



Eurozone

Highlights

- Latest available evidence continues to suggest that the Eurozone is not on the cusp of a major slowdown. The Q2 GDP expenditure breakdown confirmed quarterly growth at 0.3%, only a bit weaker than Q1's healthy 0.5% rise. This reflected a broad-based slowdown in domestic demand, which was partially offset by a 1.1% rise in exports – the strongest quarterly rise in a year.
- Although the closely-watched PMI and the EC's ESI revealed some August weakness, the big picture is that both surveys have responded in a pretty muted way to the UK's Brexit vote. For now, it is difficult to get an accurate gauge of Q3 growth prospects since there is little hard data for the period. However, the survey data for the quarter so far do not suggest a marked slowdown in growth.
- Looking further ahead, the likely sharp pick-up in inflation should temper the household spending recovery. But with little sign that the labour market recovery is slowing, real income growth should remain fairly solid by historical standards.
- There are also signs that other sectors can take up any slack. Strengthening credit growth to firms and a rebalancing towards longer maturity loans may be a positive sign for investment. And given the previous resilience of the investment recovery to uncertainty stemming from Ukraine, Greece and emerging market weakness, we are sceptical that the UK referendum will trigger sustained falls in capital spending. In addition, it appears that the worst of the external weakness which dragged on the economy last year has passed.
- The upshot is that we continue to expect only a modest slowdown in GDP growth, from 1.6% this year to an above-consensus 1.5% in 2017. And with inflation set to surprise to the upside, we still think the widely-expected extension to the QE programme will not be forthcoming.

Forecast for Eurozone						
(Annual percentage changes unless specified)						
	2014	2015	2016	2017	2018	2019
Domestic Demand	1.1	1.8	1.7	1.6	1.7	1.7
Private Consumption	0.8	1.7	1.6	1.4	1.4	1.3
Fixed Investment	1.5	2.9	2.3	2.6	2.8	2.4
Stockbuilding (% of GDP)	0.1	0.0	-0.1	0.0	0.0	0.2
Government Consumption	0.6	1.4	1.7	1.2	1.0	1.1
Exports of goods and services	4.4	6.1	2.2	2.7	2.8	2.7
Imports of goods and services	4.8	6.1	2.5	3.1	3.1	3.0
GDP	1.1	1.9	1.6	1.5	1.6	1.6
Industrial Production	0.9	2.0	1.0	1.6	1.4	1.6
Consumer Prices	0.4	0.0	0.3	1.6	1.6	1.8
Current Balance (% of GDP)	2.5	3.2	3.3	2.9	2.6	2.3
Government Budget (% of GDP)	-2.6	-2.1	-1.7	-1.4	-1.2	-1.0
Short-Term Interest Rates (%)	0.2	0.0	-0.3	-0.3	-0.2	0.2
Long-Term Interest Rates (%)	2.0	1.2	0.8	1.3	1.9	2.6
Exchange rate (US\$ per Euro)	1.33	1.11	1.11	1.06	1.06	1.09
Exchange rate (YEN per Euro)	140.7	134.3	119.1	113.9	118.1	121.5

Forecast Overview

Domestic demand behind Q2 slowdown

The Q2 GDP expenditure breakdown showed that domestic demand growth eased sharply, after three quarters of healthy growth. Household spending, government spending and investment all rose modestly or stagnated, recording their weakest quarterly outturns since early 2014. This, combined with the large drag on GDP from stockbuilding, meant that domestic demand fell for the first time during the current recovery phase. On the plus side, there was a large boost from net trade as a result of a 1.1% rise in exports – the biggest quarterly rise in a year.

Delayed Brexit response from the surveys

Having proved remarkably resilient in July, the Eurozone's key business surveys weakened in August. Nonetheless, the falls are from a pretty solid level and the latest readings from the composite PMI and EC's Economic Sentiment Indicator (ESI) still point to growth similar to that seen in Q2. As yet, there is not enough hard data to come to any firm conclusion about the exact pace of GDP growth this quarter.

Meanwhile, financial market developments have also been positive and support our initial post-Brexit view that the initial financial market falls would not be sustained or trigger spillovers to the real economy. Even Eurozone bank equities have rallied recently, although remaining below pre-Brexit levels.

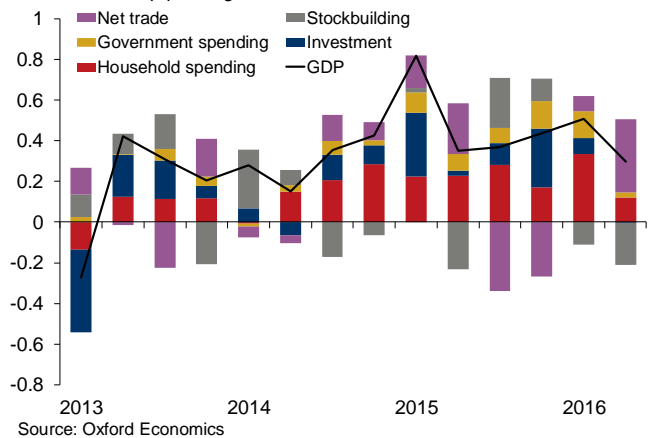
Eurozone recovery to continue beyond Q3

While uncertainty has grown post-Brexit, we retain our above-consensus expectation. The key drivers of our forecast are as follows:

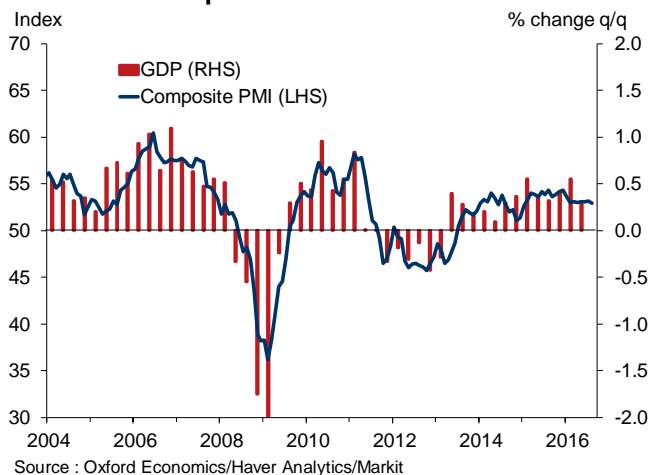
- Mixed bag for household spending** – one concern is that the Brexit-related uncertainty has come just at the point when a key prop for the Eurozone recovery – low inflation – is being removed. The sustained period of energy-related inflation weakness has resulted in a robust real wage growth in the region as a whole. But with nominal wage growth still very subdued, other things being equal it will not take an especially large rise in inflation to prompt a fall in wages in real terms. Nonetheless, falling real wages are unlikely to trigger a contraction in household spending – overall real incomes will continue to rise at a solid rate as the

Eurozone: GDP

Contribution to q/q GDP growth

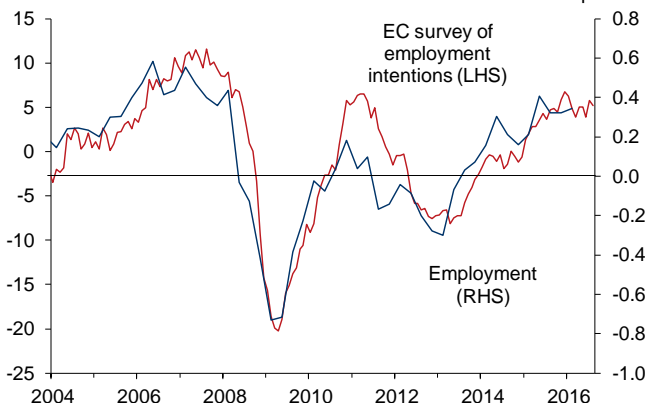


Eurozone Composite PMI & GDP



Eurozone: Employment & emp. intentions

Percent balance



employment recovery continues. While household spending growth should ease, next year's expected rise of 1.6% is still healthy compared to the average of the past few years.

- **External environment improves** – the rebound in export growth in Q2 adds to evidence that the worst of the external weakness may now have passed. Admittedly, the limited data available for Q3 are not especially encouraging. However, our global growth forecasts point to a modest strengthening in export growth further ahead. While this will not be enough to trigger a strong external revival, it does suggest that the likelihood of a further sustained and sharp drag from net trade may be easing.
- **Investment situation remains encouraging** – such an improvement would also be a positive for investment. Note, though, that there are other reasons for optimism. In particular, the ongoing pick-up in bank lending to firms and a rebalancing towards longer maturity loans are positive signs for investment. We see investment growth rising from 2.3% this year to 2.6% in 2017, but a sharper pick-up is possible.

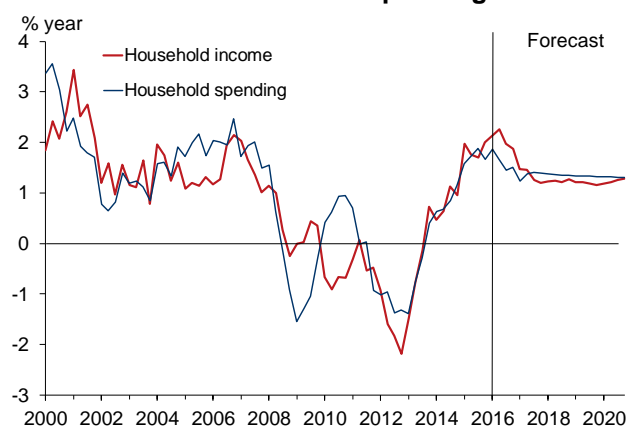
The upshot is that, despite the slightly softer tone to the recent data, we remain comfortable with our view that the economy will expand by a solid 1.5% in 2017, well ahead of the consensus assessment of 1.2%. Our forecasts for the subsequent two years are unchanged at 1.6%.

Further ECB response far from inevitable

Contrary to the expectations of many, but in line with our own assessment, the ECB did not extend the QE purchase programme beyond the planned March 2017 termination date in September. It also did little to suggest that an October adjustment was likely.

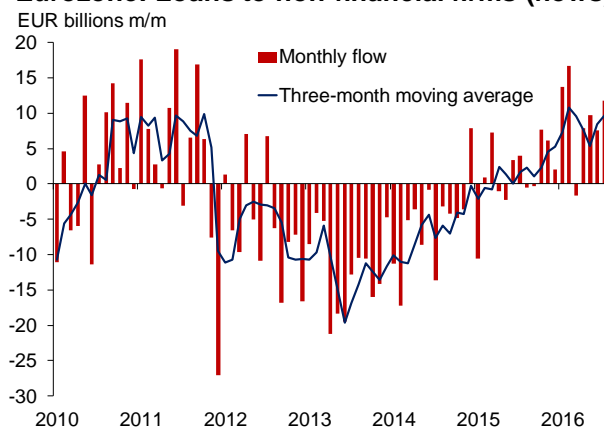
Any downside surprises to our growth assessment could prompt action in December. But we think that most of the Governing Council are unlikely to sanction anything more than purchases at a tapered rate beyond March. In addition, we think that the ECB and markets could be surprised by possible upside on the inflation front, with inflation perhaps in the 1.5% to 2% range early next year. If this is the case and the economy continues to perform in line with our own expectations, we do not expect any further expansion or extension to QE.

Eurozone: Real household spending & income



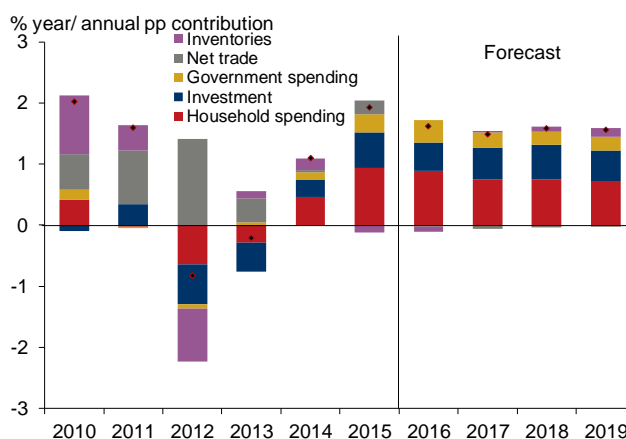
Source : Oxford Economics/Haver Analytics

Eurozone: Loans to non-financial firms (flows)



Source : Oxford Economics/Haver Analytics

Eurozone: GDP



Source: Haver Analytics/Oxford Economics

Risk Assessment

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

Emerging risks

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

Another credit crunch – plunging bank equity prices may discourage banks from lending as their cost of capital rises. And if ongoing profitability concerns morph into wider worries about solvency, then the risk of a contraction in credit would swell. For now, there is little sign of any adverse impact on credit supply, but it is a situation that needs close monitoring.

Key risk scenarios







Hard landing in China – a sustained slowdown in China and a further US tightening have the scope to trigger a significant financial market response. In such a scenario, even economies such as the Eurozone that have limited trade and financial links with China could be hit hard. In this scenario, we assume that GDP growth in the Eurozone could be just 0.6% in 2017 and 0.3% in 2018, forcing further ECB policy action.

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

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

	2015	2016	2019
Europe	19	16	13
World average	30	32	27
Sovereign risk	16	17	13
Trade credit risk	29	20	16
Political risk	24	24	21
Regulatory risk	0	0	0

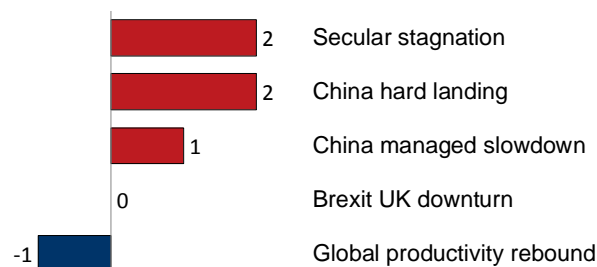
Risk warnings

GDP growth		Risk broadly balanced.
CPI inflation		Inflation set to rise sharply in the short run.
Current account balance		Surplus to persist.
Government balance		Deficits to continue to shrink.
Government debt		On a downward trend but from a high start point.
External debt		No a concern.

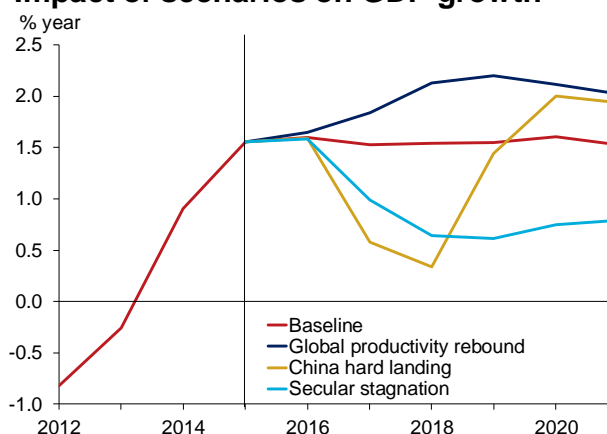
Risk scenarios

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

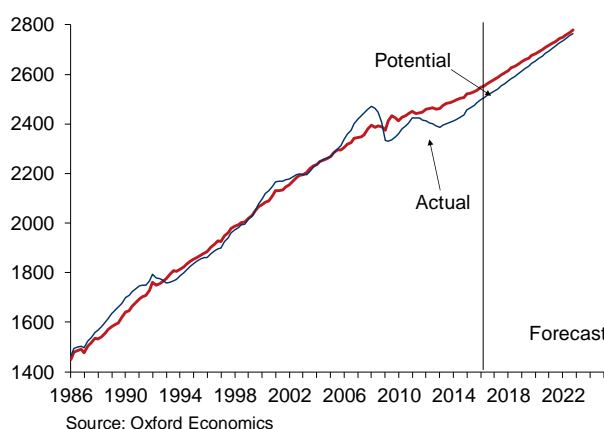
The global and Eurozone crises will leave their mark on growth for years to come. We estimate that the Eurozone's potential growth rate is only 1.3%, similar to our estimate for the past decade but far lower than 1.8% in the ten years to 2008.

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

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

Eurozone: Actual & potential output

Euro bn 2010 prices



Potential GDP and Its Components Average Percentage Growth

	2005-2014	2015-2024
Potential GDP*	1.0	1.3
Employment at NAIRU	0.6	0.3
Capital Stock	1.5	1.1
Total Factor Productivity	0.1	0.7
* $\ln(\text{Potential GDP}) = 0.65 \ln(\text{Employment at NAIRU}) + 0.35 \ln(\text{Capital Stock}) + \ln(\text{Total Factor Productivity})$		

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	1.5
Consumption	1.0	0.0	1.5	1.3
Investment	0.1	-0.6	2.6	2.0
Government Consumption	2.1	0.2	1.3	1.2
Exports of Goods and Services	1.6	5.4	3.3	2.8
Imports of Goods and Services	1.9	3.9	3.6	2.8
Unemployment (%)	8.4	11.1	9.7	8.0
Consumer Prices	2.0	1.7	1.1	1.9
Current Balance (% of GDP)	-0.3	1.3	2.9	1.9
Exchange Rate (US\$ per Euro)	1.3	1.3	1.1	1.2
General Government Balance (% of GDP)	-2.6	-3.9	-1.5	-0.6
Short-term Interest Rates (%)	3.1	0.6	-0.1	1.4
Long-term Interest Rates (%)	3.9	3.4	1.6	3.6
Working Population	0.4	0.1	0.1	-0.2
Labour Supply	0.8	0.2	0.3	0.0
Participation Ratio	75.6	76.4	76.9	77.6
Labour Productivity	0.0	0.9	0.8	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 member countries pass control of monetary policy to the European Central Bank (ECB). The ECB is one of the most independent central banks in the world and was built on the lines of the German Bundesbank. Not only does the ECB have 'operational' independence – allowing it to set interest rates free from political control – but it also has 'goal' independence to set its own targets. The ECB objective is to achieve price stability and this is pursued through economic and monetary analysis; the ECB targets inflation of “below, close to, 2%” and maintains a reference target of 4.5% for M3 money supply growth. The two components of analysis were to act as a crosscheck, but economic analysis has taken precedence in recent years, with monetary targeting slipping into the background. While the ECB cut interest rates aggressively in the aftermath of the global financial crisis, it was rather more conservative than other central banks such as the Fed and the Bank of England and expanded its balance sheet less aggressively. Since Mario Draghi became President of the ECB in 2011, the ECB has taken bolder action to support the economy and boost inflation. In January 2015, the ECB finally began its own QE programme and in March 2016 it raised the monthly purchase target from €60bn to €80bn.

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

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



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	3.0	10.7	0.2	0.2	-7	5.7	2.6	11.2
Sep	2.2	10.6	-0.1	0.3	-7	0.8	-0.6	19.7
Oct	2.8	10.6	0.0	0.5	-8	0.5	-0.7	24.2
Nov	2.4	10.5	0.1	0.4	-6	6.3	4.3	23.9
Dec	0.8	10.5	0.2	0.4	-6	4.1	3.3	25.8
2016								
Jan	3.6	10.4	0.4	0.3	-6	-2.1	-0.9	5.2
Feb	1.0	10.4	-0.2	0.1	-9	1.2	2.0	18.8
Mar	-0.3	10.2	-0.1	0.1	-10	-2.2	-8.1	29.0
Apr	1.8	10.1	-0.2	0.2	-9	-0.9	-5.3	27.4
May	0.4	10.1	-0.1	0.3	-7	2.0	-2.2	24.8
Jun	0.4	10.1	0.1	0.2	-7	-2.2	-5.0	29.2
Jul	-	10.1	0.2	0.4	-8	-	-	-
Aug	-	-	0.2	0.0	-9	-	-	-

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	-0.03	1.39	4.7	1.11	1.40	96.6	3270	4.9
Sep	-0.04	1.48	4.7	1.12	1.37	97.4	3101	-26.5
Oct	-0.05	1.20	5.0	1.12	1.37	97.2	3418	58.8
Nov	-0.09	1.16	4.8	1.07	1.42	94.3	3506	-86.3
Dec	-0.13	1.19	4.5	1.09	1.38	95.6	3268	66.7
2016								
Jan	-0.15	1.11	5.1	1.09	1.33	96.5	3045	-31.9
Feb	-0.18	1.04	5.0	1.11	1.29	98.0	2946	45.0
Mar	-0.23	0.93	5.1	1.11	1.28	97.3	3005	30.5
Apr	-0.25	0.96	4.6	1.13	1.26	98.0	3028	7.9
May	-0.26	0.97	4.9	1.13	1.28	97.9	3063	38.6
Jun	-0.27	0.88	5.0	1.12	1.26	97.3	2865	2.4
Jul	-0.29	0.62	4.8	1.11	1.19	97.6	2991	-
Aug	-0.30	0.61	-	1.12	1.17	98.2	3023	-



EUROZONE

TABLE 1 SUMMARY ITEMS
 Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE	GROSS FIXED INVESTMENT	DOMESTIC DEMAND (%)	REAL GDP	INDUSTRIAL PRODUCTION	UNEMPLOY- MENT RATE (%)	AVERAGE EARNINGS	WHOLE ECONOMY PRODUCT- IVITY (GDP/ET)	COMPETIT- IVENESS (2008=100)	PRODUCER PRICES	CONSUMER PRICES
	(C)	(IF)	(DOMD)	(GDP)	(IP)	(UP)	(ER)	(GDP/ET)	(MON)	(PPI)	(CPI)
YEARS BEGINNING Q1											
2014	0.8	1.5	1.1	1.1	0.9	11.6	1.3	0.5	2.4	-1.3	0.4
2015	1.7	2.9	1.8	1.9	2.0	10.9	1.4	0.9	5.7	-1.9	0.0
2016	1.6	2.3	1.7	1.6	1.0	10.1	1.6	0.4	4.7	-2.4	0.3
2017	1.4	2.6	1.6	1.5	1.6	9.6	2.1	0.7	4.0	1.7	1.6
2018	1.4	2.8	1.7	1.6	1.4	9.3	2.4	0.9	4.1	2.2	1.6
2019	1.3	2.4	1.7	1.6	1.6	8.9	2.5	1.0	3.9	2.2	1.8
2014											
I	0.6	2.7	1.4	1.2	1.5	11.9	1.4	1.0	0.8	-1.6	0.7
II	0.7	1.3	1.1	0.9	0.9	11.6	1.2	0.4	1.4	-1.1	0.6
III	0.9	0.9	0.8	1.0	0.6	11.5	1.2	0.2	2.4	-1.2	0.4
IV	1.2	1.1	1.1	1.2	0.5	11.4	1.4	0.4	5.0	-1.5	0.2
2015											
I	1.6	2.4	1.5	1.8	1.9	11.2	1.3	0.9	6.0	-2.1	-0.3
II	1.7	2.8	1.4	2.0	1.8	11.0	1.5	1.0	6.2	-1.2	0.2
III	1.9	2.7	1.9	2.0	2.5	10.7	1.5	0.9	5.9	-1.9	0.1
IV	1.7	3.7	2.3	2.0	2.0	10.5	1.5	0.7	4.8	-2.4	0.2
2016											
I	1.9	2.5	2.1	1.7	1.4	10.3	1.5	0.3	4.7	-3.2	0.0
II	1.7	2.4	1.9	1.6	0.9	10.1	1.6	0.3	4.9	-3.5	-0.1
III	1.5	2.7	1.6	1.6	0.6	10.0	1.6	0.5	5.0	-2.0	0.3
IV	1.5	1.8	1.3	1.5	1.2	9.9	1.8	0.5	4.4	-0.6	0.8
2017											
I	1.2	2.1	1.3	1.4	0.8	9.7	1.8	0.5	4.1	1.7	1.6
II	1.4	2.9	1.8	1.5	1.8	9.7	2.1	0.8	3.7	1.7	1.5
III	1.4	2.7	1.7	1.5	2.0	9.6	2.2	0.8	4.1	1.5	1.5
IV	1.4	2.8	1.7	1.6	1.6	9.5	2.2	0.9	4.2	1.8	1.6
2018											
I	1.4	2.9	1.7	1.6	1.5	9.4	2.3	0.9	4.2	2.0	1.6
II	1.4	2.8	1.7	1.6	1.4	9.3	2.3	0.9	4.2	2.2	1.6
III	1.4	2.8	1.7	1.6	1.4	9.2	2.4	1.0	4.1	2.2	1.6
IV	1.3	2.7	1.7	1.6	1.4	9.1	2.4	1.0	4.1	2.3	1.7
2019											
I	1.3	2.5	1.7	1.6	1.5	9.0	2.5	1.0	3.9	2.3	1.7
II	1.3	2.4	1.7	1.6	1.6	8.9	2.4	1.0	3.9	2.2	1.8
III	1.3	2.4	1.7	1.6	1.7	8.8	2.5	1.0	3.8	2.2	1.8
IV	1.3	2.3	1.6	1.6	1.8	8.7	2.6	1.1	3.8	2.1	1.8

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TABLE 2 SUMMARY ITEMS

	TRADE BALANCE (EURO BN)	CURRENT ACCOUNT (EURO BN)	CURRENT ACCOUNT (% OF GDP)	GOVERNMENT FINANCIAL BALANCE (EURO BN)	GOVERNMENT FINANCIAL BALANCE (% OF GDP)	SHORT-TERM INTEREST RATE	LONG-TERM INTEREST RATE	REAL SHORT-TERM INTEREST RATE (Note 1)	REAL LONG-TERM INTEREST RATE (Note 1)	EXCHANGE RATE US DOLLAR PER EURO (RXD)	EFFECTIVE EXCHANGE RATE 2010=100 (RX)
	(BVI)	(BCU)	(BCU*100 /GDP)	(GB)	(GB*100 /GDP)	(RSH)	(RLG)	(Note 1)	(Note 1)	(RXD)	(RX)
YEARS BEGINNING Q1											
2014	178.9	253.5	2.50	-260.9	-2.57	0.21	2.04	-0.22	1.61	1.33	123.6
2015	241.0	332.8	3.19	-215.6	-2.06	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	280.3	356.5	3.32	-182.7	-1.70	-0.26	0.81	-0.55	0.53	1.11	120.0
2017	248.0	315.7	2.86	-159.2	-1.44	-0.28	1.28	-1.83	-0.28	1.06	118.5
2018	234.1	297.0	2.60	-137.0	-1.20	-0.15	1.90	-1.77	0.28	1.06	118.1
2019	216.4	272.0	2.31	-121.6	-1.03	0.24	2.55	-1.54	0.77	1.09	118.8
2014											
I	40.1	66.3	2.64	-68.7	-2.73	0.30	2.65	-0.36	2.00	1.37	125.7
II	39.3	54.1	2.14	-66.7	-2.65	0.30	2.22	-0.26	1.66	1.37	125.2
III	40.6	62.7	2.47	-64.2	-2.53	0.16	1.79	-0.19	1.44	1.33	122.6
IV	58.9	70.4	2.75	-61.2	-2.39	0.08	1.50	-0.08	1.33	1.25	121.1
2015											
I	57.2	86.3	3.34	-58.0	-2.24	0.05	1.01	0.36	1.33	1.13	114.9
II	60.0	82.7	3.18	-55.0	-2.11	-0.01	1.27	-0.20	1.08	1.11	112.6
III	58.0	80.8	3.09	-52.4	-2.00	-0.03	1.36	-0.12	1.27	1.11	116.1
IV	65.8	83.1	3.14	-50.2	-1.90	-0.09	1.19	-0.26	1.03	1.10	116.1
2016											
I	65.1	87.4	3.29	-49.1	-1.85	-0.19	1.05	-0.23	1.00	1.10	119.0
II	73.3	96.5	3.61	-46.2	-1.73	-0.26	0.89	-0.17	0.97	1.13	119.5
III	68.6	83.0	3.08	-45.2	-1.68	-0.30	0.54	-0.63	0.20	1.11	121.3
IV	73.3	89.6	3.30	-42.3	-1.56	-0.30	0.78	-1.15	-0.07	1.09	120.1
2017											
I	66.1	76.2	2.79	-44.3	-1.62	-0.31	1.04	-1.87	-0.52	1.07	119.5
II	58.3	77.8	2.83	-40.0	-1.45	-0.30	1.23	-1.83	-0.30	1.06	118.8
III	59.2	77.1	2.78	-38.5	-1.39	-0.26	1.36	-1.79	-0.18	1.05	118.1
IV	64.5	84.6	3.02	-36.3	-1.30	-0.23	1.48	-1.82	-0.11	1.05	117.8
2018											
I	60.0	71.0	2.52	-38.4	-1.36	-0.20	1.62	-1.80	0.03	1.05	117.8
II	54.4	73.8	2.60	-34.0	-1.20	-0.17	1.80	-1.76	0.21	1.06	118.0
III	56.7	72.2	2.52	-32.3	-1.13	-0.14	1.99	-1.78	0.35	1.06	118.1
IV	63.0	80.0	2.77	-32.3	-1.12	-0.10	2.18	-1.75	0.53	1.07	118.3
2019											
I	56.5	66.0	2.27	-33.7	-1.16	0.15	2.35	-1.56	0.64	1.07	118.5
II	49.6	67.3	2.29	-30.7	-1.04	0.23	2.48	-1.54	0.72	1.08	118.7
III	51.5	65.0	2.19	-28.9	-0.98	0.27	2.62	-1.53	0.83	1.09	118.9
IV	58.8	73.7	2.47	-28.5	-0.95	0.30	2.76	-1.55	0.91	1.10	119.1

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

	2005-2014	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
GDP	0.7	1.6	-0.8	-0.2	1.1	1.9	1.6	1.5	1.6	1.6	1.6	1.5	1.5	1.4	1.3	1.6
Consumption	0.5	-0.1	-1.2	-0.5	0.8	1.7	1.6	1.4	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.4
Investment	-0.2	1.7	-3.2	-2.4	1.5	2.9	2.3	2.6	2.8	2.4	2.3	2.2	2.0	1.8	1.6	2.3
Government Consumption	1.2	-0.1	-0.3	0.2	0.6	1.4	1.7	1.2	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Exports of Goods and Services	3.5	6.7	2.8	2.3	4.4	6.1	2.2	2.7	2.8	2.7	2.9	2.9	2.9	2.7	2.5	3.0
Imports of Goods and Services	2.9	4.6	-0.7	1.5	4.8	6.1	2.5	3.1	3.1	3.0	3.0	2.9	2.8	2.7	2.5	3.2
Unemployment (%)	9.8	10.2	11.4	12.0	11.6	10.9	10.1	9.6	9.3	8.9	8.5	8.3	8.0	7.8	7.6	8.9
Consumer Prices	1.9	2.7	2.5	1.3	0.4	0.0	0.3	1.6	1.6	1.8	1.9	1.9	1.9	1.9	1.9	1.5
Current Balance (% of GDP)	0.5	0.4	1.3	2.1	2.5	3.2	3.3	2.9	2.6	2.3	2.1	2.0	1.9	1.8	1.8	2.4
Exchange Rate (US\$ per Euro)	1.34	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.06	1.09	1.11	1.14	1.17	1.20	1.23	1.13
General Government Balance (% of GDP)	-3.2	-4.2	-3.7	-3.0	-2.6	-2.1	-1.7	-1.4	-1.2	-1.0	-0.8	-0.7	-0.6	-0.5	-0.5	-1.1
Short-term Interest Rates (%)	1.9	1.4	0.6	0.2	0.2	0.0	-0.3	-0.3	-0.2	0.2	0.5	0.9	1.4	1.9	2.4	0.7
Long-term Interest Rates (%)	3.7	4.4	3.9	3.0	2.0	1.2	0.8	1.3	1.9	2.6	3.1	3.5	3.7	3.9	4.0	2.6
Working Population	0.2	0.0	0.2	0.2	0.1	0.3	0.2	0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	0.0
Labour Supply	0.5	0.2	0.8	0.0	0.2	0.2	0.4	0.3	0.3	0.1	0.0	0.0	0.0	-0.1	-0.1	0.1
Participation Ratio (%)	76.0	76.2	76.7	76.5	76.6	76.5	76.7	76.9	77.1	77.3	77.4	77.6	77.7	77.7	77.8	77.3
Labour productivity	0.5	1.5	-0.4	0.4	0.5	0.9	0.4	0.7	0.9	1.0	1.1	1.2	1.3	1.3	1.3	1.0
Employment	0.3	0.1	-0.4	-0.6	0.6	1.1	1.2	0.8	0.6	0.5	0.4	0.3	0.2	0.2	0.0	0.5
Output gap (% of potential GDP)	-0.7	-1.0	-2.4	-3.3	-3.1	-2.3	-1.9	-1.8	-1.6	-1.3	-1.0	-0.7	-0.5	-0.3	-0.1	-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

Long-term economic & social development

	1980	1990	2000	2014*
GDP per capita (US\$)	-	18223	20722	40286
Inflation (%)	9.9	4.2	2.2	0.4
Population (mn)	302	303	313	334
Urban population (% of total)	69.9	71.3	72.6	75.7
Life expectancy (years)	73.5	75.9	78.3	81.7

Source : Oxford Economics & World Bank

Structure of GDP by output

	2014
Agriculture	1.7%
Industry	24.3%
Services	74.0%

Source : World Bank

* 2014 or latest
available year

Structural economic indicators

	1990	1995	2000	2014*
Current account (US\$ billion)	30	163	-167	337
Trade balance (US\$ billion)	-24	62	-33	238
FDI (US\$ billion)	-	-	29	-124
Govt budget (% of GDP)	-4	-7	0	-3
Govt debt (% of GDP)	14	68	67	92
Long-term interest rate	10	9	5	2

Oil production (000 bpd)	264	304	232	224
Oil consumption (000 bpd)	9716	10478	10930	9248

Source : Oxford Economics / World Bank / EIA

Destination of goods' exports 2014

Eurozone	45.9%
UK	7.1%
US	6.8%
China	3.7%
Switzerland	3.0%
Poland	2.9%

Source : Eurostat \ Haver Analytics



Source : ECB

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

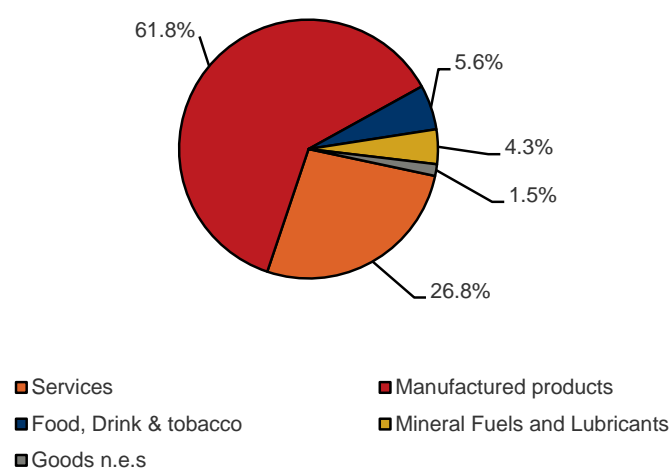
Corruption perceptions index 2015

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

Source: Transparency International

Scoring system 100 = highly clean, 0 = highly corrupt

Composition of extra-EMU goods & services exports 2014



Source : Eurostat \ Haver Analytics