

Country Economic Forecast

Eurozone

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Q3 GDP growth came in lower than expected...

...leading to a cut in our growth forecasts to 1.9% this year and 1.6% in 2019

- Although we had expected that GDP growth would be softer in Q3 than in Q2, the scale of the slowdown surprised us; the 0.2% expansion was the slowest in five years, although we suspect it was partly due to transitory factors affecting Germany. As a result, we have lowered our GDP growth forecast to 1.9% for this year and 1.6% in 2019 (from a previous 2% and 1.7% respectively).
- GDP grew just 0.2% in Q3, below both the 0.4% in Q2 and consensus expectations. With no detailed breakdown yet available, we can only speculate about what caused the slowdown, but we think that consumer spending remained weak while investment probably moderated after a strong Q2. Although the magnitude of the slowdown was larger than expected, we still believe it was in part due to a [transitory slowdown in Germany](#) and will be partially reversed in Q4.
- That said, latest leading indicators show that the eurozone entered the final quarter of the year with little momentum. Both the EC Economic Sentiment Indicator and the composite PMI fell in October, with the latter at its lowest in two years, dragged down by a sharp slowdown in the service sector.
- Inflation edged up to 2.2% in October, the highest in six years, as a result of rising oil prices. Core inflation remains weak, but we still expect it to trend upwards as wage growth strengthens. We see headline inflation at around 2% over the coming months, resulting in an average of 1.8% for 2018, before easing slightly to 1.7% in 2019.
- As expected, no new policy announcements were made at the October ECB meeting. The central bank is still on track to end QE purchases this year despite the concerns about Italy. But given an increasingly adverse outlook, we do not expect the first interest rate hike until Q4 2019, with a very gradual pace of tightening thereafter.

| Forecast for Eurozone | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|--|
| (Annual percentage changes unless specified) | | | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | |
| Domestic Demand | 2.4 | 1.8 | 1.8 | 1.9 | 1.7 | 1.5 | |
| Private Consumption | 1.9 | 1.7 | 1.5 | 1.5 | 1.5 | 1.4 | |
| Fixed Investment | 4.0 | 2.9 | 3.2 | 3.1 | 2.5 | 1.9 | |
| Stockbuilding (% of GDP) | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | |
| Government Consumption | 1.8 | 1.2 | 1.1 | 1.4 | 1.3 | 1.2 | |
| Exports of goods and services | 3.0 | 5.4 | 2.9 | 3.3 | 3.1 | 3.0 | |
| Imports of goods and services | 4.2 | 4.0 | 2.7 | 3.9 | 3.5 | 3.2 | |
| GDP | 1.9 | 2.5 | 1.9 | 1.6 | 1.6 | 1.4 | |
| Industrial Production | 1.7 | 3.0 | 1.4 | 1.6 | 1.7 | 1.5 | |
| Consumer Prices, average | 0.2 | 1.5 | 1.8 | 1.7 | 1.5 | 1.7 | |
| Current Balance (% of GDP) | 3.2 | 3.2 | 3.1 | 2.8 | 2.7 | 2.7 | |
| Government Budget (% of GDP) | -1.6 | -1.0 | -0.5 | -0.6 | -0.8 | -0.8 | |
| Short-Term Interest Rates (%) | -0.3 | -0.3 | -0.3 | -0.3 | 0.1 | 0.4 | |
| Long-Term Interest Rates (%) | 0.9 | 1.1 | 1.2 | 1.7 | 2.2 | 2.6 | |
| Exchange rate (US\$ per Euro), average | 1.11 | 1.13 | 1.18 | 1.18 | 1.23 | 1.25 | |
| Exchange rate (YEN per Euro), average | 120.3 | 126.7 | 130.7 | 130.2 | 134.4 | 137.3 | |

Forecast overview

Q3 GDP growth slowest in five years

The eurozone economy slowed more than expected in Q3 as GDP grew just 0.2%, down from 0.4% in Q2 and the slowest pace in five years. A detailed breakdown by components will not be available until the end of the month, but we suspect consumer spending was again weak, while we expect fixed investment to have moderated after a very strong Q2. On the other hand, net trade could have provided a positive contribution to growth for the first time this year, although we expect it to be very modest.

We still believe this sharp slowdown was partially driven by transitory factors affecting the German economy, so we expect some recovery in Q4. That said, leading indicators do not suggest the eurozone economy started the quarter with much momentum. Both the EC Economic Sentiment Indicator and the composite PMI fell in October. Adding to the troublesome picture, the fall in the PMI was driven by a decline in services, which until now has been supporting growth amid a severe slowdown in the manufacturing sector.

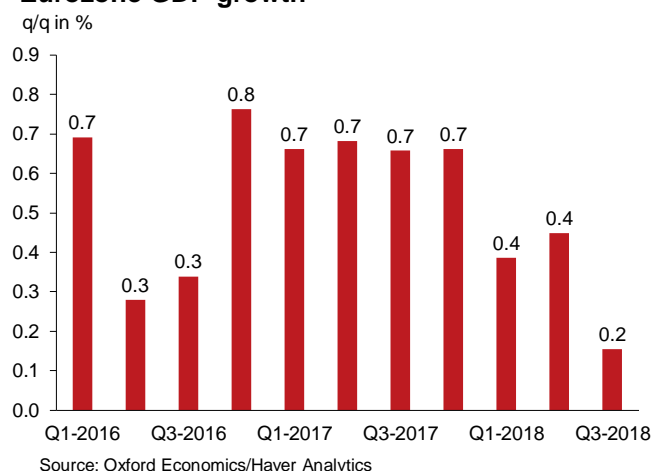
The lower-than-expected Q3 number automatically translates into a lower GDP forecast for this year. We now see growth at 1.9% (down from 2.0% previously).

Growth to moderate slightly to 1.6% next year

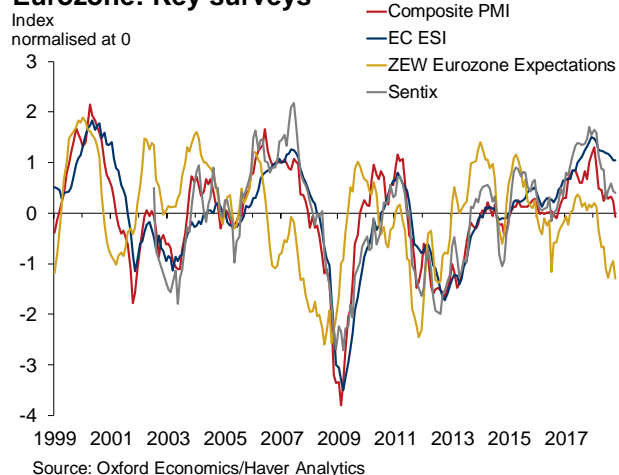
We expect GDP growth to slow to 1.6% in 2019 and then about 1.5% a year in 2020-21. Our forecasts reflect the following factors:

- Stronger wages should help support household spending:** the pace of job creation remains solid and has driven the unemployment rate down to a decade-low 8.1%. But despite the robust recovery in the labour market, consumer spending has weakened this year as households feel the impact of rising inflation on disposable incomes. As employment growth starts to moderate next year, we expect a gradual pick-up in wage growth to provide increasing support to household spending. We forecast private consumption growth of 1.5% both this year and next.
- Solid investment growth:** we expect another year of solid, if unspectacular, growth in fixed investment. Spending on machinery and equipment should continue to be supported by business sentiment – which remains elevated despite having fallen from last year's highs –

Eurozone GDP growth



Eurozone: Key surveys



Eurozone: Consumption and real income



tight capacity and ongoing improvement in bank lending flows to non-financial firms. Construction and real estate activity is also picking up strongly across many countries, lifting total investment. We expect capital formation to expand 3.2% this year and 3.1% in 2019.

- Exports hit by worsening global environment:** eurozone exports have been hit hard this year by the worsening global environment, with risks posed by rising protectionism and a potential trade war with the US already materialising and affecting sentiment and orders. Despite a mild recovery in Q2, European exporters remain under pressure. Given the slowdown in global trade volumes, combined with the lagged impact of the stronger euro earlier in the year, we expect eurozone exports to grow a modest 2.9% this year. For 2019, we see export growth at 3.3%.

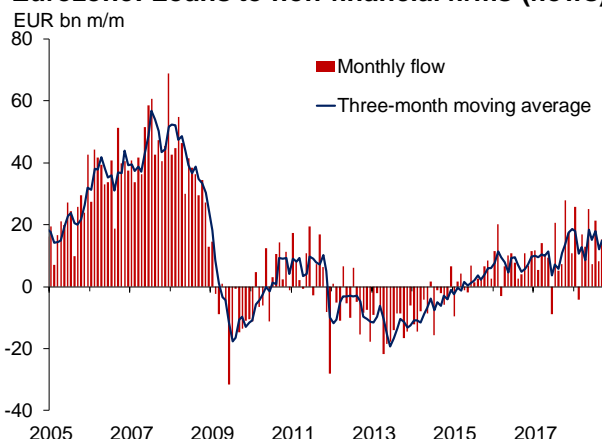
Growth this year will be driven mainly by the domestic sector, but net trade will also make a positive contribution for a second year in a row. For 2019, we see GDP growth slowing to 1.6% despite robust domestic demand, as stronger imports will result in a negative contribution from net trade.

ECB still expected to end QE in December

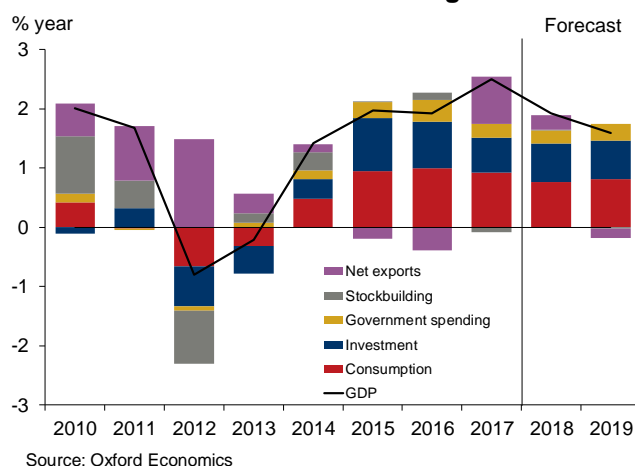
The ECB is still expected to end its QE purchases in December, following a quick taper in the last three months of the year as purchases are cut from €30bn a month to €15bn a month. The central bank has left the door open for a further extension, but we think this is very unlikely despite the recent tensions seen in bond markets over the budget negotiations in Italy.

The central bank has provided some dovish forward guidance, indicating that interest rates will remain unchanged at least “through the summer of 2019”. In practical terms, this means a rate hike could take place in either Q3 or Q4. Our view of a very gradual exit remains unchanged. Despite solid economic growth, the relatively weak inflation outlook means that the ECB will continue to be cautious about withdrawing monetary support, so we still anticipate a very slow pace of interest rate hikes over the coming years.

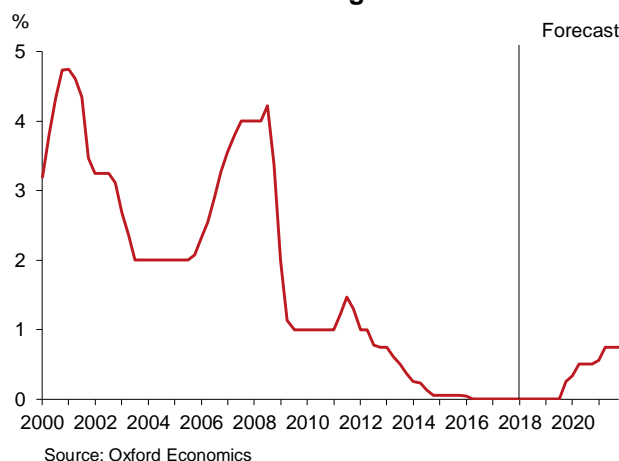
Eurozone: Loans to non-financial firms (flows)



Eurozone: Contributions to GDP growth



Eurozone: ECB refinancing rate



What to watch out for

Risks around political uncertainty: last year showed that stronger global demand and waning fears about the election of populist governments could prompt increasingly confident businesses to raise investment spending more sharply than expected. But political risks are never far away in Europe and the tide quickly turned in 2018: the recent election of a populist government in Italy, the possibility of a hard Brexit or the Catalan independence crisis in Spain are just a few examples.

Trade worries: exports have been a key component of European growth. While the impact of the stronger euro on export growth has been limited so far, a sharper rise in the euro – particularly if policymakers abroad become more dovish – could mean that net trade becomes a drag on GDP. The increasing threat of a global trade war would also be very damaging for eurozone growth prospects.

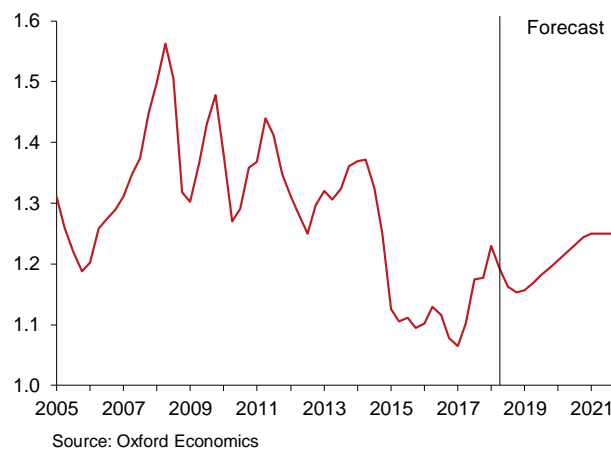
Monetary policy tightening: we expect the ECB to adopt a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, the central bank could surprise markets to the upside, pushing bond yields and the euro higher, which in turn could slow growth.

Exposure to key global risks

Delayed central bank tightening: we quantify a scenario in which central banks slow the already gradual pace of rate normalisation, as wage inflation remains relatively subdued in major advanced economies despite solid growth and rising employment.

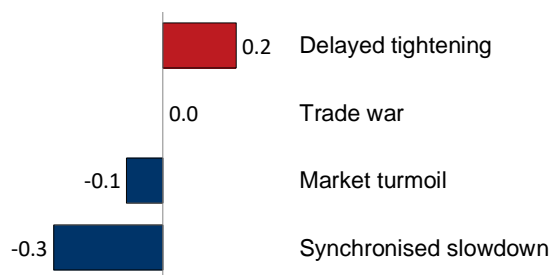
Synchronised slowdown: in this scenario, the recent weakening of activity in the eurozone and US is followed by a global slowdown amid trade policy uncertainty and tightening monetary conditions. This weighs on eurozone and US domestic demand, spilling over globally as trade growth slows at the same time as rising global interest rates push up debt service costs and credit conditions tighten.

Eurozone: Exchange rate US\$ per €

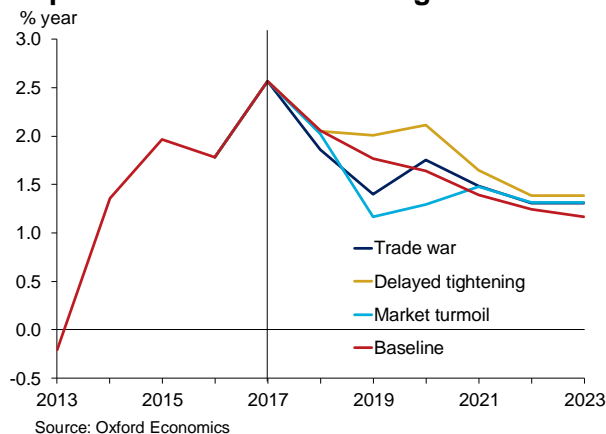


Impact of scenarios on GDP growth

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



Impact of scenarios on GDP growth



Long-term prospects

Slow recovery from crises

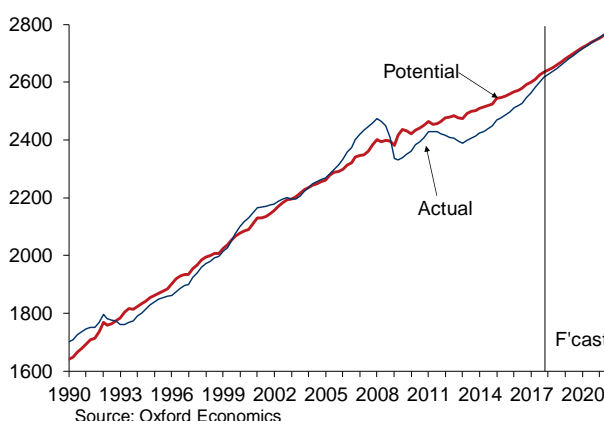
The global and eurozone crises will leave their mark on growth for years to come. We estimate the Eurozone's potential growth rate in 2017-26 at only 1.3%, slightly higher than the past decade but far lower than 1.8% in the decade prior to 2008.

While credit availability is improving, it is unlikely to be as free-flowing as during the pre-crisis years, hindering investment and the efficiency of capital allocation in the economy. Moreover, prolonged high unemployment, 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

| | 2007-2016 | 2017-2026 |
|---|-----------|-----------|
| Potential GDP* | 1.1 | 1.3 |
| Employment at NAIRU | 0.6 | 0.5 |
| Capital Stock | 1.3 | 1.3 |
| 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)

| | 2007-2011 | 2012-2016 | 2017-2021 | 2022-2026 |
|---|-----------|-----------|-----------|-----------|
| GDP | 0.5 | 0.9 | 1.8 | 1.2 |
| Consumption | 0.4 | 0.5 | 1.5 | 1.1 |
| Investment | -1.4 | 0.9 | 2.7 | 1.4 |
| Government Consumption | 1.5 | 0.8 | 1.2 | 1.1 |
| Exports of Goods and Services | 2.3 | 3.7 | 3.5 | 2.4 |
| Imports of Goods and Services | 1.7 | 3.3 | 3.5 | 2.6 |
| Unemployment (%) | 9.0 | 11.2 | 8.0 | 6.9 |
| Consumer Prices, average | 2.0 | 0.9 | 1.7 | 1.9 |
| Current Balance (% of GDP) | -0.4 | 2.4 | 2.9 | 2.4 |
| Exchange Rate (US\$ per Euro), average | 1.39 | 1.23 | 1.19 | 1.25 |
| General Government Balance (% of GDP) | -3.9 | -2.6 | -0.7 | -0.8 |
| Short-term Interest Rates (%) | 2.5 | 0.1 | -0.1 | 1.5 |
| Long-term Interest Rates (%) | 4.1 | 2.2 | 1.7 | 3.5 |
| Working Population | 0.2 | 0.2 | 0.0 | -0.2 |
| Labour Supply | 0.5 | 0.4 | 0.5 | 0.1 |
| Participation Ratio | 76.0 | 76.7 | 77.8 | 79.2 |
| Labour Productivity | 0.4 | 0.5 | 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, 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 in the 2000s, has 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 which is expected to last until December 2018.

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, which have at various points been ignored or modified. A key criticism of the rules is that they have led to pro-cyclical fiscal policies, but an attempt to prevent that was made by switching to structural fiscal deficit as the key target variable.

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 have been taken to 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

| 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) |
| Oct | 2.6 | 8.8 | 1.4 | 1.5 | -1.1 | 9.0 | 10.8 | 18.2 |
| Nov | 4.4 | 8.7 | 1.5 | 1.6 | 0.0 | 8.5 | 9.3 | 24.3 |
| Dec | 4.9 | 8.6 | 1.4 | 1.6 | 0.5 | 0.9 | 2.9 | 24.7 |
| 2018 | | | | | | | | |
| Jan | 3.9 | 8.6 | 1.3 | 1.6 | 1.4 | 9.1 | 6.2 | 2.9 |
| Feb | 2.6 | 8.5 | 1.2 | 1.6 | 0.1 | 1.8 | 1.9 | 16.4 |
| Mar | 3.1 | 8.5 | 1.4 | 1.5 | 0.1 | -3.2 | -1.9 | 25.3 |
| Apr | 1.9 | 8.4 | 1.2 | 1.4 | 0.3 | 8.2 | 8.1 | 17.0 |
| May | 2.6 | 8.2 | 1.9 | 1.4 | 0.2 | -0.8 | 0.7 | 16.5 |
| Jun | 2.4 | 8.2 | 2.0 | 1.4 | -0.6 | 6.0 | 8.7 | 22.7 |
| Jul | 0.5 | 8.1 | 2.1 | 1.3 | -0.5 | 9.3 | 13.4 | 17.1 |
| Aug | 0.8 | 8.1 | 2.0 | 1.2 | -1.9 | 5.6 | 8.5 | 11.7 |
| Sep | - | 8.1 | 2.1 | 1.2 | -2.9 | - | - | - |
| Oct | - | - | 2.2 | 1.0 | -2.7 | - | - | - |

| 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 |
| Oct | -0.33 | 1.15 | 5.0 | 1.18 | 1.12 | 103.0 | 3674 | 13.6 |
| Nov | -0.33 | 0.95 | 4.9 | 1.17 | 1.13 | 103.0 | 3570 | -68.1 |
| Dec | -0.33 | 0.88 | 4.6 | 1.18 | 1.13 | 103.4 | 3504 | 42.8 |
| 2018 | | | | | | | | |
| Jan | -0.33 | 1.03 | 4.6 | 1.22 | 1.13 | 104.6 | 3609 | 30.7 |
| Feb | -0.33 | 1.27 | 4.3 | 1.23 | 1.13 | 105.0 | 3439 | 22.3 |
| Mar | -0.33 | 1.17 | 3.7 | 1.23 | 1.13 | 105.1 | 3362 | 70.3 |
| Apr | -0.33 | 1.13 | 3.8 | 1.23 | 1.15 | 105.1 | 3537 | 43.1 |
| May | -0.33 | 1.24 | 4.0 | 1.18 | 1.14 | 103.2 | 3407 | -7.2 |
| Jun | -0.32 | 1.29 | 4.5 | 1.17 | 1.14 | 102.5 | 3396 | 27.3 |
| Jul | -0.32 | 1.20 | 4.0 | 1.17 | 1.13 | 103.2 | 3525 | -19.2 |
| Aug | -0.32 | 1.37 | 3.4 | 1.15 | 1.12 | 102.7 | 3393 | 4.6 |
| Sep | -0.32 | 1.32 | 3.5 | 1.17 | 1.12 | 103.1 | 3399 | - |
| Oct | -0.32 | 1.56 | - | 1.15 | 1.13 | 102.2 | 3198 | - |

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 | | | | | | | | | | | |
| 2016 | 1.9 | 4.0 | 2.4 | 1.9 | 1.7 | 10.0 | 1.5 | 0.5 | 5.0 | -1.9 | 0.2 |
| 2017 | 1.7 | 2.9 | 1.8 | 2.5 | 3.0 | 9.1 | 2.0 | 0.9 | 4.8 | 2.8 | 1.5 |
| 2018 | 1.5 | 3.2 | 1.8 | 1.9 | 1.4 | 8.2 | 2.6 | 0.5 | 3.7 | 2.9 | 1.8 |
| 2019 | 1.5 | 3.1 | 1.9 | 1.6 | 1.6 | 7.8 | 2.6 | 0.6 | 3.6 | 2.9 | 1.7 |
| 2020 | 1.5 | 2.5 | 1.7 | 1.6 | 1.7 | 7.5 | 2.7 | 0.9 | 3.4 | 1.9 | 1.5 |
| 2021 | 1.4 | 1.9 | 1.5 | 1.4 | 1.5 | 7.3 | 2.7 | 0.9 | 3.3 | 1.9 | 1.7 |
| 2016 | | | | | | | | | | | |
| Q1 | 2.1 | 6.3 | 3.1 | 2.0 | 2.0 | 10.3 | 1.6 | 0.6 | 4.8 | -2.9 | 0.0 |
| Q2 | 1.8 | 0.1 | 1.7 | 1.8 | 0.9 | 10.2 | 1.3 | 0.4 | 5.0 | -3.3 | -0.1 |
| Q3 | 1.7 | 5.5 | 2.6 | 1.8 | 1.1 | 9.9 | 1.5 | 0.4 | 5.1 | -1.7 | 0.3 |
| Q4 | 1.8 | 4.2 | 2.4 | 2.1 | 2.7 | 9.7 | 1.6 | 0.7 | 5.1 | 0.5 | 0.7 |
| 2017 | | | | | | | | | | | |
| Q1 | 1.6 | 2.8 | 1.7 | 2.1 | 1.1 | 9.5 | 1.7 | 0.5 | 5.4 | 3.8 | 1.8 |
| Q2 | 1.8 | 3.6 | 2.2 | 2.5 | 2.6 | 9.2 | 1.9 | 0.9 | 4.7 | 3.2 | 1.5 |
| Q3 | 1.9 | 2.5 | 2.0 | 2.8 | 4.1 | 9.0 | 2.0 | 1.1 | 4.9 | 2.2 | 1.4 |
| Q4 | 1.6 | 2.6 | 1.3 | 2.7 | 4.0 | 8.7 | 2.2 | 1.1 | 4.2 | 2.0 | 1.4 |
| 2018 | | | | | | | | | | | |
| Q1 | 1.7 | 3.5 | 1.9 | 2.4 | 3.2 | 8.5 | 2.3 | 0.9 | 3.3 | 1.3 | 1.3 |
| Q2 | 1.4 | 2.8 | 1.6 | 2.2 | 2.3 | 8.3 | 2.7 | 0.7 | 4.4 | 2.3 | 1.7 |
| Q3 | 1.3 | 3.6 | 1.7 | 1.7 | 0.5 | 8.1 | 2.7 | 0.2 | 3.5 | 4.2 | 2.0 |
| Q4 | 1.4 | 2.8 | 1.9 | 1.4 | -0.2 | 8.1 | 2.6 | 0.1 | 3.6 | 4.1 | 2.1 |
| 2019 | | | | | | | | | | | |
| Q1 | 1.3 | 3.5 | 1.8 | 1.5 | 1.0 | 8.0 | 2.6 | 0.4 | 4.0 | 3.8 | 2.0 |
| Q2 | 1.5 | 2.9 | 1.8 | 1.5 | 1.5 | 7.9 | 2.5 | 0.5 | 3.1 | 3.5 | 1.7 |
| Q3 | 1.6 | 3.1 | 1.9 | 1.8 | 2.0 | 7.7 | 2.6 | 0.8 | 3.8 | 2.3 | 1.5 |
| Q4 | 1.6 | 3.0 | 1.9 | 1.7 | 1.8 | 7.6 | 2.6 | 0.8 | 3.6 | 1.9 | 1.3 |
| 2020 | | | | | | | | | | | |
| Q1 | 1.6 | 2.8 | 1.8 | 1.6 | 1.8 | 7.6 | 2.6 | 0.9 | 3.5 | 1.9 | 1.4 |
| Q2 | 1.5 | 2.6 | 1.7 | 1.6 | 1.7 | 7.6 | 2.7 | 0.9 | 3.4 | 1.9 | 1.5 |
| Q3 | 1.5 | 2.4 | 1.7 | 1.6 | 1.7 | 7.5 | 2.7 | 1.0 | 3.3 | 1.9 | 1.6 |
| Q4 | 1.5 | 2.2 | 1.6 | 1.5 | 1.7 | 7.5 | 2.7 | 1.0 | 3.3 | 1.9 | 1.7 |
| 2021 | | | | | | | | | | | |
| Q1 | 1.4 | 2.1 | 1.6 | 1.5 | 1.6 | 7.4 | 2.7 | 0.9 | 3.3 | 1.9 | 1.7 |
| Q2 | 1.4 | 2.0 | 1.5 | 1.5 | 1.5 | 7.4 | 2.7 | 0.9 | 3.3 | 1.9 | 1.7 |
| Q3 | 1.4 | 1.9 | 1.5 | 1.4 | 1.5 | 7.3 | 2.7 | 0.9 | 3.3 | 1.9 | 1.7 |
| Q4 | 1.4 | 1.8 | 1.4 | 1.4 | 1.4 | 7.2 | 2.7 | 0.9 | 3.3 | 1.9 | 1.8 |

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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 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 | | | | | | | | | | | |
| 2016 | 264.2 | 344.6 | 3.19 | -168.5 | -1.56 | -0.26 | 0.86 | -0.51 | 0.62 | 1.11 | 118.6 |
| 2017 | 231.7 | 353.3 | 3.15 | -108.0 | -0.96 | -0.33 | 1.09 | -1.87 | -0.44 | 1.13 | 121.1 |
| 2018 | 203.6 | 354.0 | 3.05 | -52.2 | -0.45 | -0.32 | 1.15 | -2.11 | -0.64 | 1.18 | 127.5 |
| 2019 | 170.2 | 332.2 | 2.77 | -76.5 | -0.64 | -0.29 | 1.68 | -1.95 | 0.01 | 1.18 | 128.4 |
| 2020 | 174.8 | 335.0 | 2.71 | -100.4 | -0.81 | 0.15 | 2.17 | -1.39 | 0.63 | 1.23 | 129.2 |
| 2021 | 173.7 | 340.0 | 2.66 | -106.4 | -0.83 | 0.41 | 2.59 | -1.33 | 0.85 | 1.25 | 126.5 |
| 2016 | | | | | | | | | | | |
| Q1 | 63.6 | 85.7 | 3.19 | -46.8 | -1.74 | -0.19 | 1.03 | -0.23 | 0.99 | 1.10 | 118.3 |
| Q2 | 72.0 | 90.9 | 3.37 | -44.2 | -1.64 | -0.26 | 0.88 | -0.17 | 0.96 | 1.13 | 118.9 |
| Q3 | 65.7 | 85.9 | 3.17 | -40.8 | -1.51 | -0.30 | 0.60 | -0.57 | 0.33 | 1.12 | 118.8 |
| Q4 | 62.9 | 82.1 | 3.00 | -36.7 | -1.34 | -0.31 | 0.92 | -1.05 | 0.19 | 1.08 | 118.3 |
| 2017 | | | | | | | | | | | |
| Q1 | 53.2 | 76.4 | 2.77 | -32.2 | -1.17 | -0.33 | 1.20 | -2.09 | -0.56 | 1.06 | 117.4 |
| Q2 | 56.5 | 72.0 | 2.58 | -28.0 | -1.00 | -0.33 | 1.09 | -1.85 | -0.42 | 1.10 | 119.0 |
| Q3 | 61.5 | 109.0 | 3.87 | -24.9 | -0.88 | -0.33 | 1.10 | -1.78 | -0.35 | 1.17 | 123.7 |
| Q4 | 60.5 | 96.0 | 3.38 | -22.9 | -0.81 | -0.33 | 0.98 | -1.75 | -0.44 | 1.18 | 124.4 |
| 2018 | | | | | | | | | | | |
| Q1 | 56.5 | 105.8 | 3.69 | -20.5 | -0.72 | -0.33 | 1.10 | -1.59 | -0.16 | 1.23 | 126.5 |
| Q2 | 51.1 | 94.0 | 3.25 | -10.2 | -0.35 | -0.33 | 1.06 | -2.02 | -0.63 | 1.19 | 126.6 |
| Q3 | 51.1 | 84.7 | 2.91 | -9.5 | -0.33 | -0.32 | 1.12 | -2.37 | -0.93 | 1.16 | 128.9 |
| Q4 | 44.9 | 69.6 | 2.37 | -12.0 | -0.41 | -0.32 | 1.31 | -2.45 | -0.82 | 1.15 | 127.9 |
| 2019 | | | | | | | | | | | |
| Q1 | 41.3 | 83.3 | 2.82 | -17.3 | -0.58 | -0.32 | 1.49 | -2.36 | -0.55 | 1.16 | 127.8 |
| Q2 | 39.8 | 92.0 | 3.09 | -17.1 | -0.57 | -0.32 | 1.62 | -2.07 | -0.13 | 1.17 | 128.2 |
| Q3 | 46.3 | 85.8 | 2.86 | -17.9 | -0.60 | -0.32 | 1.74 | -1.86 | 0.21 | 1.18 | 128.5 |
| Q4 | 42.8 | 71.0 | 2.34 | -24.2 | -0.80 | -0.20 | 1.86 | -1.54 | 0.51 | 1.19 | 128.9 |
| 2020 | | | | | | | | | | | |
| Q1 | 42.5 | 84.3 | 2.76 | -27.2 | -0.89 | 0.06 | 1.99 | -1.32 | 0.61 | 1.21 | 129.1 |
| Q2 | 41.7 | 95.3 | 3.10 | -24.6 | -0.80 | 0.18 | 2.11 | -1.31 | 0.62 | 1.22 | 129.1 |
| Q3 | 47.6 | 88.0 | 2.83 | -23.9 | -0.77 | 0.18 | 2.23 | -1.43 | 0.62 | 1.23 | 129.2 |
| Q4 | 42.9 | 67.4 | 2.15 | -24.7 | -0.79 | 0.18 | 2.34 | -1.51 | 0.65 | 1.24 | 129.3 |
| 2021 | | | | | | | | | | | |
| Q1 | 42.7 | 82.2 | 2.61 | -27.6 | -0.87 | 0.31 | 2.44 | -1.37 | 0.77 | 1.25 | 129.2 |
| Q2 | 41.8 | 97.5 | 3.06 | -26.9 | -0.84 | 0.44 | 2.55 | -1.30 | 0.81 | 1.25 | 128.7 |
| Q3 | 47.3 | 90.7 | 2.83 | -25.1 | -0.78 | 0.45 | 2.64 | -1.30 | 0.90 | 1.25 | 128.3 |
| Q4 | 42.0 | 69.7 | 2.16 | -26.8 | -0.83 | 0.46 | 2.74 | -1.35 | 0.93 | 1.25 | 127.9 |

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

| | 2007-2016 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2017-2026 |
|---|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----------|
| GDP | 0.7 | -0.2 | 1.4 | 2.0 | 1.9 | 2.5 | 1.9 | 1.6 | 1.6 | 1.4 | 1.3 | 1.2 | 1.2 | 1.1 | 1.0 | 1.5 |
| Consumption | 0.5 | -0.6 | 0.9 | 1.8 | 1.9 | 1.7 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 | 1.3 |
| Investment | -0.3 | -2.3 | 1.7 | 4.6 | 4.0 | 2.9 | 3.2 | 3.1 | 2.5 | 1.9 | 1.7 | 1.5 | 1.4 | 1.2 | 1.1 | 2.1 |
| Government Consumption | 1.1 | 0.4 | 0.7 | 1.3 | 1.8 | 1.2 | 1.1 | 1.4 | 1.3 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 |
| Exports of Goods and Services | 3.0 | 2.2 | 4.7 | 6.3 | 3.0 | 5.4 | 2.9 | 3.3 | 3.1 | 3.0 | 2.8 | 2.6 | 2.4 | 2.2 | 2.1 | 3.0 |
| Imports of Goods and Services | 2.5 | 1.6 | 4.8 | 7.4 | 4.2 | 4.0 | 2.7 | 3.9 | 3.5 | 3.2 | 3.0 | 2.8 | 2.6 | 2.4 | 2.2 | 3.0 |
| Unemployment (%) | 10.1 | 12.0 | 11.6 | 10.9 | 10.0 | 9.1 | 8.2 | 7.8 | 7.5 | 7.3 | 7.1 | 7.0 | 6.8 | 6.7 | 6.6 | 7.4 |
| Consumer Prices, average | 1.5 | 1.3 | 0.4 | 0.0 | 0.2 | 1.5 | 1.8 | 1.7 | 1.5 | 1.7 | 1.9 | 1.9 | 1.9 | 2.0 | 2.0 | 1.8 |
| Consumer Prices, EOP | 1.5 | 0.8 | 0.2 | 0.2 | 0.7 | 1.4 | 2.1 | 1.3 | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 | 2.0 | 2.0 | 1.8 |
| Current Balance (% of GDP) | 1.0 | 2.3 | 2.5 | 2.9 | 3.2 | 3.2 | 3.1 | 2.8 | 2.7 | 2.7 | 2.6 | 2.5 | 2.4 | 2.3 | 2.3 | 2.6 |
| Exchange Rate (US\$ per Euro), average | 1.31 | 1.33 | 1.33 | 1.11 | 1.11 | 1.13 | 1.18 | 1.18 | 1.23 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.22 |
| Exchange Rate (US\$ per Euro), EOP | 1.30 | 1.38 | 1.21 | 1.09 | 1.05 | 1.20 | 1.15 | 1.20 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.23 |
| General Government Balance (% of GDP) | -3.2 | -3.1 | -2.5 | -2.0 | -1.6 | -1.0 | -0.5 | -0.6 | -0.8 | -0.8 | -0.8 | -0.8 | -0.8 | -0.8 | -0.8 | -0.8 |
| Short-term Interest Rates (%) | 1.3 | 0.2 | 0.2 | 0.0 | -0.3 | -0.3 | -0.3 | -0.3 | 0.1 | 0.4 | 0.7 | 1.0 | 1.4 | 1.9 | 2.5 | 0.7 |
| Long-term Interest Rates (%) | 3.1 | 3.0 | 2.0 | 1.2 | 0.9 | 1.1 | 1.2 | 1.7 | 2.2 | 2.6 | 3.0 | 3.3 | 3.6 | 3.7 | 3.7 | 2.6 |
| Working Population | 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 | -0.2 | -0.1 |
| Labour Supply | 0.4 | 0.1 | 0.2 | 0.2 | 0.5 | 0.6 | 0.5 | 0.5 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 | 0.3 |
| Participation Ratio (%) | 76.3 | 76.6 | 76.6 | 76.6 | 76.8 | 77.1 | 77.4 | 77.8 | 78.2 | 78.5 | 78.8 | 79.0 | 79.2 | 79.4 | 79.6 | 78.5 |
| Labour productivity | 0.4 | 0.4 | 0.8 | 0.9 | 0.5 | 0.9 | 0.5 | 0.6 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 |
| Employment | 0.2 | -0.6 | 0.6 | 1.0 | 1.4 | 1.6 | 1.4 | 1.0 | 0.7 | 0.5 | 0.4 | 0.4 | 0.3 | 0.2 | 0.1 | 0.7 |
| Output gap (% of potential GDP) | -1.6 | -3.7 | -3.3 | -2.7 | -2.0 | -1.1 | -0.6 | -0.4 | -0.2 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | -0.2 |

Key Facts

Politics

President of the ECB: Mario DRAGHI
 Vice president of the ECB: Luis DE GUINDOS
 EC commissioner for Economic and Financial Affairs:
 Pierre MOSCOVICI
 Chairman of Euro Group of Finance Ministers:
 Mario CENTENO

Long-term economic & social development

| | 1980 | 1990 | 2000 | 2016* |
|-------------------------------|------|-------|-------|-------|
| GDP per capita (US\$) | - | 18222 | 20703 | 35549 |
| Inflation (%) | 9.9 | 4.2 | 2.2 | 0.2 |
| Population (mn) | 302 | 303 | 313 | 337 |
| Urban population (% of total) | 69.9 | 71.2 | 72.9 | 76.6 |
| Life expectancy (years) | 73.5 | 75.9 | 78.3 | 81.6 |

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

| | 2016 |
|-------------|-------|
| Agriculture | 1.5% |
| Industry | 22.2% |
| Services | 76.4% |

Source : World Bank

* 2016 or latest available year

Corruption perceptions index 2017

| | Score |
|-------------------------------|-------------|
| Developed economies (average) | 75.0 |
| Emerging economies (average) | 38.1 |
| Eurozone | 68.8 |

Source: Transparency International

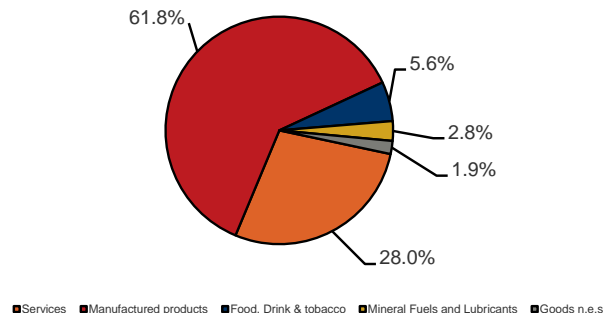
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

| | 1990 | 1995 | 2000 | 2016* |
|--------------------------------|------|-------|-------|-------|
| Current account (US\$ billion) | 4 | 22 | -96 | 381 |
| Trade balance (US\$ billion) | -23 | 63 | -31 | 292 |
| FDI (US\$ billion) | - | - | 35 | -188 |
| Govt budget (% of GDP) | -4 | -7 | 0 | -2 |
| Govt debt (% of GDP) | 14 | 68 | 67 | 89 |
| Long-term interest rate | 10 | 9 | 5 | 1 |
| Oil production (000 bpd) | 264 | 304 | 232 | 173 |
| Oil consumption (000 bpd) | 9787 | 10562 | 11009 | 9415 |

Source : Oxford Economics / World Bank / EIA

Composition of extra-EMU goods & services exports 2016



Source : Eurostat / Haver Analytics

Destination of goods' exports 2016

| | |
|-------------|-------|
| Eurozone | 83.7% |
| UK | 13.5% |
| US | 13.7% |
| China | 6.8% |
| Switzerland | 5.7% |
| Poland | 5.7% |

Source : Eurostat / Haver Analytics