Eurozone

Highlights

- Recent high-frequency indicators underline the extent to which the economic recovery is continuing along divergent tracks within the Eurozone. While latest PMI readings for competitive core economies such as Germany, and reforming peripherals such as Spain, have largely sustained positive momentum into the second quarter (and in some cases surprised on the upside), the pace of improvement has ebbed slightly in France and among the less ambitious reformers such as Italy.
- We have modestly revised down our forecast for Eurozone GDP growth in 2014, from 1.2% to 1.1%, which reflects the weaker than expected Q1 outturn in France. Countries where less has been done to improve competitiveness have seen minimal improvements to economic prospects. Nevertheless, both Spain and Germany have experienced increases in personal incomes which are expected to drive consumption.
- More generally, a number of familiar constraints on growth remain. Ongoing fiscal consolidation efforts will slow growth by 0.4-0.5 percentage points in 2014 and 2015. Investment and trade will also be undermined by very different competitive positions, with overall Eurozone export growth of 3-4% a year masking a wide range of outcomes at national level. Finally, the banking system will remain fragmented, undermining investment in peripheral economies.
- We remain concerned about the risk of deflation in the Eurozone after the latest fall in CPI inflation to 0.5% in May. To address this risk, the ECB announced a series of measures this month which we believe are designed to depress interest rates at the short end of the yield curve and reduce the relative attractiveness of euro area assets. The new TLTRO, meanwhile, will matter most for those countries in southern Europe with banks there facing outright funding constraints.

Forecast for Eurozone
(Annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
Domestic Demand	-2.2	-1.1	1.0	1.3	1.4	1.5
Private Consumption	-1.4	-0.7	0.7	1.5	1.5	1.5
Fixed Investment	-3.8	-2.9	1.7	2.3	2.5	2.5
Government Consumption	-0.6	0.1	0.5	0.3	0.5	0.6
Net exports (% of GDP)	4.3	4.9	5.0	5.2	5.4	5.5
GDP	-0.6	-0.4	1.1	1.5	1.5	1.6
Industrial Production	-3.0	-1.0	2.0	2.5	2.2	1.9
Consumer Prices	2.5	1.3	0.7	1.2	1.6	1.6
Current Account (% of GDP)	1.5	2.4	2.7	2.7	2.6	2.6
Government Budget (% of GDP)	-3.7	-3.0	-2.5	-2.0	-1.6	-1.3
Short-Term Interest rate (%)	0.6	0.2	0.2	0.1	0.1	0.4
Long-Term Interest Rates (%)	3.9	3.0	2.5	3.0	3.4	3.8
Exchange rate (US$ per Euro)	1.28	1.33	1.36	1.32	1.31	1.30
Exchange rate (YEN per Euro)	102.5	129.6	143.4	148.9	147.6	144.2

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Research Briefing

ECB takes action to lower the euro

The ECB's latest raft of measures was bolder than widely anticipated and may help to lower the euro, reduce interest rates and increase bank lending. However, it will take time before the real economy feels any of the benefit. As a result, this suggests that the ECB is even less likely to implement a major QE programme in the near term, despite Draghi stating that the ECB "is not yet finished". That said, the ECB itself has effectively conceded that the new measures will not prevent inflation remaining well below target for a sustained period of time and if the fragile recovery begins to peter out or the take-up of targeted LTROs (TLTROs) disappoints, pressure on the ECB to start asset purchases will almost certainly grow.

ECB does more than the bare minimum

While the ECB pulled no major surprises out of the hat at its interest rate meeting today, the raft of measures taken together were bigger than had been widely anticipated. Reflecting this, the euro-dollar exchange rate fell to around €1.35 during the press conference, its lowest level since February, but has since reversed the fall.

The first of its measures was a cut in the main refinancing rate from 0.25% to 0.15%. The Governing Council also elected to reduce the deposit rate, from 0.0% to -0.1%. Both had been pretty much priced in by markets and economists. The interest on the marginal lending facility was reduced by 35bps, restoring the symmetric corridor around the main policy rate. The change in the latter reduces the penalty on banks that find themselves short of funds and need to make use of the ECB's marginal lending facility. In this respect, it makes liquidity management mistakes by banks less costly. At the margin, then, this might make banks a little more willing to lend.

The second element of its policy action was to announce four-year targeted LTROs (TLTROs) in a bid to improve the flow of credit to non-financial firms. While some form of funding for lending scheme had been anticipated – there were reports of a €40bn scheme in the press earlier this week – the TLTRO scheme could prove to be many times bigger than expected. The ECB indicated that the TLTRO rules will allow the banking system to borrow up to €400bn in total in the first two operations in September. The €400bn figure is equal to about 7% of the total amount of their loans to the euro area non-financial private sector, excluding loans to households for house purchase, outstanding on 30 April 2014. A further six smaller TLRTOs will take place between March 2015 and June 2016, suggesting that the total amount lent under the scheme could end up being closer to €600bn.

Third, the ECB decided to end the sterilisation of peripheral government bonds purchased under the Securities Market Programme (SMP) in a bid to further improve liquidity conditions. Currently the ECB holds peripheral government bonds worth around €164bn. In effect, this change can be thought of as QE-lite.

Fourth, the ECB effectively extended its forward guidance by conceding that interest rates would remain lower for longer than previously anticipated. President Draghi effectively indicated that the ECB's decision to provide TLTROs (which will mature in September 2018) at a fixed interest linked to the policy rate at the time of take up was a sign that the Bank expected the policy rate to remain around current levels for perhaps another four years and possibly longer. The current consensus view amongst economist is that interest rates may start to rise in 2016 and will average about 2% in 2018. Our more dovish forecasts still assume that the ECB will raise interest rates in 2017.

Finally, Draghi stated that "we are not finished" and that the ECB is unanimous in its commitment to use "unconventional instruments within its mandate should it

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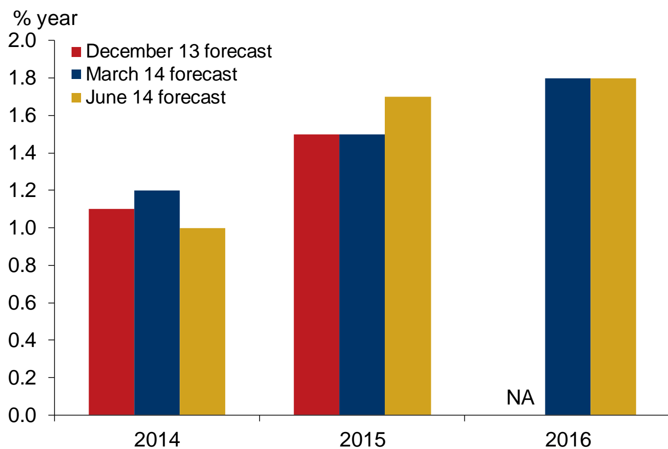
become necessary to further address risks of too prolonged a period of low inflation”. For now, though, the ECB does not see deflation – a prolonged period of falling prices that becomes self-fulfilling – as a major threat, its main concern is that the region suffers from too prolonged a period of low inflation.

Disinflationary concerns grow

The ECB does not appear convinced that its actions will have a major impact on growth. The cut in the ECB’s 2014 GDP forecast from 1.2% to 1.0% will have reflected the recent run of lacklustre data. However, it raised its 2015 GDP forecast only from 1.5% to 1.7%, presumably in response to the package of measures announced today. The 2016 forecast was left unchanged at 1.8%.

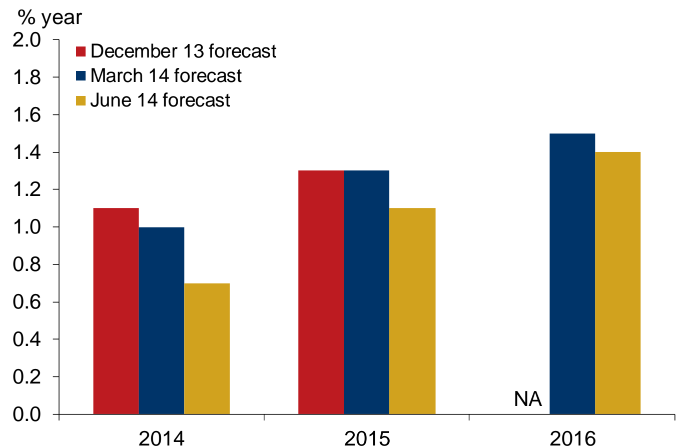
Eurozone: ECB GDP forecasts



Source : Oxford Economics/Haver Analytics

What is more, the Bank reduced its inflation forecasts both in the short and medium-term. Inflation this year is expected to average just 0.7%, 0.3pp lower than previously expected, implying that annual inflation will average around 0.7% in the final seven months of this year. Inflation is now expected to inch up to just 1.1% next year and 1.4% in 2016 – these forecasts were reduced by 0.2pp and 0.1pp respectively. In Q4 2016, inflation is expected to be 1.5%, below the ECB’s target of “below, but close to, 2%”.

Eurozone: ECB HICP forecasts



Source : Oxford Economics/Haver Analytics

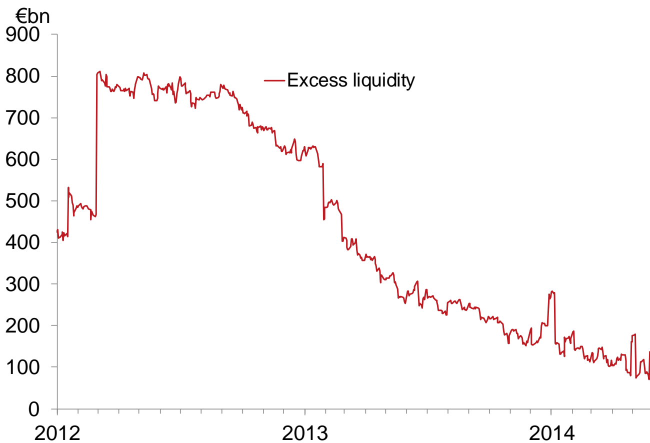
Has the ECB done enough?

Whether or not today’s actions by the ECB are enough clearly depends on what you believe is the fundamental problem that the ECB has sought to address. On its own, today’s policy response probably does not significantly reduce the chances of a sustained period of deflation (whatever that probability may be). But publically at least the ECB remains sanguine about the threat of a sustained period of falling prices. Given this, the aim of today’s policy response was primarily to address the euro’s strength, ensure that monetary conditions remain very accommodative and ensure that the transmission mechanism functions properly.

A key factor behind the recent strength of the euro against the dollar has probably been the increase in Eurozone short-term interest rates relative to those in the US.[1] This is at least partly due to the steady decline in the amount of excess liquidity, which has fallen to a level that has historically tended to be associated with rising short-term money market rates.

[1] See our Research Briefing “Deflation risk and the strong euro”, 15th April.

ECB Excess Liquidity



Source : Oxford Economics/ECB

By increasing the amount of excess liquidity through the implementation of the new LTRO as well as lowering the interest rate floor via the cut in the deposit rate, the ECB will hope to engineer a further fall in the euro. Since the May meeting, three-month euribor has fallen in anticipation of June's policy measures, reversing around half of the increase recorded since the beginning of the year. However, the larger than anticipated TLTRO programme, combined with the decision to abandon sterilising the central bank's stock of peripheral government debt suggests that further falls in short term interest rates would be no surprise. Needless to say, this along with lower medium-term interest rate expectations could help push the euro lower.

The effect of the TLTRO programme on credit growth is rather more uncertain. Not only will it depend on banks' willingness to take-up these loans, it will also depend upon whether the framework can prevent banks from using the money for activities other than lending to firms. And even if the programmes increases the supply of credit, the effect on the economy may be limited if there is not the demand for these loans, or if it results in firms currently using non-bank based finance to switch back to bank borrowing. Note that the Bank of England's Funding for Lending Scheme is widely thought to have reduced the interest rates that banks charged their customers, but that it had little impact on the quantity of lending.

What is clear though is that it will probably take at least six months before we have any idea whether the policy has had any material impact on bank lending to firms.

In all, then, the ECB's actions should help lower interest rates and the euro in a bid to ensure that monetary conditions remain accommodative. In addition, the TLTRO programme might eventually help to increase the bank-based financing of firms. However, the ECB's actions are unlikely to unleash a period of substantially stronger economic growth. Against this backdrop, underlying inflation will remain weak and today's policy response by no means banishes the threat of deflation.

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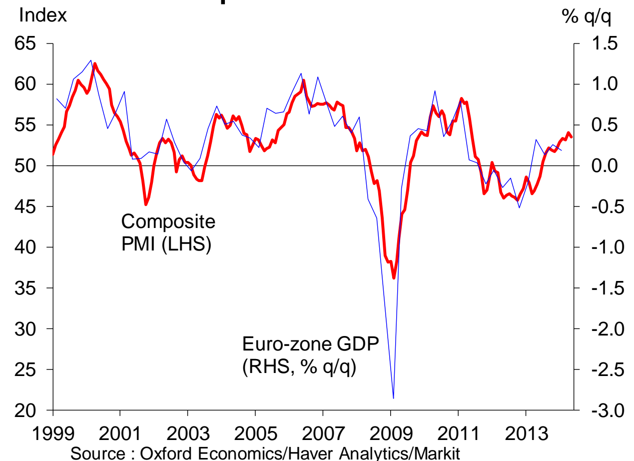
Forecast Overview

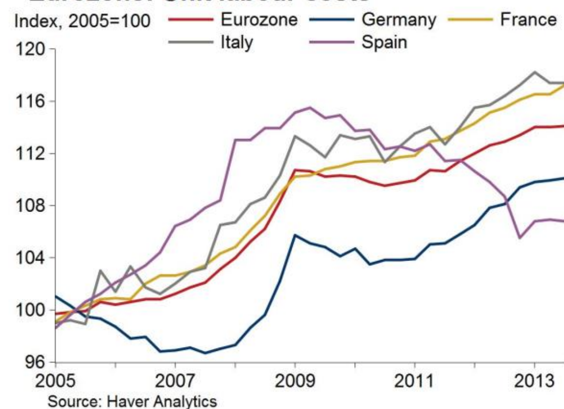
Divergent recovery continues…

Recent survey data suggest that activity might have peaked in April with the euro area composite PMI slipping back to 53.5 in May, from 54.0. Moreover, early indications from the latest Sentix index, which tracks confidence, suggest this decline has continued into June. This probably reflects the lagged impact of the euro's past appreciation – again underscoring that those countries which have done least to improve competitiveness have seen minimal improvements to economic prospects. This may help explain the divergence evident in the latest PMIs with the French composite PMI slipping back to 49.3 while the German composite index held steady at 55.6.

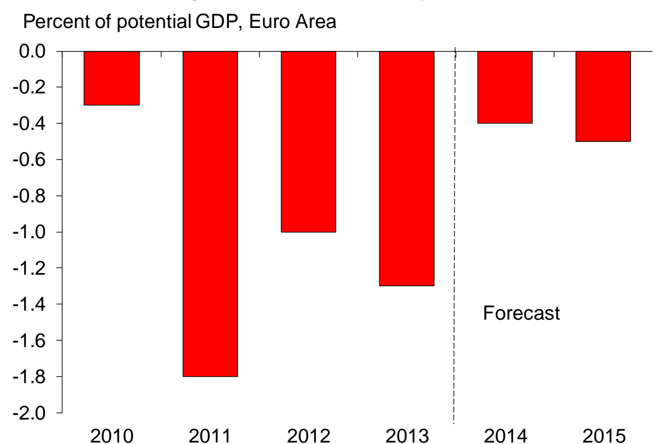


…with several factors holding back growth

Moving into 2015 and beyond, several factors will constrain the pace of recovery around the Eurozone:



- **Competitiveness** – labour market weakness and reform efforts have yielded substantial improvements in competitiveness over the past few years, but results have been uneven across the Eurozone. Spain, Portugal and Ireland have achieved the greatest improvements while Italy, France and Belgium have seen costs stagnate or rise. As a result, with a couple of exceptions we expect peripherals to outperform the core in export growth in the next couple of years.
- **Fiscal policy** – at the Eurozone level, the degree of fiscal consolidation is forecast to ease compared to recent years. However, after avoiding austerity thus far, several "core" countries (Belgium, France and the Netherlands) now need to implement more ambitious cuts to meet EC deficit targets and limit debt burdens. At the Eurozone level fiscal tightening amounted to 1.3% of GDP in 2013, and though the pace of consolidation is easing it will nevertheless slow growth by 0.4-0.5 percentage points in 2014 and 2015.



- **Slow recovery in household spending power** – with unemployment at crisis point in the periphery and double-digit rates in the core, it will take quite some time for labour markets to return to normal. Combined with austerity-induced cuts to transfer payments this will limit the pick-up in household spending growth. We expect consumption to grow by 1.4% per year in the medium-term, around 0.6 percentage points below the average in the decade to 2007.

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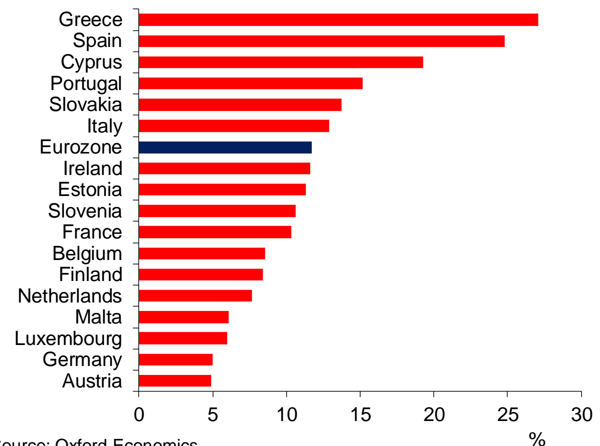
- **Banking** – even financing a modest pace of capital expenditure growth will be a stretch for banking systems still struggling to cope with the impact of the crisis. This is particularly severe in peripheral economies, but even in countries such as France bank lending to business appears a constraint. ECB action to restore more rapidly the flow of funds around the Eurozone (for example through the development of an asset-backed securities market) would allow borrowing costs in peripheral economies to fall, and facilitate a stronger outlook for business investment.

Overall we expect the Eurozone to grow by an average of 1.5% or so per year in the medium-term, around 0.8 percentage points slower than in the decade to 2007.

Unemployment forecast for 2014



Source: Oxford Economics

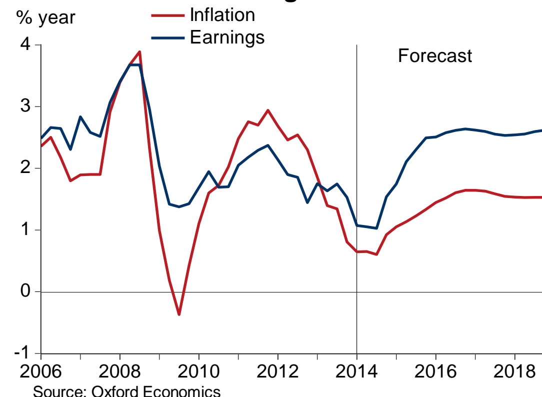
Deflation still a pressing concern

Against a backdrop of low growth, the euro area risks sliding into deflation later this year. Indeed a renewed fall in euro area CPI inflation back to its recent low of 0.5% in May appears to have cemented the ECB decision to cut interest rates again and announce another refinancing operation.

We view the latest measures, including a negative deposit rate for the first time, as an attempt to put downward pressure on the short end of the yield curve. In future banks will be charged for all deposits they make with the central bank in excess of their minimum reserve requirements. While in the past excess liquidity has tended to stay at the central banks, this will give bank treasurers an incentive to seek other, liquid, short-term instruments. We interpret the ECB's interest rate moves as a classic central bank effort to push interest rates down and propagate this along the yield curve. In essence, it is an effort to keep rates low for longer and at longer maturities, akin to the effects of forward guidance. By removing some of the euro area relative yield advantage this may also help to head-off some of the euro's sustained appreciation in the last 12 months.

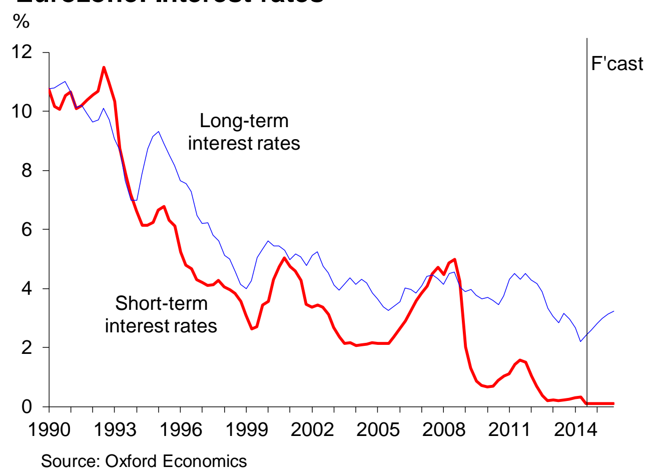
The new targeted refinancing operation is aimed at offering banks a guaranteed source of cheap funding. This will be most significant in those countries in southern Europe where there may be banks that face outright funding constraints. Given that the first TLTRO is not until September, this is hardly done with an enormous sense of urgency. But it may prove to be quantitatively quite significant in some of the weakest southern European economies next year – which are also those most at risk from deflation.

Eurozone: CPI and wages



Source: Oxford Economics

Eurozone: Interest rates



Source: Oxford Economics

Long-Term Prospects

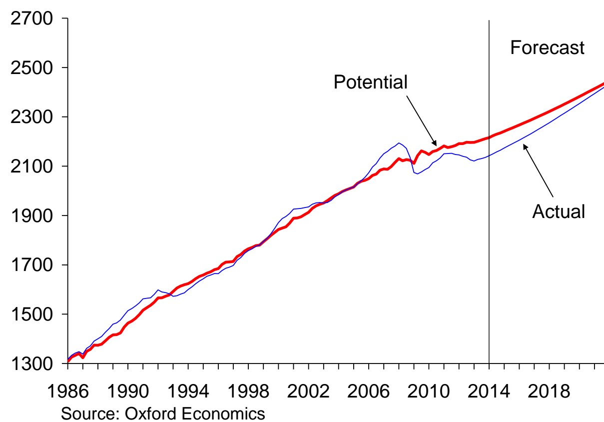
Very slow recovery from crises

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 1.1%. 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.

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

Eurozone: Actual & potential output



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	1999-2008	2008-2018
Potential GDP*	1.85	0.97
Employment at NAIRU	1.00	0.18
Capital Stock	1.93	1.04
Total Factor Productivity	0.52	0.49

*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	1.1	1.7
Consumption	1.6	-0.1	0.9	1.5
Investment	3.4	-3.5	1.2	2.1
Government Consumption	1.8	1.0	0.4	1.1
Exports of Goods and Services	5.9	1.5	3.3	3.2
Imports of Goods and Services	6.2	0.5	3.0	3.1
Unemployment (%)	8.7	9.7	11.5	10.0
Consumer Prices	2.2	2.1	1.3	1.6
Current Balance (% of GDP)	0.2	0.0	2.6	2.6
Exchange Rate (US$ per Euro)	1.25	1.37	1.32	1.27
General Government Balance (% of GDP)	-2.1	-4.5	-2.1	-0.8
Short-term Interest Rates (%)	2.8	1.7	0.2	2.8
Long-term Interest Rates (%)	4.0	4.0	3.1	4.6
Working Population	0.4	0.1	0.1	0.0
Labour Supply	0.9	0.4	0.1	0.1
Participation Ratio	73.8	75.3	75.5	76.2
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. 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)
May	-1.9	12.0	1.4	-0.8	-21.7	-0.2	-5.6	14.6
Jun	-0.3	12.0	1.6	-0.7	-18.7	-3.0	-5.1	15.8
Jul	-1.8	12.0	1.6	-0.5	-17.3	3.2	0.5	18.2
Aug	-1.7	12.0	1.3	-0.2	-15.5	-5.7	-7.3	7.2
Sep	0.2	12.0	1.1	-0.2	-14.8	3.0	1.3	11.5
Oct	0.5	11.9	0.7	0.0	-14.4	1.4	-2.9	16.8
Nov	2.6	11.9	0.9	0.3	-15.3	-1.9	-4.9	17.1
Dec	1.5	11.8	0.8	0.3	-13.5	3.8	1.1	14.1
2014								
Jan	2.0	11.8	0.8	0.2	-11.7	1.2	-2.6	0.8
Feb	1.8	11.8	0.7	0.4	-12.7	3.4	0.3	14.4
Mar	0.5	11.8	0.5	0.4	-9.3	-0.6	2.8	16.7
Apr	1.2	11.7	0.7	0.3	-8.6	-1.5	-2.7	15.7
May	-	-	0.5	0.4	-7.1	-	-	-

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
May	0.20	2.68	2.8	1.30	1.18	105.5	2770	43.7
Jun	0.21	3.07	2.4	1.32	1.17	106.3	2603	-14.3
Jul	0.22	3.10	2.1	1.31	1.16	106.5	2768	6.9
Aug	0.23	3.10	2.3	1.33	1.16	107.2	2721	-0.3
Sep	0.22	3.41	2.0	1.33	1.19	106.7	2893	-19.3
Oct	0.23	3.16	1.4	1.36	1.18	107.8	3068	20.4
Nov	0.22	3.17	1.5	1.35	1.19	107.4	3087	-19.8
Dec	0.27	3.31	1.0	1.37	1.19	108.8	3109	-9.7
2014								
Jan	0.29	3.21	1.1	1.36	1.21	108.3	3014	-9.1
Feb	0.29	3.09	1.3	1.37	1.21	108.2	3149	30.8
Mar	0.31	2.89	1.0	1.38	1.20	109.1	3162	-22.2
Apr	0.33	2.61	0.8	1.38	1.21	108.7	3198	-
May	0.32	2.55	-	1.37	1.23	107.8	3245	-

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	-3.8	-2.2	-0.6	-3.0	11.3	1.8	0.0	2.8	2.6	2.5
2013	-0.7	-2.9	-1.1	-0.4	-1.0	12.0	1.7	0.5	1.4	-0.4	1.3
2014	0.7	1.7	1.0	1.1	2.0	11.6	1.2	1.0	1.3	-0.7	0.7
2015	1.5	2.3	1.3	1.5	2.5	11.5	2.2	1.1	2.8	1.6	1.2
2016	1.5	2.5	1.4	1.5	2.2	11.3	2.6	1.0	3.2	2.1	1.6
2017	1.5	2.5	1.5	1.6	1.9	11.0	2.6	1.0	3.4	1.9	1.6
2012											
I	-1.2	-2.7	-1.7	-0.2	-2.6	10.8	2.1	0.2	3.0	3.4	2.7
II	-1.2	-3.8	-2.3	-0.5	-3.0	11.2	1.9	0.3	3.0	2.3	2.5
III	-1.6	-4.1	-2.4	-0.7	-3.0	11.4	1.9	-0.1	2.5	2.4	2.5
IV	-1.5	-4.8	-2.3	-1.0	-3.5	11.7	1.4	-0.2	2.9	2.1	2.3
2013											
I	-1.4	-5.5	-2.2	-1.2	-2.7	12.0	1.8	0.0	2.1	0.7	1.9
II	-0.8	-3.7	-1.4	-0.6	-1.4	12.0	1.6	0.4	1.7	-0.4	1.4
III	-0.6	-2.5	-0.6	-0.3	-1.1	12.0	1.7	0.6	1.5	-0.8	1.3
IV	0.1	0.0	-0.1	0.5	1.2	11.9	1.5	0.9	0.4	-1.2	0.8
2014											
I	0.4	1.9	0.7	0.9	1.8	11.8	1.0	1.0	0.8	-1.5	0.6
II	0.6	1.8	1.0	0.9	1.9	11.6	1.1	0.9	0.9	-0.8	0.7
III	0.8	1.8	0.8	1.2	2.1	11.5	1.0	1.0	1.5	-0.6	0.6
IV	1.1	1.4	1.3	1.3	2.2	11.5	1.6	1.1	2.1	0.1	0.9
2015											
I	1.3	1.8	1.2	1.5	2.7	11.5	1.8	1.1	2.6	1.0	1.1
II	1.5	2.4	1.3	1.5	2.5	11.5	2.1	1.1	2.7	1.5	1.1
III	1.5	2.5	1.3	1.5	2.5	11.4	2.3	1.1	2.8	1.8	1.2
IV	1.5	2.4	1.3	1.5	2.4	11.4	2.5	1.0	3.0	2.0	1.3
2016											
I	1.5	2.5	1.3	1.5	2.3	11.4	2.5	1.0	3.1	2.1	1.4
II	1.5	2.5	1.3	1.5	2.2	11.3	2.6	1.0	3.2	2.1	1.5
III	1.4	2.5	1.4	1.5	2.1	11.2	2.6	1.0	3.3	2.0	1.6
IV	1.5	2.5	1.4	1.6	2.0	11.2	2.6	1.0	3.3	2.0	1.6
2017											
I	1.5	2.5	1.4	1.6	1.9	11.1	2.6	1.0	3.4	1.9	1.6
II	1.5	2.5	1.5	1.6	1.9	11.0	2.6	1.0	3.4	1.9	1.6
III	1.5	2.5	1.5	1.6	1.9	10.9	2.5	1.1	3.4	1.9	1.6
IV	1.4	2.4	1.5	1.6	1.9	10.9	2.5	1.1	3.3	1.9	1.5

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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	82.7	138.6	1.46	-350.7	-3.70	0.57	3.92	-1.92	1.42	1.29	115.5
2013	159.5	230.2	2.40	-290.1	-3.03	0.22	3.00	-1.13	1.65	1.33	120.8
2014	187.6	261.3	2.67	-246.9	-2.52	0.20	2.46	-0.51	1.75	1.36	124.8
2015	204.9	274.4	2.72	-199.9	-1.98	0.11	3.03	-1.08	1.84	1.32	123.1
2016	212.9	274.1	2.64	-170.0	-1.64	0.12	3.44	-1.44	1.89	1.31	121.9
2017	220.8	278.1	2.59	-143.5	-1.34	0.38	3.78	-1.22	2.18	1.30	121.3
2012											
I	11.9	21.3	0.90	-91.6	-3.87	1.04	4.29	-1.64	1.61	1.31	116.9
II	17.9	32.9	1.39	-89.8	-3.79	0.69	4.17	-1.77	1.71	1.28	115.9
III	25.3	43.1	1.82	-86.8	-3.66	0.36	3.89	-2.18	1.35	1.25	113.3
IV	27.5	41.3	1.74	-82.5	-3.48	0.20	3.32	-2.11	1.02	1.30	115.8
2013											
I	38.2	52.2	2.19	-78.0	-3.28	0.21	3.06	-1.64	1.20	1.32	118.8
II	41.0	61.8	2.58	-74.0	-3.09	0.21	2.82	-1.19	1.43	1.31	119.2
III	36.0	49.9	2.08	-70.5	-2.94	0.22	3.15	-1.12	1.80	1.32	121.7
IV	44.2	66.3	2.75	-67.6	-2.81	0.24	2.97	-0.57	2.16	1.36	123.7
2014											
I	43.9	66.0	2.73	-66.2	-2.73	0.30	2.66	-0.35	2.01	1.37	125.6
II	44.8	66.0	2.71	-62.7	-2.57	0.32	2.19	-0.35	1.52	1.37	124.8
III	49.9	62.6	2.55	-60.9	-2.48	0.10	2.41	-0.50	1.80	1.36	124.7
IV	49.1	66.7	2.70	-57.1	-2.31	0.10	2.58	-0.82	1.66	1.34	123.9
2015											
I	54.1	82.8	3.33	-55.4	-2.23	0.10	2.80	-0.95	1.75	1.34	123.7
II	48.3	65.8	2.62	-50.5	-2.01	0.11	2.98	-1.02	1.85	1.33	123.3
III	52.3	60.9	2.41	-48.8	-1.93	0.11	3.12	-1.12	1.89	1.32	123.0
IV	50.1	64.9	2.55	-45.2	-1.78	0.11	3.22	-1.22	1.88	1.31	122.4
2016											
I	55.9	82.3	3.21	-46.3	-1.81	0.11	3.31	-1.33	1.86	1.31	122.2
II	50.4	65.6	2.54	-43.5	-1.68	0.11	3.40	-1.40	1.88	1.31	122.0
III	54.3	61.1	2.34	-42.1	-1.61	0.12	3.48	-1.49	1.88	1.30	121.8
IV	52.4	65.2	2.48	-38.0	-1.45	0.12	3.57	-1.53	1.93	1.30	121.6
2017											
I	57.9	82.5	3.11	-39.1	-1.48	0.12	3.66	-1.52	2.01	1.30	121.4
II	52.2	66.5	2.49	-36.4	-1.36	0.22	3.74	-1.41	2.11	1.30	121.3
III	56.2	62.5	2.32	-35.8	-1.33	0.47	3.82	-1.12	2.24	1.30	121.2
IV	54.5	66.6	2.46	-32.2	-1.19	0.72	3.91	-0.82	2.36	1.30	121.1

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

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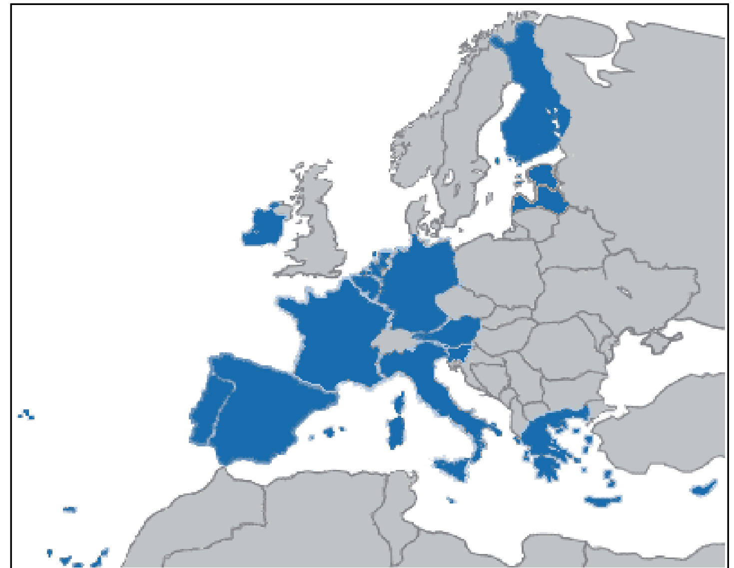
Long-Term Forecast for Eurozone

Annual percentage changes unless otherwise specified

	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	1.1	1.5	1.5	1.6	1.7	1.7	1.7	1.7	1.6	1.4
Consumption	0.8	-0.9	1.0	0.3	-1.4	-0.7	0.7	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.5	1.2
Investment	-0.1	-12.7	-0.6	1.7	-3.8	-2.9	1.7	2.3	2.5	2.5	2.4	2.2	2.1	2.0	1.9	1.7
Government Consumption	1.4	2.6	0.6	-0.1	-0.6	0.1	0.5	0.3	0.5	0.6	0.8	1.0	1.2	1.3	1.3	0.8
Exports of Goods and Services	3.7	-12.3	11.4	6.7	2.7	1.4	3.1	3.9	4.1	4.0	3.7	3.4	3.1	2.9	2.8	3.2
Imports of Goods and Services	3.3	-10.8	9.8	4.6	-0.8	0.0	3.1	3.7	4.1	4.0	3.7	3.4	3.1	2.8	2.7	3.1
Unemployment (%)	9.2	9.6	10.1	10.1	11.3	12.0	11.6	11.5	11.3	11.0	10.7	10.3	10.0	9.7	9.4	10.7
Consumer Prices	2.1	0.3	1.6	2.7	2.5	1.3	0.7	1.2	1.6	1.6	1.5	1.6	1.6	1.7	1.8	1.5
Current Balance (% of GDP)	0.1	-0.2	0.1	0.1	1.5	2.4	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Exchange Rate (US$ per Euro)	1.31	1.39	1.33	1.39	1.28	1.33	1.36	1.32	1.31	1.30	1.29	1.28	1.27	1.26	1.26	1.30
General Government Balance (% of GDP)	-3.3	-6.3	-6.2	-4.1	-3.7	-3.0	-2.5	-2.0	-1.6	-1.3	-1.1	-0.9	-0.7	-0.6	-0.5	-1.4
Short-term Interest Rates (%)	2.3	1.2	0.8	1.4	0.6	0.2	0.2	0.1	0.1	0.4	1.4	2.4	3.0	3.5	3.9	1.5
Long-term Interest Rates (%)	4.0	3.8	3.6	4.4	3.9	3.0	2.5	3.0	3.4	3.8	4.1	4.4	4.6	4.8	5.0	3.9
Working Population	0.3	0.0	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0
Labour Supply	0.7	0.3	0.1	0.3	0.7	-0.1	-0.2	0.2	0.3	0.2	0.2	0.1	0.2	0.2	0.1	0.1
Participation Ratio (%)	74.5	75.1	75.2	75.4	75.7	75.5	75.3	75.4	75.6	75.7	75.9	76.1	76.2	76.3	76.5	75.9
Labour productivity	0.6	-2.6	2.4	1.3	0.0	0.5	1.0	1.1	1.0	1.0	1.1	1.2	1.2	1.2	1.2	1.1
Employment	0.4	-1.8	-0.5	0.3	-0.7	-0.9	0.1	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3
Output gap (% of potential GDP)	-0.2	-3.1	-2.0	-1.3	-2.5	-3.5	-3.5	-3.1	-2.7	-2.3	-1.9	-1.5	-1.1	-0.8	-0.5	-2.1

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	36678
Inflation (%)	9.9	4.2	2.2	2.5
Population (mn)	287	305	315	332
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

* 2012 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

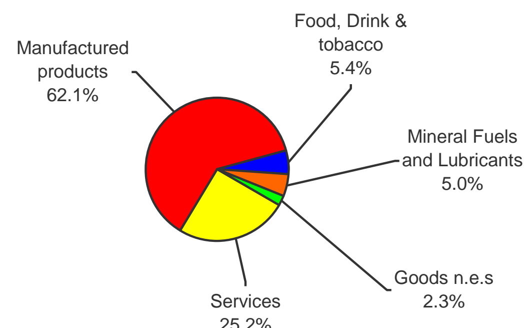
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2012*
Current account (US$ billion)	10	54	-95	178
Trade balance (US$ billion)	-23	63	-27	106
FDI (US$ billion)	-	-	-25	-97
Govt budget (% of GDP)	-4.1	-7.5	-0.1	-3.7
Govt debt (% of GDP)	13.5	67.4	67.1	91.4
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	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

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