

Country Economic Forecast

Eurozone

Economist

Ben May

Lead Eurozone Economist

+44 (0)20 3910 8015

GDP growth forecast for 2017 revised up again to 2.2%...

...but with inflation pressures building only gradually, the ECB will be in no rush to tighten monetary policy

- **The Eurozone recovery has continued to go from strength to strength and is on track for robust quarterly GDP growth of at least 0.7% in Q2. As a result, we have raised our 2017 growth forecast again to an above-consensus 2.2%, up from 2.0% in June and 1.7% three months ago.**
- Although the Eurozone composite PMI weakened in June, it and other key business surveys strengthened in Q2 relative to Q1, implying that the recovery gathered momentum last quarter. Meanwhile, the hard data have also struck a positive tone. After broadly stagnating in Q1, industrial production is likely to have grown by over 1% in Q2, which suggests that industry alone could boost quarterly Q2 GDP growth by 0.2 percentage points (pp) or more.
- Retail sales have also strengthened, probably reflecting the pull-back in inflation and ongoing strength of employment growth. Overall, we have pencilled in a 0.7% rise in GDP in Q1, but even this could prove too conservative.
- Beyond Q2 we have also become more confident that the recovery will persist, and have nudged up GDP growth in 2018 by 0.2pp to 1.8% and by 0.1pp to 1.5% in 2019. Note though that this reassessment is partly based on the view that the economy will be able to grow above-trend for longer than previously assumed without generating above-target inflation. Given this and the weaker outlook for the oil price, we have lowered our CPI inflation forecasts for 2017 and 2018 slightly to 1.5% and 1.4% and left our 2019 forecast at 1.8%.
- As a result, we still think the ECB will normalise policy only slowly. We expect bond purchases to be reduced to €40bn a month from the start of 2018 and then reduced to €20bn a month in H2, with QE ending at end-2018.

Forecast for Eurozone						
(Annual percentage changes unless specified)						
	2015	2016	2017	2018	2019	2020
Domestic Demand	1.8	2.2	2.5	1.8	1.6	1.4
Private Consumption	1.8	2.0	1.6	1.6	1.4	1.3
Fixed Investment	3.0	3.4	4.3	2.6	2.5	2.1
Stockbuilding (% of GDP)	0.2	0.1	0.6	0.6	0.6	0.6
Government Consumption	1.3	1.8	1.2	1.3	1.2	1.1
Exports of goods and services	6.0	2.9	4.7	3.5	3.0	2.7
Imports of goods and services	6.1	4.2	5.7	3.5	3.3	3.0
GDP	1.9	1.7	2.2	1.8	1.5	1.4
Industrial Production	2.1	1.4	2.2	1.8	1.4	1.3
Consumer Prices	0.0	0.2	1.5	1.4	1.8	1.9
Current Balance (% of GDP)	3.2	3.3	3.3	3.0	2.7	2.5
Government Budget (% of GDP)	-2.1	-1.5	-1.0	-0.9	-0.8	-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	1.2	1.6	1.9	2.1
Exchange rate (US\$ per Euro)	1.11	1.11	1.12	1.19	1.20	1.21
Exchange rate (YEN per Euro)	134.3	120.3	126.3	136.3	140.5	141.4

Forecast overview

Hard data follow surveys higher

All the signs are that Eurozone Q2 GDP growth will exceed Q1's well above-trend rise of 0.6%. In addition to the business surveys continuing to rise, quarterly industrial production and retail sales growth also probably accelerated in Q2. Our GDP indicator now points to around a 0.8% rise in the quarter. But for now we have pencilled in a slightly more cautious 0.7% gain. This would still be the strongest result since a 0.8% rise in Q1 2015 (which was distorted upwards by a 21.5% rise in Irish GDP), implying the economy shifted into an even higher gear last quarter.

Prospects for H2 and beyond remain bright

While we think that Q2 may prove to be the cyclical peak, we expect a further period of above-trend GDP growth, reflecting the following key drivers:

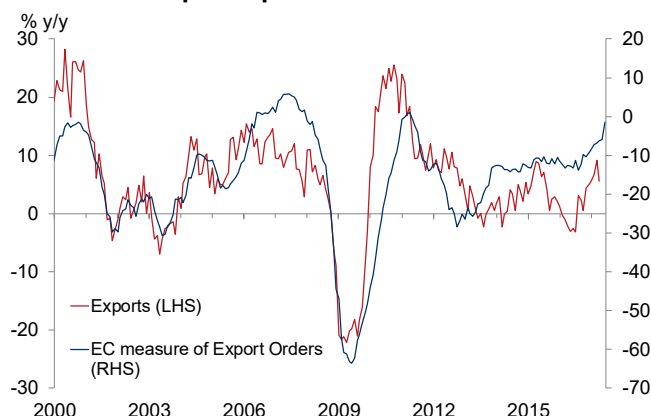
- Export conditions strengthening, but stronger euro yet to take effect:** in Q2, we expect export volumes to have risen by more than 1% for the fourth time in the past five quarters. And the sharp rise in survey-based measures of firms' export orders in June implies that momentum will build further in the short term. That said, a sustained period of very robust growth may be too much to ask for. Our world trade forecast still points to a gradual slowdown in trade growth in H2 and beyond and the recent rise in the euro is also likely to have an adverse impact – we see it appreciating further to \$1.20 by end 2018. We expect export growth to pick up from 2.9% in 2016 to 4.7% this year. But this would still be weaker than the 2015 growth rate of 6%.
- Weaker inflation outlook good news for households:** although a return to near-zero inflation is unlikely any time soon, the recent fall in oil prices means that we have lowered our CPI inflation forecast a touch. This reflects our view that the oil price will be a little weaker than previously assumed, pushing down CPI energy inflation. More importantly, even though the quarterly pace of household spending growth eased to 0.3% in Q1 from 0.4% in the preceding three quarters, the household savings rate picked up thanks in part to the ongoing strength of employment. Given the encouraging near-term spending indicators, namely healthy consumer confidence and retail sales, we expect household spending to rise by about 0.4% in Q2, leaving it on track to grow by 1.6% this year (0.1pp higher than last month's

Euro area GDP indicator



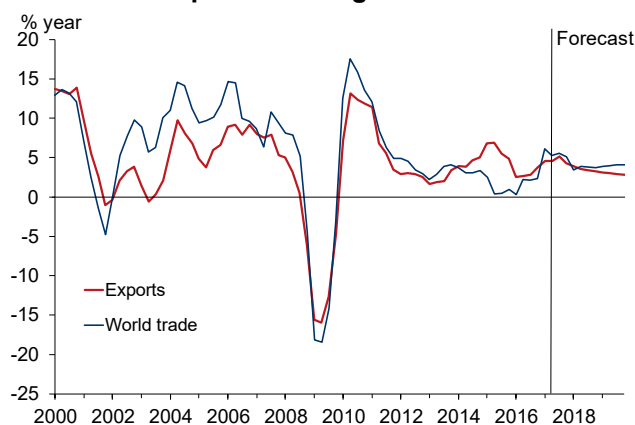
Source: Oxford Economics/Haver Analytics

Euro area Export Optimism



Source: Oxford Economics/Haver Analytics

Eurozone: Exports & foreign demand



Source: Oxford Economics/Haver Analytics

forecast), down from 2.0% in 2016. This would be a very solid performance given that CPI inflation will be well over 1pp higher this year than last.

- Investment joining the recovery:** the 1.3% rise in investment in Q1 added to the evidence that it is on track to take a fuller part in the wider economic recovery. Given the reduction in the risk of populism following the victory for Emmanuel Macron in the French presidential election, we expect the recovery to continue. This is supported by the continued strength of bank lending to firms, particularly at longer maturities. – we expect investment growth to pick up from 3.4% in 2016 to 4.3% this year, which would be the largest rise in ten years.

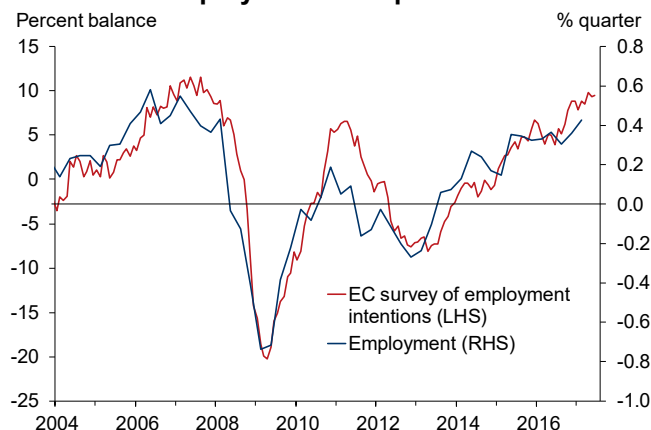
We now expect GDP growth of 2.2%, up 0.2pp from a month ago. In 2018 and 2019, we expect GDP growth of 1.8% and 1.5% respectively, 0.2pp and 0.1pp higher than in June. Despite the stronger outlook, we have lowered our inflation forecast for 2017 and 2018 slightly, to 1.5% and 1.4%, and left our 2019 forecast at 1.8%; we expect that the economy will be able to grow above-trend for longer than previously assumed without generating above-target inflation.

ECB still seen tightening policy only gradually

The strength of activity this year will almost certainly prompt the ECB to announce a change in policy in the autumn, but with the exact form still up for grabs. However, significantly in our view, ECB Executive Board member Benoit Coeure appears to have offered the market a heavy hint, recently arguing that last December's announcement of a €20bn cut in asset purchases, from €80bn to €60bn (which took place in April), was an example of how carefully the ECB shifts stimulus. This would appear to be the answer to what ECB President Draghi meant when he spoke in Sintra last week about the need for the ECB to be "persistent" and "prudent". In effect, Coeure appears to be equating €20bn cuts in the asset purchase programme to monetary policy increments, effectively equivalent to 25bp changes in interest rates.

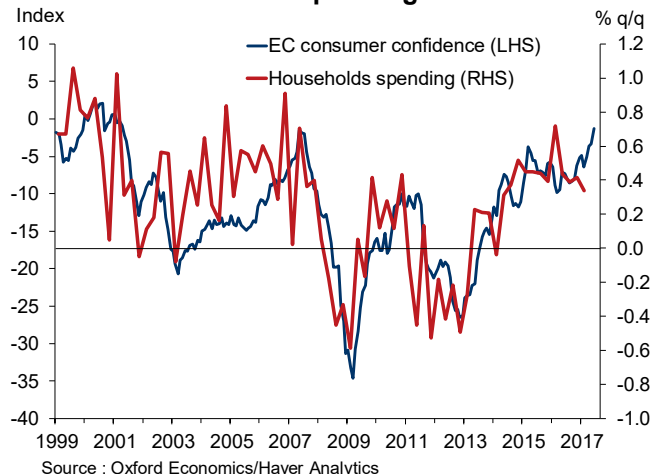
This signal seems to be too explicit to ignore and we are therefore refining our ECB call accordingly. Rather than gradually tapering purchases next year, Coeure's remarks would appear to indicate that the ECB will cut purchases by €20bn at the start of next year – with the announcement probably at the September policy meeting. Having reduced purchases to €40bn a month, we then expect the ECB to reduce purchases to €20bn a month in the summer before finally terminating quantitative easing by end-2018.

Eurozone: Employment & emp. intentions



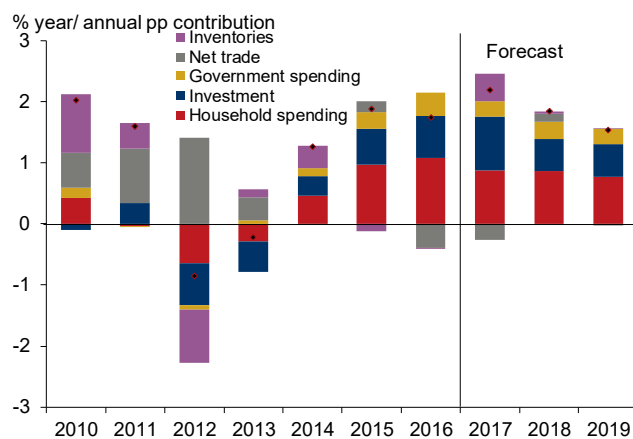
Source : Oxford Economics/Haver Analytics

Eurozone: Consumer spending & confidence



Source : Oxford Economics/Haver Analytics

Eurozone: GDP



Source: Haver Analytics/Oxford Economics

What to watch out for

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

Stronger euro stunts exports: the run of positive news from the Eurozone has prompted the euro to climb sharply this year and we expect further rises. While we assume that this acts as a drag on export growth, a sharper rise – particularly if policymakers abroad become more dovish – could mean net trade is a drag on GDP next year, rather than giving a modest boost as we assume in our baseline.

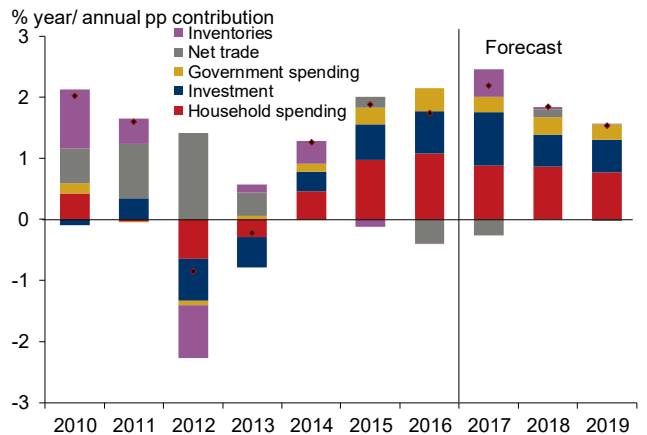
Monetary policy tightening: we expect the ECB to adopt a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, the previously hawkish central bank could surprise markets to the upside, pushing bond yields and the euro higher, which in turn could slow growth.

Exposure to key global risks

Cyclical recovery in world trade: in this scenario, optimism over near-term growth prospects increases globally, as the strength of activity in China and the US supports a continuation of the resurgent growth in trade seen in recent months. Investment expenditure picks up accordingly and investor confidence in emerging markets improves too. Stronger external demand prompts Eurozone GDP growth of 2.5% next year and 2.4% in 2019. Within the currency bloc, the economies most open to trade should benefit the most from such a shock.

Populist victory in Italy: we assume Italian legislative elections are held in April 2018 and a new populist coalition government declares that it intends to hold a euro membership referendum. The market response is immediate and severe and prompts a sharp sell-off in Italian and peripheral bond markets, the euro plunges to near parity against the dollar and policy normalisation is delayed. Confidence and tighter credit conditions prompt a substantial economic slowdown and Eurozone GDP growth slows to 1.4% in 2018 and just 0.4% the following year.

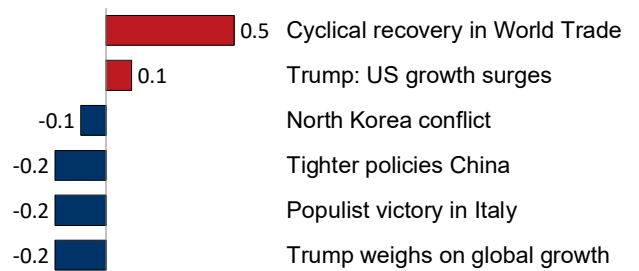
Eurozone: GDP



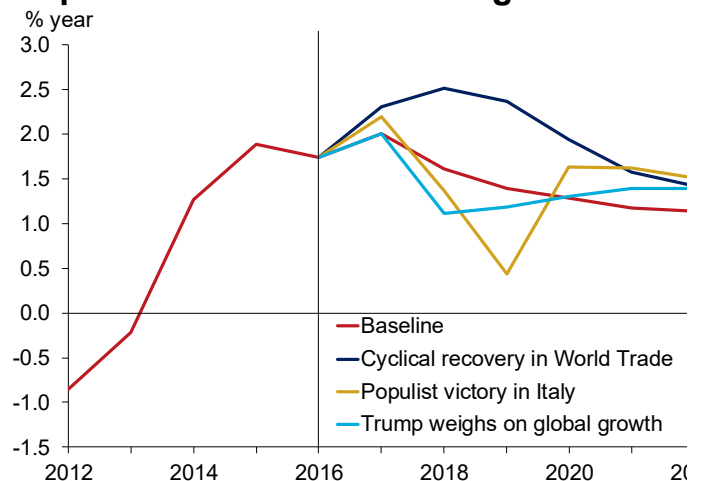
Source: Haver Analytics/Oxford Economics

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

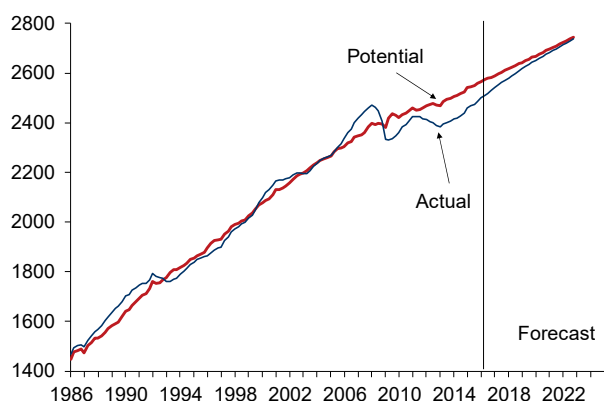
The global and Eurozone crises will leave their mark on growth for years to come. We now estimate that the Eurozone's potential growth rate is only 1.1%, similar to our estimate for the past decade but far lower than 1.8% in the ten years to 2008.

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	1.1
Employment at NAIRU	0.6	0.3
Capital Stock	1.4	1.2
Total Factor Productivity	0.2	0.5

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

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

	2006-2010	2011-2015	2016-2020	2021-2025
GDP	0.8	0.7	1.7	1.1
Consumption	0.8	0.2	1.6	1.2
Investment	-0.6	0.1	3.0	1.4
Government Consumption	2.0	0.4	1.3	1.1
Exports of Goods and Services	2.7	4.4	3.4	2.4
Imports of Goods and Services	2.6	3.2	3.9	2.5
Unemployment (%)	8.7	11.2	8.7	7.3
Consumer Prices	1.9	1.4	1.4	1.9
Current Balance (% of GDP)	-0.3	1.9	3.0	2.2
Exchange Rate (US\$ per Euro)	1.4	1.3	1.2	1.2
General Government Balance (% of GDP)	-3.3	-3.1	-1.0	-0.6
Short-term Interest Rates (%)	2.8	0.5	-0.2	0.9
Long-term Interest Rates (%)	4.0	2.9	1.6	2.9
Working Population	0.3	0.2	0.1	-0.1
Labour Supply	0.6	0.3	0.3	0.0
Participation Ratio	75.8	76.6	77.0	77.7
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 fall-out 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)
Jun	0.9	10.1	0.1	0.2	-7	-1.4	-4.0	29.0
Jul	-0.4	10.0	0.2	0.4	-8	-9.3	-7.7	24.9
Aug	2.3	9.9	0.2	0.1	-9	8.6	4.6	17.4
Sep	1.4	9.9	0.4	0.4	-8	2.2	-1.1	24.4
Oct	0.8	9.8	0.5	0.6	-8	-4.5	-2.8	19.4
Nov	3.1	9.7	0.6	0.4	-6	5.5	5.7	24.0
Dec	2.4	9.6	1.1	0.8	-5	6.1	4.7	27.9
2017								
Jan	0.3	9.6	1.8	0.8	-5	12.5	17.4	-1.2
Feb	1.6	9.4	2.0	0.8	-6	5.0	6.7	16.6
Mar	2.2	9.4	1.5	0.8	-5	14.4	16.0	29.9
Apr	1.4	9.3	1.9	1.1	-4	-2.8	2.7	17.9
May	-	9.3	1.4	0.9	-3	-	-	-
Jun	-	-	1.3	1.2	-1	-	-	-

Financial Indicators: Eurozone								
Percentage changes on a year earlier unless otherwise stated								
	Short rate %	Long rate %	Money Supply M3	Exchange rate \$/€ avg.	Exchange rate €/£	Nominal effective exch. Rate	Share price DJ STOXX	Net FDI €bn
Jun	-0.27	0.88	5.1	1.12	1.26	97.3	2865	-40.7
Jul	-0.29	0.62	5.1	1.11	1.19	97.6	2991	26.6
Aug	-0.30	0.61	5.0	1.12	1.17	98.2	3023	55.7
Sep	-0.30	0.74	5.1	1.12	1.17	98.3	3002	52.9
Oct	-0.31	0.78	4.5	1.10	1.12	98.8	3055	35.5
Nov	-0.31	1.23	4.7	1.08	1.15	97.9	3052	-7.4
Dec	-0.32	1.29	5.0	1.05	1.18	96.8	3291	-10.8
2017								
Jan	-0.33	1.31	4.8	1.06	1.16	97.2	3231	-12.3
Feb	-0.33	1.45	4.7	1.06	1.17	96.5	3320	32.4
Mar	-0.33	1.46	5.3	1.07	1.15	97.2	3501	16.6
Apr	-0.33	1.26	4.9	1.07	1.18	96.8	3560	24.1
May	-0.33	1.18	5.0	1.11	1.17	99.1	3555	-
Jun	-0.33	1.07	-	1.12	1.14	100.3	3442	-

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	5.6	-1.9	0.0
2016	2.0	3.4	2.2	1.7	1.4	10.0	1.5	0.4	5.1	-2.0	0.2
2017	1.6	4.3	2.5	2.2	2.2	9.1	2.1	0.9	6.0	3.3	1.5
2018	1.6	2.6	1.8	1.8	1.8	8.5	2.6	1.0	5.3	1.0	1.4
2019	1.4	2.5	1.6	1.5	1.4	8.1	2.7	1.0	4.3	1.8	1.8
2020	1.3	2.1	1.4	1.4	1.3	7.8	2.8	0.9	3.8	1.9	1.9
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	1.8	11.1	1.5	1.1	6.1	-1.1	0.2
Q3	1.9	3.2	1.9	1.9	2.5	10.7	1.4	0.8	5.8	-1.9	0.1
Q4	1.7	3.7	2.3	1.9	2.1	10.5	1.4	0.8	4.9	-2.4	0.2
2016											
Q1	2.0	2.5	2.0	1.7	1.4	10.3	1.6	0.3	4.9	-3.2	0.0
Q2	2.0	3.7	2.3	1.6	1.2	10.2	1.4	0.3	5.0	-3.6	-0.1
Q3	1.9	2.5	1.9	1.8	1.1	9.9	1.5	0.4	5.2	-1.9	0.3
Q4	2.0	5.1	2.6	1.8	2.1	9.7	1.6	0.5	5.2	0.6	0.7
2017											
Q1	1.6	6.0	2.9	1.9	1.4	9.5	1.5	0.4	5.4	4.1	1.8
Q2	1.6	4.2	2.8	2.3	2.6	9.1	2.1	0.9	6.0	3.9	1.5
Q3	1.6	5.0	2.8	2.3	2.7	8.9	2.3	1.1	6.4	3.1	1.4
Q4	1.6	2.3	1.8	2.3	2.2	8.8	2.4	1.1	6.1	2.1	1.3
2018											
Q1	1.6	1.8	1.7	2.1	2.4	8.6	2.7	1.2	5.8	0.8	1.1
Q2	1.6	2.9	1.8	1.8	1.6	8.5	2.6	1.0	5.4	0.8	1.3
Q3	1.6	2.8	1.8	1.7	1.6	8.4	2.6	1.0	5.2	1.1	1.4
Q4	1.5	2.7	1.8	1.7	1.4	8.3	2.6	1.0	4.9	1.4	1.6
2019											
Q1	1.5	2.5	1.7	1.6	1.4	8.2	2.6	1.0	4.6	1.6	1.7
Q2	1.5	2.6	1.6	1.6	1.4	8.1	2.6	1.0	4.4	1.7	1.7
Q3	1.4	2.5	1.6	1.5	1.4	8.1	2.7	1.0	4.2	1.8	1.8
Q4	1.3	2.4	1.6	1.5	1.4	8.0	2.7	1.0	4.1	1.9	1.8
2020											
Q1	1.3	2.3	1.5	1.4	1.4	7.9	2.8	1.0	4.0	1.9	1.9
Q2	1.3	2.2	1.5	1.4	1.4	7.9	2.8	1.0	3.9	1.9	1.9
Q3	1.3	2.1	1.4	1.3	1.3	7.8	2.8	0.9	3.8	1.9	1.9
Q4	1.3	2.0	1.4	1.3	1.3	7.7	2.8	0.9	3.7	1.9	1.9

COPYRIGHT (C) , OXFORD ECONOMICS

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)	(GB*100 /GDP)	(RSH)	(RLG)	(Note 1)	(Note 1)	(RXD)	(RX)	
YEARS BEGINNING Q1											
2015	238.2	336.2	3.21	-217.4	-2.08	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	266.5	359.4	3.35	-166.1	-1.55	-0.26	0.86	-0.51	0.62	1.11	119.1
2017	251.5	360.9	3.26	-115.0	-1.04	-0.33	1.20	-1.81	-0.28	1.12	120.6
2018	262.6	343.0	2.99	-101.4	-0.88	-0.27	1.64	-1.64	0.27	1.19	123.5
2019	247.3	319.1	2.69	-99.6	-0.84	-0.12	1.92	-1.89	0.15	1.20	124.3
2020	234.8	305.0	2.50	-92.8	-0.76	0.06	2.14	-1.85	0.24	1.21	124.0
2015											
Q1	57.2	83.0	3.20	-58.6	-2.26	0.05	1.01	0.36	1.33	1.13	114.9
Q2	59.7	80.2	3.07	-56.0	-2.15	-0.01	1.28	-0.20	1.09	1.11	112.6
Q3	58.1	90.8	3.46	-53.1	-2.02	-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	65.1	94.0	3.53	-46.1	-1.73	-0.19	1.04	-0.23	1.00	1.10	119.0
Q2	71.4	101.6	3.80	-42.6	-1.60	-0.26	0.88	-0.17	0.97	1.13	119.5
Q3	65.6	89.6	3.33	-39.8	-1.48	-0.30	0.61	-0.57	0.34	1.12	119.3
Q4	64.4	74.1	2.73	-37.6	-1.38	-0.31	0.93	-1.05	0.19	1.08	118.7
2017											
Q1	55.8	99.6	3.65	-35.7	-1.31	-0.33	1.21	-2.09	-0.55	1.06	117.8
Q2	57.1	92.8	3.36	-30.3	-1.10	-0.33	1.06	-1.80	-0.41	1.10	119.4
Q3	68.2	80.0	2.87	-23.6	-0.85	-0.33	1.20	-1.69	-0.16	1.15	122.5
Q4	70.3	88.5	3.15	-25.4	-0.90	-0.32	1.34	-1.65	0.01	1.17	122.7
2018											
Q1	66.2	95.5	3.37	-28.2	-1.00	-0.32	1.50	-1.47	0.36	1.18	122.9
Q2	62.0	92.8	3.25	-26.3	-0.92	-0.32	1.62	-1.61	0.33	1.19	123.4
Q3	66.9	74.8	2.60	-22.6	-0.78	-0.27	1.69	-1.70	0.26	1.19	123.8
Q4	67.5	80.0	2.75	-24.3	-0.84	-0.17	1.76	-1.78	0.15	1.20	124.1
2019											
Q1	62.7	89.7	3.07	-28.1	-0.96	-0.12	1.83	-1.79	0.16	1.20	124.3
Q2	58.3	86.8	2.94	-25.9	-0.88	-0.12	1.89	-1.83	0.17	1.20	124.3
Q3	62.4	68.0	2.29	-22.1	-0.74	-0.12	1.95	-1.96	0.12	1.20	124.3
Q4	63.8	74.6	2.49	-23.5	-0.79	-0.12	2.02	-1.96	0.17	1.20	124.2
2020											
Q1	59.0	86.3	2.86	-27.4	-0.91	-0.02	2.07	-1.92	0.17	1.20	124.1
Q2	54.4	82.5	2.71	-24.1	-0.79	0.08	2.12	-1.82	0.22	1.21	124.0
Q3	59.6	65.1	2.12	-20.9	-0.68	0.08	2.17	-1.82	0.27	1.21	124.0
Q4	61.9	71.2	2.30	-20.4	-0.66	0.08	2.22	-1.85	0.29	1.21	123.9

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

COPYRIGHT (C) , OXFORD ECONOMICS

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	1.3	1.9	1.7	2.2	1.8	1.5	1.4	1.2	1.2	1.1	1.1	1.0	1.4
Consumption	0.5	-1.2	-0.5	0.8	1.8	2.0	1.6	1.6	1.4	1.3	1.2	1.2	1.2	1.1	1.1	1.4
Investment	-0.3	-3.3	-2.4	1.6	3.0	3.4	4.3	2.6	2.5	2.1	1.8	1.6	1.4	1.3	1.1	2.2
Government Consumption	1.2	-0.3	0.3	0.7	1.3	1.8	1.2	1.3	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.2
Exports of Goods and Services	3.6	2.9	2.2	4.4	6.0	2.9	4.7	3.5	3.0	2.7	2.6	2.6	2.5	2.3	2.2	2.9
Imports of Goods and Services	2.9	-0.6	1.4	4.9	6.1	4.2	5.7	3.5	3.3	3.0	2.8	2.7	2.6	2.4	2.2	3.2
Unemployment (%)	9.9	11.4	12.0	11.6	10.9	10.0	9.1	8.5	8.1	7.8	7.6	7.4	7.3	7.1	7.0	8.0
Consumer Prices	1.7	2.5	1.3	0.4	0.0	0.2	1.5	1.4	1.8	1.9	2.0	2.0	1.9	1.9	1.9	1.7
Current Balance (% of GDP)	0.8	1.4	2.2	2.5	3.2	3.3	3.3	3.0	2.7	2.5	2.4	2.3	2.2	2.1	2.2	2.6
Exchange Rate (US\$ per Euro)	1.33	1.28	1.33	1.33	1.11	1.11	1.12	1.19	1.20	1.21	1.21	1.21	1.22	1.22	1.22	1.19
General Government Balance (% of GDP)	-3.2	-3.6	-3.0	-2.6	-2.1	-1.5	-1.0	-0.9	-0.8	-0.8	-0.7	-0.6	-0.5	-0.5	-0.5	-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	0.3	0.6	0.8	1.1	1.6	0.4
Long-term Interest Rates (%)	3.4	3.9	3.0	2.0	1.2	0.9	1.2	1.6	1.9	2.1	2.4	2.7	2.9	3.1	3.3	2.2
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	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.0	0.0	-0.1	0.2
Participation Ratio (%)	76.2	76.7	76.6	76.6	76.6	76.7	76.8	77.0	77.1	77.3	77.4	77.6	77.7	77.8	77.9	77.3
Labour productivity	0.5	-0.4	0.4	0.7	0.9	0.4	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	1.0	0.9
Employment	0.3	-0.4	-0.6	0.5	1.0	1.4	1.3	0.8	0.6	0.4	0.3	0.2	0.2	0.1	0.0	0.5
Output gap (% of potential GDP)	-1.2	-2.8	-3.6	-3.5	-2.9	-2.2	-1.3	-0.7	-0.4	-0.2	-0.1	0.0	0.1	0.1	0.1	-0.4

Key Facts

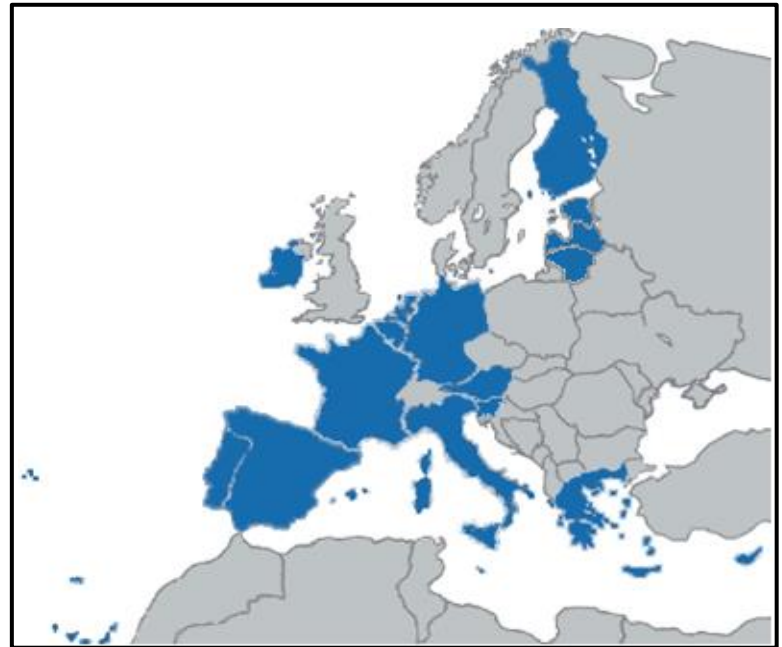
Politics

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\$)	-	18231	20711	34625
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	73.6%

Source : World Bank

* 2015 or latest available year

Corruption perceptions index 2016

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

Source: Transparency International

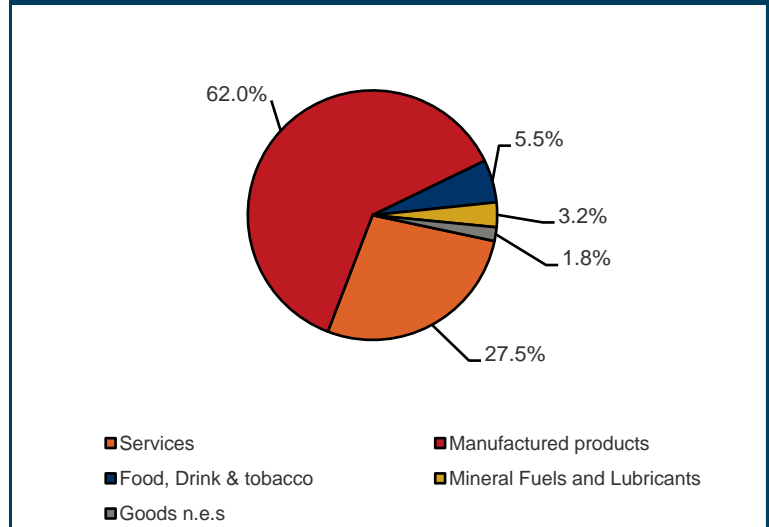
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2015*
Current account (US\$ billion)	4	22	-96	373
Trade balance (US\$ billion)	-21	65	-31	264
FDI (US\$ billion)	-	-	35	-132
Govt budget (% of GDP)	-4	-7	0	-2
Govt debt (% of GDP)	14	68	67	90
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

Composition of extra-EMU goods & services exports 2015



Source : Eurostat \ Haver Analytics

Destination of goods' exports 2015

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

Source : Eurostat \ Haver Analytics