Eurozone

Highlights

- The Eurozone's already-insipid recovery slowed further in the second quarter of the year, with quarterly GDP growth dipping from 0.3% in Q1 to zero. The slowdown is in part explained by temporary weakness in German construction activity. However, alongside this Italy contracted for the 11th quarter out of 12, while French GDP was unchanged for the second consecutive quarter. Of the Eurozone's major economies, only Spain posted positive growth in Q2, of an encouraging 0.6%.
- Over H2 2014 we expect a modest rebound in the pace of recovery as these temporary factors unwind and the weakening euro provides some support to exporters. Consumer spending should also tentatively improve, especially in those economies where labour markets are beginning to recover. Overall we expect Eurozone GDP to grow by 0.8% for 2014 as a whole, the first calendar year growth since 2011, though this is a downward revision from the 1% seen before.
- As the autumn moves closer, attention will increasingly focus on the start of the ECB's TLTRO programme. We remain to be convinced that the programme will have an especially pronounced impact on lending to the non-financial sector and investment. We expect a relatively modest pickup in investment in 2015, alongside gradual improvements in external demand for Eurozone goods and services, and strengthening consumer spending. Overall we expect the pace of growth to pick up to 1.5% in 2015.
- Nevertheless, risks remain. Internally the risk of deflation cannot yet be dismissed, with price rises becoming yet smaller in recent months. A weakening of the recovery or a rebound in the euro would increase the likelihood of a slip into deflation. Moreover, although the impact of the latest rounds of sanctions between Russia and the EU is likely to be relatively limited, the threat of worse to come is a risk to the ongoing normalisation of business confidence.

Forecast for Eurozone

(Annual percentage changes unless specified)

	2013	2014	2015	2016	2017	2018
Domestic Demand	-0.9	0.9	1.4	1.5	1.5	1.6
Private Consumption	-0.6	0.7	1.4	1.5	1.5	1.5
Fixed Investment	-2.8	0.9	2.3	2.8	2.7	2.6
Stockbuilding (% of GDP)	-0.1	0.1	0.2	0.1	0.1	0.1
Government Consumption	0.2	0.4	0.3	0.5	0.6	0.8
Exports of goods and services	1.5	3.0	4.1	4.3	4.1	3.9
Imports of goods and services	0.4	3.4	4.0	4.1	4.0	3.8
GDP	-0.4	0.8	1.5	1.7	1.7	1.7
Industrial Production	-1.0	1.9	2.6	2.2	2.0	1.8
Consumer Prices	1.3	0.7	1.2	1.5	1.6	1.5
Current Balance (% of GDP)	2.4	2.6	2.5	2.5	2.5	2.4
Government Budget (% of GDP)	-3.0	-2.6	-2.1	-1.7	-1.4	-1.2
Short-Term Interest Rates (%)	0.22	0.22	0.15	0.15	0.29	0.75
Long-Term Interest Rates (%)	3.00	2.19	1.98	2.12	2.43	3.01
Exchange rate (US$ per Euro)	1.33	1.36	1.31	1.28	1.28	1.27
Exchange rate (YEN per Euro)	129.6	139.5	137.4	136.7	135.2	133.7

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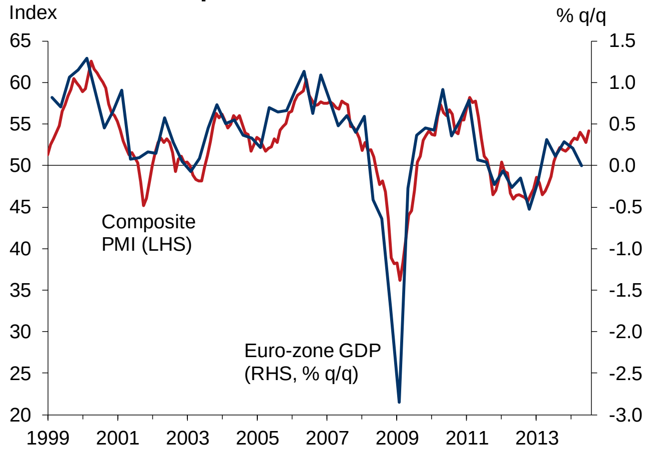
Forecast Overview

Recovery wobbles in Q2…

The Eurozone recovery lost momentum in Q2 in spite of reasonably solid survey measures of activity. GDP stagnated in the second quarter, weighed down by German construction activity adjusting to unseasonably mild weather in Q1 (and therefore less "catch-up" work in subsequent months). Italian GDP fell 0.2% in Q2 as consumers cut back, while in France GDP stagnated. Of the Eurozone's largest four economies, only in Spain, where PMI readings have remained above 55 through Q2, was there GDP growth in the second quarter.

Eurozone Composite PMI & GDP

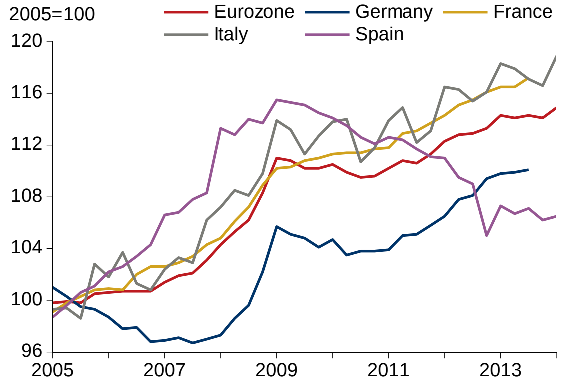


Source : Oxford Economics/Haver Analytics/Markit

…and will only accelerate gradually in H2

Nevertheless growth should pick up again over the second half of the year. Exporters will start to feel the benefit of the euro depreciating around 4% versus the dollar since May, and we expect a further slide to $1.32 by year-end. Meanwhile labour markets are continuing to gradually improve in many of the worst-hit economies (as well as becoming ever-tighter in Germany and Austria) - supporting household spending in coming months. As such, GDP growth should rise to around 0.3% per quarter in H2, yielding 0.8% for 2014 as a whole.

Eurozone: Unit labour costs



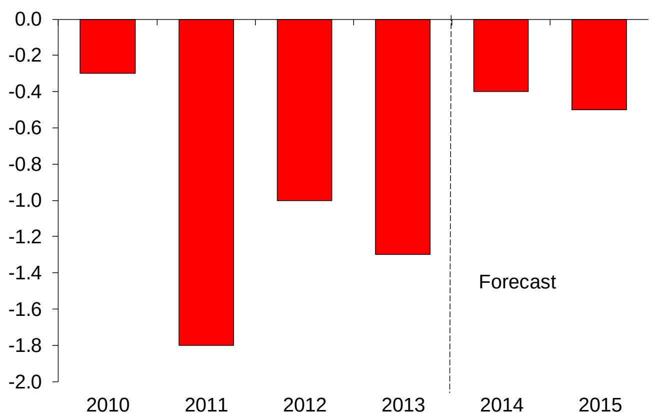
Source: Haver Analytics

Looking ahead, attention will increasingly focus on the start of the TLTRO programme in September. Mario Draghi noted recently this might have a substantial impact on lending and investment in the years to come. But given only weak enforcement that the cash lent to banks is passed on in the form of loans to non-financial firms we have not materially revised our expectations, and our forecast for growth in 2015 onwards is broadly unchanged. There remain several reasons for the recovery to remain gradual and variable by country:

- **Competitiveness –** although reforms and wage compression have resulted in some economies (e.g. Spain and Ireland) gaining competitiveness, others (most notably Italy, France and Belgium) have seen costs rise. As a result, the latter group of economies is set for slower export growth compared to more competitive economies and their own pre-crisis rates.
- **Fiscal policy –** the worst of the fiscal squeeze may now be over but in the Eurozone as a whole fiscal policy will continue to restrain growth, albeit by less than a year or two ago. And for some, such as France, the easing in the fiscal squeeze will be minimal.

Stimulus/drag from fiscal policy

Percent of potential GDP, Euro Area

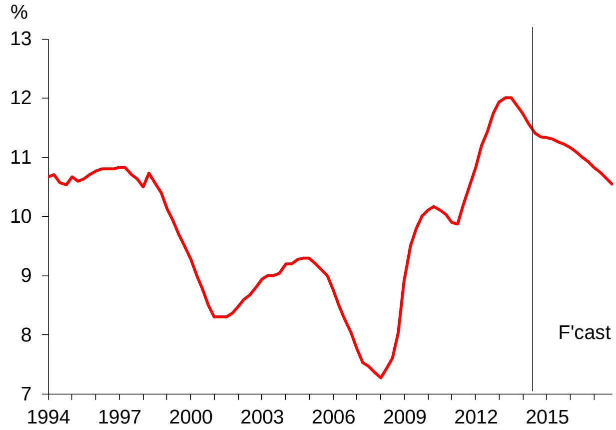


Source : Oxford Economics/Haver Analytics/OECD

- **Household spending power to remain weak –** although unemployment may be falling, the labour market recovery remains subdued and most economies face years of labour market slack. For Spain and Greece it will take several years for the unemployment rate to fall below 20%. Against this backdrop, wage growth will be subdued. In addition, high levels of household debt in some economies, such as Spain, Portugal and the Netherlands, will prompt deleveraging in the household sector, further limiting the pace of spending growth.

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.

Eurozone: Unemployment



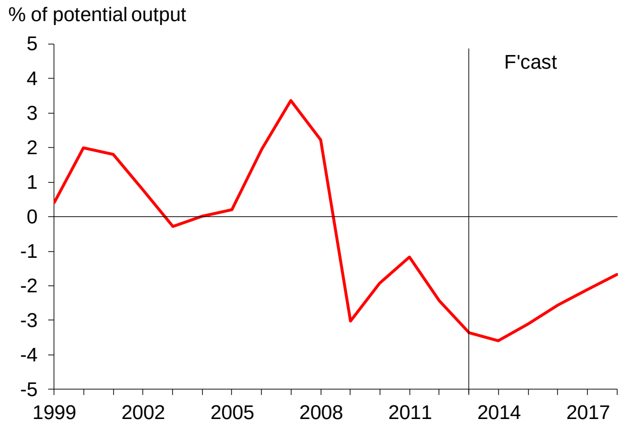
Source: Oxford Economics

Deflation remains a risk…

Given current weakness in price rises (inflation fell to 0.4% on the CPI measure in the year to July) and large degree of spare capacity that will persist for some time, the Eurozone remains at risk of a bout of deflation, which could have serious impacts on the real debt burdens faced by households, firms and governments.

In response, the ECB's June policy measures have reduced short and long-term interest rates, and while the resulting depreciation of the euro has probably been a bit limited for the central bank's liking we expect further falls over the coming quarters. As disinflationary forces from food and energy prices and the exchange rate are more likely to ease rather than worsen, we expect CPI inflation to pick up from 0.7% this year to 1.2% in 2015.

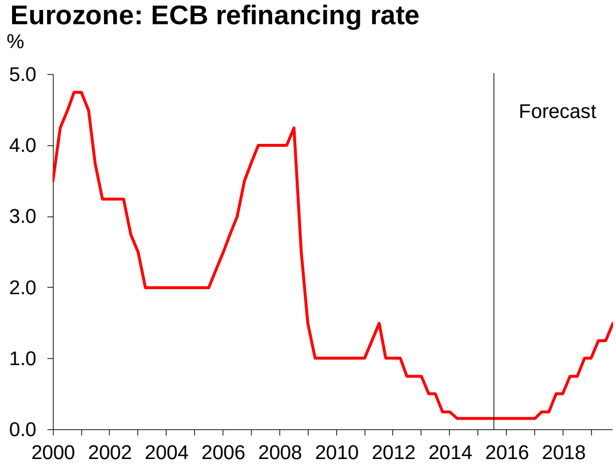
Eurozone: Output gap



Source: Oxford Economics

Given this and the fact that it may be at least another six months or so before the effects of the TLTROs are discernable, our central scenario remains that the ECB will not undertake quantitative easing. Nonetheless, we expect a long period of pretty weak inflation, implying that the ECB is unlikely to raise interest rates as soon as the Bank of England or the Fed.

Eurozone: ECB refinancing rate



Source: Oxford Economics

…as does the conflict in Ukraine

Finally, we do not expect the recent sanctions imposed by the EU and Russia to have a discernable impact on the Eurozone recovery, given that they are relatively limited in scope. But the threat of more widespread disruption to trade - particular in energy - or escalating financial difficulties in Russia itself, threatens to have an impact on business confidence. We estimate that a scenario where Russia invaded Ukraine in order to assert control of separatist regions would push the Eurozone into another year of recession in 2015.

Long-Term Prospects

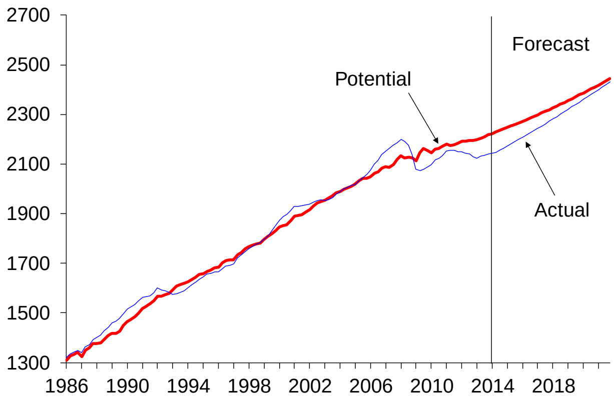
Very slow recovery from crises

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%. 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*	1.86	0.97
Employment at NAIRU	0.98	0.14
Capital Stock	2.13	1.21
Total Factor Productivity	0.47	0.45

*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	1.5	1.7
Consumption	1.5	-0.3	1.3	1.5
Investment	2.9	-3.8	2.3	2.0
Government Consumption	2.0	0.5	0.5	1.2
Exports of Goods and Services	5.8	1.7	3.9	3.0
Imports of Goods and Services	5.7	0.4	3.9	3.0
Unemployment (%)	8.4	10.6	11.0	9.2
Consumer Prices	2.4	1.7	1.3	1.7
Current Balance (% of GDP)	-0.2	0.8	2.5	2.4
Exchange Rate (US$ per Euro)	1.32	1.34	1.30	1.26
General Government Balance (% of GDP)	-1.9	-4.7	-1.8	-0.8
Short-term Interest Rates (%)	3.3	0.8	0.3	2.2
Long-term Interest Rates (%)	4.0	3.8	2.3	4.2
Working Population	0.4	0.1	0.0	-0.2
Labour Supply	0.9	0.2	0.1	0.0
Participation Ratio	74.7	75.8	76.1	76.8
Labour Productivity	0.9	0.3	1.0	1.3

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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)
Jul	-1.8	12.0	1.6	-0.5	-17.3	3.2	0.5	18.2
Aug	-1.6	12.0	1.3	-0.2	-15.5	-5.6	-7.2	7.3
Sep	0.2	12.0	1.1	-0.2	-14.8	3.0	1.4	11.3
Oct	0.5	11.9	0.7	0.0	-14.4	1.4	-2.9	16.7
Nov	2.6	11.9	0.9	0.3	-15.3	-1.9	-4.8	17.0
Dec	1.6	11.8	0.8	0.3	-13.5	4.1	1.4	14.1
2014								
Jan	2.1	11.8	0.8	0.2	-11.7	1.2	-2.7	0.9
Feb	1.9	11.7	0.7	0.4	-12.7	3.3	0.2	14.5
Mar	0.5	11.7	0.5	0.4	-9.3	-0.7	2.9	16.4
Apr	1.6	11.6	0.7	0.3	-8.6	-1.5	-2.5	15.4
May	0.7	11.6	0.5	0.4	-7.1	0.2	-0.3	15.4
Jun	0.0	11.5	0.5	0.2	-7.5	-	-	-
Jul	-	-	0.4	0.2	-8.4	-	-	-

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
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	17.9
Nov	0.22	3.17	1.5	1.35	1.19	107.4	3087	-23.2
Dec	0.27	3.31	1.0	1.37	1.19	108.8	3109	-11.0
2014								
Jan	0.29	3.21	1.1	1.36	1.21	108.3	3014	-9.2
Feb	0.29	3.09	1.3	1.37	1.21	108.2	3149	-0.5
Mar	0.31	2.89	1.0	1.38	1.20	109.1	3162	-14.6
Apr	0.33	2.61	0.7	1.38	1.21	108.7	3198	-18.7
May	0.32	2.55	1.0	1.37	1.23	107.8	3245	12.0
Jun	0.24	2.28	1.5	1.36	1.24	106.9	3228	-
Jul	0.21	2.16	-	1.35	1.26	106.4	3116	-

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	-2.8	-0.9	-0.4	-1.0	12.0	1.7	0.4	1.4	-0.4	1.3
2014	0.7	0.9	0.9	0.8	1.9	11.5	1.4	0.5	1.8	-1.2	0.7
2015	1.4	2.3	1.4	1.5	2.6	11.3	2.1	1.2	3.6	1.2	1.2
2016	1.5	2.8	1.5	1.7	2.2	11.1	2.6	1.2	3.9	1.8	1.5
2017	1.5	2.7	1.5	1.7	2.0	10.7	2.6	1.2	3.8	1.8	1.6
2018	1.5	2.6	1.6	1.7	1.8	10.4	2.6	1.2	3.4	1.8	1.5
2013											
I	-1.4	-5.3	-2.0	-1.1	-2.7	11.9	1.7	-0.1	2.1	0.7	1.9
II	-0.7	-3.4	-1.4	-0.6	-1.5	12.0	1.6	0.4	1.7	-0.4	1.4
III	-0.4	-2.4	-0.4	-0.3	-1.1	12.0	1.7	0.5	1.5	-0.8	1.3
IV	0.2	-0.1	0.2	0.5	1.2	11.9	1.7	0.9	0.4	-1.2	0.8
2014											
I	0.5	1.7	0.8	0.9	2.3	11.7	1.4	0.8	0.8	-1.6	0.6
II	0.6	0.7	0.9	0.7	1.4	11.6	1.4	0.2	1.4	-1.3	0.6
III	0.7	0.8	0.7	0.8	1.9	11.4	1.3	0.5	2.1	-1.3	0.6
IV	1.0	0.5	1.1	0.9	2.1	11.4	1.6	0.5	2.8	-0.7	0.9
2015											
I	1.2	1.0	1.0	1.1	2.2	11.3	1.7	0.7	3.5	0.1	1.1
II	1.4	2.6	1.5	1.5	3.1	11.3	2.1	1.4	3.4	1.1	1.2
III	1.5	2.8	1.5	1.7	2.7	11.3	2.3	1.3	3.6	1.6	1.3
IV	1.5	2.9	1.5	1.7	2.6	11.2	2.5	1.3	3.8	1.8	1.3
2016											
I	1.4	2.9	1.5	1.7	2.5	11.2	2.5	1.3	3.9	1.8	1.4
II	1.4	2.9	1.5	1.7	2.3	11.1	2.6	1.2	3.8	1.8	1.5
III	1.5	2.8	1.5	1.7	2.2	11.0	2.6	1.2	3.8	1.8	1.6
IV	1.5	2.7	1.5	1.7	2.1	10.9	2.6	1.2	3.9	1.8	1.6
2017											
I	1.5	2.7	1.5	1.7	2.0	10.8	2.6	1.1	3.8	1.8	1.6
II	1.5	2.6	1.5	1.7	2.0	10.7	2.6	1.2	3.8	1.8	1.6
III	1.5	2.7	1.5	1.7	2.0	10.7	2.6	1.2	3.8	1.9	1.6
IV	1.5	2.7	1.5	1.7	1.9	10.6	2.5	1.2	3.7	1.9	1.5
2018											
I	1.5	2.7	1.5	1.7	1.9	10.5	2.5	1.2	3.6	1.8	1.5
II	1.5	2.6	1.5	1.7	1.9	10.4	2.6	1.2	3.5	1.8	1.5
III	1.5	2.6	1.6	1.7	1.8	10.3	2.6	1.2	3.4	1.8	1.5
IV	1.5	2.6	1.6	1.7	1.8	10.2	2.6	1.2	3.3	1.7	1.5

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	158.5	230.7	2.40	-290.1	-3.02	0.22	3.00	-1.13	1.65	1.33	120.8
2014	175.4	253.0	2.59	-251.6	-2.58	0.22	2.19	-0.45	1.51	1.36	124.3
2015	177.4	254.0	2.53	-207.6	-2.07	0.15	1.98	-1.08	0.75	1.31	121.3
2016	188.2	260.0	2.50	-179.4	-1.73	0.15	2.12	-1.39	0.58	1.28	120.2
2017	200.1	264.2	2.46	-155.1	-1.45	0.29	2.43	-1.31	0.83	1.28	120.1
2018	206.4	268.6	2.43	-134.4	-1.21	0.75	3.01	-0.78	1.49	1.27	119.8
2013											
I	37.9	52.2	2.19	-78.0	-3.27	0.21	3.06	-1.64	1.20	1.32	118.8
II	41.0	61.8	2.57	-74.0	-3.08	0.21	2.82	-1.19	1.43	1.31	119.2
III	36.0	49.9	2.07	-70.5	-2.93	0.22	3.15	-1.12	1.80	1.32	121.7
IV	43.6	66.8	2.77	-67.6	-2.80	0.24	2.97	-0.57	2.16	1.36	123.7
2014											
I	43.5	55.6	2.29	-68.0	-2.80	0.30	2.66	-0.35	2.01	1.37	125.6
II	40.8	69.1	2.84	-62.4	-2.57	0.30	2.23	-0.27	1.66	1.37	125.1
III	48.0	63.8	2.61	-61.8	-2.53	0.15	1.93	-0.40	1.38	1.35	123.7
IV	43.2	64.5	2.62	-59.4	-2.41	0.15	1.93	-0.79	0.99	1.33	122.7
2015											
I	45.4	61.5	2.48	-56.9	-2.29	0.15	1.94	-0.92	0.88	1.32	122.1
II	38.8	66.3	2.65	-52.3	-2.09	0.15	1.95	-1.06	0.74	1.31	121.5
III	48.4	62.0	2.46	-50.9	-2.02	0.15	2.00	-1.14	0.71	1.30	121.0
IV	44.8	64.3	2.53	-47.5	-1.87	0.15	2.03	-1.19	0.70	1.29	120.6
2016											
I	48.0	64.0	2.50	-48.6	-1.89	0.15	2.07	-1.29	0.63	1.29	120.4
II	41.5	67.3	2.61	-45.8	-1.77	0.15	2.10	-1.36	0.59	1.28	120.1
III	51.0	63.1	2.42	-44.5	-1.71	0.15	2.14	-1.44	0.55	1.28	120.1
IV	47.8	65.5	2.49	-40.6	-1.54	0.15	2.18	-1.48	0.54	1.28	120.1
2017											
I	50.8	64.1	2.42	-41.8	-1.58	0.15	2.28	-1.48	0.64	1.28	120.2
II	44.4	68.1	2.55	-39.3	-1.47	0.25	2.38	-1.38	0.75	1.28	120.1
III	54.1	64.9	2.41	-38.7	-1.44	0.25	2.48	-1.33	0.89	1.28	120.1
IV	50.8	67.0	2.47	-35.3	-1.30	0.50	2.58	-1.04	1.03	1.28	120.1
2018											
I	53.6	65.9	2.41	-36.2	-1.32	0.50	2.72	-1.03	1.19	1.28	119.9
II	46.5	69.4	2.52	-34.1	-1.24	0.75	2.92	-0.78	1.39	1.27	119.8
III	55.2	66.0	2.38	-33.7	-1.21	0.75	3.11	-0.78	1.59	1.27	119.7
IV	51.2	67.2	2.40	-30.4	-1.09	1.00	3.31	-0.53	1.78	1.27	119.6

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

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	1.9	1.6	-0.6	-0.4	0.8	1.5	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6
Consumption	0.6	1.0	0.3	-1.4	-0.6	0.7	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4
Investment	-0.5	-0.6	1.7	-3.8	-2.8	0.9	2.3	2.8	2.7	2.6	2.4	2.2	2.0	1.9	1.8	2.2
Government Consumption	1.2	0.6	-0.1	-0.6	0.2	0.4	0.3	0.5	0.6	0.8	1.0	1.1	1.2	1.3	1.3	0.9
Exports of Goods and Services	3.7	11.4	6.7	2.7	1.5	3.0	4.1	4.3	4.1	3.9	3.5	3.2	2.9	2.8	2.6	3.4
Imports of Goods and Services	3.0	9.8	4.7	-0.8	0.4	3.4	4.0	4.1	4.0	3.8	3.6	3.2	2.9	2.7	2.5	3.4
Unemployment (%)	9.5	10.1	10.1	11.3	12.0	11.5	11.3	11.1	10.7	10.4	10.0	9.6	9.2	8.8	8.5	10.1
Consumer Prices	2.1	1.6	2.7	2.5	1.3	0.7	1.2	1.5	1.6	1.5	1.6	1.6	1.7	1.8	1.8	1.5
Current Balance (% of GDP)	0.3	0.1	0.1	1.5	2.4	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Exchange Rate (US$ per Euro)	1.33	1.33	1.39	1.28	1.33	1.36	1.31	1.28	1.28	1.27	1.27	1.26	1.26	1.25	1.25	1.28
General Government Balance (% of GDP)	-3.3	-6.2	-4.1	-3.7	-3.0	-2.6	-2.1	-1.7	-1.4	-1.2	-1.0	-0.9	-0.8	-0.6	-0.6	-1.3
Short-term Interest Rates (%)	2.1	0.8	1.4	0.6	0.2	0.2	0.2	0.2	0.3	0.8	1.3	1.8	2.3	2.8	3.2	1.3
Long-term Interest Rates (%)	3.9	3.6	4.4	3.9	3.0	2.2	2.0	2.1	2.4	3.0	3.8	4.2	4.3	4.3	4.3	3.3
Working Population	0.2	0.0	0.0	0.2	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Labour Supply	0.6	0.1	0.3	0.7	-0.1	-0.1	0.1	0.2	0.1	0.1	0.0	0.0	0.0	-0.1	-0.1	0.0
Participation Ratio (%)	75.2	75.6	75.8	76.1	75.9	75.8	75.9	76.1	76.2	76.4	76.5	76.7	76.8	76.9	77.0	76.4
Labour productivity	0.6	2.4	1.3	0.0	0.4	0.5	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.2
Employment	0.2	-0.5	0.3	-0.6	-0.8	0.3	0.3	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.4
Output gap (% of potential GDP)	-0.1	-1.7	-0.8	-2.2	-3.2	-3.5	-3.0	-2.5	-2.0	-1.6	-1.2	-0.8	-0.5	-0.3	-0.1	-1.6

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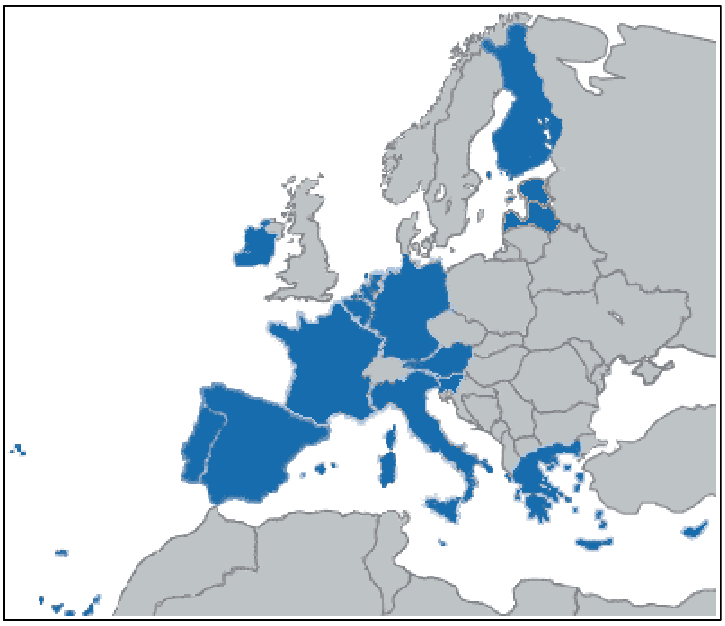
Key Facts

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

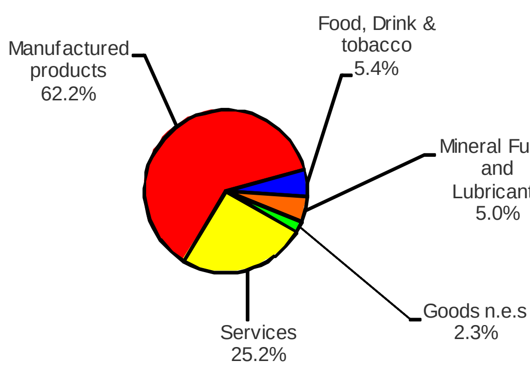
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2013*
Current account (US$ billion)	10	54	-95	306
Trade balance (US$ billion)	-23	63	-27	211
FDI (US$ billion)	-	-	-25	-7
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	0

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