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OXFORD ECONOMICS

Country Economic Forecast
Eurozone

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GDP growth forecast for 2017 revised up again to 2.0%...

- **The continued strong tone to recent economic data, along with an upward revision to Q1 GDP, has prompted us to upgrade our GDP growth forecast for 2017 from 1.9% to 2.0%, well above the consensus forecast of 1.7%.**
- The first detailed Q1 GDP release for the Eurozone revealed that quarterly GDP growth was revised up from 0.5% to 0.6%. The breakdown showed broad-based strength. Encouragingly, investment recorded another solid expansion, suggesting that it can pick up some of the slack from slowing household spending.
- The business surveys are on track to exceed their Q1 averages this quarter, suggesting that a further acceleration in GDP growth is quite possible. As yet, there is little hard data for Q2, but the healthy unemployment figures for April – unemployment recorded its sharpest monthly fall in over two years – is indicative of another quarter of robust growth. We have pencilled in a 0.6% rise in GDP, but there are certainly upside risks (and some downside risks) to this figure.
- Over the rest of the year, we expect the recovery to remain more broadly based than in 2016 as investment and exports take over the baton from household spending. While the latter will inevitably slow in response to higher inflation, rising employment and tentative signs of accelerating wage growth imply that spending will remain solid.
- Despite the upward revisions to our GDP forecast over recent months, there is little evidence to suggest that underlying inflation pressures are building more rapidly than previously assumed – a view to which a majority of the ECB Governing Council appear to subscribe. Accordingly, we do not expect the ECB to bring forward policy normalisation in response – unconventional policy will be unwound only very slowly.

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

Forecast for Eurozone

(Annual percentage changes unless specified)

	2015	2016	2017	2018	2019	2020
Domestic Demand	1.8	2.2	2.2	1.5	1.5	1.4
Private Consumption	1.8	2.0	1.5	1.4	1.3	1.2
Fixed Investment	3.0	3.4	3.9	2.2	2.1	1.9
Stockbuilding (% of GDP)	0.2	0.1	0.4	0.4	0.5	0.5
Government Consumption	1.3	1.8	1.2	1.2	1.1	1.1
Exports of goods and services	6.0	2.9	4.5	3.3	2.8	2.6
Imports of goods and services	6.1	4.2	5.3	3.2	3.0	2.8
GDP	1.9	1.7	2.0	1.6	1.4	1.3
Industrial Production	2.1	1.4	1.8	1.4	1.4	1.3
Consumer Prices	0.0	0.2	1.6	1.5	1.8	1.9
Current Balance (% of GDP)	3.2	3.3	3.2	3.0	2.7	2.5
Government Budget (% of GDP)	-2.1	-1.5	-1.0	-0.9	-0.9	-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	1.10	1.12	1.13	1.14
Exchange rate (YEN per Euro)	134.3	120.3	123.8	130.8	134.5	135.6

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Forecast overview

GDP revision narrows hard/soft data gap

The detailed Eurozone GDP estimate for Q1 revealed an upward revision to quarterly growth from 0.5% to 0.6%. Excluding the sharp 0.8% rise in in Q1 2015, which was distorted by a 21.5% rise in Irish GDP, the Q1 outturn is the strongest quarterly rise of the recovery. This was driven by domestic demand, and in particular a 1.3% climb in investment, which has risen by more than 1% in three of the last four quarters. Exports grew by a solid 1.3% but the impact on GDP was offset by a similar-sized gain in imports.

The outlook for Q2 remains encouraging. Surveys have continued to move higher, suggesting that the recovery may have gained further momentum. Admittedly, new car registrations and retail sales data showed only modest monthly rises in April, but the available country-level industrial production data for April suggest that industrial output is beginning to pick up – as the surveys have been predicting for some time.

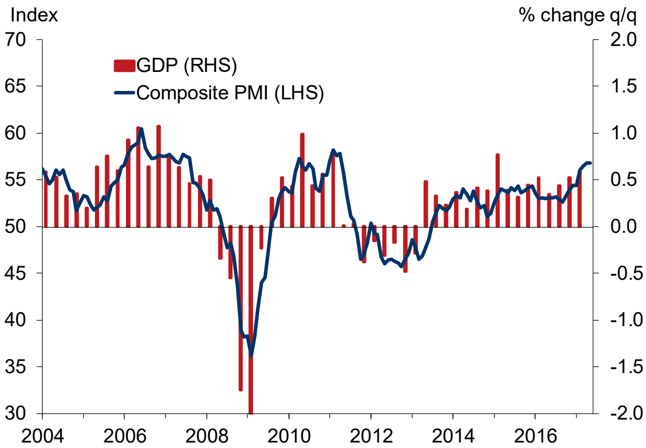
Prospects for H2 and beyond remain bright

We also expect GDP growth to remain solid in the quarters ahead and to be more broadly-based than last year when household spending was the key driver:

- **Export conditions strengthening, but stronger euro to temper prospects further ahead**: in Q1, export growth slowed a touch but supported the view that the Eurozone is benefiting from stronger global demand. Survey data also bode well for Q2. With our trade-weighted world growth forecast for 2017 pointing to the strongest rise since 2011, we expect Eurozone export growth to pick-up from 2.9% in 2016 to 4.5% this year. However, this will be a bit weaker than in 2015, partly reflecting the recent strength of the euro.

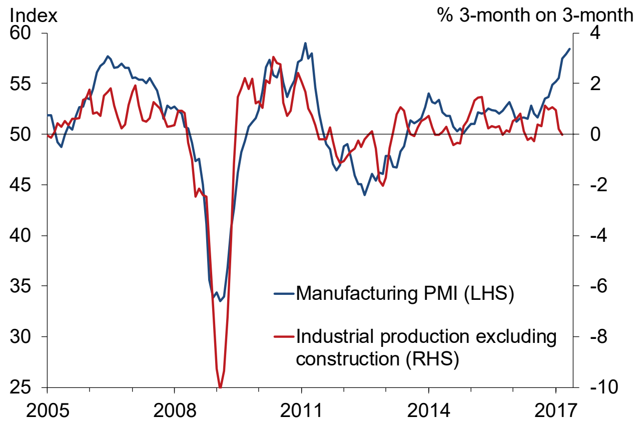
- **Investment to join the recovery**: a 1.3% rise in investment in Q1 added to the evidence that it is on track to take a fuller part in the wider economic recovery. Given the reduction in the risk of populism following the victory for Emmanuel Macron in the French presidential election, we expect the investment recovery to continue. This is supported by the continued strength of bank lending to firms, particularly at longer maturities. – we have raised our investment growth forecast for 2017 from 2.5% to 3.9%, which would be the largest rise in a decade.

Eurozone Composite PMI & GDP



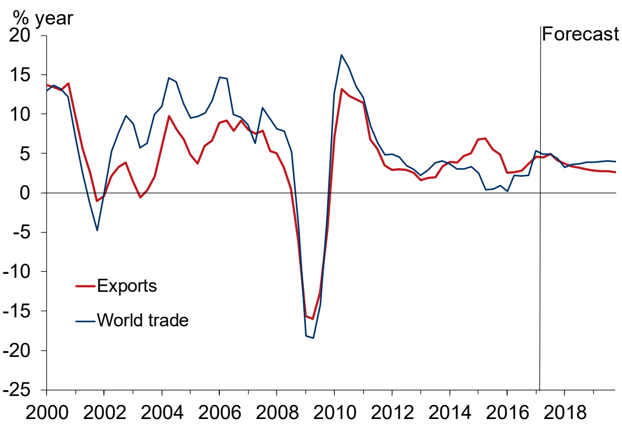
Source : Oxford Economics/Haver Analytics/Markit

Eurozone: Industrial production and manu. PMI



Source : Oxford Economics/Haver Analytics/Markit

Eurozone: Exports & foreign demand



Source : Oxford Economics/Haver Analytics

- **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 the evidence suggests that household spending in Q1 was resilient to the sharp rise in inflation, even though the quarterly pace of growth eased to 0.3% from 0.4% in the preceding three quarters. And unemployment recorded its sharpest monthly fall in over two years in April, suggesting that rising employment will help to offset some of the negative influence of higher inflation. There are also tentative signs that wage growth may be heading higher. As a result, we forecast household spending growth will slow from a strong 2.0% in 2016, but still post a solid 1.5% rise in 2017.

Overall, we now expect GDP growth of 2.0%, up 0.1pp from a month ago. In 2018 and 2019, we expect GDP growth of 1.6% and 1.4%, unchanged from a month ago.

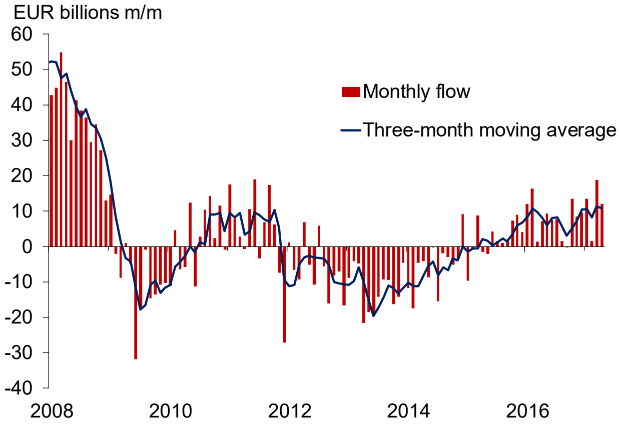
ECB to tighten policy only gradually

While the ECB has responded to the economic news by becoming more optimistic about growth prospects, it has rightly noted that there are few convincing signs that the strengthening recovery is leading to a marked build-up in underlying inflation pressures. Indeed, in its June forecasts it revised both headline and core inflation down a touch.

We think that there are signs that underlying inflation pressures are beginning to build, albeit from a low level. But the uncertainties surrounding the sensitivity of inflation to changes in the economic climate mean that the ECB will wish to see cast-iron evidence of a pick-up in underlying inflation before it is prepared to commence policy normalisation. Note too that with little evidence of asset or credit bubbles forming in response to loose monetary policy, there is little pressure on the ECB to prevent a major hangover in the future by removing the punchbowl now.

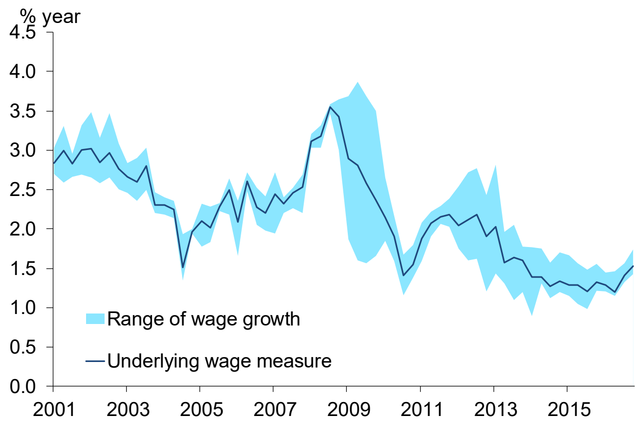
Our view remains that the ECB will announce plans to taper asset purchases from the start of 2018 in September. However, we would not be surprised if the likely announcement date is delayed further and/or the ECB chooses to phase out asset purchases more slowly than our current baseline forecast assumes – a monthly reduction of €10bn from January 2018.

Eurozone: Loans to non-financial firms (flows)



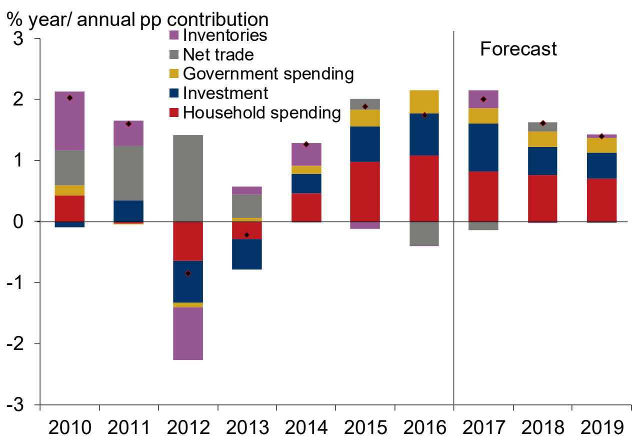
Source : Oxford Economics/Haver Analytics

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 export forecast remains 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 raise investment spending more sharply than assumed in our baseline.

Italian induced instability: although the populist politicians have made smaller gains than many had feared in recent European elections, the Italian general election (by 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.

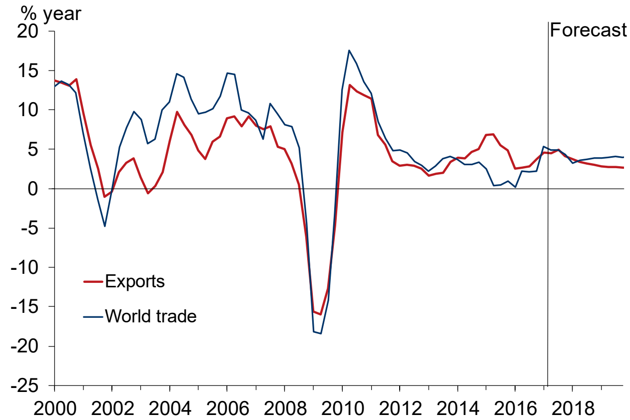
Monetary policy tightening: we expect the ECB to adopt a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, the typically hawkish central bank could surprise markets to the upside, pushing bond yields and the euro higher, which in turn could slow growth.

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 picks up only 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 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 0.8% in 2018, before edging up to 1% the following year.

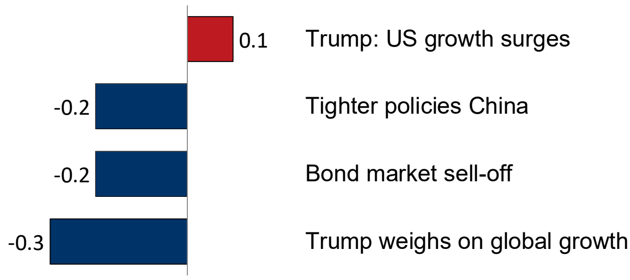
Eurozone: Exports & foreign demand



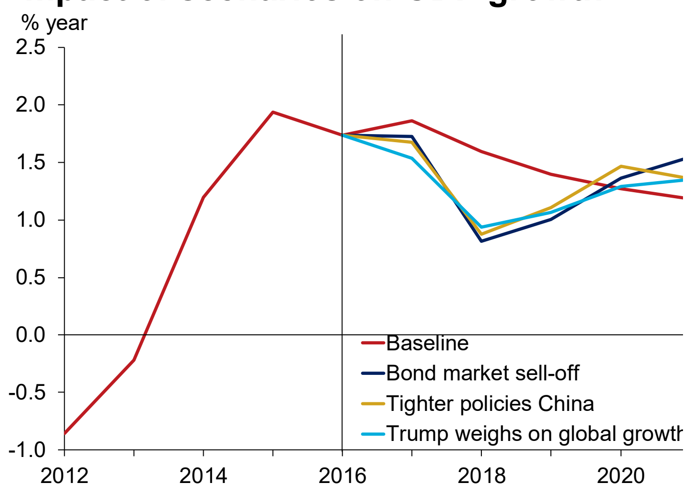
Source : Oxford Economics/Haver Analytics

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

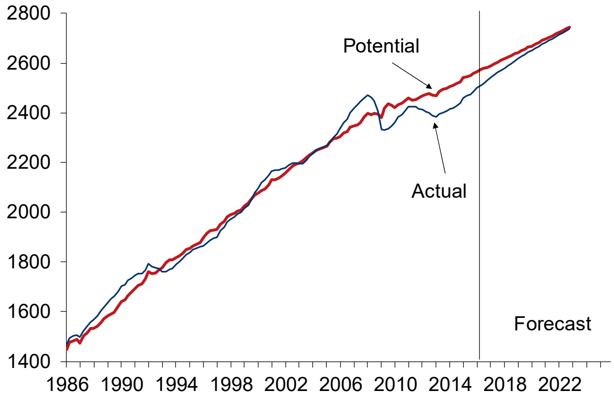
Very slow recovery from crises

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 1.1%, 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



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	1.0
Total Factor Productivity	0.2	0.5

*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)

	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	2.7	1.4
Government Consumption	2.0	0.4	1.3	1.0
Exports of Goods and Services	2.7	4.4	3.2	2.4
Imports of Goods and Services	2.6	3.2	3.7	2.5
Unemployment (%)	8.7	11.2	8.8	7.5
Consumer Prices	1.9	1.4	1.4	2.0
Current Balance (% of GDP)	-0.3	1.9	3.0	2.3
Exchange Rate (US$ per Euro)	1.4	1.3	1.1	1.2
General Government Balance (% of GDP)	-3.3	-3.1	-1.0	-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	0.3	0.0
Participation Ratio	75.8	76.6	76.9	77.6
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	Unemploy-ment %	CPI	Business confidence (% balance)	Consumer confidence (% balance)	Exports	Imports	Trade balance (€ bn)
May	0.5	10.2	-0.1	0.3	-7	2.3	-1.3	23.5
Jun	0.9	10.1	0.1	0.2	-7	-1.4	-4.1	28.9
Jul	-0.4	10.0	0.2	0.4	-8	-9.3	-7.7	25.0
Aug	2.3	9.9	0.2	0.1	-9	8.6	4.6	17.3
Sep	1.4	9.9	0.4	0.4	-8	2.2	-1.2	24.4
Oct	0.8	9.8	0.5	0.6	-8	-4.5	-2.8	19.4
Nov	3.2	9.7	0.6	0.4	-6	5.5	5.3	24.5
Dec	2.3	9.6	1.1	0.8	-5	6.1	4.7	28.0
2017								
Jan	0.3	9.5	1.8	0.8	-5	12.6	17.3	-1.1
Feb	1.5	9.4	2.0	0.8	-6	4.9	6.4	16.9
Mar	1.9	9.4	1.5	0.8	-5	13.1	13.7	30.9
Apr	-	9.3	1.9	1.1	-4	-	-	-
May	-	-	1.4	0.9	-3	-	-	-

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
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	9.3
Feb	-0.33	1.45	4.7	1.06	1.17	96.5	3320	0.3
Mar	-0.33	1.46	5.3	1.07	1.15	97.2	3501	12.1
Apr	-0.33	1.26	4.9	1.07	1.18	96.8	3560	-
May	-0.33	1.18	-	1.11	1.17	99.1	3555	-

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EUROZONE — **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)	COMPETIT-IVENESS (2008=100) (MON)	PRODUCER PRICES (PPI)	CONSUMER PRICES (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	1.6	0.4	5.1	-2.0	0.2
2017	1.5	3.9	2.2	2.0	1.8	9.1	2.1	0.8	5.3	3.4	1.6
2018	1.4	2.2	1.5	1.6	1.4	8.6	2.6	0.9	4.6	1.8	1.5
2019	1.3	2.1	1.5	1.4	1.4	8.3	2.6	0.9	3.9	2.2	1.8
2020	1.2	1.9	1.4	1.3	1.3	8.0	2.8	0.9	3.6	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	1.9	11.1	1.4	1.0	6.1	-1.1	0.2
Q3	1.9	3.2	1.9	1.9	2.5	10.7	1.5	0.8	5.8	-1.9	0.1
Q4	1.7	3.7	2.3	1.9	2.1	10.5	1.5	0.7	4.9	-2.4	0.2
2016											
Q1	2.0	2.5	2.0	1.7	1.5	10.3	1.7	0.3	4.9	-3.2	0.0
Q2	2.0	3.7	2.3	1.6	1.1	10.2	1.4	0.2	5.0	-3.6	-0.1
Q3	1.9	2.5	1.9	1.8	1.1	9.9	1.5	0.5	5.2	-1.9	0.3
Q4	2.0	5.1	2.6	1.8	2.1	9.7	1.7	0.7	5.2	0.6	0.7
2017											
Q1	1.6	6.0	2.9	1.9	1.2	9.4	1.6	0.6	5.4	4.1	1.8
Q2	1.5	3.6	2.3	2.1	2.3	9.1	2.1	0.9	5.2	3.9	1.5
Q3	1.5	4.4	2.4	2.1	2.3	9.0	2.2	0.9	5.6	3.3	1.5
Q4	1.4	1.8	1.4	2.0	1.5	8.8	2.4	0.9	5.1	2.4	1.5
2018											
Q1	1.4	1.2	1.2	1.8	1.8	8.7	2.5	1.0	4.8	1.3	1.4
Q2	1.4	2.7	1.7	1.6	1.3	8.6	2.6	0.9	4.6	1.7	1.4
Q3	1.4	2.6	1.6	1.5	1.3	8.5	2.6	0.8	4.5	2.0	1.6
Q4	1.4	2.3	1.5	1.5	1.3	8.5	2.6	0.8	4.3	2.2	1.7
2019											
Q1	1.3	2.1	1.5	1.4	1.3	8.4	2.6	0.8	4.0	2.3	1.7
Q2	1.3	2.2	1.5	1.4	1.4	8.3	2.6	0.9	3.9	2.2	1.8
Q3	1.3	2.1	1.5	1.4	1.4	8.2	2.6	0.9	3.8	2.1	1.9
Q4	1.2	2.0	1.4	1.4	1.4	8.2	2.7	0.9	3.8	2.1	1.9
2020											
Q1	1.2	1.9	1.4	1.3	1.4	8.1	2.7	0.9	3.7	2.0	1.9
Q2	1.2	1.9	1.4	1.3	1.3	8.0	2.8	0.9	3.6	1.9	2.0
Q3	1.2	1.8	1.3	1.3	1.3	8.0	2.8	0.9	3.6	1.9	2.0
Q4	1.2	1.8	1.3	1.2	1.2	7.9	2.8	0.9	3.5	1.9	2.0

EUROZONE — **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)	EXCHANGE RATE US DOLLAR PER EURO (RXD)	EFFECTIVE EXCHANGE RATE 2010=100 (RX)
YEARS BEGINNING Q1											
2015	238.3	336.2	3.21	-217.4	-2.08	-0.02	1.21	-0.05	1.18	1.11	114.9
2016	267.0	359.4	3.35	-166.1	-1.55	-0.26	0.86	-0.51	0.62	1.11	119.1
2017	245.5	351.6	3.18	-114.5	-1.03	-0.33	1.28	-1.90	-0.30	1.10	119.2
2018	258.0	343.9	3.01	-103.0	-0.90	-0.27	1.76	-1.78	0.25	1.12	119.6
2019	244.1	320.8	2.72	-100.6	-0.85	-0.12	2.07	-1.95	0.24	1.13	120.0
2020	235.2	308.6	2.54	-94.0	-0.77	0.09	2.40	-1.86	0.45	1.14	120.1
2015											
Q1	57.3	83.0	3.20	-58.6	-2.26	0.05	1.01	0.36	1.33	1.13	114.9
Q2	59.5	80.2	3.07	-56.0	-2.15	-0.01	1.28	-0.20	1.09	1.11	112.6
Q3	58.0	90.8	3.46	-53.1	-2.02	-0.03	1.36	-0.12	1.27	1.11	116.1
Q4	63.4	82.2	3.11	-49.7	-1.88	-0.09	1.19	-0.26	1.02	1.10	116.1
2016											
Q1	64.9	94.0	3.53	-46.1	-1.73	-0.19	1.04	-0.23	1.00	1.10	119.0
Q2	71.1	101.6	3.80	-42.6	-1.60	-0.26	0.88	-0.17	0.97	1.13	119.5
Q3	65.7	89.6	3.33	-39.8	-1.48	-0.30	0.61	-0.57	0.34	1.12	119.3
Q4	65.3	74.1	2.73	-37.6	-1.38	-0.31	0.93	-1.05	0.19	1.08	118.7
2017											
Q1	57.3	98.2	3.60	-35.9	-1.31	-0.33	1.21	-2.09	-0.55	1.06	117.8
Q2	56.9	90.7	3.29	-30.2	-1.10	-0.33	1.16	-1.84	-0.35	1.10	118.9
Q3	65.1	77.5	2.79	-23.7	-0.85	-0.33	1.26	-1.82	-0.24	1.12	120.3
Q4	66.2	85.2	3.04	-24.7	-0.88	-0.32	1.49	-1.86	-0.05	1.12	119.9
2018											
Q1	68.0	104.2	3.69	-28.5	-1.01	-0.32	1.65	-1.72	0.25	1.12	119.6
Q2	59.4	90.0	3.16	-26.5	-0.93	-0.32	1.72	-1.74	0.31	1.12	119.6
Q3	64.7	72.2	2.52	-24.1	-0.84	-0.27	1.80	-1.84	0.23	1.13	119.6
Q4	65.9	77.5	2.68	-24.0	-0.83	-0.17	1.87	-1.84	0.20	1.13	119.7
2019											
Q1	65.2	98.5	3.38	-28.1	-0.97	-0.12	1.94	-1.82	0.24	1.13	119.9
Q2	55.7	84.1	2.86	-25.4	-0.87	-0.12	2.02	-1.93	0.21	1.13	120.0
Q3	60.7	65.8	2.23	-23.5	-0.79	-0.12	2.11	-2.01	0.21	1.14	120.0
Q4	62.6	72.3	2.43	-23.6	-0.79	-0.12	2.19	-2.03	0.28	1.14	120.0
2020											
Q1	62.7	95.7	3.18	-27.0	-0.90	-0.02	2.28	-1.94	0.36	1.14	120.1
Q2	52.9	80.3	2.65	-23.7	-0.78	0.08	2.36	-1.88	0.40	1.14	120.1
Q3	58.5	63.2	2.07	-21.3	-0.70	0.08	2.44	-1.88	0.48	1.15	120.1
Q4	61.2	69.4	2.26	-21.9	-0.71	0.21	2.52	-1.75	0.56	1.15	120.2

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

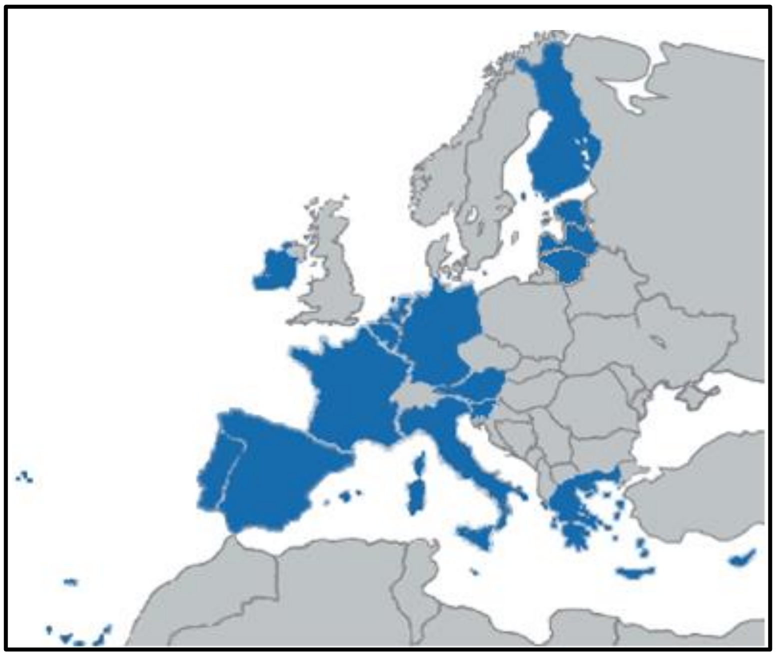
	2006-2015	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2025
GDP	0.8	-0.9	-0.2	1.3	1.9	1.7	2.0	1.6	1.4	1.3	1.2	1.1	1.1	1.1	1.0	1.4
Consumption	0.5	-1.2	-0.5	0.8	1.8	2.0	1.5	1.4	1.3	1.2	1.2	1.1	1.1	1.1	1.0	1.3
Investment	-0.3	-3.3	-2.4	1.6	3.0	3.4	3.9	2.2	2.1	1.9	1.7	1.5	1.4	1.3	1.1	2.1
Government Consumption	1.2	-0.3	0.3	0.7	1.3	1.8	1.2	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.2
Exports of Goods and Services	3.6	2.9	2.2	4.4	6.0	2.9	4.5	3.3	2.8	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	6.1	4.2	5.3	3.2	3.0	2.8	2.8	2.7	2.6	2.4	2.2	3.1
Unemployment (%)	9.9	11.4	12.0	11.6	10.9	10.0	9.1	8.6	8.3	8.0	7.8	7.6	7.5	7.3	7.2	8.1
Consumer Prices	1.7	2.5	1.3	0.4	0.0	0.2	1.6	1.5	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	3.2	3.0	2.7	2.5	2.4	2.3	2.3	2.2	2.2	2.6
Exchange Rate (US$ per Euro)	1.33	1.28	1.33	1.33	1.11	1.11	1.10	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	-1.0	-0.9	-0.9	-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	0.5	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	0.0	0.0	-0.1	0.1
Participation Ratio (%)	76.2	76.8	76.6	76.6	76.6	76.7	76.8	76.9	77.1	77.2	77.4	77.5	77.6	77.7	77.8	77.2
Labour productivity	0.5	-0.4	0.4	0.7	0.9	0.4	0.8	0.9	0.9	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	1.2	0.7	0.5	0.4	0.3	0.2	0.2	0.2	0.0	0.5
Output gap (% of potential GDP)	-1.3	-2.9	-3.6	-3.6	-2.9	-2.3	-1.4	-0.9	-0.6	-0.3	-0.2	-0.1	-0.1	0.0	0.0	-0.6

Country Economic Forecast | Eurozone

Key Facts

Politics

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



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

Long-term economic & social development

	1980	1990	2000	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

* 2015 or latest available year

Structure of GDP by output

	2015
Agriculture	1.7%
Industry	24.7%
Services	73.7%

Source : World Bank

Corruption perceptions index 2016

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

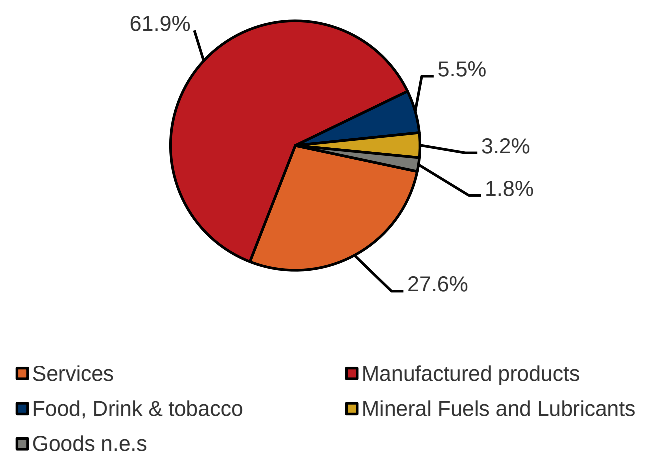
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2015*
Current account (US$ billion)	4	22	-96	373
Trade balance (US$ billion)	-22	65	-31	264
FDI (US$ billion)	-	-	35	-75
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	5.8%
Poland	5.7%

Source : Eurostat \ Haver Analytics

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