

# Country Economic Forecast

## Eurozone

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### Resilient recovery stretches into H2

### But strong euro to exacerbate inflation slowdown in early 2018

- The latest activity news from the Eurozone continue to point to only a moderate easing of growth momentum in Q3. But while there is little evidence that the strong euro is yet hampering the recovery, it will dampen inflation next year. For now though, the ECB still looks set to unveil plans to reduce monthly QE purchases from January at its October interest rate press conference.
- The detailed GDP release for Q2 confirmed that the Eurozone economy expanded by 0.6% in Q2, reflecting fairly broad-based strength across the major areas of spending. Domestic demand increased by 0.5% in Q2 and net trade provided a small boost to GDP as exports grew by more than 1% for the fourth time in the past five quarters.
- The surveys continue to point to healthy growth in Q3. The composite PMI picked up in August, but remains below its spring high, while the EC Economic Sentiment Indicator increased to a new cyclical peak. Neither survey provides any clear evidence that the appreciation of the euro is having any notable adverse effect on the industrial sector. And the strong euro failed to prevent headline CPI inflation ticking up from 1.3% in July to 1.5% in August – core inflation was unchanged at 1.2% for a third month running, double the cyclical low of 0.6% recorded in 2015.
- But there are signs that the ECB is getting a little twitchy about the euro's strength and have pushed a decision on its QE purchase plans for 2018 until later in the year. Although CPI inflation is likely to fall to 1% or lower early next year, we still expect QE purchases to be reduced to €40bn per month from January. However, the change will be accompanied by dovish rhetoric and only a slow pace of normalisation thereafter.
- Overall, our GDP growth forecasts for 2017 and 2018 are little changed at 2.2% and 1.9% respectively, implying a further sustained period of above potential GDP growth.

| Forecast for Eurozone                        |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|
| (Annual percentage changes unless specified) |       |       |       |       |       |       |
|  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
| Domestic Demand                              | 1.8   | 2.3   | 1.9   | 2.0   | 1.7   | 1.5   |
| Private Consumption                          | 1.7   | 2.0   | 1.8   | 1.6   | 1.4   | 1.3   |
| Fixed Investment                             | 2.9   | 4.3   | 2.6   | 3.1   | 2.7   | 2.2   |
| Stockbuilding (% of GDP)                     | 0.2   | 0.2   | 0.3   | 0.4   | 0.5   | 0.5   |
| Government Consumption                       | 1.3   | 1.7   | 1.2   | 1.4   | 1.2   | 1.1   |
| Exports of goods and services                | 6.4   | 3.2   | 4.5   | 3.5   | 3.0   | 2.7   |
| Imports of goods and services                | 6.7   | 4.6   | 4.1   | 3.8   | 3.3   | 3.0   |
| GDP  | 1.9   | 1.8   | 2.2   | 1.9   | 1.6   | 1.4   |
| Industrial Production                        | 2.1   | 1.4   | 2.3   | 1.8   | 1.4   | 1.3   |
| Consumer Prices                              | 0.0   | 0.2   | 1.4   | 1.2   | 1.8   | 1.9   |
| Current Balance (% of GDP)                   | 3.2   | 3.5   | 3.2   | 2.9   | 2.6   | 2.4   |
| Government Budget (% of GDP)                 | -2.1  | -1.5  | -1.1  | -1.0  | -0.9  | -0.8  |
| Short-Term Interest Rates (%)                | 0.0   | -0.3  | -0.3  | -0.3  | -0.2  | 0.1   |
| Long-Term Interest Rates (%)                 | 1.2   | 0.9   | 1.1   | 1.6   | 1.9   | 2.1   |
| Exchange rate (US\$ per Euro)                | 1.11  | 1.11  | 1.13  | 1.20  | 1.20  | 1.21  |
| Exchange rate (YEN per Euro)                 | 134.3 | 120.3 | 126.5 | 135.3 | 139.5 | 140.5 |

## Forecast overview

### Eurozone GDP growth revised up

The Q2 breakdown confirmed that GDP expanded by 0.6% on the quarter. However, some revisions to the back data resulted in the annual growth rate being revised higher which has mechanically prompted a slight upward revision to our 2017 forecast from 2.1% to 2.2%. Household spending and investment growth both strengthened in Q2, prompting overall domestic demand to expand by 0.5%. Exports also recorded another solid rise, which outstripped the increase in imports. This resulted in net trade boosting GDP, albeit by less than in the previous quarter.

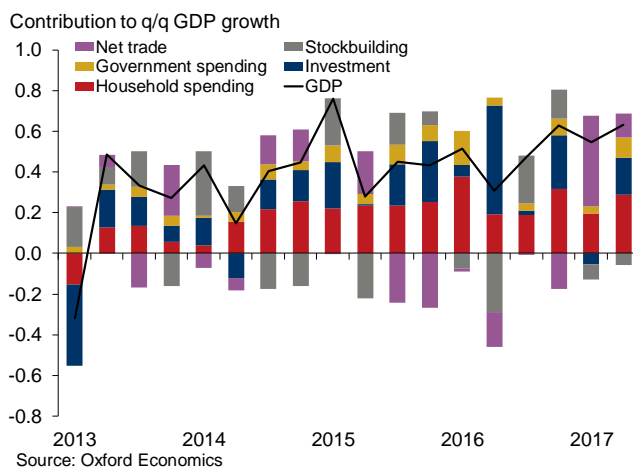
The limited available activity data for Q3 provide no compelling signs of a significant slowdown in GDP growth. Admittedly, despite picking up in August the composite PMI remains below its spring peak. But the EC's Economic Sentiment Indicator reached a new cyclical high last month. What is more, there are no clear indicators that the strong euro is yet causing major problems for the industrial sector or adversely affecting sentiment. For now, then, we see another quarter of healthy GDP growth of 0.5% or so in Q3.

### Prospects for H2 and beyond remain bright

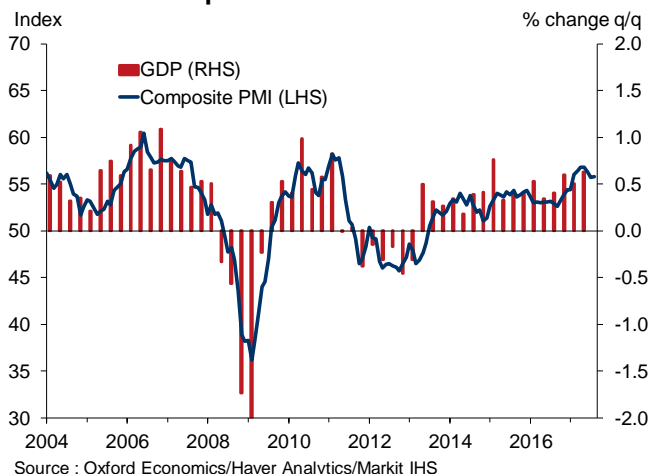
Looking ahead, we remain confident that the Eurozone can sustain a further period of well above trend GDP growth, reflecting the following factors:

- Healthy labour market a boon for household spending:** despite the pick-up in CPI inflation in H1, there has not been a marked decrease in household spending growth, reflecting strong nominal income growth as a result of the strengthening labour market. Although unemployment rose in August, the odd monthly rise here and there is not unusual. There is also evidence that the increase reflected rising workforce participation in a number of economies, rather than a slowdown in job creation (the surveys continue to point to strong jobs growth ahead). Admittedly, improving labour market conditions do not yet appear to be triggering a pick-up in wage growth – in Q2 annual negotiated wage growth slowed, reversing the previous quarter's gain. However, with inflation set to weaken over the next six months, we expect solid real wage gains and real income growth of just under 2% for a third year running next year, ensuring that household spending growth rises by about 1.6% in 2018, compared to the likely gain of 1.8% in 2017.

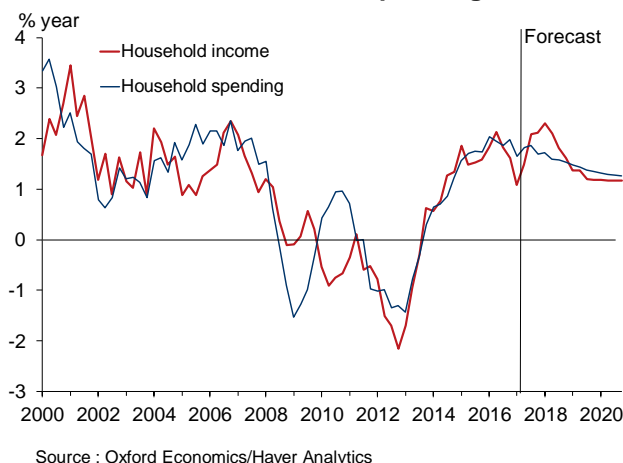
### Eurozone: GDP



### Eurozone Composite PMI & GDP



### Eurozone: Real household spending & income



- Investment joining the recovery:** the solid start to the year for investment is perhaps no great surprise given the buoyant business sentiment, reduced fears of populism and the continued strength of bank lending to firms, particularly at longer maturities. Our view remains that investment growth will strengthen from 2.6% this year to 3.1% in 2018. However, the knock-on effects of the strong euro pose a risk to our baseline forecast.
- Stronger euro and slowing demand growth to trigger modest deceleration in export growth:** although the surveys of export orders have fallen only moderately despite the rise in the euro, this may reflect the robust pace of global trade growth. However, with global trade growth likely to slow in H2 and 2018 and the euro unlikely to give back much of its recent gains – we see the euro remaining around the \$1.20 level in the latter part of this year and 2018 – export volume growth should gradually ease. We expect export growth to slow from 4.5% this year to 3.5% in 2018 and 3% in 2019. But the growth rates for the next two years are still comparable to the 3.2% recorded in 2016.

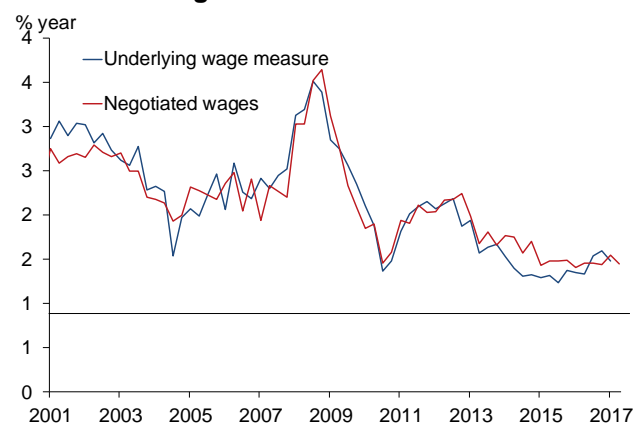
Overall, we now expect GDP growth in 2017 of 2.2%, 0.1 percentage points (pp) higher than a month ago, predominantly reflecting changes to the historical data on which the forecast is based. In 2018 and 2019, we see growth of 1.9% and 1.6%, unchanged from a month ago.

## ECB still seen tightening policy only gradually

Although the ECB declined to announce its 2018 QE plans at the September interest rate press conference, Draghi signalled that a decision in October was more likely than not – prior to the meeting there had been suggestions that an announcement could be delayed until December. This along with only a modest downward revision to the CPI inflation forecast in response to the euro's recent strength and Draghi's decision to do little to talk the euro down helped to push the euro temporarily above the \$1.20 mark.

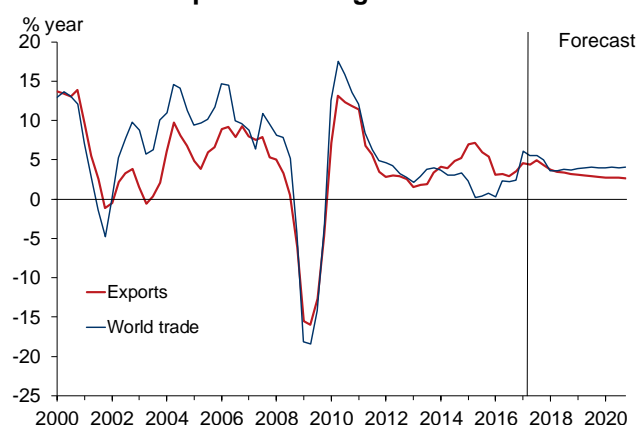
While it was noted that monetary policy will be partly determined by future exchange rate developments, the strength of the recovery and signs of a pick-up in underlying inflation mean we still expect the ECB to reduce QE purchases from January. We expect the ECB to purchase assets worth €40bn per month for a six-month period from January 2018. Thereafter, we expect the ECB to reduce purchases to €20bn a month in the summer before finally terminating quantitative easing by end-2018.

## Eurozone: Wage indicators



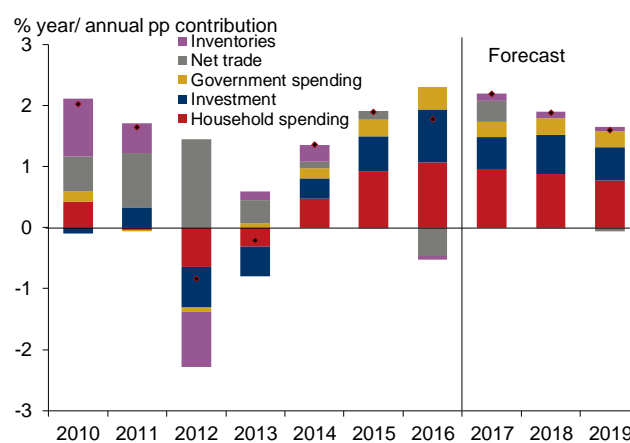
Source : Oxford Economics/Haver Analytics

## Eurozone: Exports & foreign demand



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.

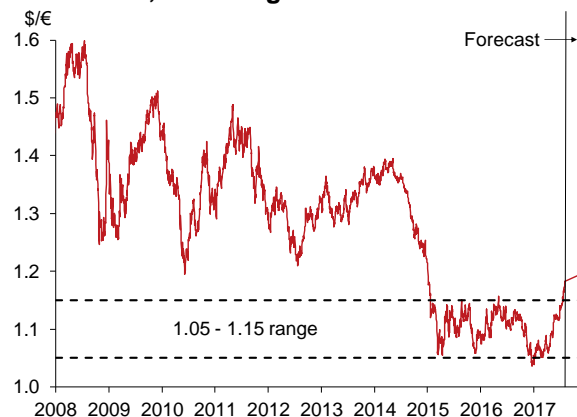
**Monetary policy tightening:** we expect the ECB to adopt a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, the previously hawkish central bank could surprise markets to the upside, pushing bond yields and the euro higher, which in turn could slow growth.

## 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 2.6% 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:** in this scenario, 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 0.5% the following year.

## Dollar/Euro, including OE forecasts



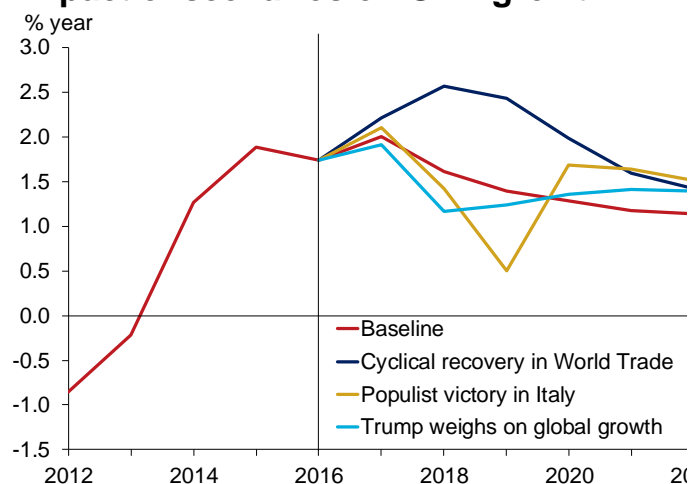
Source : Oxford Economics/Haver Analytics

## 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

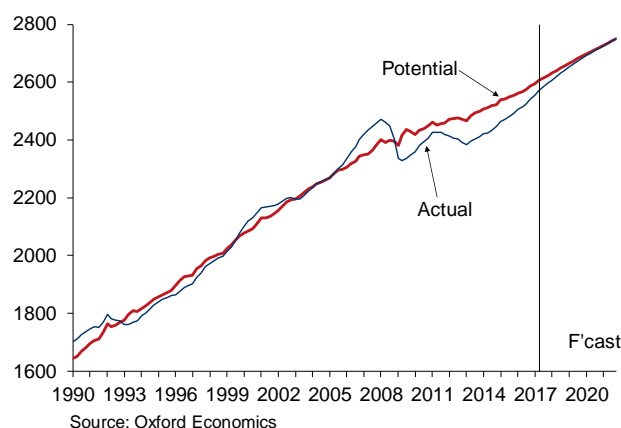
The global and Eurozone crises will leave their mark on growth for years to come. We now estimate that the Eurozone's potential growth rate is only 1.1%, similar to our estimate for the past decade but far lower than 1.8% in the ten years to 2008.

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

Euro bn 2010 prices



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

### Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

|  | 2006-2010 | 2011-2015 | 2016-2020 | 2021-2025 |
|--|-----------|-----------|-----------|-----------|
| <b>GDP</b>                                   | 0.8       | 0.8       | 1.8       | 1.1       |
| <b>Consumption</b>                           | 0.8       | 0.1       | 1.6       | 1.1       |
| <b>Investment</b>                            | -0.6      | 0.1       | 3.0       | 1.5       |
| <b>Government Consumption</b>                | 2.0       | 0.4       | 1.3       | 1.0       |
| <b>Exports of Goods and Services</b>         | 2.7       | 4.5       | 3.4       | 2.4       |
| <b>Imports of Goods and Services</b>         | 2.6       | 3.3       | 3.8       | 2.6       |
| <b>Unemployment (%)</b>                      | 8.7       | 11.2      | 8.7       | 7.3       |
| <b>Consumer Prices</b>                       | 1.9       | 1.4       | 1.3       | 2.0       |
| <b>Current Balance (% of GDP)</b>            | -0.3      | 1.8       | 2.9       | 2.1       |
| <b>Exchange Rate (US\$ per Euro)</b>         | 1.36      | 1.29      | 1.17      | 1.22      |
| <b>General Government Balance (% of GDP)</b> | -3.3      | -3.1      | -1.1      | -0.6      |
| <b>Short-term Interest Rates (%)</b>         | 2.8       | 0.5       | -0.2      | 0.9       |
| <b>Long-term Interest Rates (%)</b>          | 4.0       | 2.9       | 1.5       | 2.9       |
| <b>Working Population</b>                    | 0.3       | 0.2       | 0.1       | -0.1      |
| <b>Labour Supply</b>                         | 0.6       | 0.3       | 0.3       | 0.0       |
| <b>Participation Ratio</b>                   | 75.8      | 76.6      | 77.0      | 77.7      |
| <b>Labour Productivity</b>                   | 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.

# Country Economic Forecast | Eurozone

## Data & Forecasts

| <b>Key Indicators: Eurozone</b>                              |                       |                |     |                                 |                                 |         |         |                      |
|--|-----------------------|----------------|-----|---------------------------------|---------------------------------|---------|---------|----------------------|
| Percentage changes on a year earlier unless otherwise stated |                       |                |     |                                 |                                 |         |         |                      |
|  | Industrial production | Unemployment % | CPI | Business confidence (% balance) | Consumer confidence (% balance) | Exports | Imports | Trade balance (€ bn) |
| <b>Aug</b>   | 2.3                   | 9.9            | 0.2 | 0.1                             | -9                              | 8.6     | 4.4     | 17.5                 |
| <b>Sep</b>   | 1.4                   | 9.9            | 0.4 | 0.4                             | -8                              | 2.3     | -1.1    | 24.4                 |
| <b>Oct</b>   | 0.8                   | 9.8            | 0.5 | 0.6                             | -8                              | -4.5    | -3.0    | 19.6                 |
| <b>Nov</b>   | 3.2                   | 9.7            | 0.6 | 0.4                             | -6                              | 5.5     | 5.6     | 24.2                 |
| <b>Dec</b>   | 2.3                   | 9.6            | 1.1 | 0.7                             | -5                              | 6.2     | 4.9     | 27.7                 |
| <b>2017</b>  |                       |                |     |                                 |                                 |         |         |                      |
| <b>Jan</b>   | 0.3                   | 9.6            | 1.8 | 0.8                             | -5                              | 12.8    | 17.7    | -1.4                 |
| <b>Feb</b>   | 1.4                   | 9.5            | 2.0 | 0.8                             | -6                              | 5.1     | 7.0     | 16.4                 |
| <b>Mar</b>   | 2.3                   | 9.4            | 1.5 | 0.8                             | -5                              | 14.6    | 16.8    | 29.1                 |
| <b>Apr</b>   | 1.3                   | 9.2            | 1.9 | 1.1                             | -4                              | -1.6    | 4.2     | 16.7                 |
| <b>May</b>   | 3.9                   | 9.2            | 1.4 | 0.9                             | -3                              | 13.6    | 17.9    | 20.3                 |
| <b>Jun</b>   | 2.7                   | 9.1            | 1.3 | 1.2                             | -1                              | 3.9     | 6.2     | 26.6                 |
| <b>Jul</b>   | -                     | 9.1            | 1.3 | 1.0                             | -2                              | -       | -       | -                    |
| <b>Aug</b>   | -                     | -              | 1.5 | 1.1                             | -2                              | -       | -       | -                    |

| <b>Financial Indicators: Eurozone</b>                        |              |             |                 |                         |                   |                              |                      |             |
|--|--------------|-------------|-----------------|-------------------------|-------------------|------------------------------|----------------------|-------------|
| 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 |
| <b>Aug</b>   | -0.30        | 0.61        | 5.0             | 1.12                    | 1.17              | 97.7                         | 3023                 | 55.7        |
| <b>Sep</b>   | -0.30        | 0.74        | 5.1             | 1.12                    | 1.17              | 97.8                         | 3002                 | 52.9        |
| <b>Oct</b>   | -0.31        | 0.78        | 4.5             | 1.10                    | 1.12              | 98.3                         | 3055                 | 35.5        |
| <b>Nov</b>   | -0.31        | 1.23        | 4.7             | 1.08                    | 1.15              | 97.3                         | 3052                 | -7.4        |
| <b>Dec</b>   | -0.32        | 1.29        | 5.0             | 1.05                    | 1.18              | 96.0                         | 3291                 | -10.8       |
| <b>2017</b>  |              |             |                 |                         |                   |                              |                      |             |
| <b>Jan</b>   | -0.33        | 1.31        | 4.8             | 1.06                    | 1.16              | 96.5                         | 3231                 | -12.3       |
| <b>Feb</b>   | -0.33        | 1.45        | 4.6             | 1.06                    | 1.17              | 95.8                         | 3320                 | 32.4        |
| <b>Mar</b>   | -0.33        | 1.46        | 5.3             | 1.07                    | 1.15              | 96.5                         | 3501                 | 16.6        |
| <b>Apr</b>   | -0.33        | 1.26        | 4.8             | 1.07                    | 1.18              | 96.2                         | 3560                 | 20.3        |
| <b>May</b>   | -0.33        | 1.18        | 4.9             | 1.11                    | 1.17              | 98.4                         | 3555                 | 7.7         |
| <b>Jun</b>   | -0.33        | 1.07        | 5.0             | 1.12                    | 1.14              | 99.6                         | 3442                 | -44.4       |
| <b>Jul</b>   | -0.33        | 1.21        | 4.5             | 1.15                    | 1.13              | 101.2                        | 3449                 | -           |
| <b>Aug</b>   | -0.33        | 1.04        | -               | 1.18                    | 1.10              | 103.3                        | 3421                 | -           |

# 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)           |      |
| <b>YEARS BEGINNING Q1</b>                             |                        |                       |          |                       |                       |                  |                                     |                            |                 |                 |      |
| 2015  | 1.7                    | 2.9                   | 1.8      | 1.9                   | 2.1                   | 10.9             | 1.4                                 | 0.9                        | 5.7             | -1.9            | 0.0  |
| 2016  | 2.0                    | 4.3                   | 2.3      | 1.8                   | 1.4                   | 10.0             | 1.5                                 | 0.4                        | 5.0             | -2.0            | 0.2  |
| 2017  | 1.8                    | 2.6                   | 1.9      | 2.2                   | 2.3                   | 9.1              | 2.2                                 | 0.8                        | 5.1             | 2.8             | 1.4  |
| 2018  | 1.6                    | 3.1                   | 2.0      | 1.9                   | 1.8                   | 8.5              | 2.7                                 | 1.0                        | 4.9             | 0.9             | 1.2  |
| 2019  | 1.4                    | 2.7                   | 1.7      | 1.6                   | 1.4                   | 8.1              | 2.7                                 | 1.0                        | 4.2             | 1.8             | 1.8  |
| 2020  | 1.3                    | 2.2                   | 1.5      | 1.4                   | 1.3                   | 7.8              | 2.8                                 | 1.0                        | 3.8             | 1.9             | 1.9  |
| <b>2015</b>   |                        |                       |          |                       |                       |                  |                                     |                            |                 |                 |      |
| Q1  | 1.6                    | 2.1                   | 1.6      | 1.8                   | 1.9                   | 11.2             | 1.3                                 | 0.9                        | 5.9             | -2.2            | -0.3 |
| Q2  | 1.7                    | 2.7                   | 1.5      | 1.9                   | 1.8                   | 11.0             | 1.5                                 | 1.0                        | 6.2             | -1.1            | 0.2  |
| Q3  | 1.7                    | 3.0                   | 1.9      | 2.0                   | 2.5                   | 10.7             | 1.5                                 | 0.9                        | 5.9             | -1.9            | 0.1  |
| Q4  | 1.7                    | 3.7                   | 2.3      | 1.9                   | 2.1                   | 10.5             | 1.5                                 | 0.8                        | 4.9             | -2.4            | 0.2  |
| <b>2016</b>   |                        |                       |          |                       |                       |                  |                                     |                            |                 |                 |      |
| Q1  | 2.0                    | 2.8                   | 2.1      | 1.7                   | 1.5                   | 10.3             | 1.5                                 | 0.3                        | 4.8             | -3.2            | 0.0  |
| Q2  | 2.0                    | 5.6                   | 2.5      | 1.7                   | 1.1                   | 10.1             | 1.3                                 | 0.3                        | 5.0             | -3.6            | -0.1 |
| Q3  | 1.9                    | 4.6                   | 2.3      | 1.7                   | 1.1                   | 9.9              | 1.5                                 | 0.4                        | 5.1             | -1.9            | 0.3  |
| Q4  | 2.0                    | 4.4                   | 2.4      | 1.9                   | 2.1                   | 9.7              | 1.6                                 | 0.6                        | 5.1             | 0.6             | 0.7  |
| <b>2017</b>   |                        |                       |          |                       |                       |                  |                                     |                            |                 |                 |      |
| Q1  | 1.6                    | 3.8                   | 2.0      | 2.0                   | 1.3                   | 9.5              | 1.7                                 | 0.5                        | 5.4             | 4.0             | 1.8  |
| Q2  | 1.8                    | 2.0                   | 2.0      | 2.3                   | 2.6                   | 9.2              | 2.2                                 | 0.8                        | 4.8             | 3.2             | 1.5  |
| Q3  | 1.9                    | 2.5                   | 2.1      | 2.3                   | 2.9                   | 9.0              | 2.4                                 | 0.9                        | 5.3             | 2.6             | 1.3  |
| Q4  | 1.7                    | 2.0                   | 1.7      | 2.2                   | 2.3                   | 8.8              | 2.5                                 | 0.9                        | 5.0             | 1.5             | 1.2  |
| <b>2018</b>   |                        |                       |          |                       |                       |                  |                                     |                            |                 |                 |      |
| Q1  | 1.7                    | 3.1                   | 2.1      | 2.1                   | 2.6                   | 8.7              | 2.5                                 | 1.0                        | 4.9             | 0.3             | 1.0  |
| Q2  | 1.6                    | 3.0                   | 2.0      | 1.9                   | 1.8                   | 8.5              | 2.7                                 | 1.0                        | 5.2             | 1.0             | 1.1  |
| Q3  | 1.6                    | 3.2                   | 1.9      | 1.8                   | 1.5                   | 8.4              | 2.7                                 | 1.0                        | 4.9             | 1.1             | 1.4  |
| Q4  | 1.5                    | 3.1                   | 1.9      | 1.7                   | 1.4                   | 8.3              | 2.7                                 | 1.0                        | 4.7             | 1.4             | 1.5  |
| <b>2019</b>   |                        |                       |          |                       |                       |                  |                                     |                            |                 |                 |      |
| Q1  | 1.5                    | 2.9                   | 1.8      | 1.7                   | 1.4                   | 8.2              | 2.7                                 | 1.0                        | 4.4             | 1.6             | 1.7  |
| Q2  | 1.4                    | 2.7                   | 1.7      | 1.6                   | 1.4                   | 8.1              | 2.7                                 | 1.0                        | 4.3             | 1.7             | 1.7  |
| Q3  | 1.4                    | 2.6                   | 1.7      | 1.6                   | 1.4                   | 8.1              | 2.7                                 | 1.0                        | 4.2             | 1.8             | 1.8  |
| Q4  | 1.3                    | 2.5                   | 1.6      | 1.5                   | 1.4                   | 8.0              | 2.8                                 | 1.0                        | 4.0             | 1.9             | 1.8  |
| <b>2020</b>   |                        |                       |          |                       |                       |                  |                                     |                            |                 |                 |      |
| Q1  | 1.3                    | 2.3                   | 1.6      | 1.5                   | 1.4                   | 7.9              | 2.8                                 | 1.0                        | 3.9             | 1.9             | 1.9  |
| Q2  | 1.3                    | 2.2                   | 1.5      | 1.4                   | 1.3                   | 7.8              | 2.8                                 | 1.0                        | 3.8             | 1.9             | 1.9  |
| Q3  | 1.3                    | 2.1                   | 1.5      | 1.4                   | 1.3                   | 7.8              | 2.8                                 | 1.0                        | 3.7             | 1.9             | 1.9  |
| Q4  | 1.3                    | 2.0                   | 1.4      | 1.3                   | 1.3                   | 7.7              | 2.8                                 | 1.0                        | 3.7             | 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 2010=100 |       |
| (BVI)                     | (BCU)                     | (BCU*100 /GDP)             | (GB)                                   | (GB*100 /GDP)                           | (RSH)                    | (RLG)                   | (Note 1)                      | (Note 1)                     | (RXD)                            | (RX)                             |       |
| <b>YEARS BEGINNING Q1</b> |                           |                            |  |   |                          |                         |                               |                              |                                  |                                  |       |
| 2015                      | 238.1                     | 336.2                      | 3.20                                   | -217.3                                  | -2.07                    | -0.02                   | 1.21                          | -0.05                        | 1.18                             | 1.11                             | 114.3 |
| 2016                      | 265.3                     | 373.0                      | 3.46                                   | -166.5                                  | -1.55                    | -0.26                   | 0.86                          | -0.51                        | 0.62                             | 1.11                             | 118.6 |
| 2017                      | 255.2                     | 350.8                      | 3.15                                   | -126.0                                  | -1.13                    | -0.33                   | 1.15                          | -1.78                        | -0.30                            | 1.13                             | 121.9 |
| 2018                      | 257.2                     | 336.2                      | 2.92                                   | -112.6                                  | -0.98                    | -0.34                   | 1.56                          | -1.57                        | 0.32                             | 1.20                             | 125.8 |
| 2019                      | 232.3                     | 314.3                      | 2.65                                   | -110.4                                  | -0.93                    | -0.20                   | 1.92                          | -1.95                        | 0.17                             | 1.20                             | 125.2 |
| 2020                      | 216.9                     | 299.2                      | 2.44                                   | -104.2                                  | -0.85                    | 0.06                    | 2.15                          | -1.85                        | 0.24                             | 1.21                             | 124.8 |
| <b>2015</b>               |                           |                            |  |   |                          |                         |                               |                              |                                  |                                  |       |
| Q1                        | 57.3                      | 83.0                       | 3.20                                   | -58.6                                   | -2.26                    | 0.05                    | 1.01                          | 0.36                         | 1.33                             | 1.13                             | 114.4 |
| Q2                        | 60.0                      | 80.2                       | 3.07                                   | -56.0                                   | -2.14                    | -0.01                   | 1.28                          | -0.20                        | 1.09                             | 1.11                             | 112.1 |
| Q3                        | 57.7                      | 90.8                       | 3.45                                   | -53.0                                   | -2.01                    | -0.03                   | 1.36                          | -0.12                        | 1.27                             | 1.11                             | 115.4 |
| Q4                        | 63.1                      | 82.2                       | 3.10                                   | -49.7                                   | -1.87                    | -0.09                   | 1.19                          | -0.26                        | 1.02                             | 1.10                             | 115.5 |
| <b>2016</b>               |                           |                            |  |   |                          |                         |                               |                              |                                  |                                  |       |
| Q1                        | 65.0                      | 96.0                       | 3.60                                   | -46.1                                   | -1.73                    | -0.19                   | 1.04                          | -0.23                        | 1.00                             | 1.10                             | 118.3 |
| Q2                        | 70.6                      | 105.9                      | 3.95                                   | -42.7                                   | -1.59                    | -0.26                   | 0.88                          | -0.17                        | 0.97                             | 1.13                             | 118.9 |
| Q3                        | 65.2                      | 95.0                       | 3.52                                   | -39.9                                   | -1.48                    | -0.30                   | 0.61                          | -0.57                        | 0.34                             | 1.12                             | 118.9 |
| Q4                        | 64.6                      | 76.0                       | 2.79                                   | -37.7                                   | -1.39                    | -0.31                   | 0.93                          | -1.05                        | 0.19                             | 1.08                             | 118.3 |
| <b>2017</b>               |                           |                            |  |   |                          |                         |                               |                              |                                  |                                  |       |
| Q1                        | 54.7                      | 90.8                       | 3.32                                   | -35.5                                   | -1.30                    | -0.33                   | 1.21                          | -2.09                        | -0.55                            | 1.06                             | 117.4 |
| Q2                        | 60.1                      | 74.6                       | 2.70                                   | -32.9                                   | -1.19                    | -0.33                   | 1.10                          | -1.85                        | -0.42                            | 1.10                             | 119.0 |
| Q3                        | 69.8                      | 103.7                      | 3.71                                   | -28.5                                   | -1.02                    | -0.33                   | 1.10                          | -1.60                        | -0.17                            | 1.17                             | 124.9 |
| Q4                        | 70.6                      | 81.6                       | 2.90                                   | -29.1                                   | -1.03                    | -0.35                   | 1.18                          | -1.59                        | -0.06                            | 1.20                             | 126.4 |
| <b>2018</b>               |                           |                            |  |   |                          |                         |                               |                              |                                  |                                  |       |
| Q1                        | 66.0                      | 83.8                       | 2.95                                   | -31.6                                   | -1.11                    | -0.35                   | 1.35                          | -1.30                        | 0.40                             | 1.20                             | 126.2 |
| Q2                        | 63.4                      | 78.4                       | 2.74                                   | -28.3                                   | -0.99                    | -0.34                   | 1.52                          | -1.47                        | 0.39                             | 1.20                             | 125.9 |
| Q3                        | 63.5                      | 98.2                       | 3.40                                   | -26.0                                   | -0.90                    | -0.33                   | 1.63                          | -1.68                        | 0.28                             | 1.20                             | 125.7 |
| Q4                        | 64.3                      | 75.7                       | 2.60                                   | -26.8                                   | -0.92                    | -0.32                   | 1.75                          | -1.83                        | 0.23                             | 1.20                             | 125.5 |
| <b>2019</b>               |                           |                            |  |   |                          |                         |                               |                              |                                  |                                  |       |
| Q1                        | 59.7                      | 78.7                       | 2.68                                   | -30.4                                   | -1.03                    | -0.27                   | 1.83                          | -1.97                        | 0.13                             | 1.20                             | 125.3 |
| Q2                        | 56.7                      | 73.7                       | 2.49                                   | -28.2                                   | -0.95                    | -0.22                   | 1.89                          | -1.91                        | 0.20                             | 1.20                             | 125.3 |
| Q3                        | 56.9                      | 91.7                       | 3.07                                   | -25.6                                   | -0.86                    | -0.17                   | 1.96                          | -1.98                        | 0.15                             | 1.20                             | 125.2 |
| Q4                        | 59.0                      | 70.3                       | 2.34                                   | -26.2                                   | -0.87                    | -0.12                   | 2.02                          | -1.96                        | 0.18                             | 1.20                             | 125.1 |
| <b>2020</b>               |                           |                            |  |   |                          |                         |                               |                              |                                  |                                  |       |
| Q1                        | 54.8                      | 75.1                       | 2.48                                   | -30.2                                   | -1.00                    | -0.02                   | 2.07                          | -1.89                        | 0.20                             | 1.20                             | 125.0 |
| Q2                        | 51.8                      | 69.1                       | 2.26                                   | -26.6                                   | -0.87                    | 0.08                    | 2.12                          | -1.83                        | 0.21                             | 1.21                             | 124.8 |
| Q3                        | 53.7                      | 88.5                       | 2.88                                   | -24.2                                   | -0.79                    | 0.08                    | 2.17                          | -1.83                        | 0.26                             | 1.21                             | 124.7 |
| Q4                        | 56.5                      | 66.4                       | 2.14                                   | -23.2                                   | -0.75                    | 0.08                    | 2.22                          | -1.85                        | 0.29                             | 1.21                             | 124.6 |

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 |
|--|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----------|
| <b>GDP</b>                                   | 0.8       | -0.8 | -0.2 | 1.4  | 1.9  | 1.8  | 2.2  | 1.9  | 1.6  | 1.4  | 1.2  | 1.2  | 1.1  | 1.1  | 1.0  | 1.4       |
| <b>Consumption</b>                           | 0.5       | -1.2 | -0.6 | 0.9  | 1.7  | 2.0  | 1.8  | 1.6  | 1.4  | 1.3  | 1.2  | 1.2  | 1.1  | 1.1  | 1.1  | 1.4       |
| <b>Investment</b>                            | -0.3      | -3.3 | -2.4 | 1.7  | 2.9  | 4.3  | 2.6  | 3.1  | 2.7  | 2.2  | 1.9  | 1.6  | 1.4  | 1.3  | 1.1  | 2.2       |
| <b>Government Consumption</b>                | 1.2       | -0.3 | 0.3  | 0.7  | 1.3  | 1.7  | 1.2  | 1.4  | 1.2  | 1.1  | 1.1  | 1.1  | 1.0  | 1.0  | 1.0  | 1.2       |
| <b>Exports of Goods and Services</b>         | 3.6       | 2.8  | 2.2  | 4.5  | 6.4  | 3.2  | 4.5  | 3.5  | 3.0  | 2.7  | 2.6  | 2.6  | 2.5  | 2.3  | 2.2  | 2.9       |
| <b>Imports of Goods and Services</b>         | 2.9       | -0.7 | 1.4  | 4.7  | 6.7  | 4.6  | 4.1  | 3.8  | 3.3  | 3.0  | 2.9  | 2.7  | 2.6  | 2.4  | 2.2  | 3.2       |
| <b>Unemployment (%)</b>                      | 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       |
| <b>Consumer Prices</b>                       | 1.7       | 2.5  | 1.3  | 0.4  | 0.0  | 0.2  | 1.4  | 1.2  | 1.8  | 1.9  | 2.0  | 2.0  | 2.0  | 1.9  | 1.9  | 1.6       |
| <b>Current Balance (% of GDP)</b>            | 0.8       | 1.4  | 2.2  | 2.5  | 3.2  | 3.5  | 3.2  | 2.9  | 2.6  | 2.4  | 2.3  | 2.2  | 2.1  | 2.0  | 2.1  | 2.5       |
| <b>Exchange Rate (US\$ per Euro)</b>         | 1.33      | 1.28 | 1.33 | 1.33 | 1.11 | 1.11 | 1.13 | 1.20 | 1.20 | 1.21 | 1.21 | 1.21 | 1.22 | 1.22 | 1.22 | 1.19      |
| <b>General Government Balance (% of GDP)</b> | -3.2      | -3.6 | -3.0 | -2.6 | -2.1 | -1.5 | -1.1 | -1.0 | -0.9 | -0.8 | -0.8 | -0.7 | -0.6 | -0.6 | -0.5 | -0.9      |
| <b>Short-term Interest Rates (%)</b>         | 1.6       | 0.6  | 0.2  | 0.2  | 0.0  | -0.3 | -0.3 | -0.3 | -0.2 | 0.1  | 0.3  | 0.6  | 0.8  | 1.1  | 1.6  | 0.3       |
| <b>Long-term Interest Rates (%)</b>          | 3.4       | 3.9  | 3.0  | 2.0  | 1.2  | 0.9  | 1.1  | 1.6  | 1.9  | 2.1  | 2.4  | 2.7  | 2.9  | 3.1  | 3.3  | 2.2       |
| <b>Working Population</b>                    | 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       |
| <b>Labour Supply</b>                         | 0.5       | 0.8  | 0.1  | 0.1  | 0.2  | 0.5  | 0.5  | 0.3  | 0.2  | 0.1  | 0.1  | 0.1  | 0.0  | 0.0  | -0.1 | 0.2       |
| <b>Participation Ratio (%)</b>               | 76.2      | 76.7 | 76.6 | 76.6 | 76.6 | 76.7 | 76.9 | 77.0 | 77.2 | 77.3 | 77.5 | 77.6 | 77.7 | 77.8 | 77.9 | 77.4      |
| <b>Labour productivity</b>                   | 0.5       | -0.4 | 0.4  | 0.8  | 0.9  | 0.4  | 0.8  | 1.0  | 1.0  | 1.0  | 0.9  | 0.9  | 0.9  | 0.9  | 1.0  | 0.9       |
| <b>Employment</b>                            | 0.3       | -0.4 | -0.6 | 0.5  | 1.0  | 1.4  | 1.4  | 0.9  | 0.6  | 0.4  | 0.3  | 0.2  | 0.2  | 0.1  | 0.0  | 0.5       |
| <b>Output gap (% of potential GDP)</b>       | -1.2      | -2.8 | -3.6 | -3.4 | -2.8 | -2.0 | -1.3 | -0.7 | -0.4 | -0.2 | 0.0  | 0.0  | 0.1  | 0.1  | 0.1  | -0.4      |

## Key Facts

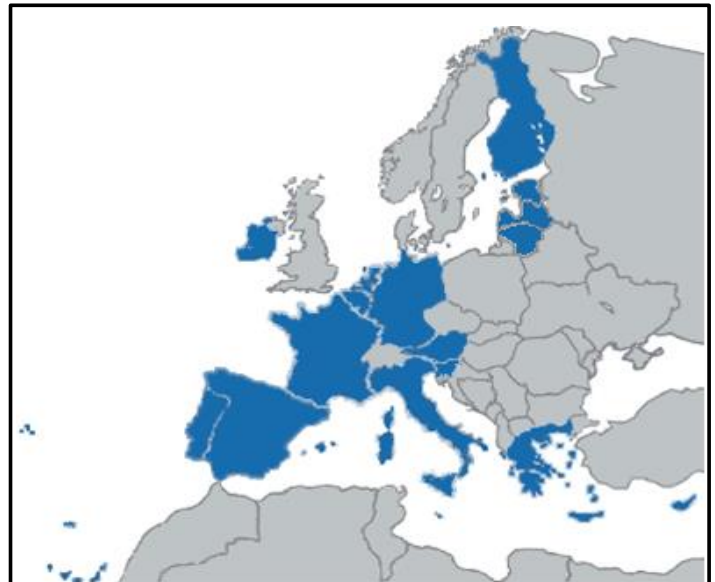
### Politics

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\$)         | -    | 18230 | 20711 | 34706 |
| 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        |
| <b>Eurozone</b>               | <b>68.2</b> |

Source: Transparency International

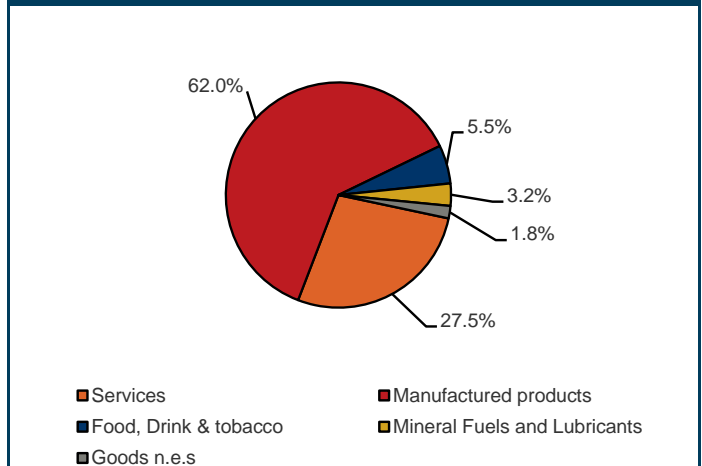
Scoring system 100 = highly clean, 0 = highly corrupt

### Structural economic indicators

|                                | 1990 | 1995  | 2000  | 2015* |
|--------------------------------|------|-------|-------|-------|
| Current account (US\$ billion) | 4    | 22    | -96   | 373   |
| Trade balance (US\$ billion)   | -21  | 66    | -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 | 9366  |

Source : Oxford Economics / World Bank / EIA

### Composition of extra-EMU goods & services exports 2015



Source : Eurostat \ Haver Analytics

### Destination of goods' exports 2015

|             |       |
|-------------|-------|
| Eurozone    | 83.9% |
| UK          | 13.4% |
| US          | 13.6% |
| China       | 6.8%  |
| Switzerland | 5.8%  |
| Poland      | 5.7%  |

Source : Eurostat \ Haver Analytics