-

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
Sep	0.22	3.41	2.0	1.33	1.19	106.7	2893	-19.3
Oct	0.23	3.16	1.4	1.36	1.18	107.8	3068	17.9
Nov	0.22	3.17	1.5	1.35	1.19	107.4	3087	-23.2
Dec	0.27	3.31	1.0	1.37	1.19	108.8	3109	-11.0
2014								
Jan	0.29	3.21	1.2	1.36	1.21	108.3	3014	-9.2
Feb	0.29	3.09	1.4	1.37	1.21	108.2	3149	-0.5
Mar	0.31	2.89	1.0	1.38	1.20	109.1	3162	-14.6
Apr	0.33	2.61	0.8	1.38	1.21	108.7	3198	-18.7
May	0.32	2.55	1.1	1.37	1.23	107.8	3245	10.6
Jun	0.24	2.28	1.6	1.36	1.24	106.9	3228	7.9
Jul	0.21	2.16	1.8	1.35	1.26	106.4	3116	-2.8
Aug	0.19	1.99	2.0	1.33	1.25	105.8	3173	-
Sep	0.10	1.85	-	1.29	1.26	104.4	3226	-

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	-2.8	-0.9	-0.4	-1.1	12.0	1.6	0.4	1.4	-0.4	1.3
2014	0.8	0.5	0.8	0.8	0.8	11.5	1.4	0.4	1.7	-1.3	0.5
2015	1.3	1.3	1.1	1.3	1.5	11.2	2.2	0.9	3.2	0.8	0.9
2016	1.4	2.9	1.6	1.7	2.5	11.0	2.5	1.3	3.7	1.8	1.4
2017	1.5	2.7	1.5	1.7	2.2	10.7	2.6	1.3	3.7	1.8	1.5
2018	1.5	2.6	1.6	1.7	1.9	10.4	2.6	1.2	3.4	1.8	1.6
2013											
I	-1.4	-5.3	-2.0	-1.1	-2.7	12.0	1.7	-0.1	2.1	0.7	1.9
II	-0.7	-3.4	-1.4	-0.6	-1.5	12.0	1.6	0.4	1.7	-0.4	1.4
III	-0.4	-2.4	-0.4	-0.3	-1.1	12.0	1.7	0.5	1.5	-0.8	1.3
IV	0.2	-0.1	0.2	0.5	1.1	11.9	1.6	0.9	0.4	-1.2	0.8
2014											
I	0.6	1.8	0.9	1.0	2.2	11.7	1.3	0.8	0.8	-1.5	0.6
II	0.7	1.3	0.9	0.7	0.8	11.6	1.3	0.2	1.4	-1.2	0.6
III	0.8	-0.2	0.6	0.8	0.2	11.5	1.4	0.3	2.1	-1.4	0.3
IV	1.0	-0.8	0.9	0.7	0.1	11.4	1.7	0.3	2.7	-0.8	0.6
2015											
I	1.2	-0.4	0.7	0.9	0.2	11.3	1.9	0.4	3.2	-0.2	0.7
II	1.3	0.6	1.1	1.2	1.3	11.2	2.2	1.0	3.0	0.7	0.8
III	1.4	2.2	1.3	1.4	2.0	11.1	2.3	1.1	3.1	1.3	1.0
IV	1.5	2.6	1.5	1.6	2.4	11.1	2.5	1.3	3.5	1.5	1.2
2016											
I	1.4	2.8	1.5	1.7	2.5	11.1	2.5	1.3	3.7	1.7	1.3
II	1.4	2.9	1.6	1.7	2.5	11.0	2.5	1.3	3.6	1.8	1.4
III	1.5	3.0	1.6	1.7	2.5	11.0	2.5	1.3	3.7	1.8	1.5
IV	1.5	2.9	1.6	1.7	2.4	10.9	2.6	1.3	3.8	1.8	1.5
2017											
I	1.5	2.8	1.6	1.7	2.3	10.8	2.6	1.3	3.8	1.8	1.5
II	1.5	2.7	1.5	1.7	2.2	10.7	2.6	1.3	3.7	1.8	1.5
III	1.5	2.6	1.5	1.7	2.1	10.6	2.5	1.3	3.7	1.9	1.5
IV	1.5	2.6	1.5	1.7	2.1	10.6	2.5	1.2	3.6	1.9	1.5
2018											
I	1.5	2.6	1.5	1.7	2.0	10.5	2.5	1.2	3.5	1.8	1.6
II	1.5	2.6	1.5	1.7	1.9	10.4	2.6	1.2	3.4	1.8	1.6
III	1.5	2.5	1.6	1.7	1.9	10.4	2.6	1.2	3.4	1.8	1.6
IV	1.5	2.5	1.6	1.6	1.8	10.3	2.6	1.2	3.3	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	158.0	230.7	2.40	-290.1	-3.02	0.22	3.00	-1.13	1.65	1.33	120.8
2014	185.9	247.6	2.53	-260.7	-2.67	0.21	2.08	-0.32	1.55	1.33	123.2
2015	189.3	254.5	2.54	-216.5	-2.16	0.08	1.87	-0.86	0.94	1.24	118.1
2016	188.7	251.5	2.43	-191.8	-1.86	0.07	2.08	-1.34	0.67	1.21	116.6
2017	205.0	259.4	2.43	-163.5	-1.53	0.26	2.45	-1.29	0.91	1.20	115.8
2018	215.9	267.5	2.43	-136.7	-1.24	0.76	3.14	-0.82	1.56	1.19	115.3
2013											
I	37.7	52.2	2.19	-78.0	-3.27	0.21	3.06	-1.64	1.20	1.32	118.8
II	40.7	61.8	2.57	-74.0	-3.08	0.21	2.82	-1.19	1.43	1.31	119.2
III	36.1	49.9	2.07	-70.5	-2.93	0.22	3.15	-1.12	1.80	1.32	121.7
IV	43.5	66.8	2.77	-67.6	-2.80	0.24	2.97	-0.57	2.16	1.36	123.7
2014											
I	42.6	55.6	2.29	-69.6	-2.86	0.30	2.66	-0.35	2.01	1.37	125.6
II	43.6	62.0	2.55	-63.6	-2.61	0.30	2.23	-0.27	1.66	1.37	125.1
III	52.5	63.8	2.61	-64.0	-2.62	0.17	1.74	-0.18	1.40	1.33	122.5
IV	47.1	66.1	2.69	-63.5	-2.59	0.08	1.69	-0.49	1.12	1.26	119.5
2015											
I	47.6	63.4	2.56	-60.0	-2.43	0.08	1.75	-0.60	1.08	1.25	118.9
II	44.1	67.2	2.70	-54.3	-2.18	0.08	1.85	-0.76	1.01	1.24	118.3
III	51.6	60.6	2.41	-53.2	-2.12	0.08	1.93	-0.95	0.90	1.23	117.9
IV	45.9	63.3	2.50	-48.9	-1.93	0.07	1.97	-1.12	0.77	1.22	117.5
2016											
I	47.0	63.4	2.49	-50.2	-1.97	0.07	2.01	-1.23	0.70	1.22	117.1
II	43.1	65.6	2.55	-47.9	-1.86	0.07	2.05	-1.31	0.66	1.21	116.7
III	51.2	59.0	2.27	-48.2	-1.86	0.07	2.09	-1.39	0.63	1.21	116.4
IV	47.5	63.5	2.43	-45.5	-1.74	0.07	2.19	-1.43	0.68	1.20	116.1
2017											
I	49.7	63.6	2.41	-46.1	-1.75	0.07	2.29	-1.46	0.76	1.20	116.1
II	47.2	67.6	2.55	-42.3	-1.59	0.17	2.39	-1.38	0.84	1.20	115.9
III	55.8	62.0	2.31	-39.9	-1.49	0.27	2.49	-1.28	0.94	1.20	115.8
IV	52.3	66.3	2.45	-35.3	-1.31	0.52	2.64	-1.03	1.09	1.20	115.6
2018											
I	54.0	66.6	2.45	-36.7	-1.35	0.52	2.84	-1.04	1.28	1.19	115.5
II	50.5	70.0	2.55	-34.7	-1.27	0.77	3.04	-0.80	1.47	1.19	115.3
III	58.1	64.0	2.31	-34.4	-1.25	0.76	3.24	-0.83	1.65	1.19	115.2
IV	53.3	67.0	2.40	-30.9	-1.11	1.01	3.44	-0.60	1.82	1.19	115.0

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

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Long-Term Forecast for Eurozone

Annual percentage changes unless otherwise specified

	2004-2013	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
GDP	0.8	1.9	1.6	-0.6	-0.4	0.8	1.3	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.5
Consumption	0.6	1.0	0.3	-1.4	-0.6	0.8	1.3	1.4	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4
Investment	-0.5	-0.6	1.7	-3.8	-2.8	0.5	1.3	2.9	2.7	2.6	2.4	2.2	2.0	1.9	1.8	2.0
Government Consumption	1.2	0.6	-0.1	-0.6	0.2	0.7	0.3	0.6	0.7	0.8	1.0	1.2	1.3	1.3	1.4	0.9
Exports of Goods and Services	3.7	11.4	6.7	2.8	1.5	2.9	3.8	4.2	4.1	3.8	3.5	3.2	3.0	2.8	2.7	3.4
Imports of Goods and Services	3.0	9.8	4.7	-0.8	0.4	3.2	3.8	4.2	4.0	3.8	3.5	3.1	2.8	2.7	2.6	3.4
Unemployment (%)	9.5	10.1	10.1	11.3	12.0	11.5	11.2	11.0	10.7	10.4	10.1	9.7	9.4	9.0	8.7	10.2
Consumer Prices	2.1	1.6	2.7	2.5	1.3	0.5	0.9	1.4	1.5	1.6	1.7	1.7	1.7	1.8	1.8	1.5
Current Balance (% of GDP)	0.3	0.1	0.1	1.5	2.4	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5
Exchange Rate (US$ per Euro)	1.33	1.33	1.39	1.28	1.33	1.33	1.24	1.21	1.20	1.19	1.19	1.18	1.18	1.17	1.17	1.21
General Government Balance (% of GDP)	-3.3	-6.2	-4.1	-3.7	-3.0	-2.7	-2.2	-1.9	-1.5	-1.2	-1.1	-0.9	-0.8	-0.7	-0.6	-1.4
Short-term Interest Rates (%)	2.1	0.8	1.4	0.6	0.2	0.2	0.1	0.1	0.3	0.8	1.3	1.8	2.3	2.8	3.2	1.3
Long-term Interest Rates (%)	3.9	3.6	4.4	3.9	3.0	2.1	1.9	2.1	2.4	3.1	3.9	4.2	4.2	4.2	4.2	3.2
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	0.3	0.7	-0.1	-0.1	0.0	0.2	0.1	0.1	0.0	0.0	0.0	-0.1	-0.1	0.0
Participation Ratio (%)	75.2	75.6	75.8	76.1	75.9	75.9	75.9	76.0	76.1	76.3	76.4	76.6	76.7	76.8	76.9	76.3
Labour productivity	0.6	2.4	1.3	0.0	0.4	0.4	0.9	1.3	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.1
Employment	0.2	-0.5	0.3	-0.6	-0.8	0.4	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.3	0.2	0.4
Output gap (% of potential GDP)	-0.4	-1.9	-1.2	-2.4	-3.5	-3.7	-3.4	-2.9	-2.3	-1.9	-1.5	-1.1	-0.8	-0.6	-0.3	-1.9

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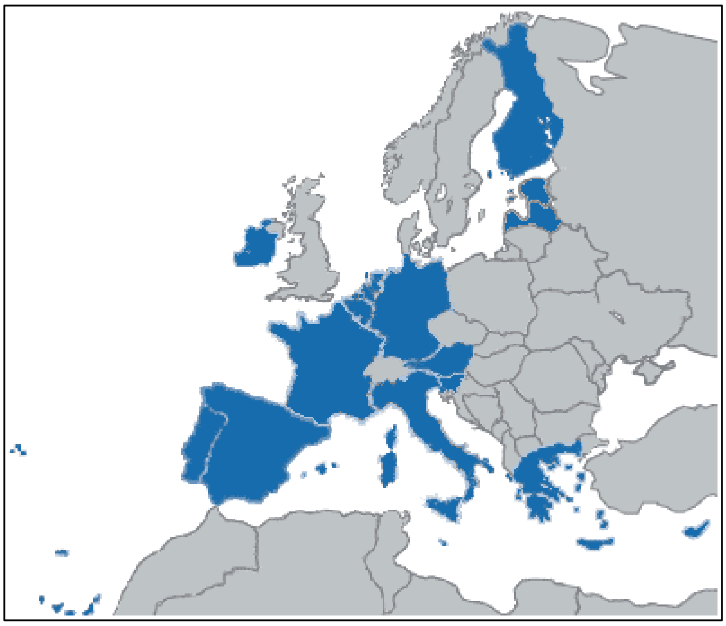
Key Facts

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

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

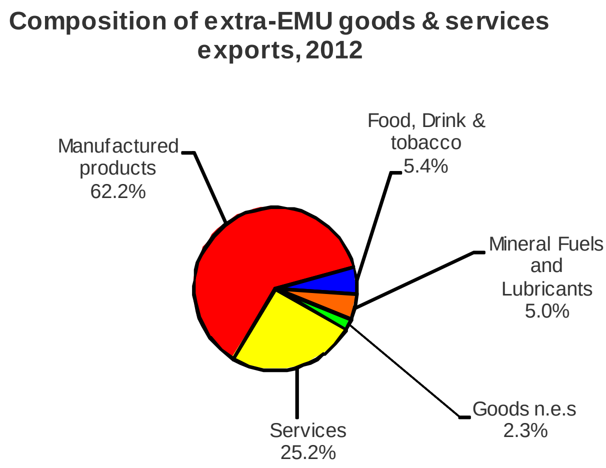
	1990	1995	2000	2013*
Current account (US$ billion)	10	54	-95	306
Trade balance (US$ billion)	-23	63	-27	210
FDI (US$ billion)	-	-	-25	-4
Govt budget (% of GDP)	-4.1	-7.5	-0.1	-3.0
Govt debt (% of GDP)	13.6	67.6	67.3	94.6
Long-term interest rate	10.9	8.7	5.4	3.0
Oil production (000 bpd)	271	313	240	238
Oil consumption (000 bpd)	9715	10483	10927	9611

Source : Oxford Economics / World Bank / EIA / ECB

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



Source : Eurostat\ Haver Analytics