Eurozone

Highlights

- The Eurozone economy picked up pace at the end of 2013, expanding by 0.3% in Q4, and seems to have continued this trend at the start of 2014, with the composite Purchasing Managers' Index (PMI) rising further above the 50-mark that separates expansion from contraction in January. We forecast Eurozone growth of 1% in 2014, up slightly from the 0.9% forecast last month, with a gradual acceleration to 1.4% in 2015 as growth in key trading partners accelerates and the domestic economy strengthens.
- Although most of the major countries saw a pick-up in growth in Q4, we think that there will be considerable variation in the degree of momentum that economies gain through the course of 2014, although not along the usual "peripheral-core" line. We expect that some core countries such as France and the Netherlands will experience very sluggish growth this year. In contrast, some of the peripheral countries that have seen deep recessions in recent years are benefiting as world trade gathers pace.
- This in part reflects the continuing erosion of competitiveness of some core countries, but also the scale of improvement seen in Spain and Ireland, which enables them to take better advantage of the recovery in external demand. Also the drag of severe fiscal consolidation is fading as these countries are now on a more stable fiscal footing. This is reflected in the relative stability of bond spreads for peripheral Eurozone countries recently despite a rise in risk aversion following the turmoil in some emerging markets.
- Inflation fell to just 0.7% in January and the Eurozone is edging close to deflation – this is one of the main risks to the outlook. We expect deflation to be avoided, but – like the forecast pick-up in growth – this is dependent on a weakening of the euro. This places a great deal of responsibility on the ECB, which needs to signal more aggressively that it will support growth and ward off the risk of deflation. A further interest rate cut is probably not enough.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
Domestic Demand	-2.2	-1.0	0.7	1.3	1.3	1.4
Private Consumption	-1.4	-0.5	0.6	1.2	1.2	1.4
Fixed Investment	-3.9	-3.0	1.7	2.5	2.5	2.5
Government Consumption	-0.6	0.3	0.0	0.2	0.4	0.7
Net exports (% of GDP)	4.3	4.8	5.1	5.2	5.3	5.5
GDP	-0.6	-0.4	1.0	1.4	1.5	1.6
Industrial Production	-3.0	-1.0	1.7	2.2	2.1	1.9
Consumer Prices	2.5	1.4	1.1	1.5	1.8	1.7
Current Account (% of GDP)	1.4	2.2	2.3	2.0	2.0	1.9
Government Budget (% of GDP)	-3.7	-3.0	-2.6	-2.1	-1.7	-1.4
Short-Term Interest rate (%)	0.6	0.2	0.3	0.3	0.3	0.5
Long-Term Interest Rates (%)	3.9	3.0	2.9	3.3	3.6	3.9
Exchange rate (US$ per Euro)	1.28	1.33	1.30	1.25	1.22	1.20
Exchange rate (YEN per Euro)	102.5	129.6	138.4	140.4	137.9	133.4

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Forecast Overview

Eurozone recovery to pick up pace in 2014…

The Eurozone economy ended 2013 on a reasonable note, growing by 0.3% in Q4. Moreover, this trend appears to be continuing at the start of 2014, with the composite Purchasing Managers' Index (PMI) rising further above the 50-mark that separates expansion from contraction in January. We forecast Eurozone growth of 1% in 2014 as a whole, with a gradual acceleration to 1.4% in 2015 as growth in key trading partners accelerates and the domestic economy strengthens.

Although most of the major countries saw an acceleration in growth in Q4, there are signs that the degree of momentum moving into 2014 varies, although not along the usual "peripheral-core" line. Some of the core countries such as France and the Netherlands appear likely to experience sluggish growth. In contrast, some of the peripherals that have implemented significant adjustments in recent years, notably Spain and Ireland, are benefiting as world trade picks up. Disappointing performance among some of the core countries, plus recovery from deep recessions in the periphery, implies that there will be a degree of convergence in GDP growth across the Eurozone in 2015.

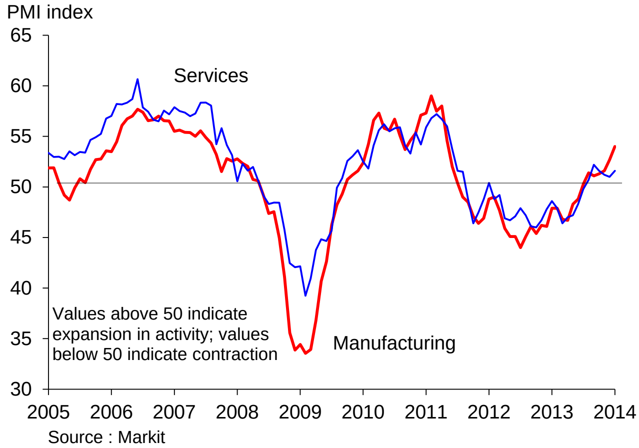
…but growth set to converge in 2015…

The convergence in growth rates can be attributed to a number of factors:

- **Competitiveness –** although the euro has been remarkably resilient against the US$, recovering its modest depreciation after the surprise rate cut by the ECB in November and hovering around US$1.36/€, the real effective exchange rate is close to its long-term average. If the euro weakens as expected, then by end-2015 the real effective exchange rate will fall to its lowest level since 2002. This means the Eurozone is primed to take advantage of a pick-up in growth in its main markets, but this readiness is not spread evenly across the region; Germany, Spain and Ireland have all made productivity gains that have boosted competitiveness whereas France and Italy have lagged behind in recent years.

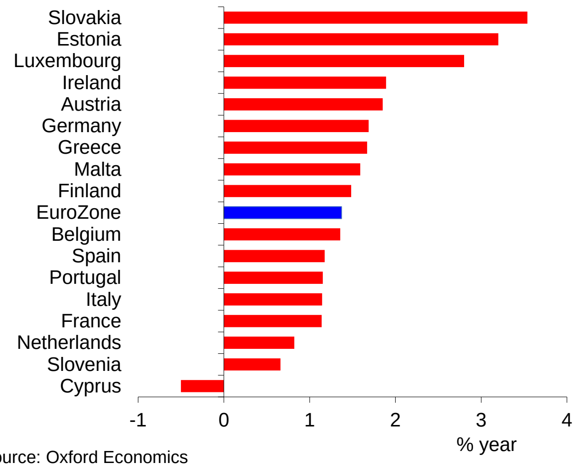
- **Fiscal policy –** at the Eurozone level, the degree of fiscal consolidation is forecast to be much less than in recent years. Fiscal tightening dampened Eurozone GDP growth by more than 1% point a year during

Eurozone: PMIs



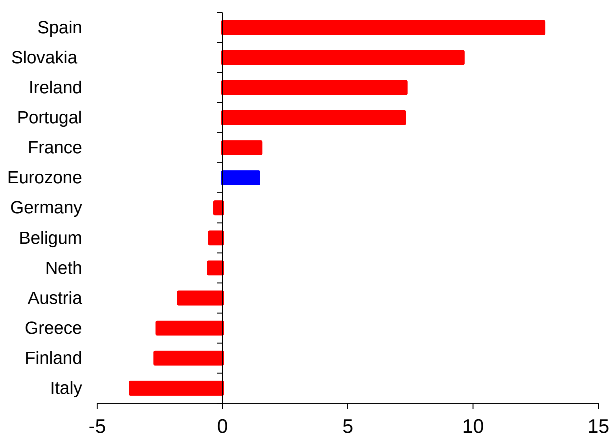
Source : Markit

GDP growth forecast for 2015



Source: Oxford Economics

Productivity growth



Source : Oxford Economics/Haver Analytics

2011-13. This year, government budgets continue to imply a tightening stance, albeit less so than in the past three years. We estimate that fiscal policy will dampen Eurozone growth by around 0.5% points in 2014 and that the scale of austerity will converge; the fiscal tightening planned in France, Belgium and Spain is greater than that in Germany, Austria and even Italy.

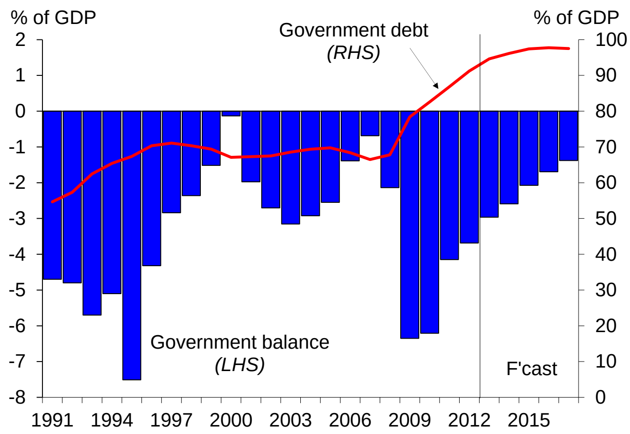
…albeit at modest rates

Although growth appears to be converging in the Eurozone, this is at a low level with core countries, including Germany, lagging behind the US and UK. Meanwhile, the periphery has caught up with the rest of the Eurozone in terms of growth, but will not recover the lost output that occurred during the worst of the Eurozone sovereign debt crisis. The Eurozone as a whole is hampered by a lacklustre private sector:

- **Banking** – ongoing adjustment of bank balance sheets means that banks are a constraint on growth rather than an enabler. This is particularly severe in peripheral economies but even in countries such as France bank lending to business appears a constraint.
- **Debt** – household debt remains high in a number of countries such as Spain and the Netherlands, which will weigh on the recovery in household consumption.
- **Unemployment** – joblessness has reached record highs in a number of countries and looks set to rise further in some of them. Households are unlikely to release pent-up demand until the job outlook improves and this is not expected until 2015.
- **Spare capacity** – although the outlook for business is improving, it will take time before spare capacity is utilised. Some of the disappointing productivity in the Eurozone will be due to under-utilised resources, both labour and capital, that can be recaptured and the recovery will need to become much more entrenched before this translates into a sustained pick-up in capital expenditure by business. Apart from Germany, capacity utilisation rates remain well below long-run levels, even though they have risen of late.

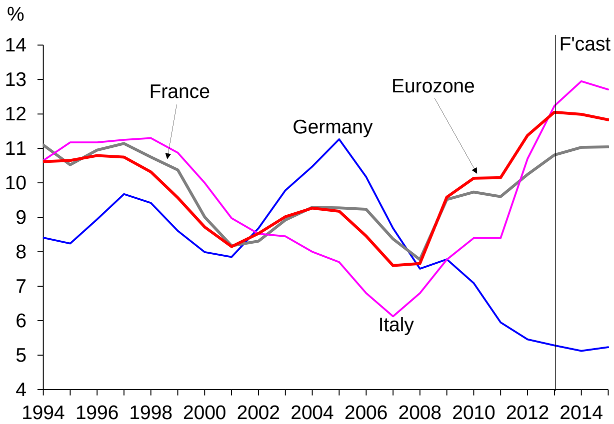
Against the backdrop of weak growth and with oil and food prices no longer boosting headline inflation, the Eurozone risks sliding into deflation. Inflation has been on a downward trend since end-2012 and fell to 0.7% in January. We expect deflation to be avoided, but like the pick-up in growth this is dependent on a weakening of the euro, placing a great deal of responsibility on the ECB.

Eurozone: Government finances



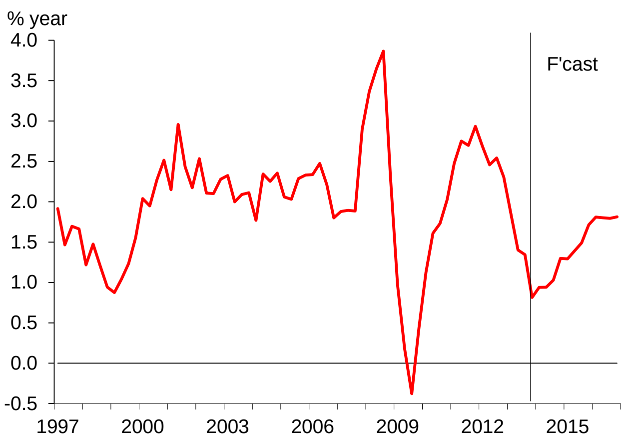
Source: Oxford Economics

Europe: Unemployment (ILO)



Source: Oxford Economics

Eurozone: Consumer price inflation



Source: Oxford Economics

OXFORD ECONOMICS

Long-Term Prospects

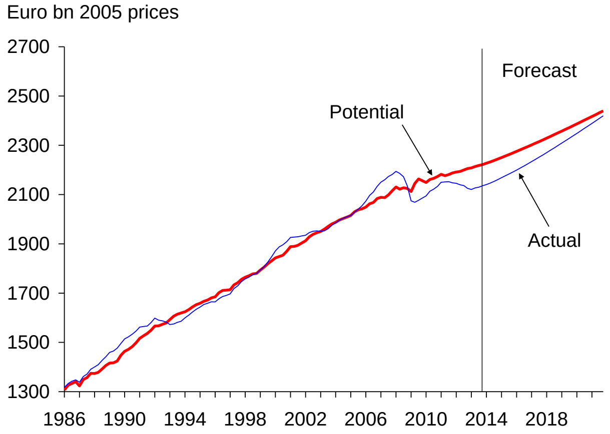
Very slow recovery from crises

The global and Eurozone crises will leave their mark on growth for years to come. We estimate that the Eurozone's potential growth rate is only 1.1%. 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 from around 76% today to 77.3% by 2022.

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	2003-2012	2013-2022
Potential GDP*	1.3	1.1
Employment at NAIRU	0.6	0.2
Capital Stock	1.5	1.0
Total Factor Productivity	0.4	0.7

*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)

	2003-2007	2008-2012	2013-2017	2018-2022
GDP	2.2	-0.3	1.0	1.7
Consumption	1.6	-0.1	0.8	1.6
Investment	3.4	-3.5	1.2	2.2
Government Consumption	1.8	1.0	0.3	1.1
Exports of Goods and Services	5.9	1.5	3.3	3.2
Imports of Goods and Services	6.2	0.4	3.0	3.2
Unemployment (%)	8.7	9.8	11.8	10.4
Consumer Prices	2.2	2.1	1.5	1.6
Current Balance (% of GDP)	0.2	-0.1	2.1	1.9
Exchange Rate (US$ per Euro)	1.25	1.37	1.26	1.21
General Government Balance (% of GDP)	-2.1	-4.5	-2.1	-0.8
Short-term Interest Rates (%)	2.8	1.7	0.3	2.9
Long-term Interest Rates (%)	4.0	4.0	3.3	4.6
Working Population	0.5	0.1	0.0	-0.1
Labour Supply	1.0	0.4	0.0	0.1
Participation Ratio	73.3	74.7	75.3	76.0
Labour Productivity	1.0	0.1	0.9	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. However, 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 remains very high. Changes to the Eurozone's structure and institutions are likely to be slow and erratic.

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)
Jan	-2.4	12.0	2.0	-0.9	-23.7	4.6	1.6	-5.2
Feb	-2.5	12.0	1.8	-0.6	-23.4	-1.3	-7.0	9.5
Mar	-1.7	12.0	1.7	-0.7	-23.3	-0.8	-10.1	21.5
Apr	-0.6	12.1	1.2	-0.9	-22.1	8.8	1.6	13.8
May	-1.8	12.1	1.4	-0.8	-21.7	-0.4	-5.7	14.2
Jun	-0.3	12.1	1.6	-0.6	-18.7	-3.2	-5.1	15.5
Jul	-1.9	12.1	1.6	-0.6	-17.3	3.1	0.2	18.2
Aug	-1.6	12.1	1.3	-0.3	-15.5	-5.8	-7.5	7.1
Sep	0.2	12.1	1.1	-0.2	-14.8	2.8	1.0	11.5
Oct	0.4	12.0	0.7	-0.1	-14.4	1.2	-3.1	16.6
Nov	2.6	12.0	0.9	0.2	-15.3	-2.2	-5.4	17.0
Dec	1.2	12.0	0.8	0.2	-13.5	3.8	1.0	13.9
2014								
Jan	-	-	0.7	0.2	-11.7	-	-	-

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
Jan	0.20	2.40	3.4	1.33	1.20	104.2	2703	-10.9
Feb	0.22	2.86	3.1	1.34	1.16	106.0	2634	2.2
Mar	0.21	3.03	2.5	1.30	1.16	104.5	2624	-15.3
Apr	0.21	2.86	3.2	1.30	1.18	105.0	2712	-18.6
May	0.20	2.69	2.8	1.30	1.18	105.5	2770	-16.6
Jun	0.21	3.07	2.4	1.32	1.17	106.3	2603	-20.5
Jul	0.22	3.10	2.1	1.31	1.16	106.5	2768	7.9
Aug	0.23	3.10	2.3	1.33	1.16	107.2	2721	-1.0
Sep	0.22	3.41	2.0	1.33	1.19	106.7	2893	-34.7
Oct	0.23	3.16	1.4	1.36	1.18	107.8	3068	-1.7
Nov	0.22	3.17	1.5	1.35	1.19	107.4	3087	-12.6
Dec	0.27	3.31	1.0	1.37	1.19	108.8	3109	-
2014								
Jan	0.29	3.21	-	1.36	1.21	108.3	3014	-

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											
2012	-1.4	-3.9	-2.2	-0.6	-3.0	11.4	1.8	0.0	2.8	2.6	2.5
2013	-0.5	-3.0	-1.0	-0.4	-1.0	12.1	1.6	0.4	1.4	-0.5	1.4
2014	0.6	1.7	0.7	1.0	1.7	12.0	1.6	1.0	0.6	0.5	1.1
2015	1.2	2.5	1.3	1.4	2.2	11.8	2.3	1.1	2.1	2.2	1.5
2016	1.2	2.5	1.3	1.5	2.1	11.6	2.7	1.1	3.2	2.2	1.8
2017	1.4	2.5	1.4	1.6	1.9	11.3	2.6	1.1	3.5	1.9	1.7
2012											
I	-1.3	-2.8	-1.8	-0.2	-2.6	10.9	2.1	0.3	3.0	3.4	2.7
II	-1.3	-3.9	-2.4	-0.5	-3.0	11.3	1.9	0.3	3.0	2.3	2.5
III	-1.6	-4.2	-2.5	-0.7	-2.9	11.5	1.8	-0.1	2.5	2.4	2.5
IV	-1.5	-4.7	-2.3	-1.0	-3.6	11.8	1.4	-0.3	2.9	2.1	2.3
2013											
I	-1.2	-5.5	-2.1	-1.2	-2.7	12.0	1.7	-0.2	2.1	0.7	1.9
II	-0.6	-3.5	-1.4	-0.6	-1.4	12.1	1.5	0.4	1.7	-0.4	1.4
III	-0.4	-2.4	-0.5	-0.3	-1.1	12.1	1.5	0.5	1.5	-0.9	1.3
IV	0.2	-0.5	0.1	0.5	1.1	12.0	1.8	0.9	0.5	-1.2	0.8
2014											
I	0.5	1.6	0.6	0.9	1.6	12.0	1.4	1.0	0.5	-1.0	0.9
II	0.5	1.8	0.8	0.9	1.6	12.0	1.6	0.9	0.2	0.3	0.9
III	0.6	1.8	0.6	1.1	1.8	12.0	1.7	1.0	0.6	0.8	1.0
IV	0.8	1.8	1.0	1.2	2.0	11.9	1.8	1.1	0.9	1.7	1.3
2015											
I	1.0	2.3	1.2	1.3	2.1	11.9	2.0	1.1	1.5	2.1	1.3
II	1.2	2.5	1.3	1.4	2.2	11.8	2.2	1.1	1.9	2.3	1.4
III	1.3	2.5	1.3	1.4	2.3	11.8	2.4	1.1	2.3	2.3	1.5
IV	1.3	2.5	1.3	1.4	2.3	11.8	2.6	1.1	2.7	2.4	1.7
2016											
I	1.2	2.5	1.3	1.4	2.3	11.7	2.6	1.1	2.9	2.4	1.8
II	1.2	2.5	1.3	1.4	2.2	11.7	2.7	1.1	3.1	2.3	1.8
III	1.2	2.5	1.3	1.5	2.1	11.6	2.7	1.1	3.3	2.2	1.8
IV	1.3	2.5	1.4	1.5	2.0	11.5	2.6	1.1	3.4	2.1	1.8
2017											
I	1.3	2.5	1.4	1.6	2.0	11.5	2.6	1.1	3.5	2.0	1.8
II	1.4	2.5	1.4	1.6	1.9	11.4	2.6	1.1	3.5	1.9	1.7
III	1.4	2.5	1.5	1.6	1.9	11.3	2.6	1.1	3.5	1.8	1.7
IV	1.4	2.5	1.5	1.6	1.9	11.2	2.5	1.1	3.4	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											
2012	86.2	128.4	1.35	-349.5	-3.69	0.57	3.92	-1.92	1.42	1.29	115.5
2013	156.6	214.9	2.24	-283.9	-2.96	0.22	3.00	-1.13	1.65	1.33	120.8
2014	171.4	223.0	2.28	-253.1	-2.59	0.30	2.87	-0.76	1.82	1.30	120.7
2015	171.1	204.2	2.03	-208.6	-2.07	0.29	3.26	-1.18	1.78	1.25	118.0
2016	178.7	204.2	1.96	-176.1	-1.69	0.28	3.61	-1.52	1.80	1.22	115.8
2017	187.2	207.3	1.93	-148.3	-1.38	0.46	3.89	-1.25	2.18	1.20	114.8
2012											
I	12.9	19.3	0.82	-91.1	-3.84	1.04	4.29	-1.64	1.61	1.31	116.9
II	18.5	31.4	1.33	-88.3	-3.72	0.69	4.17	-1.76	1.71	1.28	115.9
III	26.4	37.0	1.56	-86.0	-3.62	0.36	3.89	-2.18	1.35	1.25	113.3
IV	28.4	40.7	1.72	-84.1	-3.55	0.20	3.32	-2.11	1.02	1.30	115.8
2013											
I	36.6	50.4	2.12	-85.1	-3.58	0.21	3.06	-1.64	1.20	1.32	118.8
II	40.1	61.5	2.57	-59.2	-2.47	0.21	2.82	-1.20	1.42	1.31	119.2
III	35.9	42.7	1.78	-72.2	-3.01	0.22	3.15	-1.12	1.80	1.32	121.7
IV	43.9	60.3	2.50	-67.4	-2.79	0.24	2.97	-0.57	2.15	1.36	123.7
2014											
I	42.1	65.7	2.71	-68.0	-2.80	0.29	2.79	-0.65	1.85	1.35	122.7
II	40.2	66.7	2.73	-63.1	-2.59	0.30	2.82	-0.64	1.88	1.31	121.0
III	44.1	44.5	1.81	-62.3	-2.54	0.30	2.89	-0.73	1.86	1.28	119.8
IV	45.1	46.2	1.87	-59.6	-2.41	0.30	2.97	-1.00	1.68	1.27	119.4
2015											
I	43.0	60.0	2.41	-57.4	-2.31	0.29	3.09	-1.00	1.80	1.26	119.0
II	39.2	60.1	2.40	-52.1	-2.08	0.29	3.21	-1.10	1.82	1.25	118.3
III	43.7	40.4	1.60	-51.1	-2.02	0.29	3.32	-1.20	1.83	1.25	117.7
IV	45.3	43.7	1.72	-48.1	-1.89	0.29	3.41	-1.43	1.70	1.24	117.1
2016											
I	44.2	59.4	2.31	-48.1	-1.87	0.29	3.50	-1.53	1.69	1.23	116.6
II	41.2	60.3	2.33	-44.2	-1.71	0.28	3.57	-1.52	1.77	1.22	116.0
III	45.8	40.6	1.55	-43.7	-1.67	0.28	3.64	-1.51	1.85	1.22	115.4
IV	47.5	43.9	1.67	-40.0	-1.52	0.28	3.71	-1.53	1.90	1.21	115.1
2017											
I	46.3	60.2	2.27	-40.5	-1.53	0.28	3.79	-1.51	2.00	1.21	114.8
II	43.1	61.1	2.28	-37.1	-1.39	0.28	3.85	-1.47	2.11	1.20	114.7
III	47.9	41.4	1.54	-37.0	-1.37	0.53	3.92	-1.17	2.23	1.20	114.9
IV	49.9	44.6	1.64	-33.7	-1.24	0.77	4.00	-0.85	2.37	1.20	114.8

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

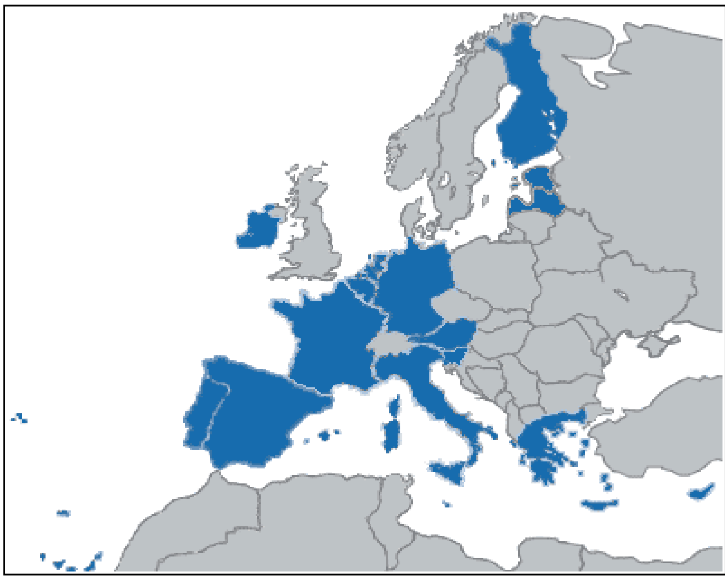
Long-Term Forecast for Eurozone

Annual percentage changes unless otherwise specified

	2003-2012	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
GDP	0.9	-4.4	1.9	1.6	-0.6	-0.4	1.0	1.4	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.4
Consumption	0.7	-0.9	1.0	0.3	-1.4	-0.5	0.6	1.2	1.2	1.4	1.5	1.6	1.6	1.6	1.6	1.2
Investment	-0.1	-12.7	-0.6	1.7	-3.9	-3.0	1.7	2.5	2.5	2.5	2.4	2.3	2.2	2.1	2.0	1.7
Government Consumption	1.4	2.6	0.6	-0.1	-0.6	0.3	0.0	0.2	0.4	0.7	0.8	1.0	1.2	1.2	1.2	0.7
Exports of Goods and Services	3.7	-12.3	11.4	6.6	2.7	1.2	3.5	4.0	4.1	4.0	3.7	3.4	3.1	2.9	2.7	3.3
Imports of Goods and Services	3.3	-10.8	9.8	4.6	-0.8	0.0	3.1	4.0	4.1	3.9	3.7	3.4	3.2	2.9	2.7	3.1
Unemployment (%)	9.2	9.6	10.1	10.2	11.4	12.1	12.0	11.8	11.6	11.3	11.0	10.7	10.4	10.1	9.7	11.1
Consumer Prices	2.1	0.3	1.6	2.7	2.5	1.4	1.1	1.5	1.8	1.7	1.5	1.5	1.6	1.7	1.8	1.6
Current Balance (% of GDP)	0.1	-0.2	0.0	0.1	1.4	2.2	2.3	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	2.0
Exchange Rate (US$ per Euro)	1.31	1.39	1.33	1.39	1.28	1.33	1.30	1.25	1.22	1.20	1.20	1.20	1.20	1.21	1.22	1.23
General Government Balance (% of GDP)	-3.3	-6.4	-6.2	-4.1	-3.7	-3.0	-2.6	-2.1	-1.7	-1.4	-1.1	-0.9	-0.8	-0.6	-0.6	-1.5
Short-term Interest Rates (%)	2.3	1.2	0.8	1.4	0.6	0.2	0.3	0.3	0.3	0.5	1.4	2.4	3.0	3.5	3.9	1.6
Long-term Interest Rates (%)	4.0	3.8	3.6	4.4	3.9	3.0	2.9	3.3	3.6	3.9	4.2	4.4	4.6	4.8	5.0	4.0
Working Population	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.1
Labour Supply	0.7	0.2	0.1	0.3	0.7	0.0	-0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.1
Participation Ratio (%)	74.0	74.5	74.6	74.8	75.3	75.3	75.2	75.2	75.4	75.5	75.7	75.9	76.1	76.2	76.4	75.7
Labour productivity	0.6	-2.6	2.4	1.4	0.0	0.4	1.0	1.1	1.1	1.1	1.1	1.2	1.2	1.3	1.3	1.1
Employment	0.4	-1.8	-0.5	0.3	-0.7	-0.8	0.0	0.3	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.3
Output gap (% of potential GDP)	-0.3	-3.2	-2.2	-1.5	-2.8	-4.0	-3.9	-3.6	-3.3	-2.8	-2.4	-1.9	-1.5	-1.0	-0.6	-2.5

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	2012*
GDP per capita (US$)	-	18088	19881	36616
Inflation (%)	9.9	4.2	2.2	2.5
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

* 2012 or latest available year

Corruption perceptions index 2012	Score
Developed economies (average)	74.8
Emerging economies (average)	38.0
Eurozone	66.6

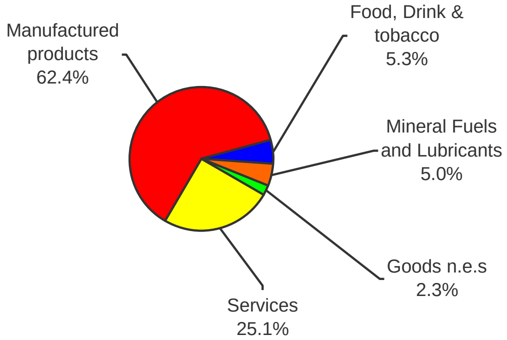
Source: Transparency International

Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators	1990	1995	2000	2012*
Current account (US$ billion)	10	54	-94	165
Trade balance (US$ billion)	-23	63	-29	111
FDI (US$ billion)	-	-	-25	-107
Govt budget (% of GDP)	-4.1	-7.5	-0.1	-3.7
Govt debt (% of GDP)	13.5	67.4	67.1	91.2
Long-term interest rate	10.9	8.7	5.4	3.9
Oil production (000 bpd)	271	313	240	227
Oil consumption (000 bpd)	9715	10483	10927	9493

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	46.2%
UK	6.6%
US	6.4%
China	3.5%
Switzerland	3.3%
Poland	2.5%

Source : Eurostat \ Haver Analytics