Eurozone

Highlights

- The latest economic indicators from the Eurozone have struck a fairly bright tone and suggest that the recovery is broadening. If Greece remains in the Eurozone, as assumed in our baseline forecast, we expect GDP growth to gain momentum. However, while the weekend's negotiations between Greece and its creditors were a step forward, the threat of a Greek exit still casts a long shadow over the growth outlook.
- Despite the recent pick-up in inflation, consumer sentiment remains buoyant and in Q2, household spending looks set to broadly match the 0.5% quarterly rise recorded in Q1.
- What's more, the news from the external and industrial sectors has also been a little more encouraging. German industrial orders from outside the Eurozone rebounded sharply in May and the Eurozone export data for April were also strong. It seems that the weak euro is beginning to have an effect or the sharp drop in world trade volumes in Q1 overstated underlying global trade developments.
- Our baseline view is that in H2 the recovery will broaden as inflation picks up and household spending slows. In 2015 as a whole, we expect GDP to grow by 1.5%, 0.1pp lower than in June. But we have left our 2016 forecast unchanged at a well above trend 1.8%.
- But the threat of a Greek exit remains. While the Government has caved into its creditors' demands, it remains to be seen whether Greece can actually implement the fiscal measures and reforms demanded over the coming weeks and months. In a low contagion scenario, a Greek exit would be unlikely to have disastrous consequences for the rest of the Eurozone. But if Eurozone policymakers were overly complacent and fears of further fragmentation grew, the cost of a Greek exit could be huge.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.7	1.7	1.7	1.6	1.5
Private Consumption	1.0	1.7	1.4	1.3	1.3	1.3
Fixed Investment	1.2	1.5	2.7	2.9	2.7	2.3
Government Consumption	0.6	1.0	0.8	0.8	0.9	1.0
Net exports (% of GDP)	4.0	3.8	3.8	3.8	3.8	3.8
GDP	0.9	1.5	1.8	1.7	1.5	1.4
Industrial Production	0.6	1.6	2.0	1.9	1.9	1.7
Consumer Prices	0.4	0.3	1.5	1.5	1.6	1.6
Current Account (% of GDP)	2.4	2.6	2.4	2.3	2.2	2.2
Government Budget (% of GDP)	-2.4	-2.0	-1.6	-1.3	-1.0	-0.9
Short-Term Interest rate (%)	0.2	0.0	0.0	0.0	0.2	0.5
Long-Term Interest Rates (%)	2.0	1.3	2.0	2.7	3.2	3.6
Exchange rate (US$ per Euro)	1.33	1.11	1.07	1.06	1.09	1.11
Exchange rate (YEN per Euro)	140.7	137.0	140.9	144.8	150.0	153.5

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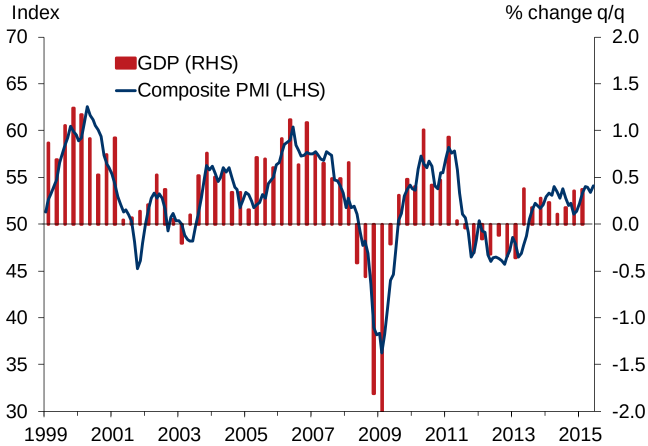
Forecast Overview

Economy to gain steam in Q2?

After a solid start to the year there are signs that the Eurozone recovery may have continued to gain momentum in Q2.

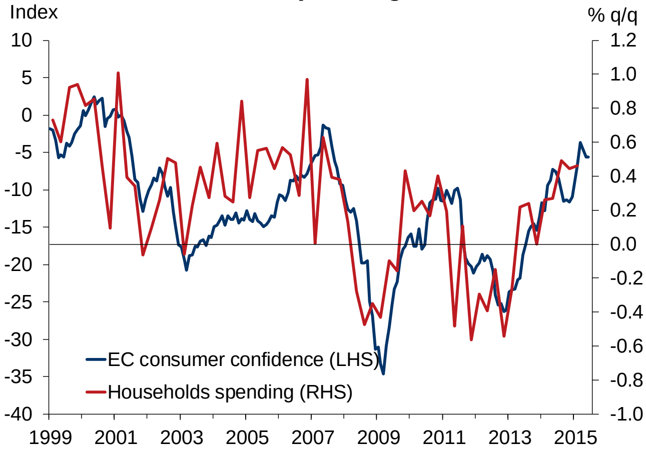
Admittedly, although a number of the closely watched business surveys slowed over the course of Q2, their average readings for the quarter were above those of Q1. What's more, in June, the composite PMI reading stood at a four-year high. And our Eurozone GDP indicator which uses both hard and soft monthly data currently points to a modest pick-up in quarterly GDP growth from 0.4% to 0.5% in Q2, which would be the strongest quarterly outturn since the onset of the current recovery.



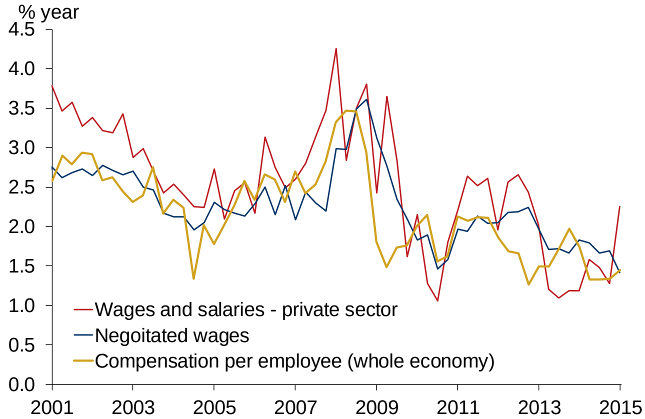
Prospects encouraging beyond Q2

Looking beyond Q2 we remain optimistic about prospects for growth. This reflects a number of factors:

- **Household spending to remain a key driver** - In Q2, household spending is likely to have remained the lynchpin of the recovery thanks to the boost to households' purchasing power from the low oil price. While this positive force should extend into Q3, the boost will have largely worn off by Q4. Encouragingly, though, the sharp pick-up in CPI inflation since the start of the year has not dampened household sentiment as yet, suggesting that the household spending recovery does not solely reflect the low inflation environment. Some of the strength will reflect the improving labour market. Survey-base measures of firms' employment intentions continue to trend upwards. In addition, there are tentative signs that nominal wage growth is starting to pick up. Accordingly, while the likely rise in CPI inflation from 0.2% in June to about 1% by the year end will dampen household spending prospects, our baseline view is that other positive forces will ensure that the slowdown in spending is not particularly strong. We see annual consumer spending growth of 1.7% this year and 1.4% in 2016 – note that the latter would still be a strong performance by recent historical standards.



- **Tough start to 2015 for exporters will not be sustained** – Although export growth in Q1 was subdued, the performance was pretty solid when taking into account that global trade volumes recorded their sharpest quarterly fall since the global financial



crisis. And the monthly trade figures suggest export growth gathered momentum as Q1 progressed and also posted a solid performance in the early stages of Q2. While a period of robust export growth is perhaps too much to hope for we do see export growth picking up and ensuring that the large drag from net trade in Q1 is not repeated in Q2 and beyond.

- **Investment may strengthen too** – Meanwhile, despite the large amount of spare capacity, we believe that there is scope for further rises in investment. After all, investment has been expanding modestly for several quarters and the nominal investment to GDP ratio remains at a near-record low. With business sentiment improving and access to finance likely to improve, we see a modest acceleration in growth.

Baseline conditional on Greece staying

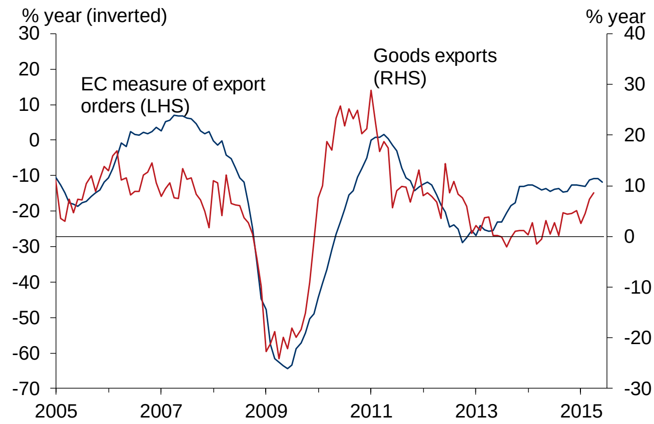
In all, the recovery remains fragile and vulnerable to shocks, but there is also tentative evidence that it may be broadening. We expect GDP to expand by 1.5% this year and 1.8% in 2016 before slowing gradually thereafter.

There are of course risks to this forecast, particularly from Greece. Although the recent capitulation by Greece to its creditors' demands provides a basis for lasting stability, the draconian demands from the Eurozone mean that it will be a major feat for Greece to implement the reforms and keep the bailout on track. While the risk of a Greek exit has receded it still poses a major downside risk to the Eurozone growth outlook.

The impact of an exit on the rest of the Eurozone is of course uncertain not least because it will depend on the response of Eurozone policymakers. The risk of contagion is less than a few years ago as the ECB is now in a stronger position to take action and private sector exposures to Greece are far smaller. Accordingly in a low contagion scenario, GDP growth might slow to 1.2% or so next year: 0.6pp below our baseline forecast.

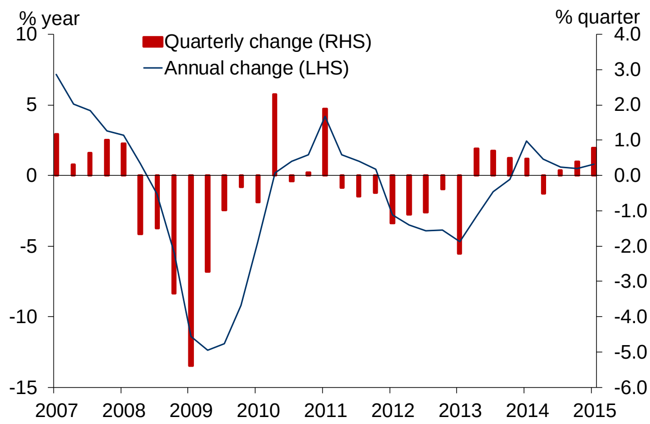
But an exit would leave some vulnerable economies facing a permanent rise in their borrowing costs. And the shattering of the principle that membership of the euro area is irrevocable could also further discourage FDI and domestic investment in the periphery. It would thus be dangerous to ignore the medium-term ramifications of a Greek exit.

Eurozone: Exports and export orders



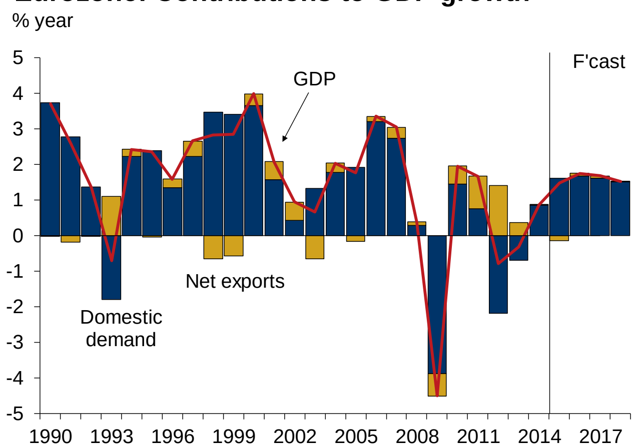
Source: Oxford Economics/Haver Analytics

Eurozone: Investment



Source : Oxford Economics/Haver Analytics

Eurozone: Contributions to GDP growth



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

Emerging risks

External weakness spreads – exporters are yet to reap much in the way of reward from the euro's fall because the positive effects have been offset by a contraction in global trade in Q1. We expect export growth to pick-up modestly. But failure to do so could hinder the recovery spreading from consumer spending to investment. In such a scenario, the overall economic recovery might lose rather than gain momentum.

Rise in bond yields dampens demand – the sharp spike in bond yields and the associated rise in the euro has the scope to reduce the tailwinds that the Eurozone recovery currently benefits from. Nonetheless, the risk of a further substantial rise may be limited. For a start, the rise partly reflects yields falling too far earlier in the year. What's more, we would expect further significant rise to result in a policy response from the ECB.

Key risk scenarios

A Greek Eurozone exit – the risks of an exit remain despite Greece agreeing to creditors' demands. A relatively orderly exit that was well managed and resulted in limited contagion would probably have only modest short-lived effects on activity. But a more disorderly exit that resulted in heightened uncertainty for rather longer and renewed concerns about the future of other peripheral economies could be enough to push the Eurozone into recession.

Investment collapse in China – the recent run of weak news from China has raised concerns about a more sustained slowdown in China which could have major spillover effects on the world economy. Given the region's limited trade and financial interlinkages with China, the direct effects of a China slowdown would not be great. While potential indirect effects on confidence might be larger, these may be offset to some degree by more QE, suggesting that a recession could be avoided.

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

	2014	2015	2018
Europe	**20**	**19**	**16**
World average	29	29	27
Sovereign risk	16	16	15
Trade credit risk	31	29	23
Political risk	25	24	22
Regulatory risk	0	0	0

Risk warnings

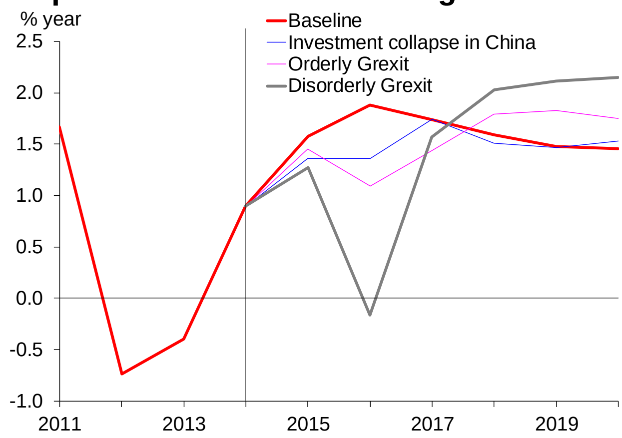
GDP growth		Downside risks from Greece and weaker global trade.
CPI inflation		Lowflation rather than deflation main concern.
Current account balance		Surpluses to persist.
Government balance		Deficit likely to narrow steadily.
Government debt		Debt level limit future wriggle room.
External debt		Not a concern.

Risk scenarios

Impact of scenarios on risk index

Maximum impact of scenarios on risk index

Impact of scenarios on GDP growth



Source : Oxford Economics

Long-Term Prospects

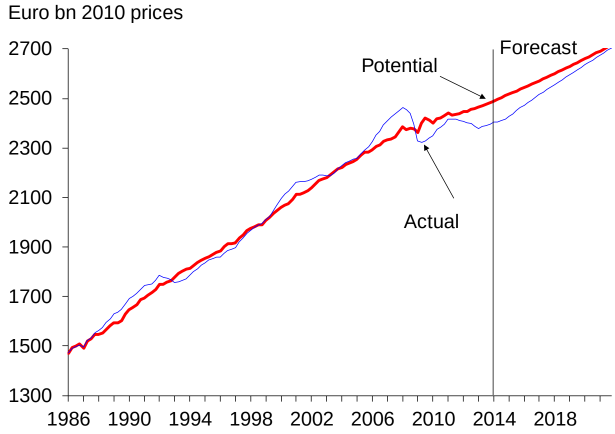
Very slow recovery from crises

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

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	2005-2014	2015-2024
Potential GDP*	1.0	1.2
Employment at NAIRU	0.5	0.1
Capital Stock	1.4	1.4
Total Factor Productivity	0.2	0.6

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

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

	2005-2009	2010-2014	2015-2019	2020-2024
GDP	0.8	0.7	1.6	1.4
Consumption	1.0	0.0	1.4	1.3
Investment	0.1	-0.7	2.4	1.8
Government Consumption	2.2	0.3	0.9	1.2
Exports of Goods and Services	1.6	5.2	3.6	3.0
Imports of Goods and Services	1.8	3.7	3.9	3.0
Unemployment (%)	8.5	11.1	10.4	8.7
Consumer Prices	2.0	1.7	1.3	1.7
Current Balance (% of GDP)	-0.5	1.2	2.4	2.3
Exchange Rate (US$ per Euro)	1.35	1.33	1.09	1.19
General Government Balance (% of GDP)	-2.5	-3.8	-1.3	-0.7
Short-term Interest Rates (%)	3.1	0.6	0.2	1.9
Long-term Interest Rates (%)	3.9	3.4	2.6	4.4
Working Population	0.4	0.0	-0.1	-0.2
Labour Supply	0.8	0.2	0.1	-0.2
Participation Ratio	75.3	76.1	77.0	77.2
Labour Productivity	0.1	0.9	1.1	1.2

Background

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

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

Joining EMU sees 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 initially focused on providing liquidity to banks via long-term loans. But more recently, attention has shifted towards asset purchases and the ECB is currently purchasing about €60bn of bonds per month.

National governments retain control of fiscal policy, although there are limits to their freedom in this area as specified in the Growth and Stability Pact, which essentially applies the fiscal requirements of the Maastricht Treaty on an ongoing basis. Even before the global crisis, a number of Eurozone countries had difficulty keeping their budget deficits below 3% of GDP and debt below 60% of GDP on a sustained basis and faced sanctions by the EC. However, the effectiveness of the Growth and Stability Pact against the major Eurozone economies of Germany, France and Italy proved limited, while smaller countries such as the Netherlands made painful adjustments when their deficit exceeded the 3% of GDP threshold and others observed the requirements stringently. This forced a re-interpretation of the Pact, which is now applied over the economic cycle.

The fallout from the financial crisis, and in particular the troubled fiscal situation faced by Cyprus, Greece, Italy, Ireland, Portugal, Slovenia and Spain, showed the limitations of the fiscal framework behind the single currency. The possibility of a debt default by Greece, coupled with the threat of contagion to Italy and Spain, 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.

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)
Jun	0.0	11.6	0.5	0.3	-7.6	3.2	3.2	16.0
Jul	1.9	11.6	0.4	0.2	-8.4	2.9	0.9	21.2
Aug	-0.4	11.5	0.4	0.2	-10.2	-3.2	-4.0	8.0
Sep	0.3	11.5	0.3	0.1	-11.5	8.6	4.1	18.3
Oct	1.0	11.5	0.4	0.1	-11.3	4.3	-0.1	24.0
Nov	-0.3	11.5	0.3	0.2	-11.6	1.1	-1.8	20.8
Dec	0.6	11.3	-0.2	0.1	-11.0	8.4	1.4	24.3
2015								
Jan	0.6	11.3	-0.6	0.2	-8.5	-0.7	-6.0	8.0
Feb	1.6	11.2	-0.3	0.1	-6.7	4.3	-0.1	21.2
Mar	1.9	11.2	-0.1	0.2	-3.7	10.9	7.4	23.0
Apr	0.7	11.1	0.0	0.3	-4.6	8.8	2.8	24.9
May	1.3	11.1	0.3	0.3	-5.6	-	-	-
Jun	-	-	0.2	0.1	-5.6	-	-	-

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
Jun	0.24	2.28	1.60	1.36	1.24	106.9	3228	-5.4
Jul	0.21	2.16	1.8	1.35	1.26	106.4	3116	7.1
Aug	0.19	1.99	2.1	1.33	1.25	105.8	3173	-2.1
Sep	0.10	1.85	2.5	1.29	1.26	104.4	3226	19.4
Oct	0.08	1.69	2.5	1.27	1.27	103.7	3113	12.3
Nov	0.08	1.62	3.1	1.25	1.26	104.1	3251	15.2
Dec	0.08	1.45	3.7	1.23	1.27	104.2	3146	-44.9
2015								
Jan	0.06	1.27	3.8	1.16	1.30	99.4	3351	-10.7
Feb	0.05	1.21	4.1	1.13	1.35	97.3	3599	32.2
Mar	0.03	0.96	4.7	1.08	1.38	94.6	3697	63.6
Apr	0.00	0.85	5.3	1.08	1.39	93.7	3616	-14.0
May	-0.01	1.34	5.0	1.11	1.39	95.5	3571	-
Jun	-0.01	1.67	-	1.12	1.39	96.3	3424	-

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											
2014	1.0	1.2	0.9	0.9	0.6	11.6	1.6	0.3	2.3	-1.6	0.4
2015	1.7	1.5	1.7	1.5	1.6	11.1	1.8	0.8	5.3	-1.7	0.3
2016	1.4	2.7	1.7	1.8	2.0	10.7	2.3	1.2	4.4	1.6	1.5
2017	1.3	2.9	1.7	1.7	1.9	10.4	2.5	1.2	4.2	2.3	1.5
2018	1.3	2.7	1.6	1.5	1.9	10.0	2.4	1.1	4.1	1.8	1.6
2019	1.3	2.3	1.5	1.4	1.7	9.6	2.5	1.1	3.8	1.7	1.6
2014											
I	0.7	2.5	1.1	1.1	1.9	11.8	1.7	0.9	0.8	-1.5	0.6
II	0.8	1.2	0.9	0.8	0.7	11.7	1.4	0.2	1.4	-1.4	0.6
III	1.0	0.6	0.6	0.8	-0.1	11.5	1.5	0.1	2.4	-1.8	0.3
IV	1.5	0.5	0.9	0.9	-0.2	11.5	1.6	0.0	4.7	-1.7	0.1
2015											
I	1.7	0.8	1.3	1.0	0.6	11.2	1.6	0.2	5.9	-2.5	-0.3
II	1.9	1.3	1.7	1.4	1.2	11.1	1.8	0.8	5.4	-1.7	0.1
III	1.8	1.9	1.9	1.7	2.1	11.0	1.9	1.1	5.6	-1.5	0.5
IV	1.6	2.2	2.0	1.8	2.3	11.0	2.0	1.2	4.4	-1.1	0.9
2016											
I	1.5	2.2	1.7	1.8	1.8	10.9	2.0	1.2	4.1	0.7	1.6
II	1.4	2.9	1.8	1.8	2.1	10.8	2.3	1.2	4.5	1.3	1.4
III	1.4	2.9	1.8	1.7	2.0	10.7	2.4	1.2	4.5	2.0	1.4
IV	1.4	2.9	1.7	1.7	2.0	10.6	2.4	1.2	4.4	2.5	1.5
2017											
I	1.3	2.9	1.7	1.7	2.0	10.5	2.5	1.3	4.3	2.4	1.5
II	1.3	2.9	1.7	1.7	1.9	10.4	2.5	1.3	4.3	2.3	1.5
III	1.3	2.9	1.7	1.7	1.9	10.3	2.5	1.2	4.2	2.2	1.5
IV	1.3	2.8	1.6	1.6	1.9	10.2	2.4	1.2	4.2	2.1	1.5
2018											
I	1.3	2.8	1.6	1.6	1.9	10.1	2.4	1.1	4.1	2.0	1.6
II	1.3	2.7	1.6	1.5	1.9	10.0	2.4	1.1	4.1	1.9	1.6
III	1.3	2.7	1.6	1.5	1.8	10.0	2.5	1.1	4.1	1.8	1.6
IV	1.3	2.6	1.5	1.5	1.8	9.9	2.5	1.1	4.0	1.7	1.6
2019											
I	1.3	2.5	1.5	1.5	1.8	9.8	2.5	1.1	3.9	1.7	1.6
II	1.3	2.4	1.5	1.4	1.7	9.7	2.5	1.1	3.9	1.7	1.6
III	1.3	2.3	1.5	1.4	1.7	9.6	2.6	1.1	3.8	1.7	1.6
IV	1.3	2.2	1.4	1.4	1.6	9.5	2.6	1.1	3.8	1.8	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											
2014	196.0	240.2	2.38	-245.9	-2.43	0.21	2.04	-0.21	1.62	1.33	123.9
2015	239.6	270.6	2.61	-202.8	-1.96	0.05	1.32	-0.25	1.02	1.11	113.5
2016	232.7	254.2	2.38	-170.2	-1.59	0.05	2.04	-1.42	0.58	1.07	111.5
2017	230.3	251.8	2.29	-139.0	-1.26	0.05	2.70	-1.49	1.17	1.06	111.8
2018	235.6	254.5	2.24	-116.4	-1.03	0.20	3.18	-1.38	1.60	1.09	113.4
2019	246.7	263.0	2.24	-106.8	-0.91	0.50	3.60	-1.12	1.98	1.11	115.3
2014											
I	42.3	59.0	2.35	-65.1	-2.59	0.30	2.65	-0.35	2.01	1.37	125.9
II	43.9	57.8	2.30	-62.5	-2.48	0.30	2.22	-0.27	1.65	1.37	125.3
III	46.7	66.1	2.61	-60.2	-2.38	0.17	1.79	-0.17	1.46	1.33	122.8
IV	63.2	57.3	2.25	-58.1	-2.28	0.08	1.50	-0.07	1.35	1.25	121.5
2015											
I	63.5	76.5	2.98	-52.5	-2.05	0.05	1.03	0.38	1.37	1.13	115.4
II	54.7	76.9	2.98	-51.5	-2.00	0.05	1.21	-0.07	1.09	1.11	113.4
III	57.3	67.1	2.58	-52.8	-2.03	0.05	1.56	-0.42	1.10	1.10	112.5
IV	64.1	50.1	1.91	-45.9	-1.75	0.05	1.49	-0.90	0.54	1.09	112.6
2016											
I	61.2	66.1	2.50	-44.7	-1.69	0.05	1.72	-1.52	0.15	1.08	112.2
II	55.3	76.5	2.88	-42.7	-1.61	0.05	1.94	-1.31	0.58	1.07	111.7
III	56.0	65.2	2.43	-42.9	-1.60	0.05	2.17	-1.35	0.77	1.06	111.3
IV	60.2	46.4	1.72	-39.9	-1.48	0.05	2.34	-1.50	0.80	1.05	110.7
2017											
I	58.5	63.0	2.32	-38.2	-1.40	0.05	2.52	-1.50	0.97	1.06	111.2
II	54.1	75.3	2.75	-36.0	-1.31	0.05	2.64	-1.49	1.11	1.06	111.6
III	56.3	65.7	2.38	-34.5	-1.25	0.05	2.77	-1.48	1.24	1.07	112.0
IV	61.4	47.7	1.71	-30.2	-1.09	0.05	2.89	-1.48	1.37	1.07	112.4
2018											
I	59.4	63.0	2.24	-29.8	-1.06	0.15	3.02	-1.41	1.46	1.08	112.8
II	55.5	76.7	2.71	-29.4	-1.04	0.15	3.12	-1.43	1.54	1.09	113.2
III	57.8	65.9	2.31	-30.0	-1.05	0.25	3.23	-1.33	1.65	1.09	113.6
IV	63.0	49.0	1.70	-27.2	-0.95	0.25	3.34	-1.34	1.75	1.10	114.1
2019											
I	61.8	64.8	2.24	-27.0	-0.93	0.50	3.44	-1.10	1.85	1.10	114.5
II	58.2	78.7	2.70	-27.0	-0.92	0.50	3.55	-1.11	1.94	1.11	115.0
III	60.7	68.2	2.32	-27.9	-0.95	0.50	3.65	-1.13	2.03	1.12	115.5
IV	66.0	51.3	1.73	-24.9	-0.84	0.50	3.76	-1.15	2.11	1.12	116.0

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

	2005-2014	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
GDP	0.7	1.7	-0.8	-0.3	0.9	1.5	1.8	1.7	1.5	1.4	1.5	1.5	1.4	1.4	1.3	1.5
Consumption	0.5	0.2	-1.3	-0.6	1.0	1.7	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3
Investment	-0.3	1.8	-3.5	-2.3	1.2	1.5	2.7	2.9	2.7	2.3	2.0	1.9	1.8	1.7	1.5	2.1
Government Consumption	1.2	-0.2	-0.1	0.2	0.6	1.0	0.8	0.8	0.9	1.0	1.1	1.2	1.2	1.2	1.3	1.0
Exports of Goods and Services	3.4	6.8	2.9	2.1	3.7	3.6	3.7	3.7	3.7	3.4	3.2	3.1	3.0	2.8	2.6	3.3
Imports of Goods and Services	2.8	4.6	-0.6	1.3	4.0	4.3	3.8	3.9	3.9	3.6	3.4	3.2	3.0	2.8	2.7	3.5
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	11.1	10.7	10.4	10.0	9.6	9.3	8.9	8.6	8.4	8.2	9.5
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.3	1.5	1.5	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.5
Current Balance (% of GDP)	0.3	-0.1	1.5	2.2	2.4	2.6	2.4	2.3	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.3
Exchange Rate (US$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.07	1.06	1.09	1.11	1.14	1.16	1.19	1.21	1.23	1.14
General Government Balance (% of GDP)	-3.2	-4.1	-3.6	-2.9	-2.4	-2.0	-1.6	-1.3	-1.0	-0.9	-0.8	-0.8	-0.7	-0.7	-0.6	-1.0
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	0.0	0.0	0.2	0.5	0.9	1.4	1.9	2.4	2.9	1.0
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.3	2.0	2.7	3.2	3.6	4.0	4.3	4.5	4.6	4.6	3.5
Working Population	0.2	0.0	0.2	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.5	0.1	0.7	0.0	0.2	0.2	0.3	0.1	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	0.0
Participation Ratio (%)	75.7	75.9	76.3	76.3	76.5	76.6	76.9	77.0	77.1	77.2	77.2	77.2	77.2	77.2	77.2	77.1
Labour productivity	0.5	1.5	-0.3	0.4	0.3	0.8	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.2
Employment	0.2	0.1	-0.5	-0.7	0.6	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.1	0.0	0.3
Output gap (% of potential GDP)	-0.6	-0.9	-2.4	-3.4	-3.3	-3.0	-2.4	-1.9	-1.5	-1.2	-1.0	-0.7	-0.4	-0.3	-0.1	-1.3

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 & Lithuania

Long-term economic & social development

	1980	1990	2000	2014*
GDP per capita (US$)	-	18104	20608	40232
Inflation (%)	9.9	4.2	2.2	0.4
Population (mn)	287	305	315	334
Urban population (% of total)	0.0	0.0	0.0	0.0
Life expectancy (years)	73.6	76.0	78.3	81.6

Source : Oxford Economics & World Bank

* 2014 or latest available year

Structure of GDP by output

	2011
Agriculture	1.7%
Industry	24.6%
Services	73.7%

Source : WDI

Corruption perceptions index 2014

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

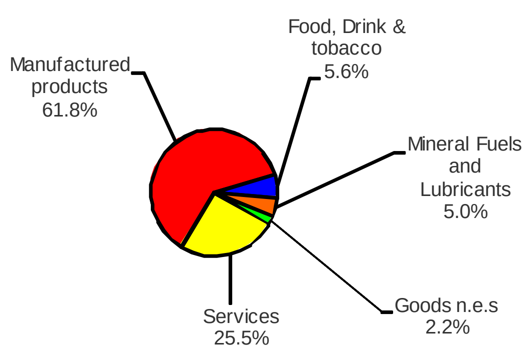
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2014*
Current account (US$ billion)	31	167	-167	319
Trade balance (US$ billion)	-24	62	-29	261
FDI (US$ billion)	-	-	-25	-205
Govt budget (% of GDP)	-4.1	-7.3	-0.1	-2.4
Govt debt (% of GDP)	14.0	67.8	67.1	91.5
Long-term interest rate	10.9	8.7	5.4	2.0
Oil production (000 bpd)	271	313	240	222
Oil consumption (000 bpd)	9715	10483	10931	#REF!

Source : Oxford Economics / World Bank / EIA / ECB

Composition of extra-EMU goods and services exports 2013



Source : Eurostat\ Haver Analytics

Destination of goods' exports (2013)

Eurozone	46.0%
UK	6.8%
US	6.3%
China	3.5%
Switzerland	3.1%
Poland	2.7%

Source : Eurostat \ Haver Analytics