Eurozone

Highlights

- Recent data show that not only was the recovery in H1 stronger than previously thought, but also that the momentum has carried over into Q3.
- The detailed Eurozone Q2 GDP release shows that GDP rose 0.4% on the quarter, slightly higher than previously reported. Annual growth was revised up more sharply, from 1.2% to 1.5%, thanks to upward revisions to the rate of growth in the three preceding quarters. In addition, survey-based measures of activity and sentiment in early-Q3 are a touch stronger than in Q2, suggesting that the economy has continued to expand at a solid pace this quarter.
- Household spending, a key driver of the recent strength of the recovery, should continue to provide support. Not only will the recent fall in the oil price provide a further boost to real incomes, but the improving labour market also bodes well for consumer spending prospects.
- Meanwhile, the upward revision to GDP growth partly reflected the fact that investment is now believed to have grown more strongly than previously assumed over recent quarters. Admittedly, investment fell in Q2, but we suspect that this might be a blip that partly reflects a fall in construction output. Rising profit growth, improved access to bank finance and healthy business confidence suggest that the investment recovery is far from over.
- Given all this and little sign yet that export growth is starting to soften, we remain confident that the recovery in the economy may gather more momentum in the quarters ahead. Thanks to the upward revisions to growth in H1, we have raised our forecast of 2015 GDP growth to 1.6% (from 1.4% after the flash GDP release) and we expect growth to rise to 1.8% in 2016.

Forecast for Eurozone
(Annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Domestic Demand	0.9	1.4	1.6	1.7	1.6	1.5
Private Consumption	0.9	1.7	1.4	1.2	1.3	1.3
Fixed Investment	1.3	1.8	2.4	2.8	2.7	2.4
Stockbuilding (% of GDP)	-0.1	-0.3	-0.2	0.1	0.2	0.2
Government Consumption	0.8	1.1	0.8	0.8	0.9	1.0
Exports of goods and services	3.9	4.8	4.0	3.6	3.4	3.3
Imports of goods and services	4.2	4.8	3.9	3.8	3.7	3.6
GDP	0.9	1.6	1.8	1.7	1.5	1.5
Industrial Production	0.6	0.9	1.8	1.9	1.8	1.5
Consumer Prices	0.4	0.2	1.2	1.5	1.6	1.6
Current Balance (% of GDP)	2.1	2.8	2.7	2.5	2.4	2.3
Government Budget (% of GDP)	-2.4	-2.1	-1.8	-1.4	-1.1	-1.0
Short-Term Interest Rates (%)	0.21	-0.01	-0.10	-0.17	0.07	0.49
Long-Term Interest Rates (%)	2.04	1.34	2.02	2.57	3.00	3.28
Exchange rate (US$ per Euro)	1.33	1.11	1.07	1.06	1.09	1.11
Exchange rate (YEN per Euro)	140.7	135.5	140.6	144.8	150.0	153.5

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Forecast Overview

H1 GDP growth revised up

Although the flash GDP growth estimate for Q2 was a little weaker than we had expected, prompting us to lower our forecast for growth in 2015 to 1.4%, the detailed GDP release published earlier this month revised up the quarterly pace of growth in Q2 and the three preceding quarters. As a result, annual GDP growth in Q2 was revised up from 1.2% to 1.5%, the highest since Q2 2011.

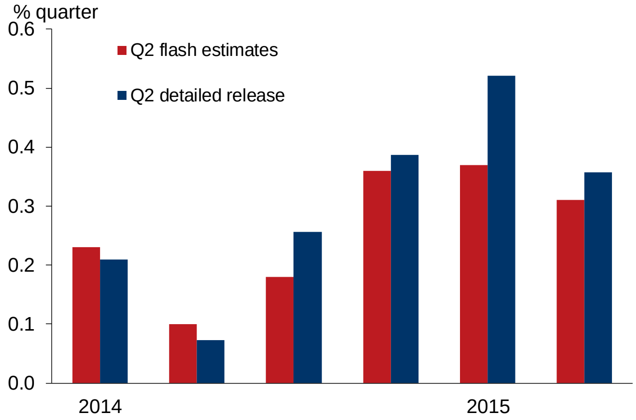
What is more, there are few signs that the summer worries regarding Greece and emerging market weakness have slowed the recovery. As things stand, both the EC's Economic Sentiment Indicator (ESI) and the composite PMI are on track to record stronger readings in Q3 than Q2. And the limited available hard data do little to contradict the idea that Q3 GDP will broadly match, or perhaps exceed, Q2's 0.4% quarterly gain.

Prospects still hopeful for Q3 and beyond

Beyond Q3, we remain optimistic about prospects for growth. This reflects a number of factors:

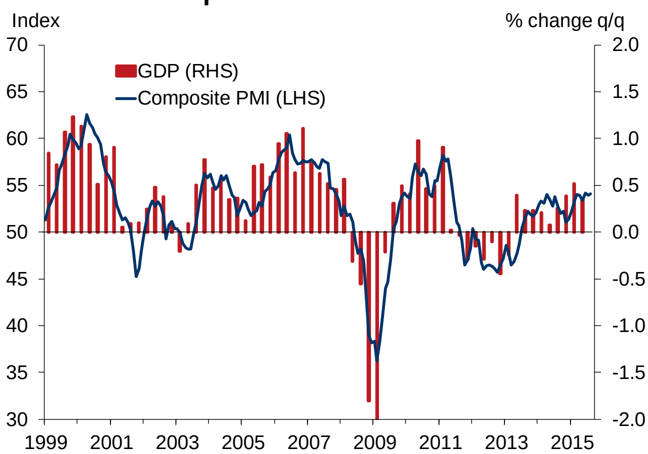
- **Modest inflation to help consumers in the near term** − although core inflation has edged up over recent months, headline inflation has been broadly flat and could even fall back into negative territory in the autumn as a result of the renewed fall in the oil price. The boost to real incomes that this will provide should help to support the household spending recovery in the short term. Nonetheless, in late-2015 and early-2016 inflation will pick up fairly sharply and will start to act as a drag on consumer spending.
- **Labour market to boost incomes** – encouragingly, nominal income growth may be strengthening. Having stalled around the turn of the year, there are signs that employment growth might be picking up. The fall in the number of unemployed in July was the largest this year and pushed the unemployment rate down to 10.9%. Survey-based measures of firms' employment intentions are consistent with a healthy pick-up in employment growth too. On balance, then, while we expect household spending growth to ease next year from 1.7% to 1.4%, this would still be fairly healthy growth by the standards of recent years.

Eurozone: GDP revisions



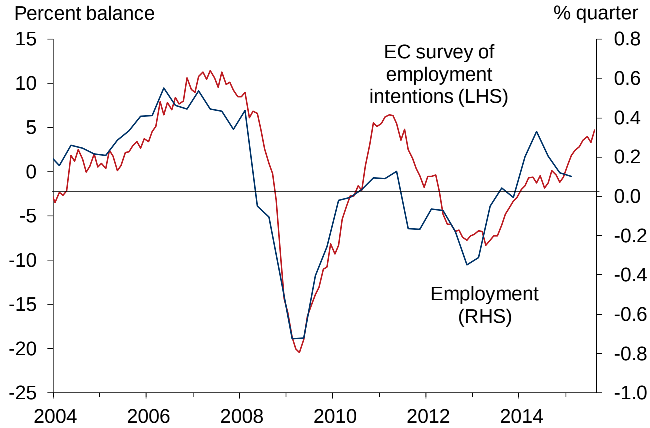
Source : Oxford Economics/Haver Analytics

Eurozone Composite PMI & GDP



Source : Oxford Economics/Haver Analytics/Markit

Eurozone: Employment & emp. intentions



Source : Oxford Economics/Haver Analytics

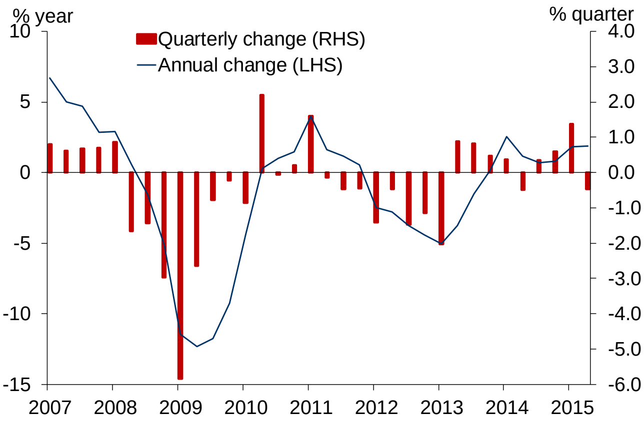
- **Investment outlook remains bright** – Q2's GDP expenditure release revealed that investment has increased a little more strongly over recent quarters than previously reported. And while investment did fall last quarter, the 0.5% decline will have partly reflected a slowdown in the construction sector that we do not expect to persist. While emerging market weakness may encourage firms to tread cautiously in the short term, the strength of business sentiment, rising capacity utilisation, higher profitability and improvements in the availability and price of credit are all positive for investment prospects. In addition, the more dovish tone of ECB President Mario Draghi's comments at September's interest rate conference and the growing likelihood of well below target inflation next year mean that we now expect ECB bond purchases to continue into 2017. This is a year later than we had previously assumed. This additional policy support should increase the supply of cheap credit and provide additional support for the ongoing investment recovery.
- **Exports defying external weakness** – our view remains that demand abroad will strengthen next year. Meanwhile, with the Fed set to begin raising interest rates this year and the ECB in no hurry to terminate its QE programme, our baseline view remains that the euro will gradually weaken to around US$1.05 by end 2016. This in turn should provide further support to exporters.

Baseline assumes recovery broadens

The upshot is that while emerging markets and Greece have the capacity to undermine the Eurozone recovery, our central view remains that the recovery will broaden and gather a little bit of steam. After the flash GDP release for Q2, we nudged down our 2015 GDP forecast but revised data have prompted us to push this year's forecast back up to 1.6%.

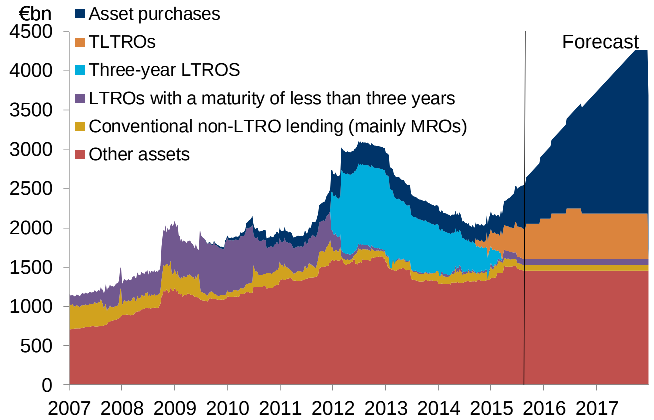
We expect growth to nudge up to 1.8% in 2016, thanks to investment strengthening and a modest boost from net trade. What is more, stronger support from both these sectors should not be ruled out. Thereafter GDP growth will slow gradually to a still above-trend 1.5% or so in 2018-19.

Eurozone: Investment



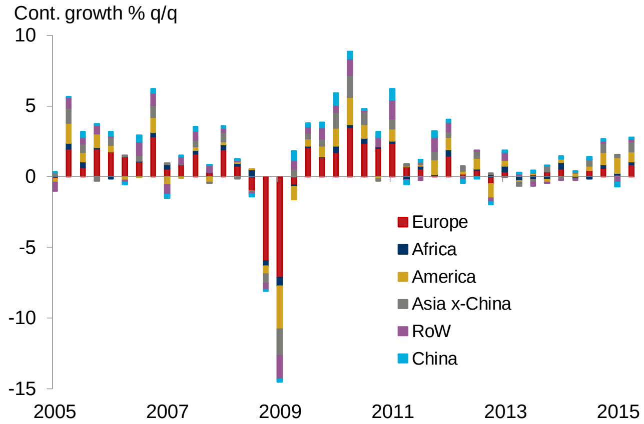
Source : Oxford Economics/Haver Analytics

Eurozone: ECB Balance sheet (asset side)



Source : Oxford Economics/Haver Analytics

Euro area exports by destination



Source: Oxford Economics/Haver Analytics

Risk Assessment

Overall risk in the Eurozone is expected to decline slightly over the medium term. But 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 ramifications for growth if the region were to suffer from a renewed period of deflation.

Emerging risks

Oil price fall triggers new deflation fears – although inflation has picked up sharply from its January low, the recent fall in the oil price could push it back into negative territory at some point in the autumn. Nonetheless, it would take further negative shocks to trigger a sustained period of falling prices. While deflation remains a tail risk, a sustained period of below target inflation appears likely.

A sharper investment rebound – the recent upward revisions to investment growth mean that capital spending has recently been more robust than previously assumed. While fundamentals are consistent with a further pick-up in the pace of growth we have only a modest acceleration. Accordingly, investment could surprise to the upside, particularly if external concerns recede.

Key risk scenarios

Grexit – it will be a tall order for the next Greek government to implement the agreed reforms and fiscal measures. If this ultimately triggers a relatively orderly exit that is contained and results in limited contagion, it would probably have only a modest and short-lived effect on activity. But a more disorderly exit that results in heightened uncertainty for rather longer and renewed concerns about the future of other peripheral economies could be enough to push the Eurozone back into recession.

Investment collapse in China – the recent run of weak news from China has raised concerns about a more sustained slowdown there, which could have major spillover effects on the world economy. Given the Eurozone'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	30	28
Sovereign risk	16	16	15
Trade credit risk	31	29	22
Political risk	25	24	22
Regulatory risk	0	0	0

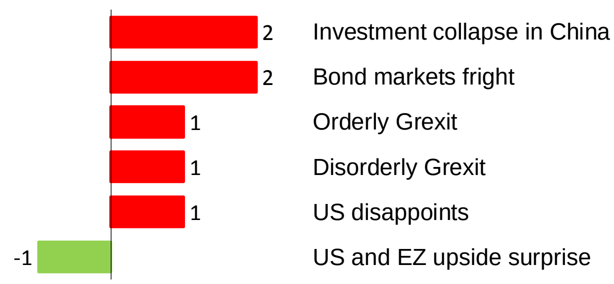
Risk warnings

GDP growth	Downside risk mainly from abroad
CPI inflation	Sustained period of 'lowflation' likely
Current account balance	Surplus here to stay
Government balance	Deficit will narrow as recovery continues
Government debt	Debt limits scope for future fiscal stimulus
External debt	Not a concern

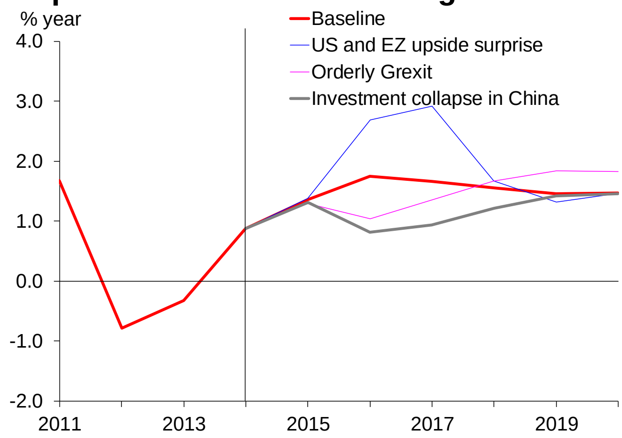
Risk scenarios

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

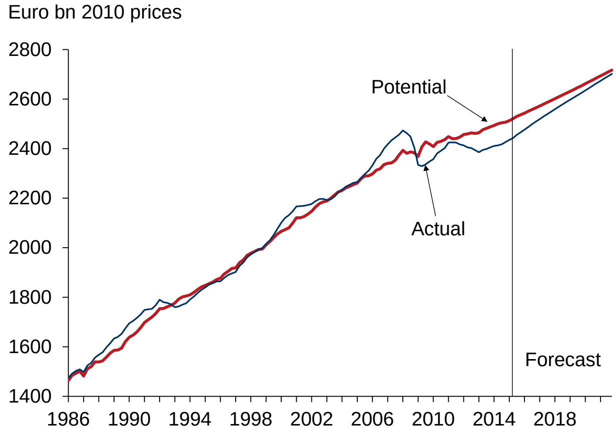
Very slow recovery from crises

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 the ability to work. Combined with a shrinking population of working age, despite increases in the retirement age, these factors imply that availability and quality of labour will be constrained compared with the pre-crisis period. These factors will only be partly offset by further increases in the participation rate.

Some of the reforms implemented in the peripheral countries should help raise 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*	1.1	1.2
Employment at NAIRU	0.6	0.1
Capital Stock	1.5	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	0.7	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	2.1	0.3	0.9	1.2
Exports of Goods and Services	1.5	5.3	3.8	2.9
Imports of Goods and Services	1.8	3.8	3.9	2.9
Unemployment (%)	8.4	11.1	10.4	8.8
Consumer Prices	2.0	1.7	1.2	1.7
Current Balance (% of GDP)	-0.5	1.0	2.6	2.4
Exchange Rate (US$ per Euro)	1.35	1.33	1.09	1.19
General Government Balance (% of GDP)	-2.5	-3.8	-1.5	-0.7
Short-term Interest Rates (%)	3.1	0.6	0.1	1.9
Long-term Interest Rates (%)	3.9	3.4	2.4	3.8
Working Population	0.4	0.1	0.0	-0.2
Labour Supply	0.8	0.2	0.1	-0.1
Participation Ratio	75.6	76.4	76.7	77.0
Labour Productivity	0.0	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, put Eurozone leaders under immense pressure to come up with a rescue plan that would prevent the collapse of the single currency. However, there remain significant differences of opinion among the largest members regarding who should carry the burden and what mechanisms should be used to provide financial support to the European banking system. The measures proposed include a move towards a banking union that would sever the links between banks and their sovereigns. But political hurdles to closer integration and debt burden sharing remain very high. Changes to the Eurozone’s structure and institutions are likely to be slow at best.

Data & Forecasts

Key Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Industrial production	Unemploy-ment %	CPI	Business confidence (% balance)	Consumer confidence (% balance)	Exports	Imports	Trade balance (€ bn)
Aug	-0.4	11.5	0.3	0.2	-10	-3.2	-4.0	8.1
Sep	0.3	11.5	0.3	0.1	-12	8.6	4.1	18.3
Oct	1.0	11.5	0.4	0.1	-11	4.3	0.1	23.8
Nov	-0.3	11.5	0.3	0.2	-12	1.1	-1.7	20.8
Dec	0.6	11.4	-0.2	0.1	-11	8.5	1.8	23.9
2015								
Jan	0.6	11.3	-0.6	0.2	-9	-0.7	-5.6	7.4
Feb	1.7	11.2	-0.3	0.1	-7	4.3	1.0	19.8
Mar	1.8	11.2	-0.1	0.2	-4	11.0	9.1	20.6
Apr	0.7	11.1	0.0	0.3	-5	8.6	4.8	21.7
May	1.4	11.1	0.3	0.3	-6	2.5	-0.2	19.0
Jun	1.3	11.1	0.2	0.1	-6	12.3	6.6	26.4
Jul	-	10.9	0.2	0.4	-7	-	-	-
Aug	-	-	0.2	0.2	-7	-	-	-

Financial Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Short rate %	Long rate %	Money Supply M3	Exchange rate $/€ avg.	Exchange rate €/£	Nominal effective exch. Rate	Share price DJ STOXX	Net FDI €bn
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	-8.7
May	-0.01	1.34	5.0	1.11	1.39	95.4	3571	17.9
Jun	-0.01	1.67	4.9	1.12	1.39	95.9	3424	0.8
Jul	-0.02	1.53	5.3	1.10	1.41	95.0	3601	-
Aug	-0.03	1.39	-	1.11	1.40	96.6	3270	-

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	0.9	1.3	0.9	0.9	0.6	11.6	1.6	0.3	2.3	-1.6	0.4
2015	1.7	1.8	1.4	1.6	0.9	11.0	1.9	0.8	5.6	-1.8	0.2
2016	1.4	2.4	1.6	1.8	1.8	10.7	2.3	1.2	4.2	1.5	1.2
2017	1.2	2.8	1.7	1.7	1.9	10.3	2.5	1.3	4.2	2.0	1.5
2018	1.3	2.7	1.6	1.5	1.8	10.0	2.5	1.2	4.1	1.8	1.6
2019	1.3	2.4	1.5	1.5	1.5	9.7	2.6	1.2	3.9	1.7	1.6
2014											
I	0.7	2.6	1.1	1.1	2.1	11.8	1.8	0.9	0.8	-1.5	0.6
II	0.7	1.2	0.8	0.7	0.7	11.6	1.5	0.2	1.4	-1.4	0.6
III	1.0	0.7	0.5	0.8	-0.1	11.5	1.6	0.0	2.4	-1.8	0.3
IV	1.4	0.8	1.0	0.9	-0.2	11.5	1.6	0.1	4.7	-1.7	0.1
2015											
I	1.7	1.8	1.4	1.2	0.3	11.2	1.6	0.4	5.9	-2.5	-0.3
II	1.9	1.9	1.4	1.5	0.4	11.1	1.9	0.7	6.1	-1.9	0.2
III	1.7	1.7	1.4	1.7	1.4	10.9	1.9	0.9	5.8	-1.5	0.2
IV	1.5	1.9	1.4	1.7	1.6	10.9	2.1	1.0	4.5	-1.1	0.7
2016											
I	1.4	1.3	1.2	1.7	1.3	10.8	2.1	0.9	4.2	0.6	1.2
II	1.4	2.5	1.6	1.8	2.1	10.7	2.3	1.2	3.9	1.4	1.1
III	1.4	3.0	1.8	1.8	1.9	10.7	2.4	1.3	4.3	1.7	1.3
IV	1.3	2.9	1.9	1.8	1.9	10.6	2.5	1.4	4.3	2.2	1.3
2017											
I	1.3	2.8	1.8	1.8	1.9	10.5	2.5	1.3	4.2	2.1	1.4
II	1.2	2.8	1.7	1.7	1.9	10.4	2.5	1.3	4.2	2.0	1.4
III	1.2	2.8	1.7	1.7	1.9	10.3	2.5	1.3	4.2	2.0	1.5
IV	1.2	2.8	1.6	1.6	1.9	10.2	2.4	1.2	4.2	2.0	1.5
2018											
I	1.3	2.7	1.6	1.6	1.8	10.1	2.4	1.2	4.2	1.9	1.5
II	1.3	2.7	1.6	1.6	1.8	10.1	2.4	1.2	4.1	1.9	1.6
III	1.3	2.7	1.6	1.5	1.7	10.0	2.5	1.2	4.1	1.8	1.6
IV	1.3	2.6	1.6	1.5	1.7	9.9	2.5	1.2	4.1	1.7	1.6
2019											
I	1.3	2.5	1.6	1.5	1.6	9.8	2.5	1.2	4.0	1.7	1.6
II	1.3	2.4	1.5	1.5	1.6	9.7	2.6	1.2	3.9	1.7	1.6
III	1.3	2.3	1.5	1.5	1.5	9.7	2.6	1.2	3.9	1.7	1.7
IV	1.3	2.2	1.5	1.4	1.5	9.6	2.6	1.2	3.8	1.8	1.7

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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											
2014	195.7	210.8	2.08	-247.2	-2.44	0.21	2.04	-0.21	1.62	1.33	123.6
2015	272.4	287.5	2.76	-219.7	-2.11	-0.01	1.34	-0.19	1.16	1.11	113.7
2016	271.1	293.8	2.74	-190.7	-1.78	-0.10	2.02	-1.33	0.79	1.07	112.6
2017	256.4	280.4	2.53	-154.6	-1.40	-0.17	2.57	-1.62	1.12	1.06	112.6
2018	250.6	279.1	2.44	-128.3	-1.12	0.07	3.00	-1.49	1.44	1.09	113.8
2019	246.1	272.0	2.31	-115.1	-0.98	0.49	3.28	-1.16	1.64	1.11	115.2
2014											
I	42.9	49.3	1.96	-65.4	-2.60	0.30	2.65	-0.35	2.01	1.37	125.7
II	43.5	45.9	1.82	-62.8	-2.49	0.30	2.22	-0.27	1.65	1.37	125.2
III	46.6	57.7	2.27	-60.5	-2.38	0.17	1.79	-0.17	1.46	1.33	122.6
IV	62.7	57.8	2.26	-58.5	-2.29	0.08	1.50	-0.07	1.35	1.25	121.1
2015											
I	59.7	81.7	3.17	-60.0	-2.33	0.05	1.03	0.38	1.37	1.13	114.9
II	64.7	68.3	2.63	-54.4	-2.10	-0.01	1.29	-0.20	1.10	1.11	112.6
III	72.5	70.8	2.71	-54.3	-2.08	-0.03	1.47	-0.20	1.30	1.11	113.6
IV	75.5	66.6	2.53	-51.0	-1.94	-0.05	1.57	-0.76	0.86	1.09	113.6
2016											
I	68.2	92.8	3.50	-51.2	-1.93	-0.07	1.77	-1.26	0.58	1.08	113.5
II	63.1	68.0	2.54	-48.4	-1.81	-0.09	1.96	-1.15	0.90	1.07	112.9
III	71.1	71.5	2.66	-47.2	-1.75	-0.11	2.09	-1.44	0.76	1.06	112.3
IV	68.7	61.5	2.26	-43.9	-1.62	-0.13	2.26	-1.47	0.92	1.05	111.7
2017											
I	61.9	86.5	3.16	-41.9	-1.53	-0.15	2.39	-1.58	0.95	1.06	112.1
II	59.3	64.7	2.35	-40.1	-1.45	-0.17	2.51	-1.59	1.09	1.06	112.5
III	68.3	68.9	2.48	-38.5	-1.39	-0.19	2.64	-1.65	1.18	1.07	112.8
IV	67.0	60.4	2.16	-34.1	-1.22	-0.16	2.76	-1.68	1.25	1.07	113.1
2018											
I	60.2	85.6	3.03	-33.1	-1.17	-0.03	2.89	-1.56	1.36	1.08	113.3
II	59.1	66.2	2.33	-32.5	-1.14	0.00	2.96	-1.56	1.41	1.09	113.6
III	66.7	67.8	2.37	-32.9	-1.15	0.13	3.04	-1.44	1.47	1.09	113.9
IV	64.5	59.5	2.06	-29.7	-1.03	0.16	3.11	-1.42	1.53	1.10	114.3
2019											
I	58.4	83.3	2.86	-29.3	-1.01	0.44	3.18	-1.17	1.57	1.10	114.7
II	57.7	64.2	2.19	-29.3	-1.00	0.47	3.25	-1.16	1.62	1.11	115.0
III	65.8	66.4	2.24	-30.0	-1.01	0.50	3.31	-1.16	1.66	1.12	115.4
IV	64.2	58.2	1.95	-26.6	-0.89	0.53	3.38	-1.15	1.70	1.12	115.8

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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	-0.2	0.9	1.6	1.8	1.7	1.5	1.5	1.5	1.5	1.4	1.3	1.3	1.5
Consumption	0.5	0.0	-1.2	-0.6	0.9	1.7	1.4	1.2	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3
Investment	-0.3	1.8	-3.4	-2.6	1.3	1.8	2.4	2.8	2.7	2.4	2.1	1.9	1.8	1.7	1.5	2.1
Government Consumption	1.2	-0.1	-0.1	0.2	0.8	1.1	0.8	0.8	0.9	1.0	1.1	1.2	1.2	1.2	1.2	1.1
Exports of Goods and Services	3.4	6.8	2.9	2.2	3.9	4.8	4.0	3.6	3.4	3.3	3.2	3.0	2.9	2.7	2.5	3.3
Imports of Goods and Services	2.8	4.5	-0.7	1.4	4.2	4.8	3.9	3.8	3.7	3.6	3.3	3.1	2.9	2.8	2.6	3.4
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	11.0	10.7	10.3	10.0	9.7	9.4	9.1	8.8	8.5	8.4	9.6
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.2	1.2	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.5
Current Balance (% of GDP)	0.3	0.1	1.2	1.8	2.1	2.8	2.7	2.5	2.4	2.3	2.3	2.3	2.4	2.5	2.5	2.5
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	-2.1	-1.8	-1.4	-1.1	-1.0	-0.8	-0.8	-0.7	-0.6	-0.5	-1.1
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	-0.1	-0.2	0.1	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	2.6	3.0	3.3	3.5	3.7	3.9	4.0	4.0	3.1
Working Population	0.2	0.0	0.2	0.2	0.1	0.1	0.1	0.0	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.5	0.2	0.8	0.0	0.2	0.1	0.2	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	0.0
Participation Ratio (%)	76.0	76.2	76.7	76.5	76.5	76.5	76.6	76.7	76.8	76.9	76.9	76.9	77.0	77.1	77.1	76.8
Labour productivity	0.5	1.5	-0.3	0.5	0.3	0.8	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.2
Employment	0.3	0.1	-0.5	-0.7	0.6	0.8	0.6	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.0	0.3
Output gap (% of potential GDP)	-0.6	-0.9	-2.4	-3.2	-3.3	-3.0	-2.4	-1.8	-1.5	-1.2	-0.9	-0.7	-0.5	-0.3	-0.2	-1.2

Key Facts

Politics
President of the ECB: Mario DRAGHI
Vice president of the ECB: Vítor CONSTANCIO
EC commissioner for Economic and Financial Affairs: Pierre MOSCOVICI
Chairman of Euro Group of Finance Ministers: Jeroen Dijsselbloem

Source : ECB

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

Long-term economic & social development

	1980	1990	2000	2014*
GDP per capita (US$)	-	18231	20715	40300
Inflation (%)	9.9	4.2	2.2	0.4
Population (mn)	302	303	313	334
Urban population (% of total)	69.9	71.3	72.6	75.7
Life expectancy (years)	73.5	75.9	78.3	81.4

Source : Oxford Economics & World Bank

* 2014 or latest available year

Structure of GDP by output

	2014
Agriculture	1.7%
Industry	24.4%
Services	73.9%

Source : WDI

Corruption perceptions index 2014

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

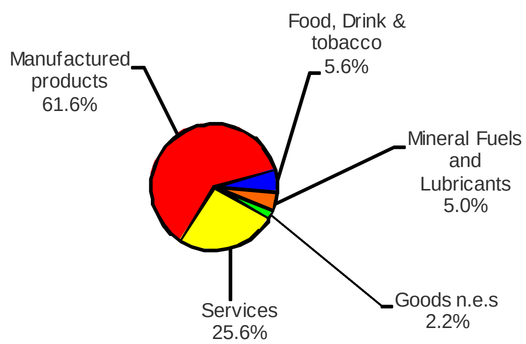
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2014*
Current account (US$ billion)	31	167	-167	280
Trade balance (US$ billion)	-23	63	-29	260
FDI (US$ billion)	-	-	29	-201
Govt budget (% of GDP)	-4.1	-7.3	-0.1	-2.4
Govt debt (% of GDP)	14.0	67.8	67.1	91.4
Long-term interest rate	10.9	8.7	5.4	2.0
Oil production (000 bpd)	271	313	240	222
Oil consumption (000 bpd)	9716	10478	10930	9312

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