

Country Economic Forecast

Eurozone

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Encouraging data has prompted us to raise our 2017 GDP growth forecast again...

...but the ECB is unlikely to respond to stronger activity data by bringing forward policy tightening

- **The ongoing strength of survey data, combined with an improving export outlook and decline in political uncertainty, has led us to raise our Eurozone GDP growth forecast for 2017 from 1.7% to 1.9%, and an even stronger result should not be ruled out.**
- Although the 0.5% rise in Eurozone GDP in Q1 was not as strong as the business surveys had suggested, it marked a solid start to the year. Given that the surveys have strengthened further in the early stages of Q2, a pick-up in growth this quarter is quite possible, particularly if global trade data continue to strike an encouraging tone.
- The revision to our 2017 GDP growth forecast to 1.9% (from 1.5% at the start of the year) leaves it well above the consensus estimate of 1.6%. By component, we have made a strong upward revision to export growth, from 2.6% to 4.4%, but the boost from net trade is limited by the fact that the high import content of exports and stronger household spending and investment have led to an upward revision to our import forecast too.
- For now, the missing piece of the recovery remains investment. At 2.5%, our investment forecast for this year is weaker than last year's expansion of 3.5%. However, Emmanuel Macron's French presidential election win and improving export prospects could potentially trigger a sharper rise this year.
- Despite the improving outlook for activity, there remain few clear signs of a notable pick-up in underlying inflation pressures. As a result, the ECB is unlikely to respond to the positive activity data by tightening monetary policy imminently – our view remains that the next policy change will be a tapering of QE in January.

Forecast for Eurozone						
(Annual percentage changes unless specified)						
	2015	2016	2017	2018	2019	2020
Domestic Demand	1.8	2.2	1.9	1.5	1.5	1.3
Private Consumption	1.8	1.9	1.5	1.4	1.3	1.2
Fixed Investment	3.0	3.5	2.5	2.2	2.2	2.0
Stockbuilding (% of GDP)	0.1	0.1	0.3	0.3	0.3	0.3
Government Consumption	1.3	1.8	1.2	1.1	1.0	1.0
Exports of goods and services	6.3	2.9	4.4	3.3	2.7	2.6
Imports of goods and services	6.3	4.0	4.6	3.3	3.0	2.8
GDP	1.9	1.7	1.9	1.6	1.4	1.3
Industrial Production	2.1	1.5	1.8	1.3	1.4	1.4
Consumer Prices	0.0	0.2	1.6	1.6	1.9	2.0
Current Balance (% of GDP)	3.2	3.3	2.8	2.8	2.5	2.4
Government Budget (% of GDP)	-2.1	-1.5	-1.2	-1.1	-1.0	-0.8
Short-Term Interest Rates (%)	0.0	-0.3	-0.3	-0.3	-0.1	0.1
Long-Term Interest Rates (%)	1.2	0.9	1.3	1.8	2.1	2.4
Exchange rate (US\$ per Euro)	1.11	1.11	1.09	1.12	1.13	1.14
Exchange rate (YEN per Euro)	134.3	120.3	123.8	131.9	134.5	135.6

Forecast overview

Q1 GDP disappoints relative to surveys

The flash Eurozone GDP estimate for Q1 revealed growth of 0.5%, in line with the Q4 outturn and confirming that the business surveys had overstated the strength of the recovery in early-2017 – both the composite PMI and EC Economic Sentiment Indicator had pointed to growth of about 0.7%. However, the rise was in line with our baseline forecast, reflecting the fact that the hard data had painted a less positive picture than the surveys.

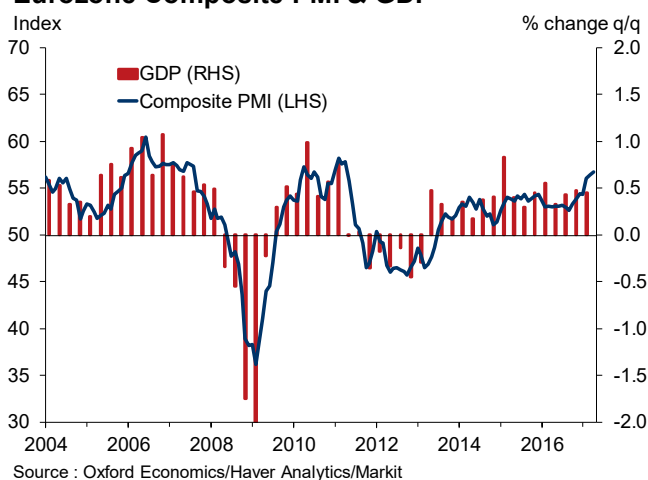
Based on previous periods when the surveys have significantly over-predicted GDP growth, the discrepancy subsequently tends to be resolved by GDP growth picking up and the survey balances falling back. Accordingly, we would caution against ignoring the further rise in the surveys in April – past experience suggests that there is a good chance that GDP growth will accelerate this quarter.

Recovery may broaden further

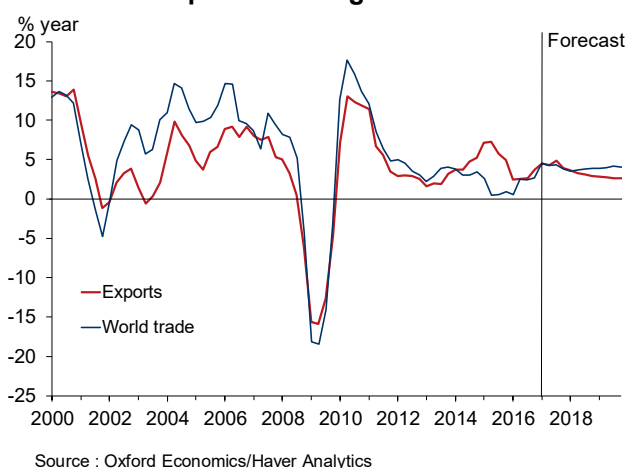
We also expect the economy to grow at an above-trend pace in H2 and think that the recovery may prove to be broader-based than over the past couple of years:

- Export conditions strengthening, but stronger euro to temper prospects further ahead:** while we doubt that Q4's robust quarterly rate of export growth will have been maintained in Q1, we still expect a solid performance based on the available data. Encouragingly, the further improvement in the survey-based measures of export orders in April is an encouraging indicator for Q2. More generally, we have lifted our global trade growth forecast, implying a slightly stronger pace of export growth ahead. While the recent rise in the euro may temper growth a bit, this negative influence will not negate the positive forces from stronger demand. As a result, we have upgraded our export growth forecast for 2017 from 3.6% last month to 4.4%, much better than last year's 2.9% rise.
- Investment set to join the recovery:** last year's weak global backdrop – world GDP growth was the slowest since 2009 – is likely to have been an important factor behind the recent lacklustre investment performance in the Eurozone. This will have been exacerbated by political uncertainties. While the latter may remain, most notably due to elections in Italy, probably early next year, the victory for Emmanuel Macron in the French presidential election should help to reduce fears of a

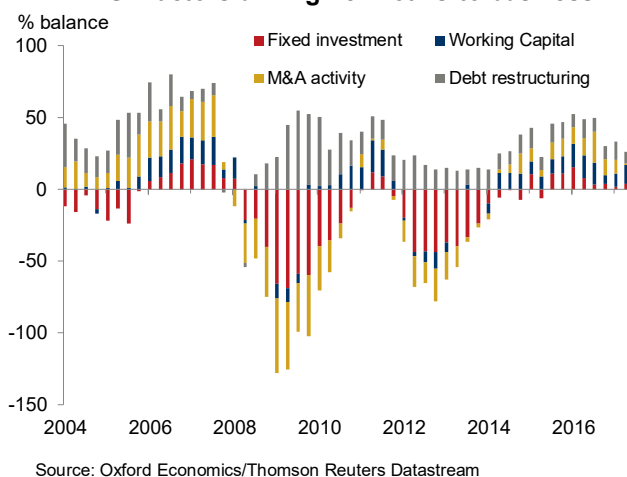
Eurozone Composite PMI & GDP



Eurozone: Exports & foreign demand



ECB BLS: Factors driving new loans to business



populist takeover in the Eurozone. Given this, improving business confidence and banks reporting increased demand for loans to fund investment, we expect investment growth to strengthen – we have raised our growth forecast for 2017 from 1.9% to 2.5%. And there is scope for a stronger rise in investment if the external backdrop continues to improve.

- Labour market to temper the inflation squeeze on household incomes:** with inflation set to remain well above the near-zero rates of 2014 and 2015, the era of robust real household income growth is now over. But we expect the slowdown in household spending to be modes. This partly reflects the fact that the employment recovery remains on track and should support income growth this year. In addition, while still subdued, there are tentative signs that wage growth may be starting to edge higher, a process which we expect to continue. We forecast household spending growth will slow from an exceptionally strong 1.9% in 2016, but the expected outturn of 1.5% for 2017 would still be healthy by the standards of the post-crisis years.

Overall, we now expect GDP growth of 1.9% this year, 0.2pp above both the 2016 outturn and our forecast last month. In 2018, we expect GDP to increase by 1.6%, compared with our April forecast of 1.5%.

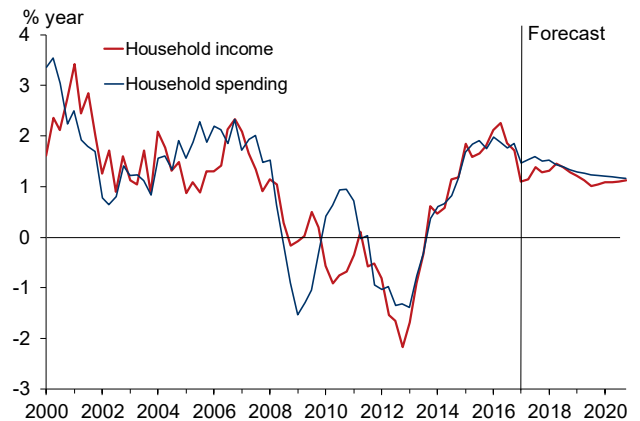
Underlying inflation still the ECB's key focus

The recent strength of the economic data and Marine Le Pen's failure to win the French presidential election have prompted many to speculate that the ECB could bring forward the likely start point for tightening monetary policy. However, we have not adjusted our baseline view on the policy adjustment path.

This reflects the fact that the ECB regards a pick-up in underlying inflation to be a prerequisite before non-standard policy measures are removed. For now, there is insufficient evidence of a sustained rise in inflationary pressures. Admittedly, core inflation did rise in April to a near four-year high of 1.2%. But this was mainly down to Easter-timing effects. Meanwhile, the rise in wage growth has not yet been strong enough to confirm that it has begun to trend higher.

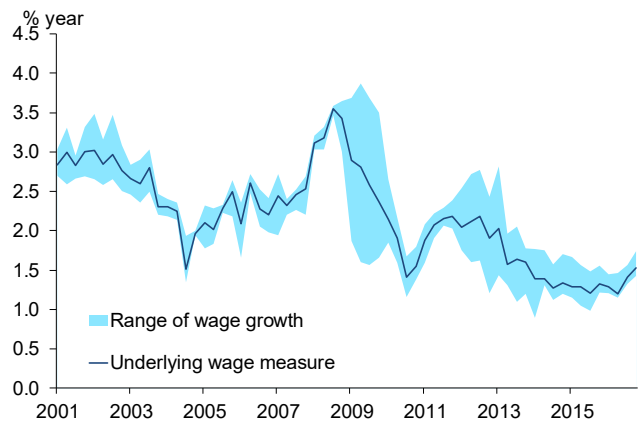
As a result, we still expect policy normalisation to start with the ECB tapering QE in January 2018. We see asset purchases being wound down by €10bn a month and thus ceasing in June 2018. We expect this tapering plan to be announced in September or October.

Eurozone: Real household spending & income



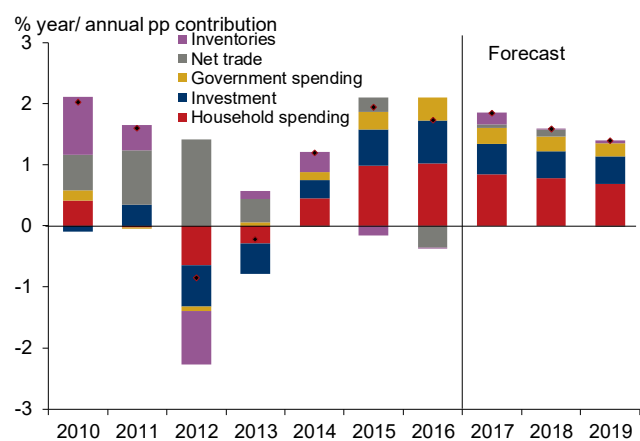
Source : Oxford Economics/Haver Analytics

Eurozone: Wage indicators



Source : Oxford Economics/Haver Analytics

Eurozone: GDP



Source: Haver Analytics/Oxford Economics

What to watch out for

Export growth surprise: while we have upgraded our assessment of global trade growth, our forecast remains reasonably lacklustre, implying scope for an upside surprise.

Receding political uncertainty supports growth: stronger global demand and easing fears about the election of populist governments could prompt increasingly confident businesses to increase investment spending more sharply than assumed in our baseline.

Italian induced instability: although the populist politicians have made smaller strides than many feared in recent European elections, the Italian general election (likely to take place in early-2018) could trigger renewed fears of anti-Eurozone/EU governments taking power and trigger financial market instability in the build-up to the vote.

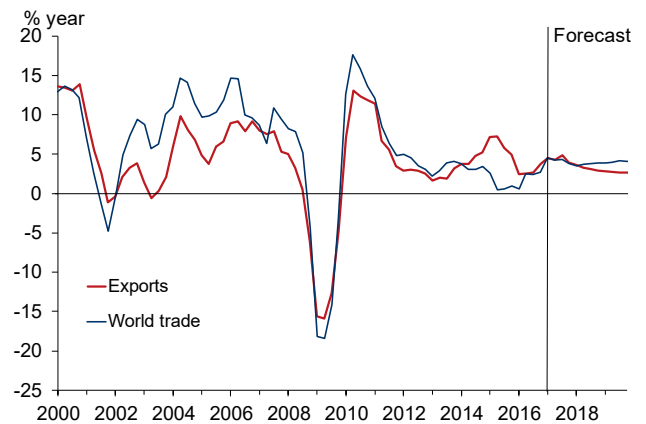
Monetary policy tightening: we expect the ECB to adopt a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, the typically hawkish central bank could surprise markets to the upside pushing bond yields and the euro higher, which in turn could slow growth.

Exposure to key global risks

Trump weighs on global growth: in this scenario, we assume that not only does President Trump fail to implement an expansionary fiscal policy but also that he adopts growth-unfriendly protectionist and isolationist policies, including large tariffs on China and Mexico. These policies push the US into recession, resulting in weaker export growth in the Eurozone in addition to damaging sentiment. These negative forces are partially offset by a fall in oil and commodity prices. GDP growth eases to below 1% in 2018 and only picks up slightly in 2019.

Bond market sell off: a rise in inflation pressures in the US prompts a faster pace of normalisation, prompting higher rate expectations and larger term premia. This results in a surge in US bond yields with spill-over effects to the rest of the world. This leads to faster monetary tightening in emerging economies, stunting Eurozone export growth further while reducing domestic demand in the currency bloc too. The weaker euro and delayed ECB tightening only partially offset these negative forces. As a result, GDP growth eases to 0.9% in 2018 before edging up to 1% the following year.

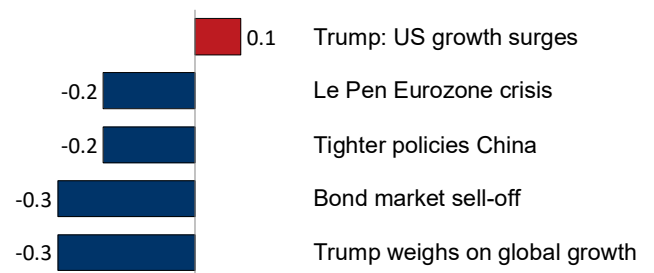
Eurozone: Exports & foreign demand



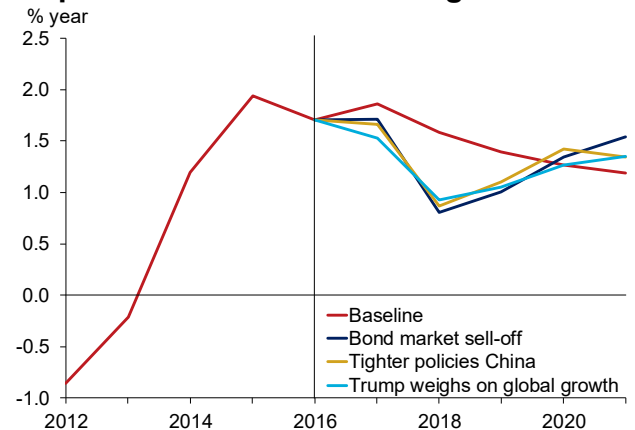
Source : Oxford Economics/Haver Analytics

Impact of scenarios on GDP growth

Average annual impact over the next 5 years (% points)



Impact of scenarios on GDP growth



Source : Oxford Economics

Long-term prospects

Very slow recovery from crises

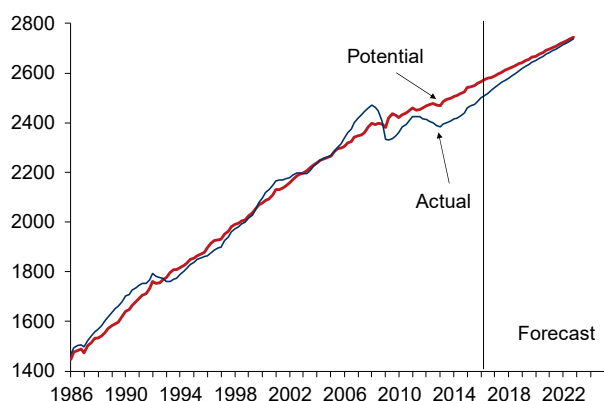
The global and Eurozone crises will leave their mark on growth for years to come. We now estimate that the Eurozone's potential growth rate is only 1.0%, similar to our estimate for the past decade but far lower than 1.8% in the ten years to 2008.

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 working-age population (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 constraints 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



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth

	2006-2015	2016-2025
Potential GDP*	1.1	1.0
Employment at NAIRU	0.6	0.3
Capital Stock	1.4	1.0
Total Factor Productivity	0.2	0.5

* $\ln(\text{Potential GDP}) = 0.65 \cdot \ln(\text{Employment at NAIRU}) + 0.35 \cdot \ln(\text{Capital Stock}) + \ln(\text{Total Factor Productivity})$

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

	2006-2010	2011-2015	2016-2020	2021-2025
GDP	0.8	0.7	1.6	1.1
Consumption	0.8	0.2	1.5	1.1
Investment	-0.6	0.1	2.5	1.5
Government Consumption	2.0	0.4	1.3	1.0
Exports of Goods and Services	2.7	4.5	3.2	2.4
Imports of Goods and Services	2.6	3.3	3.5	2.5
Unemployment (%)	8.7	11.2	8.9	7.6
Consumer Prices	1.9	1.4	1.5	1.9
Current Balance (% of GDP)	-0.3	1.9	2.8	2.1
Exchange Rate (US\$ per Euro)	1.4	1.3	1.1	1.2
General Government Balance (% of GDP)	-3.3	-3.1	-1.1	-0.5
Short-term Interest Rates (%)	2.8	0.5	-0.2	1.4
Long-term Interest Rates (%)	4.0	2.9	1.7	3.2
Working Population	0.3	0.2	0.1	-0.1
Labour Supply	0.6	0.3	0.2	0.0
Participation Ratio	75.8	76.6	76.9	77.5
Labour Productivity	0.4	0.6	0.8	0.9

Background

Economic development

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. Since then, Slovenia (2007), Malta (2008), Cyprus (2008), Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015) have joined the currency bloc. During the early years of the single currency, the peripheral economies were the main drivers of growth, as lower interest rates fuelled credit and housing booms in some of the economies (e.g. Spain and Ireland), while others, most notably Greece, saw a surge in net government spending. Since the global financial crisis these economies have had to go through a painful period of restructuring. Germany, which went through its own restructuring following the formation of the Eurozone, has more recently been the main growth engine.

Structure of the economy

Like most developed economies, services is the dominant sector of the economy. Within the region there are large structural differences between countries, and generally the smaller northern economies are more open to trade than their southern counterparts.

Balance of payments and structure of trade

Prior to the global financial crisis, the Eurozone current account was broadly in balance. But the headline figure masked huge intra-area divergences. Surpluses in many core economies were offset by large deficits in the booming peripheral economies. Since the global financial crisis, the latter's current account positions have improved, while the German current account surplus has widened, pushing the Eurozone surplus above 3% of GDP in 2015. There are strong trade linkages within the currency bloc; around 45% of exports remain within the Eurozone.

Policy

Member states have passed control of monetary policy to the European Central Bank (ECB), whose objective is to achieve price stability by targeting CPI inflation of "below, but close to, 2%". While the ECB cut interest rates in the aftermath of the global financial crisis, it was rather more conservative than other central banks such as the US Federal Reserve and the Bank of England and expanded its balance sheet less aggressively. Since Mario Draghi became ECB President 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.

National governments retain control of fiscal policy, although there are limits to their freedom in this area as specified in the Stability and Growth Pact (SGP), which essentially applies the fiscal requirements of the Maastricht Treaty on an ongoing basis. Economies have consistently flouted the rules and the rules have at various points been ignored or modified. A key criticism of the rules is that they have led to pro-cyclical fiscal policies.

The fallout from the financial crisis, and in particular the troubled fiscal situation faced by Greece, Italy, Ireland, Portugal, Slovenia, Cyprus 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. Measures that have taken place are a move towards a banking union in a bid to sever the links between banks and their sovereigns. But political hurdles to closer integration and debt burden sharing remain very high, so 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	Unemployment %	CPI	Business confidence (% balance)	Consumer confidence (% balance)	Exports	Imports	Trade balance (€ bn)
Apr	1.9	10.2	-0.2	0.2	-9	-0.6	-5.0	27.0
May	0.6	10.1	-0.1	0.3	-7	2.3	-1.3	23.6
Jun	0.9	10.1	0.1	0.2	-7	-1.4	-4.2	29.2
Jul	-0.2	10.0	0.2	0.4	-8	-9.3	-7.8	25.1
Aug	2.4	9.9	0.2	0.1	-9	8.6	4.3	17.7
Sep	1.4	9.9	0.4	0.4	-8	2.3	-1.4	24.8
Oct	0.9	9.8	0.5	0.6	-8	-4.5	-2.9	19.6
Nov	3.1	9.7	0.6	0.4	-6	5.5	5.2	24.5
Dec	2.4	9.6	1.1	0.8	-5	6.0	4.6	27.8
2017								
Jan	0.0	9.6	1.8	0.8	-5	12.8	17.0	-0.4
Feb	1.1	9.5	2.0	0.8	-6	4.4	5.3	17.8
Mar	-	9.5	1.5	0.8	-5	-	-	-
Apr	-	-	1.9	1.1	-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 €/£	Nominal effective exch. Rate	Share price DJ STOXX	Net FDI €bn
Apr	-0.25	0.96	4.8	1.13	1.26	98.0	3028	-10.0
May	-0.26	0.97	4.9	1.13	1.28	97.9	3063	21.1
Jun	-0.27	0.88	5.1	1.12	1.26	97.3	2865	-44.6
Jul	-0.29	0.62	5.1	1.11	1.19	97.6	2991	24.6
Aug	-0.30	0.61	5.0	1.12	1.17	98.2	3023	40.0
Sep	-0.30	0.74	5.1	1.12	1.17	98.3	3002	50.5
Oct	-0.31	0.78	4.5	1.10	1.12	98.8	3055	34.2
Nov	-0.31	1.23	4.7	1.08	1.15	97.9	3052	-22.3
Dec	-0.32	1.29	5.0	1.05	1.18	96.8	3291	21.4
2017								
Jan	-0.33	1.31	4.8	1.06	1.16	97.2	3231	16.9
Feb	-0.33	1.45	4.7	1.06	1.17	96.5	3320	-0.2
Mar	-0.33	1.46	5.3	1.07	1.15	97.2	3501	-
Apr	-0.33	1.26	-	1.07	1.18	96.8	3560	-

Country Economic Forecast | Eurozone

EUROZONE		TABLE 1 SUMMARY ITEMS Annual Percentage Changes, Unless Otherwise Specified									
CONSUMERS EXPENDITURE	GROSS FIXED INVESTMENT	DOMESTIC DEMAND (%)	REAL GDP	INDUSTRIAL PRODUCTION	UNEMPLOYMENT RATE (%)	AVERAGE EARNINGS	WHOLE ECONOMY PRODUCTIVITY (GDP/ET)	COMPETITIVENESS (2008=100)	PRODUCER PRICES	CONSUMER PRICES	
(C)	(IF)	(DOMD)	(GDP)	(IP)	(UP)	(ER)	(GDP/ET)	(MON)	(PPI)	(CPI)	
YEARS BEGINNING Q1											
2015	1.8	3.0	1.8	1.9	2.1	10.9	1.4	0.9	5.7	-1.9	0.0
2016	1.9	3.5	2.2	1.7	1.5	10.0	1.6	0.4	5.1	-2.0	0.2
2017	1.5	2.5	1.9	1.9	1.8	9.3	2.0	0.9	4.7	3.2	1.6
2018	1.4	2.2	1.5	1.6	1.3	8.8	2.6	0.8	4.0	1.9	1.6
2019	1.3	2.2	1.5	1.4	1.4	8.4	2.6	0.8	3.6	2.2	1.9
2020	1.2	2.0	1.3	1.3	1.4	8.1	2.8	0.9	3.5	1.9	2.0
2015											
Q1	1.7	2.2	1.5	1.8	1.9	11.2	1.3	0.9	5.8	-2.2	-0.3
Q2	1.8	2.8	1.4	2.0	1.9	11.1	1.4	1.0	6.1	-1.1	0.2
Q3	1.9	3.3	1.9	1.9	2.5	10.7	1.5	0.9	5.8	-1.9	0.1
Q4	1.7	3.6	2.3	2.0	2.0	10.5	1.5	0.8	4.9	-2.4	0.2
2016											
Q1	2.0	2.5	2.1	1.7	1.4	10.3	1.7	0.3	4.9	-3.2	0.0
Q2	1.9	3.8	2.3	1.6	1.1	10.1	1.4	0.2	5.0	-3.6	-0.1
Q3	1.8	2.4	1.8	1.8	1.2	9.9	1.5	0.5	5.2	-1.9	0.3
Q4	1.9	5.1	2.5	1.8	2.1	9.7	1.7	0.6	5.2	0.6	0.7
2017											
Q1	1.5	3.8	2.2	1.7	1.5	9.5	1.6	0.6	5.1	3.8	1.7
Q2	1.5	2.5	2.1	1.9	2.2	9.4	2.0	1.0	4.6	3.6	1.5
Q3	1.6	3.1	2.1	1.9	2.1	9.2	2.1	1.0	4.8	3.0	1.6
Q4	1.5	0.5	1.2	1.9	1.5	9.1	2.3	1.0	4.3	2.2	1.6
2018											
Q1	1.5	1.6	1.5	1.8	1.3	8.9	2.4	1.0	4.2	1.4	1.5
Q2	1.4	2.3	1.6	1.6	1.3	8.8	2.6	0.8	4.1	1.8	1.5
Q3	1.4	2.5	1.6	1.5	1.3	8.7	2.6	0.8	4.0	2.1	1.6
Q4	1.3	2.4	1.5	1.5	1.3	8.6	2.6	0.8	3.8	2.2	1.7
2019											
Q1	1.3	2.3	1.5	1.4	1.3	8.5	2.6	0.8	3.7	2.3	1.7
Q2	1.3	2.2	1.5	1.4	1.4	8.4	2.6	0.8	3.6	2.2	1.9
Q3	1.2	2.2	1.4	1.4	1.4	8.4	2.6	0.9	3.6	2.1	2.0
Q4	1.2	2.1	1.4	1.4	1.4	8.3	2.7	0.9	3.6	2.1	2.0
2020											
Q1	1.2	2.1	1.4	1.3	1.5	8.2	2.7	0.9	3.6	2.0	2.0
Q2	1.2	2.0	1.3	1.3	1.4	8.2	2.8	0.9	3.5	1.9	2.0
Q3	1.2	2.0	1.3	1.3	1.4	8.1	2.8	0.9	3.5	1.9	2.0
Q4	1.2	1.9	1.3	1.2	1.4	8.1	2.8	0.9	3.4	1.9	1.9

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EUROZONE		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	REAL LONG-TERM INTEREST RATE	EXCHANGE RATE US DOLLAR PER EURO	EFFECTIVE EXCHANGE RATE	
(BVI)	(BCU)	(BCU*100 /GDP)	(GB)	(% OF GDP)	(RSH)	(RLG)	(Note 1)	(Note 1)	(RXD)	(RX)	
YEARS BEGINNING Q1											
2015	238.4	336.2	3.22	-217.4	-2.08	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	268.6	359.4	3.35	-166.1	-1.55	-0.26	0.86	-0.51	0.62	1.11	119.1
2017	222.6	314.9	2.84	-138.3	-1.25	-0.32	1.32	-1.93	-0.30	1.09	118.7
2018	230.9	314.9	2.76	-123.3	-1.08	-0.27	1.76	-1.84	0.18	1.12	119.7
2019	219.5	297.3	2.52	-113.8	-0.97	-0.12	2.07	-2.01	0.18	1.13	119.9
2020	212.9	287.5	2.37	-99.7	-0.82	0.09	2.40	-1.87	0.44	1.14	120.1
2015											
Q1	57.4	83.0	3.21	-58.6	-2.27	0.05	1.01	0.36	1.33	1.13	114.9
Q2	59.8	80.2	3.08	-56.0	-2.15	-0.01	1.28	-0.20	1.09	1.11	112.6
Q3	58.0	90.8	3.47	-53.1	-2.03	-0.03	1.36	-0.12	1.27	1.11	116.1
Q4	63.2	82.2	3.11	-49.7	-1.88	-0.09	1.19	-0.26	1.02	1.10	116.1
2016											
Q1	65.2	94.0	3.53	-46.1	-1.73	-0.19	1.04	-0.23	1.00	1.10	119.0
Q2	72.2	101.6	3.80	-42.6	-1.60	-0.26	0.88	-0.17	0.97	1.13	119.5
Q3	66.4	89.6	3.33	-39.8	-1.48	-0.30	0.61	-0.57	0.34	1.12	119.3
Q4	64.9	74.1	2.73	-37.6	-1.39	-0.31	0.93	-1.05	0.19	1.08	118.7
2017											
Q1	50.3	65.5	2.40	-39.5	-1.44	-0.33	1.21	-2.07	-0.53	1.06	117.8
Q2	52.4	89.6	3.25	-35.8	-1.30	-0.32	1.21	-1.87	-0.34	1.09	118.4
Q3	60.0	76.3	2.74	-31.9	-1.15	-0.32	1.33	-1.87	-0.22	1.11	119.2
Q4	59.9	83.4	2.98	-31.1	-1.11	-0.32	1.52	-1.94	-0.10	1.12	119.5
2018											
Q1	56.6	74.5	2.64	-34.2	-1.21	-0.32	1.66	-1.80	0.18	1.12	119.7
Q2	55.5	90.6	3.18	-31.5	-1.11	-0.32	1.72	-1.80	0.24	1.12	119.6
Q3	59.8	72.8	2.54	-28.5	-0.99	-0.27	1.78	-1.88	0.17	1.13	119.6
Q4	59.0	76.9	2.66	-29.1	-1.01	-0.17	1.86	-1.89	0.14	1.13	119.7
2019											
Q1	54.0	70.9	2.43	-31.7	-1.09	-0.12	1.95	-1.87	0.20	1.13	119.8
Q2	52.4	85.6	2.92	-28.7	-0.98	-0.12	2.02	-1.99	0.15	1.13	119.9
Q3	56.5	67.7	2.29	-26.3	-0.89	-0.12	2.10	-2.07	0.15	1.14	120.0
Q4	56.6	73.2	2.46	-27.1	-0.91	-0.12	2.19	-2.09	0.22	1.14	120.0
2020											
Q1	52.3	68.8	2.29	-29.0	-0.97	-0.02	2.27	-1.97	0.32	1.14	120.0
Q2	50.3	82.5	2.73	-25.2	-0.83	0.08	2.35	-1.89	0.39	1.14	120.1
Q3	54.7	65.1	2.14	-22.5	-0.74	0.08	2.43	-1.88	0.47	1.15	120.1
Q4	55.5	71.0	2.31	-22.9	-0.75	0.21	2.52	-1.73	0.58	1.15	120.2

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

	2006-2015	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2025
GDP	0.8	-0.9	-0.2	1.2	1.9	1.7	1.9	1.6	1.4	1.3	1.2	1.1	1.1	1.1	1.0	1.3
Consumption	0.5	-1.2	-0.5	0.8	1.8	1.9	1.5	1.4	1.3	1.2	1.1	1.1	1.1	1.1	1.0	1.3
Investment	-0.3	-3.3	-2.5	1.5	3.0	3.5	2.5	2.2	2.2	2.0	1.8	1.6	1.5	1.3	1.2	2.0
Government Consumption	1.2	-0.3	0.3	0.6	1.3	1.8	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1
Exports of Goods and Services	3.6	2.9	2.2	4.4	6.3	2.9	4.4	3.3	2.7	2.6	2.6	2.6	2.5	2.3	2.2	2.8
Imports of Goods and Services	2.9	-0.6	1.4	4.9	6.3	4.0	4.6	3.3	3.0	2.8	2.8	2.7	2.6	2.4	2.2	3.0
Unemployment (%)	9.9	11.4	12.0	11.6	10.9	10.0	9.3	8.8	8.4	8.1	8.0	7.8	7.6	7.5	7.4	8.3
Consumer Prices	1.7	2.5	1.3	0.4	0.0	0.2	1.6	1.6	1.9	2.0	2.0	1.9	1.9	1.9	1.9	1.7
Current Balance (% of GDP)	0.8	1.4	2.2	2.5	3.2	3.3	2.8	2.8	2.5	2.4	2.3	2.2	2.1	2.0	2.0	2.4
Exchange Rate (US\$ per Euro)	1.33	1.28	1.33	1.33	1.11	1.11	1.09	1.12	1.13	1.14	1.15	1.16	1.17	1.18	1.19	1.15
General Government Balance (% of GDP)	-3.2	-3.6	-3.0	-2.6	-2.1	-1.5	-1.2	-1.1	-1.0	-0.8	-0.7	-0.6	-0.5	-0.4	-0.4	-0.8
Short-term Interest Rates (%)	1.6	0.6	0.2	0.2	0.0	-0.3	-0.3	-0.3	-0.1	0.1	0.5	0.8	1.4	1.9	2.3	0.6
Long-term Interest Rates (%)	3.4	3.9	3.0	2.0	1.2	0.9	1.3	1.8	2.1	2.4	2.7	3.0	3.2	3.4	3.5	2.4
Working Population	0.2	0.2	0.3	0.1	0.2	0.3	0.2	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	0.0
Labour Supply	0.5	0.8	0.1	0.1	0.2	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	-0.1	0.1
Participation Ratio (%)	76.2	76.8	76.6	76.6	76.6	76.7	76.7	76.8	77.0	77.1	77.3	77.4	77.6	77.7	77.8	77.2
Labour productivity	0.5	-0.4	0.4	0.6	0.9	0.4	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0	0.8
Employment	0.3	-0.4	-0.6	0.6	1.0	1.3	0.9	0.8	0.5	0.4	0.3	0.2	0.2	0.2	0.1	0.5
Output gap (% of potential GDP)	-1.3	-2.9	-3.7	-3.6	-3.1	-2.4	-1.6	-1.0	-0.7	-0.5	-0.3	-0.2	-0.1	-0.1	0.0	-0.7

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	2015*
GDP per capita (US\$)	-	18232	20711	34583
Inflation (%)	9.9	4.2	2.2	0.0
Population (mn)	302	303	313	335
Urban population (% of total)	69.9	71.3	72.6	75.9
Life expectancy (years)	73.5	75.9	78.3	82.1

Source : Oxford Economics & World Bank



Source : ECB

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

Structure of GDP by output

	2015
Agriculture	1.7%
Industry	24.7%
Services	73.7%

Source : World Bank

* 2015 or latest available year

Structural economic indicators

	1990	1995	2000	2015*
Current account (US\$ billion)	4	22	-96	373
Trade balance (US\$ billion)	-22	65	-31	264
FDI (US\$ billion)	-	-	35	-75
Govt budget (% of GDP)	-4	-7	0	-2
Govt debt (% of GDP)	14	68	67	91
Long-term interest rate	10	9	5	1

Oil production (000 bpd)	264	304	232	214
Oil consumption (000 bpd)	9716	10478	10930	0

Source : Oxford Economics / World Bank / EIA

Destination of goods' exports 2015

Eurozone	83.6%
UK	13.4%
US	13.6%
China	6.8%
Switzerland	5.8%
Poland	5.7%

Source : Eurostat \ Haver Analytics

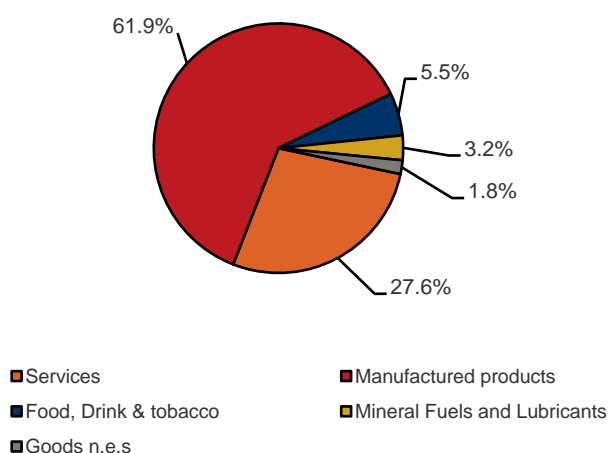
Corruption perceptions index 2016

	Score
Developed economies (average)	75.3
Emerging economies (average)	38.0
Eurozone	68.2

Source: Transparency International

Scoring system 100 = highly clean, 0 = highly corrupt

Composition of extra-EMU goods & services exports 2015



Source : Eurostat \ Haver Analytics