# Eurozone

## Highlights

- The Eurozone recovery continues at a steady, if unspectacular pace. GDP grew by 0.2% in the third quarter, and with PMI readings weakening only modestly in the past couple of months, we expect a similar outturn in the fourth. Overall growth for the year looks set to be around 0.9%.
- But the weak end to 2014 belies domestic healing in much of the Eurozone. The improvement in consumer confidence and the labour market has eased in recent months, perhaps due to uncertainty related to the conflict in Ukraine, as well as ongoing fears of deflation. But sentiment remains above long-run averages, and households are set for a boost from substantially lower energy bills in 2015. Together with gradually improving labour markets, this will lift real income growth from 0.4% in 2014 to 1.6% in 2015. In turn, this will drive consumer spending growth to 1.4% – the strongest since 2007.
- Lower energy costs and a weaker euro should also aid the competitive position of Eurozone exporters, offsetting the impact of weaker import demand in emerging markets. As such we have retained our expectation that exports will grow by just short of 4% in 2015 and just above that in the following couple of years. Alongside growing domestic and external demand, firms should start to step up investment spending – in particular from 2016.
- Nevertheless, GDP growth will remain weak by historical standards in light of the need for fiscal restraint, and wage growth being constrained by the degree of labour market slack. In addition, deflation remains a threat. Inflation will remain lower for longer as a result of the weaker oil price, increasing the risk that inflation expectations start to detach. However, in terms of monetary policy, we remain of the opinion that the ECB will not buy sovereign bonds, and will instead aim to increase its balance sheet by purchasing other assets.

**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 | 1.4 | 1.4 | 1.4 | 1.4 |
| **Fixed Investment** | -2.4 | 0.6 | 0.6 | 2.8 | 2.9 | 2.7 |
| **Government Consumption** | 0.2 | 0.8 | 0.3 | 0.5 | 0.7 | 0.8 |
| **Net exports (% of GDP)** | 4.1 | 4.2 | 4.4 | 4.4 | 4.5 | 4.5 |
| **GDP** | -0.4 | 0.9 | 1.3 | 1.7 | 1.7 | 1.6 |
| **Industrial Production** | -1.0 | 0.7 | 1.1 | 2.2 | 2.2 | 1.9 |
| **Consumer Prices** | 1.3 | 0.5 | 0.6 | 1.3 | 1.5 | 1.6 |
| **Current Account (% of GDP)** | 2.0 | 2.5 | 2.9 | 2.7 | 2.5 | 2.4 |
| **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 | 1.6 | 2.0 | 2.3 | 2.5 |
| **Exchange rate (US$ per Euro)** | 1.33 | 1.33 | 1.24 | 1.21 | 1.19 | 1.17 |
| **Exchange rate (YEN per Euro)** | 129.6 | 140.8 | 152.2 | 154.9 | 156.1 | 156.0 |

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# Forecast Overview

## Tentative recovery continues in Q4

The composition of growth in the Eurozone has shifted through H2 2014, with services firms driving growth in light of weaker manufacturing activity. GDP expanded by 0.2% in Q3, and we expect a similar rate in Q4. Since this is in line with the average rate over the first half of the year, we expect GDP growth of 0.9% for 2014 overall.

## Domestic healing continues in 2015

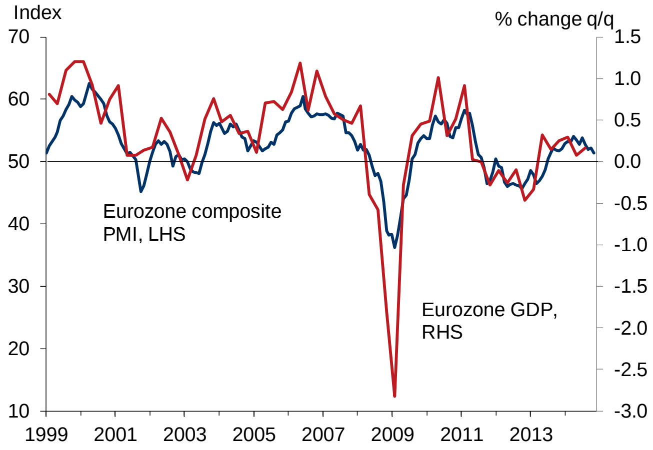
But beneath the aggregate GDP data we see increased evidence of domestic healing. Consumer confidence has improved steadily through most of 2014, and along with it activity in the retail sector. Although the improvement in confidence has eased in recent months, retail sales have remained more robust, and retailers themselves have responded by sharply increasing their headcounts. Other factors affecting the 2015 outlook include:

**Falling oil prices −** energy accounts for around 10% of the consumer price index basket in the Eurozone, so (other things equal) the 17% fall in our expected euro-denominated oil price for 2015 would yield 1.7% extra household income. We also expect the gradual improvement in the labour market to resume in 2015, allowing nominal earnings growth to pick up from 1.5% in 2014 to closer to 2%. Overall therefore, we expect real household income growth to pick up from 0.4% in 2014 to 1.6% in 2015, driving consumer spending growth to 1.4%, the strongest performance since 2007.

**Slightly better external climate** − lower oil prices will also help further improve the current account balance. Weaker demand growth in emerging economies will be offset by stronger growth in the Eurozone's advanced economy trading partners plus competitiveness gains from the depreciating euro. Overall, we have revised our forecast for the Eurozone current account surplus in 2015 from 2.3% of GDP to 2.9%.

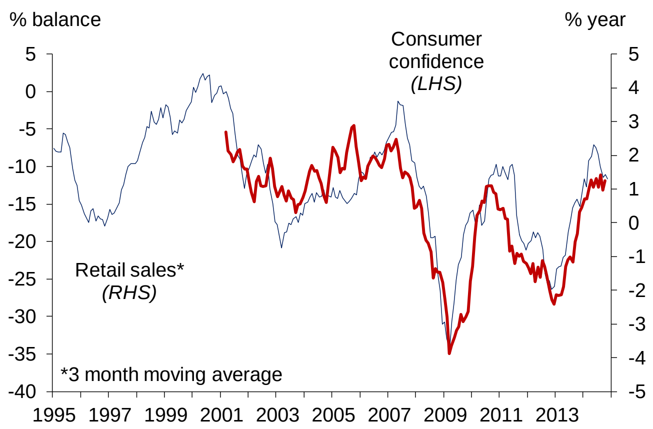
**Investment weak, but to strengthen** − that said, our forecast for investment spending growth in 2015 on an annual basis has been revised from 1.2% to 0.6% − but this is largely a result of base effects from a weak end to 2014. Looking ahead, we expect firms to increase capital spending through 2015 as exports benefit from robust demand growth in advanced economies and a depreciating euro, while domestic sectors benefit from stronger consumer spending.

**Eurozone Composite PMI & GDP**



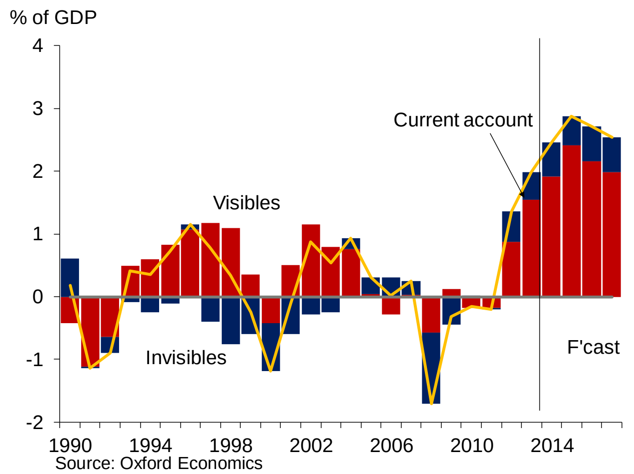

Source : Oxford Economics/Haver Analytics/Markit

**Eurozone: Consumer confidence & retail sales**




Source: Haver Analytics

**Eurozone: Current account**




Source: Oxford Economics

Overall therefore, we expect GDP growth of 1.3% in 2015 – a modest upgrade from our November forecast (1.2%), and with notable shifts in the composition.

## But constraints on medium-term recovery

Recoveries in business confidence and investment will encourage firms to increase hiring in the second half of the decade. But with around 18.5m unemployed in the Eurozone (11.5% of the workforce), we do not expect the unemployment rate to dip below 10% until 2019. So wage growth will be modest in the recovery period, constrained to around 2.5% a year, limiting consumer spending to around 1.4% a year – 0.7 percentage points (ppt) weaker than in the decade to 2007.

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. 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.

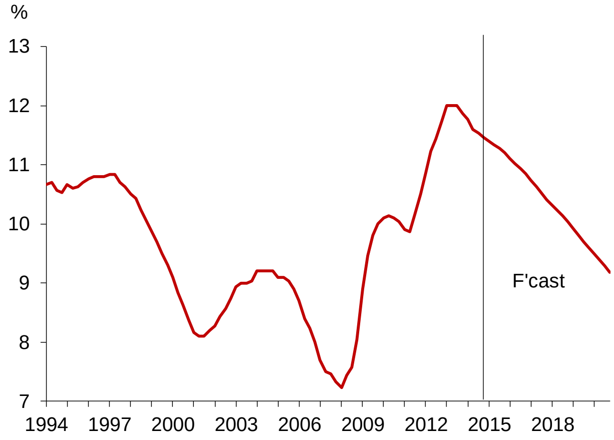
Overall we expect Eurozone growth to pick up to 1.7% in 2016, but remain constrained around this rate absent notable changes to either the external environment, or more rapid progress in productivity-enhancing reform.

## Expectation building over sovereign 'QE'

Lower oil prices should keep inflation at 0.6% in 2015 (down 0.2ppt since November and 0.4ppt since October), with second round effects on other goods and services  slowing the path back to the ECB's target. As such we have pushed back the first ECB rate hike from late 2017 to a year later. Moreover we expect the ECB to bring its balance sheet back towards the 2012 level by the end of 2015, a year earlier than previously.

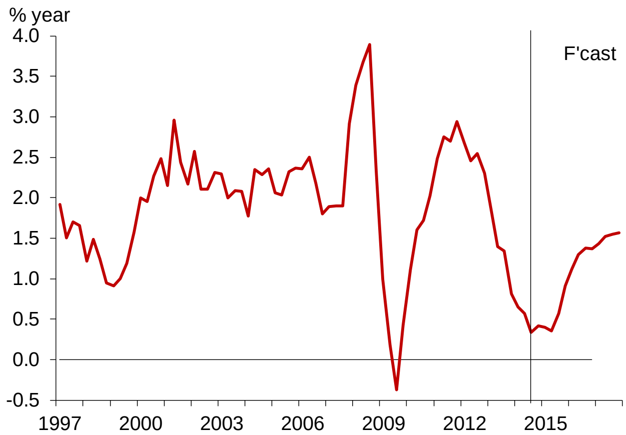
However, we remain of the view this is unlikely to involve government bond purchases. It will be difficult to persuade the opponents of such a policy it is warranted against a backdrop of gradual recovery, and in any case purchasing riskier assets such as corporate bonds and ABSs seem likely to be more powerful in triggering bank lending. Nevertheless, at least part of the current record low in government borrowing costs (particularly for peripheral economies) seems likely to be predicated on market expectations of ECB sovereign bond purchases. Managing the transition from this perception will be key if bond yields are to remain stable through 2015.

**Eurozone: Unemployment**



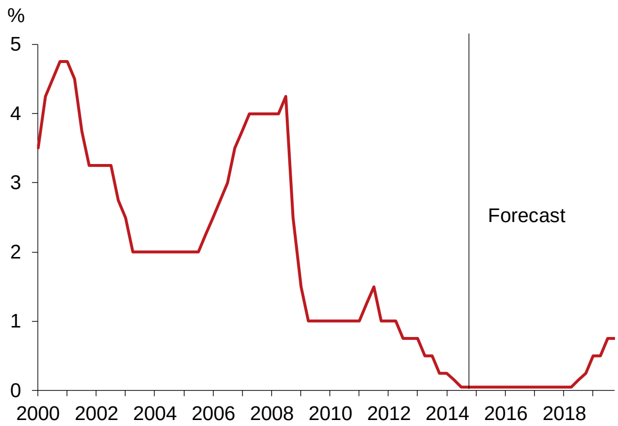

Source: Oxford Economics

**Eurozone: Consumer price inflation**




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 regions suffered from a sustained period of price and wage deflation.

## Emerging risks

**Deflation** – prior to the recent falls in the oil price we have anticipated a gradual pickup in the rate of price growth through 2015. But with energy costs 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 to long 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 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

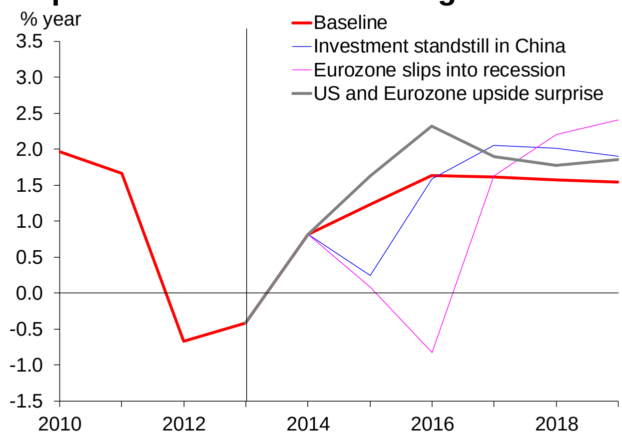
| | | |
|---|---|---|
| GDP growth | ● (amber) | External factors point to near-term downside risks |
| CPI inflation | ● (amber) | Deflation is a potential risk with major consequences |
| Current account balance | ● (green) | Region as a whole to remain in surplus |
| Government balance | ● (green) | Austerity has lowered deficit below SGP target |
| Government debt | ● (red) | High levels of debt provide little margin for future error |
| External debt | ● (green) | 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

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# Long-Term Prospects

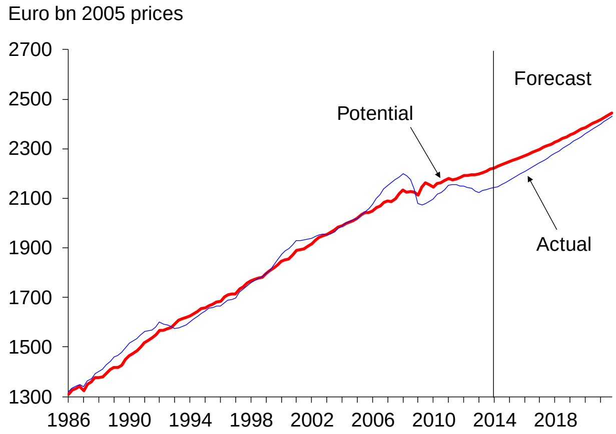
## Very slow recovery from crises

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 1.1%, 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<br>Average Percentage Growth | 1999-2008 | 2008-2018 |
|---|---|---|
| Potential GDP* | 1.83 | 0.85 |
| Employment at NAIRU | 0.99 | 0.11 |
| Capital Stock | 2.10 | 1.22 |
| Total Factor Productivity | 0.44 | 0.35 |

*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 | 1.5 |
| **Consumption** | 1.5 | -0.4 | 1.3 | 1.3 |
| **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 | 3.8 | 3.0 |
| **Imports of Goods and Services** | 5.7 | 0.3 | 3.9 | 3.2 |
| **Unemployment (%)** | 8.3 | 10.6 | 10.9 | 9.0 |
| **Consumer Prices** | 2.4 | 1.7 | 1.1 | 1.8 |
| **Current Balance (% of GDP)** | 0.0 | 0.5 | 2.6 | 2.3 |
| **Exchange Rate (US$ per Euro)** | 1.32 | 1.34 | 1.23 | 1.16 |
| **General Government Balance (% of GDP)** | -1.9 | -4.6 | -1.8 | -0.7 |
| **Short-term Interest Rates (%)** | 3.3 | 0.8 | 0.1 | 1.6 |
| **Long-term Interest Rates (%)** | 4.0 | 3.8 | 2.1 | 3.4 |
| **Working Population** | 0.4 | 0.1 | 0.0 | -0.2 |
| **Labour Supply** | 1.0 | 0.2 | 0.0 | -0.2 |
| **Participation Ratio** | 75.1 | 76.4 | 76.6 | 76.9 |
| **Labour Productivity** | 0.8 | 0.3 | 1.0 | 1.2 |

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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) |
|---|---|---|---|---|---|---|---|---|
| Nov | 2.6 | 11.9 | 0.9 | 0.3 | -15.3 | -2.0 | -4.6 | 16.5 |
| 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 | 0.0 | 14.4 |
| Mar | 0.4 | 11.7 | 0.5 | 0.4 | -9.2 | -0.7 | 3.2 | 15.8 |
| 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 | -0.1 | 15.2 |
| Jun | 0.0 | 11.6 | 0.5 | 0.2 | -7.5 | 3.2 | 2.7 | 16.5 |
| Jul | 1.6 | 11.6 | 0.4 | 0.2 | -8.3 | 2.8 | 0.6 | 21.4 |
| Aug | -0.6 | 11.5 | 0.4 | 0.2 | -10.0 | -3.2 | -4.5 | 8.6 |
| Sep | 0.1 | 11.5 | 0.3 | 0.0 | -11.4 | 8.5 | 3.9 | 18.5 |
| Oct | 0.7 | 11.5 | 0.4 | 0.1 | -11.1 | - | - | - |
| Nov | | | 0.3 | 0.2 | -11.6 | | | |

## 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 |
|---|---|---|---|---|---|---|---|---|
| Nov | 0.22 | 3.17 | 1.5 | 1.35 | 1.19 | 107.4 | 3087 | 18.5 |
| Dec | 0.27 | 3.31 | 1.0 | 1.37 | 1.19 | 108.8 | 3109 | 17.7 |
| 2014 | | | | | | | | |
| Jan | 0.29 | 3.21 | 1.2 | 1.36 | 1.21 | 108.3 | 3014 | 0.4 |
| Feb | 0.29 | 3.09 | 1.3 | 1.37 | 1.21 | 108.2 | 3149 | 16.2 |
| Mar | 0.31 | 2.89 | 1.0 | 1.38 | 1.20 | 109.1 | 3162 | 22.1 |
| Apr | 0.33 | 2.61 | 0.8 | 1.38 | 1.21 | 108.7 | 3198 | 18.9 |
| May | 0.32 | 2.55 | 1.1 | 1.37 | 1.23 | 107.8 | 3245 | -2.4 |
| Jun | 0.24 | 2.28 | 1.6 | 1.36 | 1.24 | 106.9 | 3228 | -12.3 |
| Jul | 0.21 | 2.16 | 1.8 | 1.35 | 1.26 | 106.4 | 3116 | 4.8 |
| Aug | 0.19 | 1.99 | 2.0 | 1.33 | 1.25 | 105.8 | 3173 | -9.0 |
| Sep | 0.10 | 1.85 | 2.5 | 1.29 | 1.26 | 104.4 | 3226 | 23.3 |
| Oct | 0.08 | 1.69 | 2.5 | 1.27 | 1.27 | 103.7 | 3113 | - |
| Nov | 0.08 | 1.62 | - | 1.25 | 1.26 | 104.1 | 3251 | - |

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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 | 0.6 | 0.7 | 0.9 | 0.7 | 116 | 15 | 0.4 | 18 | -15 | 0.5 |
| 2015 | 14 | 0.6 | 12 | 13 | 11 | 113 | 19 | 0.8 | 3.4 | 0.1 | 0.6 |
| 2016 | 14 | 2.8 | 17 | 17 | 2.3 | 110 | 2.4 | 13 | 3.9 | 14 | 13 |
| 2017 | 14 | 2.9 | 16 | 17 | 2.2 | 10.6 | 2.5 | 12 | 4.0 | 18 | 15 |
| 2018 | 14 | 2.7 | 16 | 16 | 19 | 10.2 | 2.5 | 12 | 3.9 | 18 | 16 |
| 2013 | | | | | | | | | | | |
| I | -14 | -4.7 | -2.1 | -12 | -2.7 | 12.0 | 16 | -0.2 | 2.1 | 0.7 | 19 |
| II | -0.8 | -3.0 | -13 | -0.6 | -15 | 12.0 | 16 | 0.3 | 17 | -0.4 | 14 |
| III | -0.4 | -14 | -0.3 | -0.3 | -11 | 12.0 | 19 | 0.5 | 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 | 0.5 | 2.3 | 0.9 | 11 | 2.2 | 118 | 18 | 10 | 0.8 | -15 | 0.6 |
| II | 0.7 | 0.9 | 0.8 | 0.8 | 0.9 | 116 | 16 | 0.4 | 14 | -14 | 0.6 |
| III | 11 | 0.1 | 0.6 | 0.8 | 0.0 | 115 | 12 | 0.2 | 2.4 | -18 | 0.3 |
| IV | 11 | -0.9 | 0.5 | 0.8 | -0.2 | 115 | 14 | 0.1 | 2.9 | -13 | 0.4 |
| 2015 | | | | | | | | | | | |
| I | 13 | -10 | 0.6 | 0.9 | -0.2 | 114 | 14 | 0.2 | 3.5 | -0.9 | 0.4 |
| II | 14 | 0.1 | 11 | 12 | 0.7 | 113 | 17 | 0.7 | 3.3 | 0.0 | 0.4 |
| III | 13 | 11 | 12 | 15 | 17 | 113 | 2.1 | 11 | 3.3 | 0.6 | 0.6 |
| IV | 15 | 2.1 | 17 | 17 | 2.0 | 112 | 2.3 | 14 | 3.7 | 0.8 | 0.9 |
| 2016 | | | | | | | | | | | |
| I | 15 | 2.6 | 17 | 17 | 2.2 | 111 | 2.3 | 13 | 3.8 | 12 | 11 |
| II | 15 | 2.8 | 17 | 17 | 2.3 | 110 | 2.4 | 13 | 3.9 | 14 | 13 |
| III | 14 | 2.8 | 16 | 16 | 2.3 | 10.9 | 2.4 | 12 | 3.9 | 15 | 14 |
| IV | 14 | 2.9 | 16 | 16 | 2.3 | 10.8 | 2.4 | 12 | 4.0 | 16 | 14 |
| 2017 | | | | | | | | | | | |
| I | 14 | 2.9 | 16 | 17 | 2.2 | 10.7 | 2.5 | 13 | 4.0 | 17 | 14 |
| II | 14 | 2.9 | 16 | 17 | 2.2 | 10.6 | 2.5 | 13 | 4.0 | 17 | 15 |
| III | 14 | 2.8 | 16 | 17 | 2.1 | 10.5 | 2.5 | 12 | 4.0 | 18 | 15 |
| IV | 14 | 2.8 | 16 | 16 | 2.1 | 10.4 | 2.5 | 12 | 4.0 | 18 | 16 |
| 2018 | | | | | | | | | | | |
| I | 14 | 2.7 | 15 | 16 | 2.0 | 10.3 | 2.5 | 12 | 3.9 | 18 | 16 |
| II | 13 | 2.7 | 15 | 16 | 19 | 10.2 | 2.5 | 12 | 3.9 | 18 | 16 |
| III | 13 | 2.7 | 16 | 16 | 18 | 10.1 | 2.6 | 12 | 3.9 | 18 | 16 |
| IV | 13 | 2.7 | 16 | 16 | 18 | 10.0 | 2.6 | 12 | 3.8 | 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 | 153.5 | 197.3 | 199 | -284.7 | -2.87 | 0.22 | 3.00 | -113 | 165 | 133 | 120.8 |
| 2014 | 193.3 | 248.0 | 2.46 | -260.2 | -2.58 | 0.21 | 2.04 | -0.28 | 155 | 133 | 123.6 |
| 2015 | 248.4 | 297.1 | 2.88 | -220.5 | -2.14 | 0.08 | 163 | -0.48 | 107 | 124 | 121.0 |
| 2016 | 229.2 | 288.5 | 2.71 | -183.2 | -172 | 0.07 | 196 | -122 | 0.67 | 121 | 118.8 |
| 2017 | 218.4 | 279.0 | 2.54 | -153.6 | -140 | 0.07 | 2.26 | -145 | 0.74 | 119 | 117.6 |
| 2018 | 213.2 | 275.5 | 2.43 | -126.8 | -112 | 0.14 | 2.55 | -146 | 0.95 | 117 | 116.8 |
| 2013 | | | | | | | | | | | |
| I | 36.9 | 47.0 | 191 | -77.2 | -3.14 | 0.21 | 3.06 | -164 | 120 | 132 | 118.8 |
| II | 40.3 | 58.8 | 2.38 | -72.3 | -2.92 | 0.21 | 2.82 | -119 | 143 | 131 | 119.2 |
| III | 34.3 | 40.9 | 165 | -68.7 | -2.77 | 0.22 | 3.15 | -112 | 180 | 132 | 121.7 |
| IV | 42.0 | 50.6 | 2.03 | -66.5 | -2.67 | 0.24 | 2.97 | -0.57 | 2.16 | 136 | 123.7 |
| 2014 | | | | | | | | | | | |
| I | 42.6 | 59.4 | 2.37 | -73.4 | -2.93 | 0.30 | 2.66 | -0.35 | 2.01 | 137 | 125.6 |
| II | 43.0 | 59.9 | 2.38 | -54.9 | -2.18 | 0.30 | 2.23 | -0.27 | 166 | 137 | 125.1 |
| III | 45.9 | 75.7 | 3.00 | -73.8 | -2.93 | 0.17 | 180 | -0.17 | 147 | 133 | 122.5 |
| IV | 617 | 53.0 | 2.09 | -58.1 | -2.29 | 0.08 | 147 | -0.34 | 105 | 126 | 121.0 |
| 2015 | | | | | | | | | | | |
| I | 65.5 | 73.6 | 2.89 | -612 | -2.40 | 0.08 | 147 | -0.32 | 108 | 125 | 121.7 |
| II | 60.7 | 815 | 3.17 | -55.5 | -2.16 | 0.08 | 158 | -0.28 | 122 | 124 | 121.7 |
| III | 59.5 | 84.8 | 3.27 | -56.4 | -2.18 | 0.08 | 168 | -0.49 | 111 | 123 | 120.8 |
| IV | 62.7 | 57.3 | 2.20 | -47.5 | -182 | 0.07 | 178 | -0.84 | 0.87 | 122 | 119.9 |
| 2016 | | | | | | | | | | | |
| I | 617 | 717 | 2.73 | -48.2 | -183 | 0.07 | 185 | -105 | 0.74 | 122 | 119.5 |
| II | 55.7 | 79.2 | 2.99 | -45.9 | -173 | 0.07 | 193 | -123 | 0.63 | 121 | 119.0 |
| III | 54.0 | 82.1 | 3.07 | -46.0 | -172 | 0.07 | 2.00 | -131 | 0.62 | 121 | 118.6 |
| IV | 57.9 | 55.5 | 2.06 | -43.1 | -160 | 0.07 | 2.07 | -130 | 0.71 | 120 | 118.2 |
| 2017 | | | | | | | | | | | |
| I | 57.9 | 69.3 | 2.55 | -43.7 | -161 | 0.07 | 2.15 | -137 | 0.71 | 120 | 118.0 |
| II | 53.0 | 77.7 | 2.84 | -39.8 | -145 | 0.07 | 2.22 | -145 | 0.70 | 119 | 117.8 |
| III | 517 | 78.4 | 2.84 | -37.4 | -135 | 0.07 | 2.29 | -148 | 0.74 | 119 | 117.5 |
| IV | 55.9 | 53.6 | 193 | -32.7 | -118 | 0.07 | 2.37 | -150 | 0.80 | 118 | 117.2 |
| 2018 | | | | | | | | | | | |
| I | 56.1 | 67.9 | 2.42 | -34.1 | -122 | 0.07 | 2.44 | -151 | 0.87 | 118 | 117.0 |
| II | 517 | 76.8 | 2.72 | -32.2 | -114 | 0.07 | 2.51 | -153 | 0.92 | 117 | 116.9 |
| III | 50.7 | 78.1 | 2.74 | -319 | -112 | 0.16 | 2.59 | -145 | 0.97 | 117 | 116.8 |
| IV | 54.7 | 52.8 | 184 | -28.4 | -0.99 | 0.26 | 2.66 | -137 | 103 | 117 | 116.7 |

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

OXFORD ECONOMICS

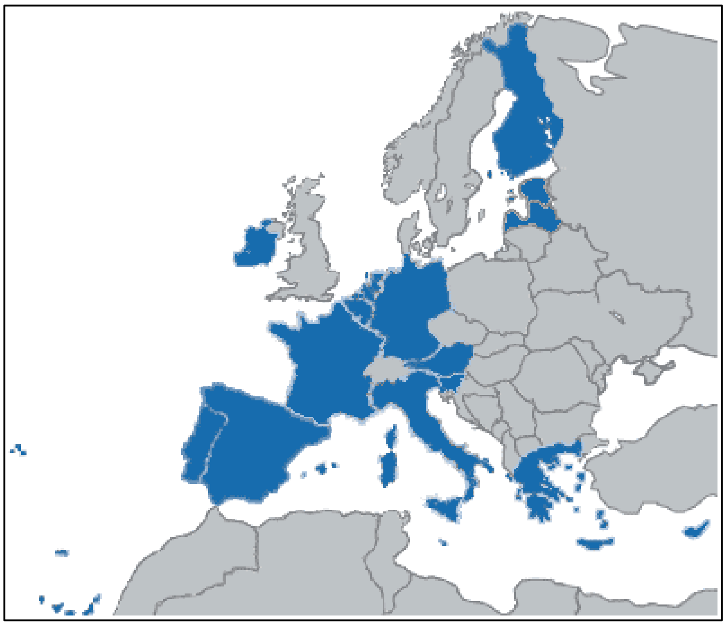
## Long-Term Forecast for Eurozone

Annual percentage changes unless otherwise specified

| | 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 | 1.3 | 1.7 | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.4 | 1.5 |
| **Consumption** | 0.6 | 0.8 | 0.2 | -1.3 | -0.6 | 0.9 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 |
| **Investment** | -0.2 | -0.5 | 1.7 | -3.2 | -2.4 | 0.6 | 0.6 | 2.8 | 2.9 | 2.7 | 2.5 | 2.1 | 2.0 | 1.9 | 1.8 | 2.0 |
| **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 | 1.2 | 1.2 | 1.2 | 0.9 |
| **Exports of Goods and Services** | 3.7 | 10.9 | 6.7 | 2.6 | 2.1 | 3.4 | 3.8 | 4.1 | 4.0 | 3.8 | 3.5 | 3.2 | 3.0 | 2.8 | 2.7 | 3.4 |
| **Imports of Goods and Services** | 3.0 | 9.6 | 4.5 | -1.0 | 1.2 | 3.3 | 3.7 | 4.3 | 4.1 | 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 | 11.0 | 10.6 | 10.2 | 9.8 | 9.3 | 8.9 | 8.5 | 8.3 | 9.9 |
| | | | | | | | | | | | | | | | | |
| **Consumer Prices** | 2.1 | 1.6 | 2.7 | 2.5 | 1.3 | 0.5 | 0.6 | 1.3 | 1.5 | 1.6 | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | 1.4 |
| **Current Balance (% of GDP)** | 0.2 | -0.2 | -0.2 | 1.4 | 2.0 | 2.5 | 2.9 | 2.7 | 2.5 | 2.4 | 2.4 | 2.3 | 2.3 | 2.2 | 2.2 | 2.4 |
| **Exchange Rate (US$ per Euro)** | 1.33 | 1.33 | 1.39 | 1.28 | 1.33 | 1.33 | 1.24 | 1.21 | 1.19 | 1.17 | 1.17 | 1.16 | 1.16 | 1.16 | 1.15 | 1.19 |
| **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 | -1.0 | -0.8 | -0.7 | -0.6 | -0.5 | -1.3 |
| **Short-term Interest Rates (%)** | 2.1 | 0.8 | 1.4 | 0.6 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.6 | 1.1 | 1.6 | 2.1 | 2.6 | 0.9 |
| **Long-term Interest Rates (%)** | 3.9 | 3.6 | 4.4 | 3.9 | 3.0 | 2.0 | 1.6 | 2.0 | 2.3 | 2.5 | 2.8 | 3.1 | 3.4 | 3.6 | 3.9 | 2.7 |
| | | | | | | | | | | | | | | | | |
| **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 | 0.0 | 0.1 | 0.1 | 0.0 | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 | -0.1 |
| **Participation Ratio (%)** | 75.8 | 76.2 | 76.3 | 76.7 | 76.6 | 76.5 | 76.5 | 76.6 | 76.7 | 76.8 | 76.9 | 76.9 | 76.9 | 76.9 | 76.9 | 76.8 |
| **Labour productivity** | 0.6 | 2.5 | 1.5 | -0.2 | 0.3 | 0.4 | 0.8 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | 1.1 |
| **Employment** | 0.3 | -0.5 | 0.1 | -0.5 | -0.8 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 | 0.3 |
| | | | | | | | | | | | | | | | | |
| **Output gap (% of potential GDP)** | -0.2 | -1.8 | -1.0 | -2.3 | -3.5 | -3.8 | -3.5 | -2.9 | -2.3 | -1.8 | -1.4 | -1.0 | -0.8 | -0.5 | -0.3 | -1.8 |

# 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

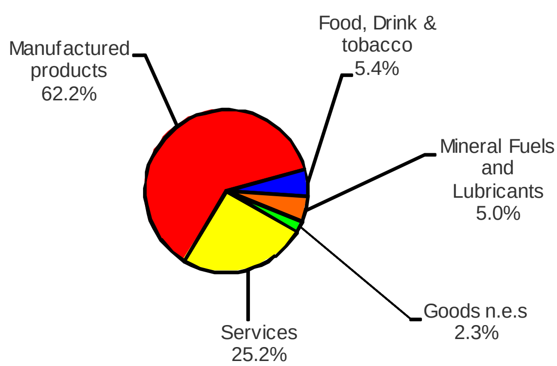
Scoring system 100 = highly clean, 0 = highly corrupt

## 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

## Composition of extra-EMU goods & services exports, 2012




Source : Eurostat\ Haver Analytics

## Destination of goods' exports (2012)

| | |
|---|---|
| Eurozone | 46.3% |
| UK | 6.6% |
| US | 6.4% |
| China | 3.4% |
| Switzerland | 3.3% |
| Poland | 2.6% |

Source : Eurostat \ Haver Analytics