Eurozone

Highlights

- While the UK's Brexit referendum is likely to have profound political implications for the EU, we think that the predictions of some that it will have a major economic effect on the Eurozone are exaggerated.
- Despite the substantial initial negative response from European markets to the news, the equity market reaction has been no worse than that seen during the early 2016 China-related sell off. And while peripheral government bond spreads initially widened, they have since narrowed and yields remain very low. For now at least, it seems unlikely that Brexit will trigger a major economic shock via the financial channel.
- If Brexit turns out to be predominantly a trade shock and does not morph into a rather more malign financial market sell-off, the implications for the Eurozone are unlikely to be large. Despite our UK GDP growth downgrade, we still expect trade-weighted global demand growth to strengthen next year, consistent with a pick-up in export growth.
- It should also be noted that the domestic economy has shown itself to be quite resilient to external shocks over the past couple of years. While sentiment measures did ease in the aftermath of the mid-2015 and early-2016 China-related financial market sell- offs, the declines were not especially marked. Domestic demand has grown quite rapidly since mid-2016, but the recovery is becoming less reliant on household spending as investment continues to pick up.
- While we have downgraded our GDP growth forecasts, reflecting lower export, investment and household spending, the revisions are quite small in the grand scheme of things. We now see GDP growth slowing from 1.7% this year to 1.5% a year in 2017-19. The forecasts for next year and 2018 are just 0.2% points lower than last month while 2019 is down 0.1% point. And our 2017 forecast is well above the post-Brexit consensus of just 1% growth.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.7	2.2	1.7	1.6	1.5
Private Consumption	0.8	1.7	1.8	1.5	1.4	1.3
Fixed Investment	1.3	2.7	3.3	2.8	2.8	2.4
Stockbuilding (% of GDP)	-0.1	-0.1	0.0	0.0	0.0	0.1
Government Consumption	0.8	1.3	1.5	1.2	1.1	1.1
Exports of goods and services	4.1	5.1	2.8	3.4	3.1	3.0
Imports of goods and services	4.5	5.9	4.1	3.8	3.5	3.2
GDP	0.9	1.6	1.7	1.5	1.5	1.5
Industrial Production	0.9	1.5	1.7	1.5	1.4	1.6
Consumer Prices	0.4	0.0	0.3	1.6	1.6	1.8
Current Balance (% of GDP)	2.5	3.2	2.9	2.7	2.5	2.2
Government Budget (% of GDP)	-2.6	-2.1	-1.9	-1.5	-1.2	-1.0
Short-Term Interest Rates (%)	0.2	0.0	-0.3	-0.3	-0.2	0.2
Long-Term Interest Rates (%)	2.0	1.2	0.9	1.5	2.2	2.8
Exchange rate (US$ per Euro)	1.33	1.11	1.10	1.06	1.06	1.09
Exchange rate (YEN per Euro)	140.7	134.3	120.1	120.6	126.8	130.2

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Forecast Overview

Brexit dominates the European outlook

The recent economic data has by and large supported our view that GDP growth will have slowed in Q2 after a healthy 0.6% quarterly rise in Q1. For now, we still expect a 0.3% rise in Q2, but at this stage our GDP indicator (which has just one month of data for most indicators) points to a more subdued 0.2% rise.

Looking ahead, the key factor is of course the effect of the UK's EU referendum result. The vote to leave will have major political implications for the region. At the very least, it may bolster populism, but it could also lead to copycat referenda and further EU fragmentation. That said, there is a slight chance that the UK does not activate Article 50 or that it merely tweaks its relationship with the EU by joining the European Economic Area (EEA). Meanwhile, surveys suggest that the Brexit vote has actually *boosted* support for the EU in Italy.

Contagion threat seems limited for now

While markets appeared to initially fear the worst, the subsequent recovery suggests that the probability of the worst-case scenario materialising has been scaled back. The post-Brexit sell off is similar in size to the China-related falls earlier in 2016, but the UK vote has not triggered any notable widening of the spread between peripheral and German government bond yields, implying that markets are not pricing in a new Eurozone crisis.

Further market gyrations are likely as the horse-trading between the UK and the EU begins, but our view is that Brexit is not a Lehman's moment and that there will not be a period of severe financial market turmoil that leads to substantial spillovers onto the real economy.

Admittedly, the only survey to be published since the Brexit vote – the Sentix measure of investor sentiment – showed a sharp drop in the Eurozone expectations index. But the index is fairly volatile and not always an accurate gauge of changes in business sentiment, so it is perhaps too soon to judge the size of any near-term effects of activity on the economy.

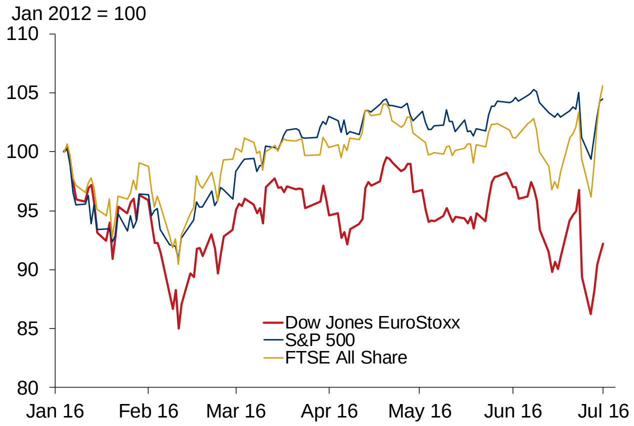
Direct effects need not be disastrous

If Brexit turns out to be predominantly a trade shock that does not morph into a rather more malign financial market

Euro area GDP indicator

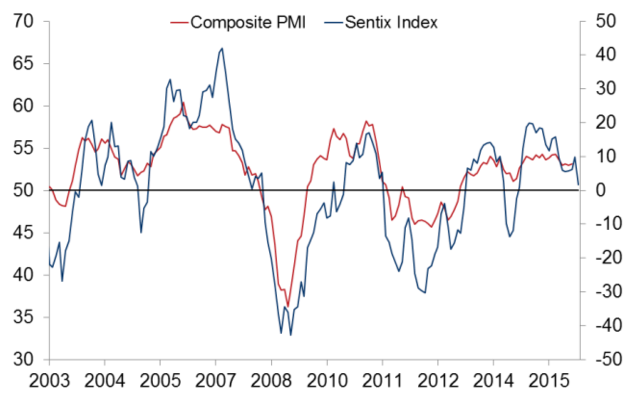
Source: Oxford Economics/Haver Analytics

Global: Equity indices (local currency terms)



Source : Oxford Economics/Haver Analytics

Euro area PMI and German Sentix Index



Source : Oxford Economics/Bloomberg/Markit

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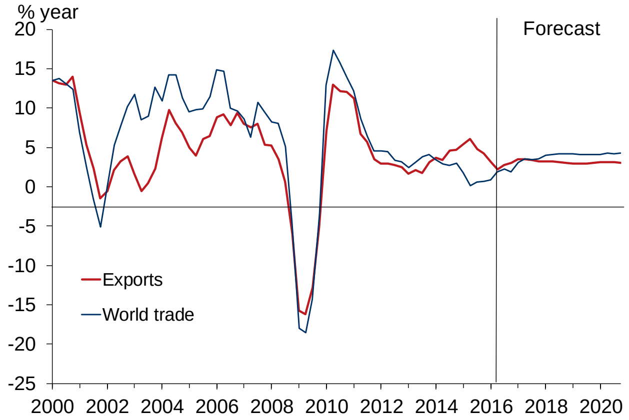
sell-off, the implications for the Eurozone are unlikely to be especially large. While we have lowered our UK GDP forecast for 2017 to 1.1%, this is above the consensus expectation. Meanwhile, the slowdown need not be a complete disaster given that Ireland aside, most the region's economies send around 8% or less of goods exports to the UK. We still expect global demand growth for Eurozone exports to be stronger in 2017 than this year. Looking further ahead, any increases in barriers or tariffs resulting from an EU exit are likely to be at least two years away. What is more, if the UK negotiates to remain in the EEA, post-Brexit this would have rather less impact on trade flows between the UK and the EU than some of the more radical alternatives.

Eurozone: Exports & foreign demand

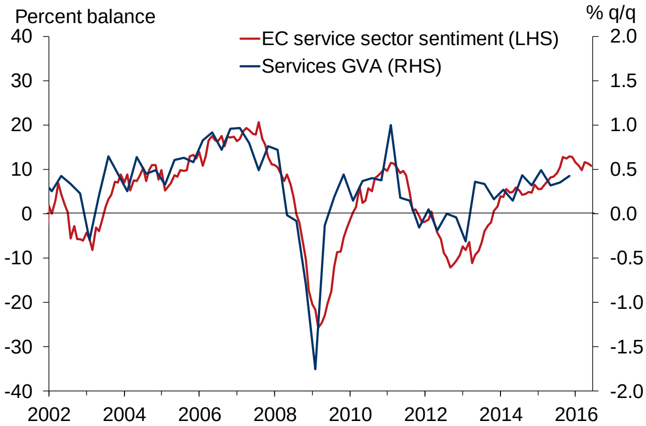


Source : Oxford Economics/Haver Analytics

Past resilience bodes well…

The other reason not to be too downbeat about growth prospects is that domestic demand in the euro area has been resilient to shocks over recent quarters. Despite bouts of market uncertainty surrounding China over the past year, domestic demand growth has expanded at a healthy clip since mid-2016. In addition, the recovery has broadened away from household spending. While Brexit could be the shock that brings the current self-sustaining recovery to halt, we think it is far too soon to assume that this is inevitable.

Eurozone: Service output and sentiment

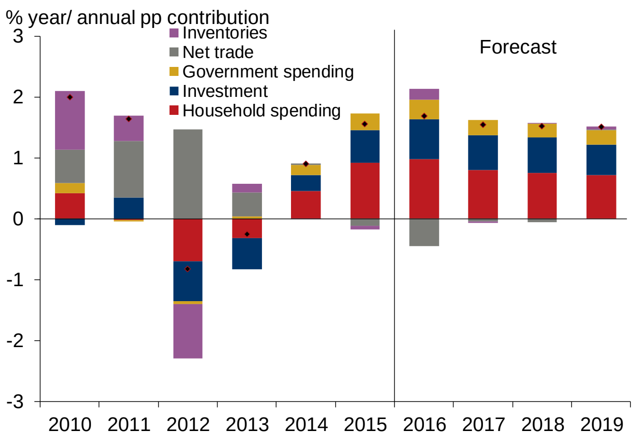


Source : Oxford Economics/Haver Analytics

…so forecast cut by less than consensus

The upshot of all this is that while we have lowered our Eurozone GDP growth forecast in response to the UK's referendum vote, we have made relatively minor downward revisions. We now see GDP growth easing from 1.7% this year to 1.5% in 2017, 2018 and 2019. Our forecasts for next year and 2018 are 0.2% points lower than a month ago while the 2019 projection is 0.1% point lower. These downward revisions are rather smaller than the consensus view; the post-Brexit consensus forecast for 2017 has been cut to just 1%.

Eurozone: GDP



Source: Haver Analytics/Oxford Economics

While the ECB has said that it is willing to act further on monetary policy, it has also hinted that further moves at July's meeting are unlikely. Our view remains [that building inflationary pressures] and fairly solid growth, combined with concerns about the downsides of negative interest rates and/or more QE, mean that the ECB will not announce any further policy easing measures beyond July either. Given the uncertainties, no policy tightening is expected before early-2019.

Risk Assessment

While Brexit is an obvious political risk for the Eurozone, we think that the economic effects are unlikely to be substantial. More generally, while the current account is in surplus and austerity has significantly reduced the budget deficit, public and private sector indebtedness remain high and will only moderate slowly in the likely low inflation environment of the next few years.

Emerging risks

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

Brexit fueled uncertainty – while the UK has voted to leave, the form and the timing of any exit remains far from clear and both the economic and political implications are uncertain too. While we assume that the repercussions for the Eurozone economy are not especially large in our baseline, confidence effects could prove to be rather larger, particularly if sustained uncertainty prompted renewed financial market weakness.

Key risk scenarios

Hard landing in China – a sustained slowdown in China and a further US tightening have the scope to trigger a significant financial market response. In such a scenario, even economies such as the Eurozone that have limited trade and financial links with China could be hit hard. In this scenario, we assume that GDP growth in the Eurozone could be just 0.8% in 2017 and 0.5% in 2018, forcing further ECB policy action.

Secular stagnation – if the poor post-financial market crisis performance of the developed world persists, leading to sustained investment weakness, and weak employment growth and lack of space limits the scope for policymakers to act, then future potential growth could weaken. A combination of poor demographics and weaker productivity growth as a result of the above could see Eurozone GDP growth slowing sharply in this scenario.

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

	2015	2016	2019
Europe	**19**	**19**	**14**
World average	30	31	27
Sovereign risk	16	16	13
Trade credit risk	29	29	17
Political risk	24	23	21
Regulatory risk	0	0	0

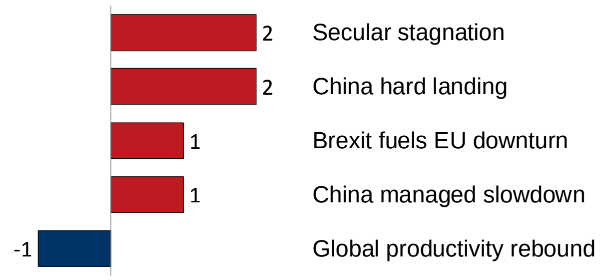
Risk warnings

GDP growth		Brexit decision has increased downside risks.
CPI inflation		Lowflation remains a risk, but inflation to rise in H2
Current account balance		Surplus unlikely to narrow substantially.
Government balance		Deficit out of danger territory
Government debt		Debt to fall but only slowly.
External debt		Not a big concern.

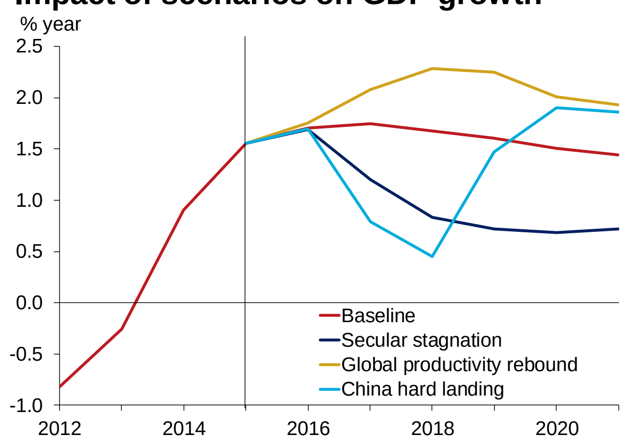
Risk scenarios

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

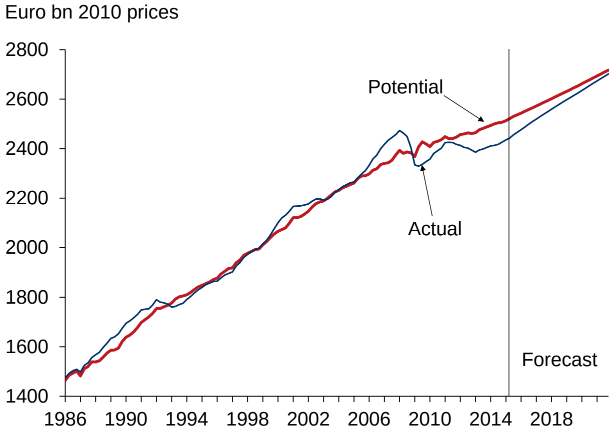
Very slow recovery from crises

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

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

Eurozone: Actual & potential output



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	2005-2014	2015-2024
Potential GDP*	1.0	1.2
Employment at NAIRU	0.6	0.3
Capital Stock	1.5	1.1
Total Factor Productivity	0.1	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)

	2005-2009	2010-2014	2015-2019	2020-2024
GDP	0.8	0.7	1.6	1.5
Consumption	1.0	-0.1	1.5	1.3
Investment	0.1	-0.6	2.8	2.0
Government Consumption	2.1	0.3	1.2	1.2
Exports of Goods and Services	1.6	5.3	3.5	2.9
Imports of Goods and Services	1.9	3.8	4.1	2.8
Unemployment (%)	8.4	11.1	9.7	8.1
Consumer Prices	2.0	1.7	1.1	1.8
Current Balance (% of GDP)	-0.3	1.3	2.7	2.0
Exchange Rate (US$ per Euro)	1.3	1.3	1.1	1.2
General Government Balance (% of GDP)	-2.6	-3.9	-1.5	-0.6
Short-term Interest Rates (%)	3.1	0.6	-0.1	1.4
Long-term Interest Rates (%)	3.9	3.4	1.7	3.7
Working Population	0.4	0.1	0.1	-0.2
Labour Supply	0.8	0.2	0.3	0.0
Participation Ratio	75.6	76.4	76.9	77.6
Labour Productivity	0.0	0.9	0.7	1.3

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. While the ECB cut interest rates aggressively in the aftermath of the global financial crisis, it was rather more conservative than other central banks such as the Fed and the Bank of England and expanded its balance sheet less aggressively. Since Mario Draghi became President of the ECB in 2011, the ECB has taken bolder action to support the economy and boost inflation. In January 2015, the ECB finally began its own QE programme and in March 2016 it raised the monthly purchase target from €60bn to €80bn.

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. However, even these looser rules have been relaxed for many economies and this runs the risk of governments running pro-cyclical fiscal policies.

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.

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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)
Jun	2.0	11.0	0.2	0.1	-6	12.6	6.8	25.4
Jul	1.7	10.8	0.2	0.4	-7	7.0	0.6	31.1
Aug	2.3	10.7	0.2	0.2	-7	5.7	2.6	11.2
Sep	1.5	10.6	-0.1	0.3	-7	0.8	-0.6	19.9
Oct	2.2	10.6	0.0	0.5	-8	0.5	-0.7	24.2
Nov	2.0	10.5	0.1	0.4	-6	6.3	4.3	23.9
Dec	0.4	10.4	0.2	0.4	-6	4.1	3.2	25.8
2016								
Jan	3.7	10.4	0.4	0.3	-6	-2.1	-1.0	5.4
Feb	1.1	10.3	-0.2	0.1	-9	1.2	1.9	19.0
Mar	0.1	10.2	-0.1	0.1	-10	-2.3	-8.4	29.4
Apr	2.0	10.2	-0.2	0.2	-9	-0.9	-5.3	27.5
May	-	10.1	-0.1	0.3	-7	-	-	-
Jun	-	-	0.1	0.2	-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
Jun	-0.01	1.67	4.9	1.12	1.39	95.9	3424	-16.7
Jul	-0.02	1.53	5.2	1.10	1.41	95.0	3601	7.2
Aug	-0.03	1.39	4.9	1.11	1.40	96.6	3270	2.0
Sep	-0.04	1.48	4.9	1.12	1.37	97.4	3101	-21.7
Oct	-0.05	1.20	5.2	1.12	1.37	97.2	3418	56.9
Nov	-0.09	1.16	5.0	1.07	1.42	94.3	3506	-70.4
Dec	-0.13	1.19	4.7	1.09	1.38	95.6	3268	50.5
2016								
Jan	-0.15	1.11	5.1	1.09	1.33	96.5	3045	-31.1
Feb	-0.18	1.04	4.9	1.11	1.29	98.0	2946	44.5
Mar	-0.23	0.93	5.0	1.11	1.28	97.3	3005	12.6
Apr	-0.25	0.96	4.6	1.13	1.26	98.0	3028	10.7
May	-0.26	0.97	4.9	1.13	1.28	97.9	3063	-
Jun	-0.27	0.88	-	1.12	1.26	97.3	2865	-

EUROZONE — **TABLE 1 SUMMARY ITEMS**
Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE (C)	GROSS FIXED INVESTMENT (IF)	DOMESTIC DEMAND (%) (DOMD)	REAL GDP (GDP)	INDUSTRIAL PRODUCTION (IP)	UNEMPLOY-MENT RATE (%) (UP)	AVERAGE EARNINGS (ER)	WHOLE ECONOMY PRODUCT-IVITY (GDP/ET)	COMPETIT-IVENESS (2008=100) (MON)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2014	0.8	1.3	0.9	0.9	0.9	11.6	1.3	0.3	2.3	-1.3	0.4
2015	1.7	2.7	1.7	1.6	1.5	10.9	1.4	0.5	5.7	-1.9	0.0
2016	1.8	3.3	2.2	1.7	1.7	10.0	1.9	0.5	4.4	-2.6	0.3
2017	1.5	2.8	1.7	1.5	1.5	9.5	2.2	0.8	3.6	1.5	1.6
2018	1.4	2.8	1.6	1.5	1.4	9.2	2.3	0.9	3.9	2.1	1.6
2019	1.3	2.4	1.5	1.5	1.6	8.8	2.4	1.0	3.8	2.1	1.8
2014											
I	0.7	2.5	1.2	1.1	1.5	11.8	1.4	0.9	0.8	-1.5	0.7
II	0.6	1.2	1.0	0.8	0.8	11.6	1.2	0.2	1.4	-1.1	0.6
III	0.8	0.8	0.6	0.8	0.6	11.5	1.2	0.0	2.4	-1.2	0.4
IV	1.2	0.9	1.0	1.0	0.6	11.4	1.4	0.1	4.7	-1.5	0.2
2015											
I	1.6	2.0	1.5	1.3	1.5	11.2	1.3	0.4	5.9	-2.1	-0.3
II	1.7	2.6	1.4	1.6	1.3	11.0	1.5	0.6	6.1	-1.1	0.2
III	1.8	2.6	1.9	1.6	1.8	10.7	1.5	0.5	5.8	-1.9	0.1
IV	1.6	3.6	2.3	1.7	1.5	10.5	1.5	0.4	5.1	-2.4	0.2
2016											
I	1.7	2.9	2.1	1.7	1.6	10.3	1.5	0.3	4.8	-3.2	0.0
II	1.9	3.6	2.5	1.6	1.8	10.0	1.9	0.4	4.4	-3.6	-0.1
III	1.7	3.8	2.3	1.7	1.7	9.8	2.0	0.7	4.6	-2.5	0.4
IV	1.8	3.0	2.0	1.7	1.9	9.7	2.1	0.8	3.8	-1.1	0.9
2017											
I	1.6	2.8	1.7	1.5	1.2	9.6	2.3	0.8	3.4	1.2	1.7
II	1.5	2.7	1.7	1.6	1.6	9.5	2.2	0.8	3.6	1.3	1.7
III	1.4	2.8	1.6	1.5	1.8	9.4	2.2	0.8	3.7	1.5	1.6
IV	1.4	2.9	1.7	1.5	1.5	9.4	2.2	0.8	3.8	1.8	1.6
2018											
I	1.4	2.9	1.6	1.5	1.5	9.3	2.2	0.9	3.8	2.0	1.6
II	1.4	2.9	1.6	1.5	1.4	9.2	2.3	0.9	3.9	2.1	1.6
III	1.4	2.8	1.6	1.5	1.3	9.1	2.3	0.9	3.9	2.2	1.7
IV	1.3	2.7	1.6	1.5	1.4	9.0	2.3	0.9	3.9	2.2	1.6
2019											
I	1.3	2.5	1.6	1.5	1.4	8.9	2.4	0.9	3.8	2.2	1.7
II	1.3	2.4	1.5	1.5	1.5	8.8	2.3	1.0	3.8	2.2	1.7
III	1.3	2.4	1.5	1.5	1.6	8.8	2.3	1.0	3.8	2.1	1.8
IV	1.3	2.3	1.6	1.6	1.8	8.7	2.4	1.1	3.8	2.0	1.8

EUROZONE — **TABLE 2 SUMMARY ITEMS**

	TRADE BALANCE (EURO BN) (BVI)	CURRENT ACCOUNT (EURO BN) (BCU)	CURRENT ACCOUNT (% OF GDP) (BCU*100 /GDP!)	GOVERNMENT FINANCIAL BALANCE (EURO BN) (GB)	GOVERNMENT FINANCIAL BALANCE (% OF GDP) (GB*100 /GDP!)	SHORT-TERM INTEREST RATE (RSH)	LONG-TERM INTEREST RATE (RLG)	REAL SHORT-TERM INTEREST RATE (Note 1)	REAL LONG-TERM INTEREST RATE (Note 1)	EXCHANGE RATE US DOLLAR PER EURO (RXD)	EFFECTIVE EXCHANGE RATE 2010=100 (RX)
YEARS BEGINNING Q1											
2014	187.9	253.7	2.51	-261.5	-2.59	0.21	2.04	-0.22	1.61	1.33	123.6
2015	248.5	333.6	3.21	-215.2	-2.07	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	242.4	312.9	2.92	-201.5	-1.88	-0.25	0.93	-0.57	0.61	1.10	119.9
2017	218.8	297.0	2.68	-163.4	-1.48	-0.27	1.53	-1.91	-0.11	1.06	119.0
2018	209.4	283.8	2.48	-133.6	-1.17	-0.15	2.17	-1.76	0.57	1.06	118.6
2019	200.1	263.3	2.23	-118.2	-1.00	0.24	2.78	-1.51	1.03	1.09	119.3
2014											
I	42.3	63.5	2.53	-68.8	-2.74	0.30	2.65	-0.36	2.00	1.37	125.7
II	40.8	55.2	2.19	-66.9	-2.66	0.30	2.22	-0.26	1.66	1.37	125.2
III	43.5	64.6	2.55	-64.4	-2.55	0.16	1.79	-0.19	1.44	1.33	122.6
IV	61.4	70.4	2.76	-61.3	-2.40	0.08	1.50	-0.08	1.33	1.25	121.1
2015											
I	61.7	84.3	3.28	-58.0	-2.25	0.05	1.01	0.36	1.33	1.13	114.9
II	59.3	82.8	3.19	-54.9	-2.12	-0.01	1.27	-0.20	1.08	1.11	112.6
III	61.7	82.3	3.15	-52.3	-2.00	-0.03	1.36	-0.12	1.27	1.11	116.1
IV	65.8	84.3	3.20	-50.1	-1.90	-0.09	1.19	-0.26	1.03	1.10	116.1
2016											
I	64.9	71.6	2.70	-68.2	-2.57	-0.19	1.05	-0.23	1.01	1.10	119.0
II	55.9	88.1	3.30	-38.1	-1.43	-0.26	0.82	-0.17	0.90	1.13	119.4
III	58.1	74.1	2.75	-57.7	-2.14	-0.28	0.78	-0.68	0.38	1.10	120.5
IV	63.6	79.1	2.91	-37.5	-1.38	-0.28	1.07	-1.22	0.13	1.08	120.5
2017											
I	54.1	65.1	2.38	-58.4	-2.13	-0.30	1.30	-1.98	-0.38	1.07	120.1
II	51.6	82.2	2.98	-29.4	-1.06	-0.30	1.45	-1.97	-0.22	1.06	119.2
III	55.2	72.9	2.62	-44.1	-1.59	-0.26	1.60	-1.84	0.02	1.05	118.5
IV	58.0	76.8	2.74	-31.5	-1.13	-0.23	1.76	-1.84	0.15	1.05	118.2
2018											
I	49.7	61.5	2.18	-51.9	-1.84	-0.20	1.91	-1.77	0.34	1.05	118.3
II	48.6	79.7	2.80	-19.2	-0.67	-0.17	2.08	-1.73	0.53	1.06	118.5
III	53.7	69.9	2.43	-36.5	-1.27	-0.14	2.26	-1.79	0.61	1.06	118.6
IV	57.5	72.8	2.52	-25.9	-0.90	-0.10	2.44	-1.75	0.80	1.07	118.8
2019											
I	47.9	57.6	1.97	-47.1	-1.62	0.15	2.60	-1.54	0.90	1.07	119.0
II	45.2	73.6	2.51	-16.4	-0.56	0.23	2.72	-1.51	0.98	1.08	119.2
III	50.7	63.8	2.15	-33.9	-1.14	0.27	2.84	-1.49	1.08	1.09	119.4
IV	56.4	68.3	2.28	-20.8	-0.69	0.30	2.97	-1.51	1.15	1.10	119.6

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	1.6	-0.8	-0.3	0.9	1.6	1.7	1.5	1.5	1.5	1.6	1.5	1.5	1.5	1.3	1.5
Consumption	0.5	0.0	-1.3	-0.6	0.8	1.7	1.8	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.4
Investment	-0.3	1.7	-3.1	-2.5	1.3	2.7	3.3	2.8	2.8	2.4	2.4	2.2	2.1	1.9	1.7	2.4
Government Consumption	1.2	-0.1	-0.2	0.2	0.8	1.3	1.5	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Exports of Goods and Services	3.5	6.7	2.8	2.2	4.1	5.1	2.8	3.4	3.1	3.0	3.1	3.1	3.0	2.8	2.5	3.2
Imports of Goods and Services	2.8	4.4	-0.8	1.3	4.5	5.9	4.1	3.8	3.5	3.2	3.1	3.0	2.9	2.7	2.5	3.5
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	10.9	10.0	9.5	9.2	8.8	8.5	8.2	8.0	7.7	7.5	8.8
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.0	0.3	1.6	1.6	1.8	1.8	1.8	1.8	1.9	1.9	1.5
Current Balance (% of GDP)	0.5	0.4	1.3	2.1	2.5	3.2	2.9	2.7	2.5	2.2	2.1	2.0	1.9	1.9	1.9	2.3
Exchange Rate (US$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.10	1.06	1.06	1.09	1.11	1.14	1.17	1.20	1.23	1.13
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	-0.3	-0.3	-0.2	0.2	0.5	0.9	1.4	1.9	2.4	0.7
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.2	0.9	1.5	2.2	2.8	3.3	3.6	3.8	3.9	4.0	2.7
Working Population	0.2	0.0	0.2	0.2	0.1	0.2	0.2	0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	0.0
Labour Supply	0.5	0.2	0.8	0.0	0.2	0.2	0.3	0.3	0.3	0.1	0.1	0.0	0.0	-0.1	-0.1	0.1
Participation Ratio (%)	76.0	76.2	76.7	76.5	76.6	76.6	76.7	76.8	77.1	77.3	77.4	77.5	77.6	77.7	77.8	77.2
Labour productivity	0.5	1.5	-0.4	0.4	0.3	0.5	0.5	0.8	0.9	1.0	1.2	1.2	1.3	1.3	1.3	1.0
Employment	0.3	0.1	-0.4	-0.6	0.6	1.1	1.2	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.5
Output gap (% of potential GDP)	-0.7	-1.0	-2.4	-3.3	-3.1	-2.2	-1.6	-1.4	-1.4	-1.2	-0.9	-0.7	-0.4	-0.2	-0.1	-1.0

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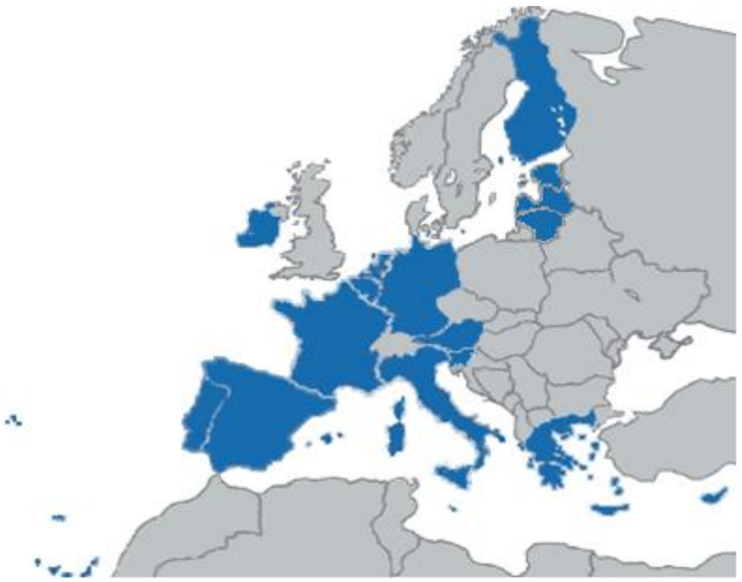
Key Facts

Politics

President of the ECB: Mario DRAGHI
Vice president of the ECB: Vítor CONSTANCIO
EC commissioner for Economic and 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$)	-	18220	20723	40201
Inflation (%)	9.9	4.2	2.2	0.4
Population (mn)	302	303	313	334
Urban population (% of total)	69.9	71.3	72.6	75.7
Life expectancy (years)	73.5	75.9	78.3	81.7

Source : Oxford Economics & World Bank

* 2014 or latest available year

Structure of GDP by output

	2014
Agriculture	1.7%
Industry	24.3%
Services	74.1%

Source : World Bank

Corruption perceptions index 2015

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

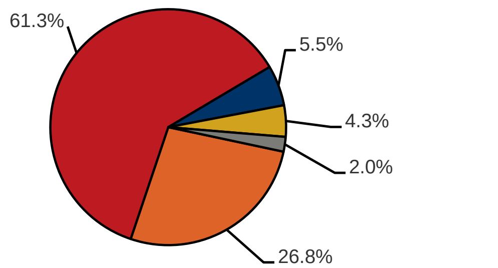
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2014*
Current account (US$ billion)	30	163	-167	337
Trade balance (US$ billion)	-22	65	-29	250
FDI (US$ billion)	-	-	29	-124
Govt budget (% of GDP)	-4	-7	0	-3
Govt debt (% of GDP)	14	68	67	92
Long-term interest rate	10	9	5	2
Oil production (000 bpd)	264	304	232	224
Oil consumption (000 bpd)	9716	10478	10930	9248

Source : Oxford Economics / World Bank / EIA

Composition of extra-EMU goods & services exports 2014



Source : Eurostat\ Haver Analytics

Destination of goods' exports 2014

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

Source : Eurostat \ Haver Analytics