OXFORD ECONOMICS

Eurozone

Highlights

- The Eurozone recovery is still tentative, with a combination of external factors weighing on industrial firms in particular. Activity in the service sector has shown more resilience, yielding total GDP growth of 0.2% in the third quarter, and we expect the same in the fourth. Overall, we expect the Eurozone economy to expand by 0.8% this year, following a decline of 0.4% in 2013.
- Looking ahead, we think there are reasons to expect a steady pick-up in growth next year. Household budgets will be supported by lower oil prices, and combined with the modest improvement in labour markets, this will allow consumer spending to gather pace. Exporters will start to feel the full benefits of a weaker euro, as well as stronger demand in advanced economies. And though the effects of recent ECB measures on bank lending remain unclear, they should loosen credit standards, which may support business investment.
- Overall, we forecast a pick-up in GDP growth to about 1.2% in 2015 (revised down a little since last month in light of slower growth in emerging markets), and 1.6% in 2016. But several constraints will keep growth around 0.5 percentage points below the average in the decade to 2007, including restrained government spending and modest private consumption growth by historical standards, as households also deleverage.
- The outlook remains vulnerable to downside risks, especially given uncertainty about the severity of the Chinese slowdown and conflict in both Ukraine and the Middle East. In addition, deflation remains a threat. We believe inflation will start to pick up from recent lows, and a depreciating euro should help nudge CPI inflation to 0.7% in 2015 and 1.3% the year after. But given such limp rates, combined with high unemployment and still fragile business sentiment, it would not take an especially powerful shock to push the Eurozone back towards deflation.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2013	2014	2015	2016	2017	2018
Domestic Demand	-0.9	0.8	1.1	1.5	1.5	1.5
Private Consumption	-0.6	0.7	1.3	1.4	1.4	1.4
Fixed Investment	-2.4	0.0	0.9	2.7	2.6	2.5
Government Consumption	0.2	0.8	0.3	0.5	0.7	0.8
Net exports (% of GDP)	4.1	4.1	4.3	4.4	4.5	4.6
GDP	-0.4	0.8	1.2	1.6	1.6	1.6
Industrial Production	-1.0	0.8	1.1	2.3	2.2	1.8
Consumer Prices	1.3	0.5	0.7	1.3	1.5	1.6
Current Account (% of GDP)	2.0	2.2	2.3	2.3	2.2	2.2
Government Budget (% of GDP)	-2.9	-2.5	-2.1	-1.7	-1.4	-1.1
Short-Term Interest rate (%)	0.2	0.2	0.1	0.1	0.3	0.8
Long-Term Interest Rates (%)	3.0	2.1	1.9	2.3	2.7	3.0
Exchange rate (US$ per Euro)	1.33	1.33	1.24	1.21	1.20	1.19
Exchange rate (YEN per Euro)	129.6	140.4	145.0	145.7	147.1	148.1

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Forecast Overview

Industry slowing, services growing

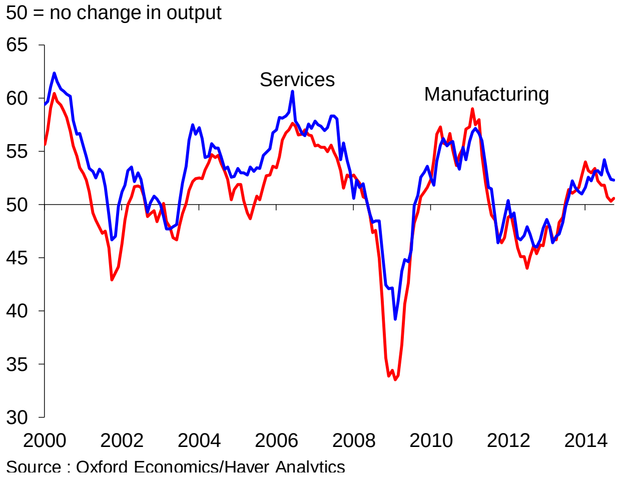
The Eurozone economy in aggregate has maintained a modest but steady pace of growth this year. But this conceals a rebalancing of growth from industry to services, as a cooling Chinese economy and conflict in Ukraine weigh on demand for capital goods, while tentatively improving domestic demand boosts services output. GDP expanded by 0.2% in Q3, and we expect a similar rate in the final three months of the year. This is in line with the average rate over the first half of the year. We expect GDP growth of 0.8% for 2014 overall.

Fundamentals support pick up from 2015

Much of the recent Eurozone commentary has focused on the risks of a slip back into recession. While this is understandable given the weakness of some recent data and the scale of challenges faced, we are slightly more positive as a number of factors are set to become more supportive in the coming quarters.

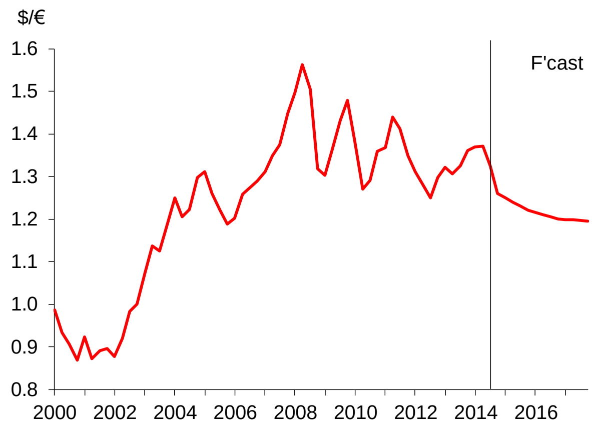
- **Stronger exports –** barring an intensifying conflict in Ukraine or a more serious slowdown in China, exports should continue to recover over the coming couple of years, aided by strengthening demand in advanced economies in particular. A weakening euro (reaching $1.22 by end-2015) will also support exports, particularly in countries that have done least to improve competitiveness. Exports should grow by 3.7% in 2015, and around 4% thereafter.
- **ECB policy** – encouraged by rising foreign demand and narrowing spare capacity, firms will step up capital spending. But with bank lending criteria little eased since 2012-13, firms' willingness to invest may hinge on the ECB's ability to restore normality to the Eurozone banking system. For this reason, weak demand for TLTROs in September was seen by some as a disappointment, but October's ECB Bank Lending Survey suggests firms' demand for loans is picking up.
- This suggests December's TLTRO round might be rather better subscribed. Combined with ECB efforts to reinvigorate the Asset-Backed Securities market (banks selling bundles of business and consumer loans) this should drive an expansion of bank lending from early 2015. In turn, this will support business investment growth of 1.1% in 2015 and 3.1% the year after. In both cases these forecasts are a little weaker

Eurozone PMI - Services and Manufacturing



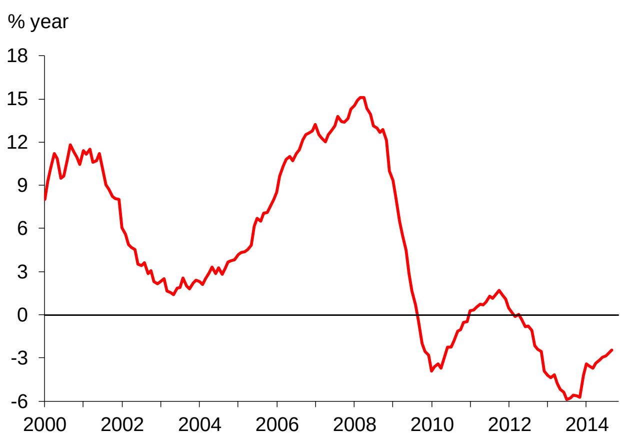
Source : Oxford Economics/Haver Analytics

Eurozone: $/€ exchange rate



Source: Oxford Economics/ Haver Analytics

Eurozone: Lending to non-financial corporations



Source: Haver Analytics

than in October, reflecting our downward revisions to activity in capital intensive sectors.

But constraints on medium-term recovery

Nevertheless, the recovery will be constrained by a number of factors, including:

- **High unemployment –** recovering business confidence and investment will encourage firms to increase hiring in the next couple of years, allowing a rebound in consumer spending. But we do not expect the unemployment rate to dip below 10% (currently 11.5%) until 2019. So wage growth will remain modest, at around 2.5% a year, which will limit consumer spending to around 1.4% a year – 0.5% points or so weaker than in the decade to 2007.

- **Fiscal constraints –** although emergency austerity would seem to be over, governments will remain constrained for some years. Low bond yields have eased the burden of interest payments, and there are calls for increased flexibility in the treatment of public investment in fiscal targets. Nevertheless fiscal policy will remain focused on the stabilisation of public debt ratios. As such, we expect a very modest fiscal drag to remain from 2015 onwards, limiting government spending growth to 0.5-1% per year.

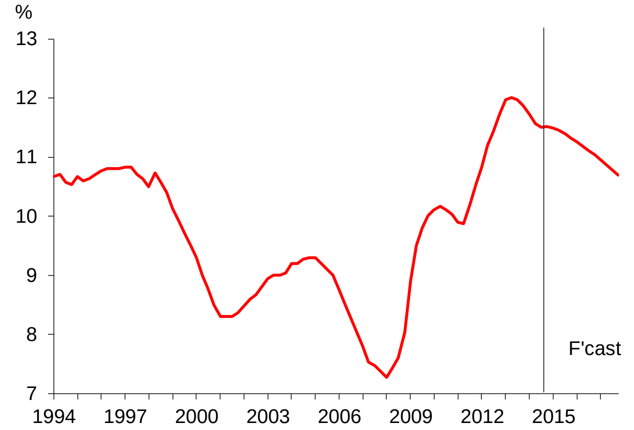
Overall we expect Eurozone growth to pick up to 1.2% in 2015 (a further modest revision downwards to our forecast in light of weaker external demand), and remain no higher than around 1.6% in the medium term.

Sovereign QE remains unlikely

By setting a balance sheet 'target' in November, the ECB appears to have undertaken a major change in tack, which pushes the ECB's unconventional policy support closer to Fed-style QE. Our central view is that the ECB will boost the size of its balance sheet by about €1trn over the next couple of years via its TLTROs and private sector asset purchases.

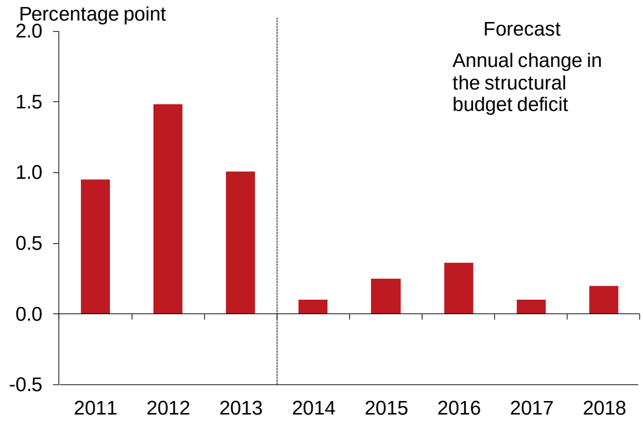
There is a possibility that the ECB will increase the scale of its planned asset purchases if the region is buffeted by further negative shocks. However our view remains that government bonds are low down the list of potential assets that the Bank will purchase; ECB Executive Board Member Mersch recently noted that gold, exchanged traded funds or real estate could also be purchased. We think that it will take further significant negative shocks for the ECB to contemplate extending its asset purchases to include government bonds.

Eurozone: Unemployment



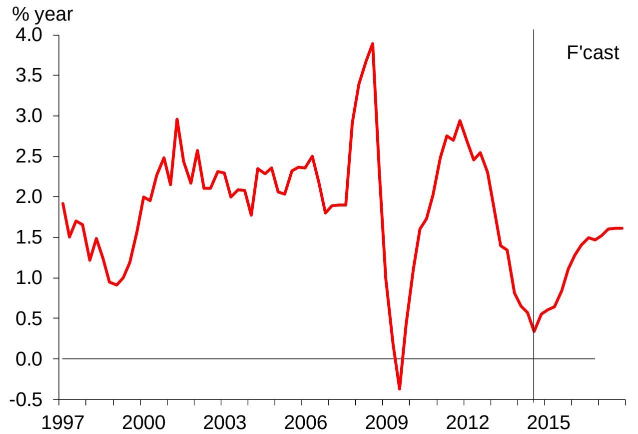
Source: Oxford Economics

Eurozone: Fiscal stance



Source : Oxford Economics/Haver Analytics

Eurozone: Consumer price inflation



Source: Oxford Economics

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Risk Assessment

Overall risk in the Eurozone is expected to decline slightly in the medium term. While the current account is in surplus and austerity has significantly reduced the budget deficit, public and private sector indebtedness remain high. The latter could have severe ramifications for growth prospects if the regions suffered from a sustained period of price and wage deflation.

Emerging risks

External weakness spreads – the failure of the recovery to gain momentum this year partly reflects industrial weakness in response to events abroad. There remains a risk that external concerns prompt sentiment in the domestic sectors of the economy to slip.

Domestic recovery gathers pace – the publication of the stress test and the ECB's pledge to return its balance sheet to its 2012 peak, combined with less austerity and the weaker euro, could result in the domestic recovery gaining more traction than commonly assumed, particularly if the Russian-related 'uncertainty shock' fades.

Key risk scenarios

Eurozone slumps into deflation – although the region is recovering gently, the large amount of spare capacity in the economy and falling oil prices suggest that a period of deflation should not be ruled out in the region as a whole. Falling prices, wages and asset prices could worsen the health of public and private sector balance sheets, exacerbating the need for deleveraging. Rising bad loans could prompt renewed concerns about the banking system further increasing worries about the solvency of some governments.

Russia-Ukraine tensions escalate – despite the ceasefire it remains to be seen whether the worst of the crisis is over. An escalation of sanctions and a restriction of gas flows from Russia to Europe would damage sentiment, prompting firms to delay investment spending. Higher energy prices would hit increasingly cautious households, potentially leading to falls in private consumption, too – although the recent drop in oil prices would suggest that this impact might now be less potent than a few months ago.

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

	2013	2014	2017
Eurozone	**22** ↘	**20** ↘	**19**
World average	28 ↘	27 ↘	26
Sovereign risk	16	16	16
Trade credit risk	38	33	30
Political risk	24	25	23
Regulatory risk	0	0	0

Risk warnings

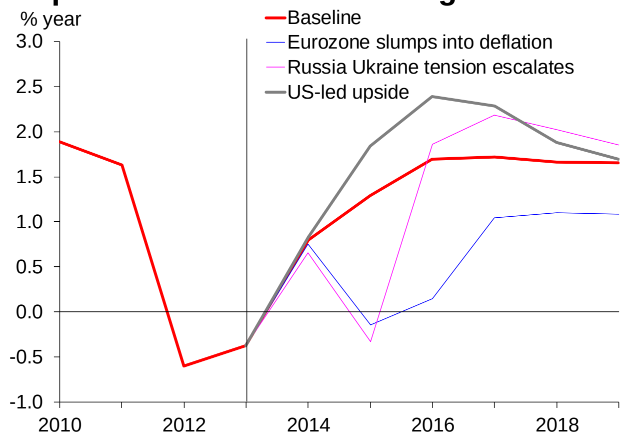
GDP growth	🟡	External factors point to near-term downside risks.
CPI inflation	🟡	Deflation is a potential risk with major consequences.
Current account balance	🟢	Region as a whole set to remain in surplus.
Government balance	🟢	Austeriy has lowered deficit below SGP target.
Government debt	🔴	High levels of debt provide little margin for future error.
External debt	🟢	Not a major concern.

Risk scenarios

Impact of scenarios on risk index

Maximum impact of scenarios on risk index

Impact of scenarios on GDP growth



Source : Oxford Economics

Long-Term Prospects

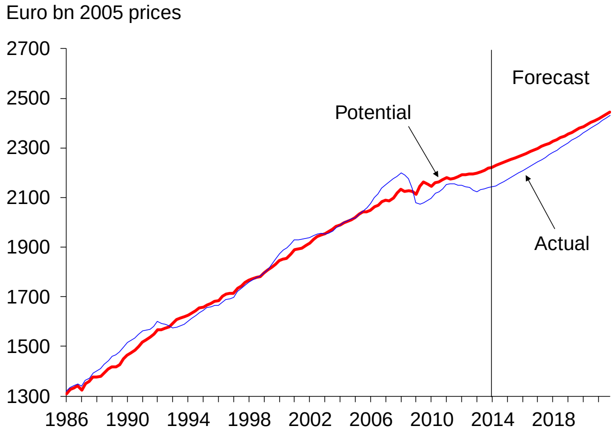
Very slow recovery from crises

The global and Eurozone crises will leave their mark on growth for years to come. We estimate that the Eurozone's potential growth rate is only 1.1% in line with our estimate for the past decade, itself significantly affected by the crisis, and 1.8% in the 10 years to 2008.

The slow restructuring of the banking sector means that credit availability will be limited for a long time, hindering investment and affecting the efficiency of capital allocation in the economy. Moreover, high unemployment for a prolonged period, especially among the young, will have long-lasting negative effects on skill levels and ability to work. Combined with a shrinking population of working age, despite increases in the retirement age, these factors imply that availability and quality of labour will be constrained compared with the pre-crisis period. These factors will only be partly offset by further increases in the participation rate.

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

Eurozone: Actual & potential output



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	1999-2008	2008-2018
Potential GDP*	1.83	0.85
Employment at NAIRU	0.99	0.11
Capital Stock	2.10	1.22
Total Factor Productivity	0.44	0.35

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

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

	2004-2008	2009-2013	2014-2018	2019-2023
GDP	2.1	-0.4	1.4	1.5
Consumption	1.5	-0.4	1.3	1.4
Investment	2.9	-3.2	1.7	2.0
Government Consumption	2.0	0.6	0.6	1.1
Exports of Goods and Services	5.9	1.6	3.8	3.0
Imports of Goods and Services	5.7	0.4	3.8	3.1
Unemployment (%)	8.4	10.6	11.1	9.3
Consumer Prices	2.4	1.7	1.1	1.8
Current Balance (% of GDP)	-0.6	0.4	2.2	2.1
Exchange Rate (US$ per Euro)	1.32	1.34	1.23	1.18
General Government Balance (% of GDP)	-1.9	-4.6	-1.8	-0.7
Short-term Interest Rates (%)	3.3	0.8	0.3	2.2
Long-term Interest Rates (%)	4.0	3.8	2.4	3.7
Working Population	0.4	0.1	0.0	-0.2
Labour Supply	1.0	0.2	0.0	-0.1
Participation Ratio	74.8	76.0	76.1	76.3
Labour Productivity	0.8	0.3	1.0	1.2

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Background

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

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

Joining EMU sees the member country pass control of its monetary policy to the European Central Bank (ECB). The ECB is one of the most independent central banks in the world and was built on the lines of the German Bundesbank. Not only does the ECB have ‘operational’ independence – allowing it to set interest rates free from political control – but it also has ‘goal’ independence to set its own targets. The ECB objective is to achieve price stability and this is pursued through economic and monetary analysis; the ECB targets inflation of close to, but not exceeding, 2%, and maintains a reference target of 4.5% for M3 money supply growth. The two components of analysis were to act as a crosscheck, but economic analysis has taken precedence in recent years, with monetary targeting slipping into the background. Since 2008, the ECB has increasingly focused on providing liquidity to banks, with in particular two sets of three-year loans granted in December 2011 and February 2012.

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

The fallout from the financial crisis, and in particular the troubled fiscal situation faced by Cyprus, Greece, Italy, Ireland, Portugal, Slovenia and Spain, showed the limitations of the fiscal framework behind the single currency. The possibility of a debt default by Greece, coupled with the threat of contagion to Italy and Spain, has put Eurozone leaders under immense pressure to come up with a rescue plan that would prevent the collapse of the single currency. However, there are significant differences of opinion among the largest members regarding who should carry the burden and what mechanisms should be used to provide financial support to the European banking system. The measures proposed include a move towards a banking union that would sever the links between banks and their sovereigns. However, political hurdles to closer integration and debt burden sharing remain very high. Changes to the Eurozone’s structure and institutions are likely to be slow and erratic.

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)
Oct	0.3	11.9	0.7	0.0	-14.4	1.3	-2.8	16.4
Nov	2.6	11.9	0.9	0.3	-15.3	-2.0	-4.6	16.5
Dec	1.6	11.8	0.8	0.3	-13.5	4.0	1.7	13.6
2014								
Jan	2.2	11.8	0.8	0.2	-11.6	1.2	-2.6	0.5
Feb	1.9	11.7	0.7	0.4	-12.7	3.5	0.0	14.4
Mar	0.4	11.7	0.5	0.4	-9.2	-0.7	3.2	15.8
Apr	1.6	11.6	0.7	0.3	-8.6	-1.4	-2.2	14.9
May	0.8	11.6	0.5	0.4	-7.1	0.5	-0.1	15.2
Jun	0.1	11.5	0.5	0.2	-7.5	3.2	2.7	16.5
Jul	1.7	11.5	0.4	0.2	-8.4	2.8	0.6	21.4
Aug	-0.5	11.5	0.4	0.2	-10.0	-3.2	-4.5	8.6
Sep	0.1	11.5	0.3	0.0	-11.4	8.5	3.9	18.5
Oct	-	-	0.4	0.1	-11.1	-	-	-

Financial Indicators: Eurozone
Percentage changes on a year earlier unless otherwise stated

	Short rate %	Long rate %	Money Supply (M3)	Exchange rate $/€ avg.	Exchange rate €/£ avg.	Nominal effective exch. rate	Share price DJ STOXX	Net FDI € bn
Oct	0.23	3.16	1.4	1.36	1.18	107.8	3068	-6.1
Nov	0.22	3.17	1.5	1.35	1.19	107.4	3087	18.5
Dec	0.27	3.31	1.0	1.37	1.19	108.8	3109	17.7
2014								
Jan	0.29	3.21	1.2	1.36	1.21	108.3	3014	-3.9
Feb	0.29	3.09	1.4	1.37	1.21	108.2	3149	11.9
Mar	0.31	2.89	1.0	1.38	1.20	109.1	3162	17.8
Apr	0.33	2.61	0.8	1.38	1.21	108.7	3198	16.4
May	0.32	2.55	1.1	1.37	1.23	107.8	3245	-4.9
Jun	0.24	2.28	1.6	1.36	1.24	106.9	3228	-14.9
Jul	0.21	2.16	1.8	1.35	1.26	106.4	3116	3.3
Aug	0.19	1.99	2.1	1.33	1.25	105.8	3173	-11.6
Sep	0.10	1.85	2.5	1.29	1.26	104.4	3226	-
Oct	0.08	1.69	-	1.27	1.27	103.7	3113	-

EURO ZONE — TABLE 1 SUMMARY ITEMS

Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE (C)	GROSS FIXED INVESTMENT (IF)	DOMESTIC DEMAND (DOMD)	REAL GDP (GDP)	INDUSTRIAL PRODUCTION (IP)	UNEMPLOY-MENT RATE (%) (UP)	AVERAGE EARNINGS (ER)	WHOLE ECONOMY PRODUCT-IVITY (GDP/ET)	MONEY SUPPLY M3 (MON)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2013	-0.6	-2.4	-0.9	-0.4	-10	12.0	18	0.4	14	-0.4	13
2014	0.7	0.0	0.8	0.8	0.8	11.6	16	0.4	18	-14	0.5
2015	13	0.9	11	12	11	11.4	2.0	0.8	3.2	0.8	0.7
2016	14	2.7	15	16	2.3	11.1	2.4	13	3.5	18	13
2017	14	2.6	15	16	2.2	10.8	2.5	13	3.5	18	15
2018	14	2.5	15	16	18	10.5	2.6	13	3.3	18	16
2013											
I	-14	-4.7	-2.1	-12	-2.7	12.0	17	-0.1	2.1	0.7	19
II	-0.7	-2.7	-12	-0.6	-15	12.0	16	0.4	17	-0.4	14
III	-0.4	-16	-0.3	-0.3	-11	12.0	19	0.5	15	-0.8	13
IV	0.1	-0.3	0.1	0.4	12	11.9	2.1	0.8	0.4	-12	0.8
2014											
I	0.5	2.0	0.9	10	2.2	11.7	18	10	0.8	-16	0.6
II	0.7	0.5	0.8	0.8	10	11.6	16	0.4	14	-14	0.6
III	0.7	-0.9	0.6	0.8	0.1	11.5	14	0.2	2.4	-18	0.3
IV	10	-15	0.8	0.7	-0.1	11.5	16	0.1	2.8	-0.9	0.5
2015											
I	11	-12	0.7	0.8	-0.2	11.5	17	0.2	3.3	-0.3	0.5
II	13	0.4	10	11	0.8	11.5	2.0	0.7	3.1	0.7	0.6
III	13	19	13	14	17	11.4	2.1	10	3.0	14	0.8
IV	15	2.6	15	17	2.1	11.3	2.3	13	3.4	15	10
2016											
I	15	2.7	15	17	2.3	11.3	2.3	13	3.5	17	12
II	14	2.8	15	17	2.4	11.2	2.4	13	3.5	18	13
III	14	2.7	15	16	2.4	11.1	2.4	12	3.5	18	14
IV	14	2.7	15	16	2.4	11.0	2.5	12	3.6	18	14
2017											
I	14	2.7	15	16	2.3	11.0	2.5	13	3.6	18	15
II	14	2.7	15	16	2.2	10.9	2.5	13	3.6	18	15
III	14	2.6	15	16	2.1	10.8	2.5	13	3.5	19	16
IV	14	2.6	15	16	2.0	10.7	2.5	13	3.4	19	16
2018											
I	14	2.5	15	16	2.0	10.6	2.5	13	3.4	18	16
II	14	2.5	15	16	19	10.5	2.5	13	3.3	18	16
III	14	2.5	15	16	18	10.5	2.6	13	3.3	18	16
IV	14	2.5	15	16	17	10.4	2.6	13	3.2	17	16

EURO ZONE — TABLE 2 SUMMARY ITEMS

	TRADE BALANCE (EURO BN) (BVI)	CURRENT ACCOUNT (EURO BN) (BCU)	CURRENT ACCOUNT (% OF GDP) (BCU*100 / GDP!)	GOVERNMENT FINANCIAL BALANCE (EURO BN) (GB)	GOVERNMENT FINANCIAL BALANCE (% OF GDP) (GB*100 / GDP!)	SHORT-TERM INTEREST RATE (RSH)	LONG-TERM INTEREST RATE (RLG)	REAL SHORT-TERM INTEREST RATE (Note 1)	REAL LONG-TERM INTEREST RATE (Note 1)	US DOLLAR PER EURO (RXD)	EFFECTIVE RATE (1995=100) (RX)
YEARS BEGINNING Q1											
2013	158.0	200.4	2.02	-284.7	-2.87	0.22	3.00	-1.13	165	133	120.8
2014	189.7	218.8	2.17	-251.7	-2.50	0.21	2.07	-0.31	155	133	123.4
2015	219.0	238.5	2.31	-212.0	-2.06	0.08	191	-0.66	1.17	124	119.2
2016	219.9	241.4	2.27	-185.1	-174	0.07	2.34	-128	0.99	121	117.2
2017	228.4	245.4	2.23	-156.7	-143	0.26	2.71	-128	1.17	120	116.6
2018	236.2	251.1	2.22	-129.6	-1.14	0.76	3.02	-0.83	142	1.19	116.2
2013											
I	37.9	45.1	183	-77.2	-3.14	0.21	3.06	-164	120	132	118.8
II	41.1	59.6	2.41	-72.3	-2.92	0.21	2.82	-1.19	143	131	119.2
III	35.9	43.3	174	-68.7	-2.77	0.22	3.15	-1.12	180	132	121.7
IV	43.2	52.4	2.10	-66.5	-2.66	0.24	2.97	-0.57	2.16	136	123.7
2014											
I	42.7	55.7	2.22	-65.9	-2.63	0.30	2.66	-0.35	2.01	137	125.6
II	43.8	60.5	2.41	-59.9	-2.38	0.30	2.23	-0.27	166	137	125.1
III	51.7	55.2	2.19	-63.0	-2.50	0.17	180	-0.17	147	133	122.5
IV	51.5	47.4	187	-62.9	-2.48	0.08	161	-0.45	107	126	120.5
2015											
I	54.7	64.0	2.51	-59.1	-2.32	0.08	173	-0.47	1.18	125	120.1
II	51.5	70.5	2.75	-53.3	-2.07	0.08	185	-0.51	126	124	119.6
III	57.7	55.8	2.16	-52.0	-2.01	0.08	196	-0.69	120	123	118.9
IV	55.1	48.1	184	-47.7	-183	0.07	2.08	-0.97	104	122	118.2
2016											
I	56.5	66.7	2.54	-48.5	-185	0.07	2.19	-1.14	0.97	122	117.8
II	51.4	70.9	2.68	-46.3	-175	0.07	2.28	-127	0.94	121	117.3
III	56.9	55.4	2.07	-46.5	-174	0.07	2.40	-136	0.97	121	117.0
IV	55.1	48.4	180	-43.8	-163	0.07	2.50	-134	109	120	116.8
2017											
I	57.2	66.4	2.45	-44.5	-164	0.07	2.59	-140	1.12	120	116.7
II	53.3	71.7	2.62	-40.6	-148	0.17	2.67	-138	1.12	120	116.6
III	59.7	57.3	2.08	-38.2	-138	0.27	2.75	-129	1.19	120	116.5
IV	58.2	50.0	180	-33.5	-121	0.52	2.83	-105	126	120	116.4
2018											
I	60.1	68.5	2.45	-34.9	-125	0.52	2.90	-105	134	1.19	116.3
II	55.7	73.3	2.60	-33.0	-1.17	0.77	2.98	-0.81	140	1.19	116.2
III	61.3	58.8	2.07	-32.6	-1.15	0.76	3.05	-0.84	145	1.19	116.1
IV	59.1	50.6	177	-29.1	-102	101	3.13	-0.61	150	1.19	116.0

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

OXFORD ECONOMICS

Long-Term Forecast for Eurozone

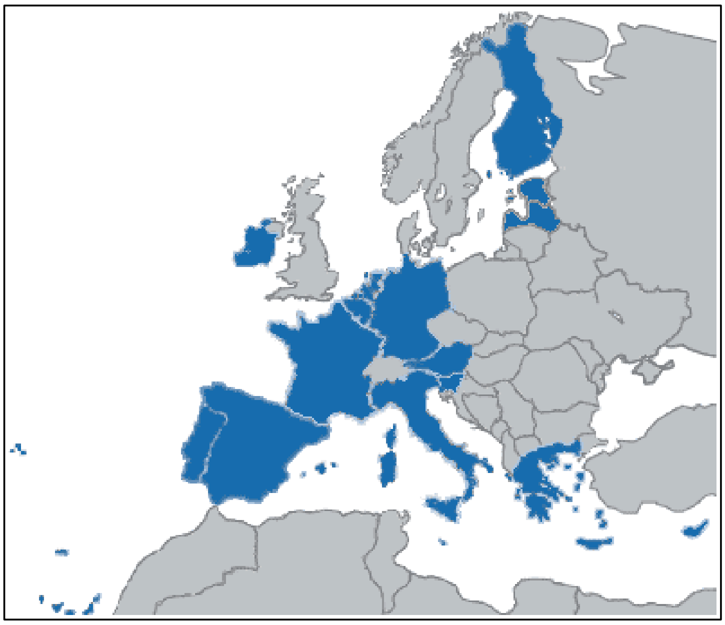
Annual percentage changes unless otherwise specified

	2004-2013	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
GDP	0.8	2.0	1.7	-0.7	-0.4	0.8	1.2	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.4	1.4
Consumption	0.6	0.8	0.2	-1.3	-0.6	0.7	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3
Investment	-0.2	-0.6	1.5	-3.2	-2.4	0.0	0.9	2.7	2.6	2.5	2.3	2.1	2.0	1.9	1.8	1.9
Government Consumption	1.3	0.8	-0.2	-0.2	0.2	0.8	0.3	0.5	0.7	0.8	1.0	1.1	1.1	1.2	1.2	0.9
Exports of Goods and Services	3.7	10.8	6.7	2.6	2.1	3.3	3.7	4.1	4.0	3.8	3.5	3.2	2.9	2.8	2.7	3.4
Imports of Goods and Services	3.0	9.6	4.4	-1.0	1.2	3.5	3.6	4.1	3.9	3.8	3.6	3.3	3.1	2.9	2.8	3.5
Unemployment (%)	9.5	10.1	10.1	11.3	12.0	11.6	11.4	11.1	10.8	10.5	10.1	9.7	9.2	8.8	8.5	10.2
Consumer Prices	2.1	1.6	2.7	2.5	1.3	0.5	0.7	1.3	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.5
Current Balance (% of GDP)	-0.1	-0.3	-0.2	1.1	2.0	2.2	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.1	2.0	2.2
Exchange Rate (US$ per Euro)	1.33	1.33	1.39	1.28	1.33	1.33	1.24	1.21	1.20	1.19	1.19	1.18	1.18	1.17	1.17	1.21
General Government Balance (% of GDP)	-3.2	-6.1	-4.1	-3.6	-2.9	-2.5	-2.1	-1.7	-1.4	-1.1	-1.0	-0.8	-0.7	-0.6	-0.5	-1.3
Short-term Interest Rates (%)	2.1	0.8	1.4	0.6	0.2	0.2	0.1	0.1	0.3	0.8	1.3	1.8	2.3	2.8	3.0	1.2
Long-term Interest Rates (%)	3.9	3.6	4.4	3.9	3.0	2.1	1.9	2.3	2.7	3.0	3.3	3.5	3.7	3.9	4.0	3.0
Working Population	0.2	0.0	0.0	0.2	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.6	0.0	0.1	0.7	-0.1	-0.1	0.0	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Participation Ratio (%)	75.4	75.8	75.9	76.3	76.1	76.0	76.0	76.1	76.1	76.2	76.2	76.3	76.3	76.3	76.3	76.2
Labour productivity	0.6	2.6	1.6	-0.1	0.4	0.4	0.8	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.1
Employment	0.3	-0.6	0.1	-0.6	-0.8	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Output gap (% of potential GDP)	-0.4	-1.9	-1.1	-2.4	-3.2	-3.4	-3.1	-2.4	-1.9	-1.4	-1.0	-0.7	-0.4	-0.2	0.0	-1.4

Key Facts

Politics

President of the ECB: Mario DRAGHI
Vice president of the ECB: Vítor CONSTANCIO
EC commissioner for Economic and Monetary Affairs:
Olli Rehn
Chairman of Euro Group of Finance Ministers:
Jeroen Dijsselbloem



Source : ECB
Member countries: Germany, France, Italy, Finland, Ireland, Netherlands, Belgium, Luxembourg, Austria, Portugal, Spain, Greece, Slovenia, Malta, Cyprus, Slovakia, Estonia & Latvia

Long-term economic & social development

	1980	1990	2000	2013*
GDP per capita (US$)	-	18088	19904	38309
Inflation (%)	9.9	4.2	2.2	1.3
Population (mn)	287	305	315	333
Urban population (% of total)	69.7	70.9	72.4	75.8
Life expectancy (years)	73.6	76.0	78.3	81.3

Source : Oxford Economics & World Bank

* 2013 or latest available year

Structure of GDP by output

	2010
Agriculture	1.6%
Industry	26.3%
Services	72.0%

Source : WDI

Corruption perceptions index 2013

	Score
Developed economies (average)	74.5
Emerging economies (average)	37.3
Eurozone	66.5

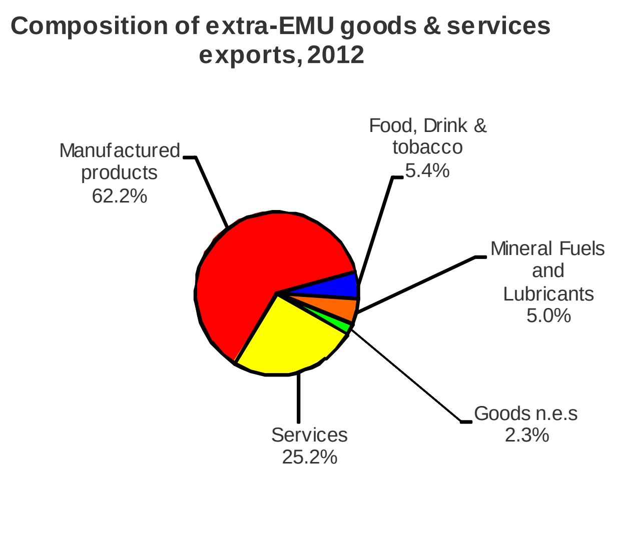
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2013*
Current account (US$ billion)	10	54	-95	306
Trade balance (US$ billion)	-23	63	-27	210
FDI (US$ billion)	-	-	-25	-4
Govt budget (% of GDP)	-4.1	-7.5	-0.1	-3.0
Govt debt (% of GDP)	13.6	67.6	67.3	94.6
Long-term interest rate	10.9	8.7	5.4	3.0
Oil production (000 bpd)	271	313	240	238
Oil consumption (000 bpd)	9715	10483	10927	9611

Source : Oxford Economics / World Bank / EIA / ECB

Composition of extra-EMU goods & services exports, 2012



Source : Eurostat\ Haver Analytics

Destination of goods' exports (2012)

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

Source : Eurostat \ Haver Analytics