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Country Economic Forecast
Eurozone

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Slowdown in Q1 driven by plunging exports

- **The slowdown in quarterly GDP growth to 0.4% in Q1 was due to a plunge in exports as Europe started to feel the pinch from the slowing global economy. Recent indicators confirm our view that downside risks are materialising so we expect growth to remain broadly stable at the rate seen in Q1. As a result, we have nudged down our 2018 GDP growth projection for the eurozone to 2.1% (from 2.2% previously) and for 2019 we see growth slowing to 1.8%.**
- A breakdown of the national accounts showed the slowdown in Q1 was due to a plunge in exports, which contracted for the first time in six years. On a positive note, household spending was stronger than anticipated, although we expect it to weaken again as the impact of higher inflation feeds through to consumers.
- Following some signs of stabilisation in April, latest survey data has dampened hopes of a bounce-back in activity. Momentum is clearly on a downward trend, with the PMIs falling in May and a drop in the Sentix index in June pointing to further declines. The little hard data available for Q2 does not offer much hope either, with weak growth in retail sales and industrial production likely to have fallen in April. We project GDP growth to settle at around 0.4% a quarter for the rest of the year.
- Inflation jumped to 1.9% in May. Although this was driven by a sharp rise in oil prices, core inflation is also back on an upward trend following the temporary dip seen in April. We expect both headline and core inflation to rise gradually as the year moves on and have raised our CPI forecast to an average of 1.8% for 2018.
- As a result, the ECB is now publicly discussing its exit strategy, which should be announced this month or next. We continue to expect bond purchases to end this year, but no interest rate hike is seen until H2 2019.

We have lowered our 2018 GDP growth forecast a notch to 2.1%

Forecast for Eurozone

(Annual percentage changes unless specified)

	2016	2017	2018	2019	2020	2021
Domestic Demand	2.3	2.0	1.7	1.9	1.8	1.5
Private Consumption	1.9	1.7	1.4	1.6	1.5	1.3
Fixed Investment	4.5	3.5	3.0	2.9	2.3	1.9
Stockbuilding (% of GDP)	0.1	0.1	0.2	0.2	0.3	0.4
Government Consumption	1.8	1.2	1.2	1.4	1.3	1.2
Exports of goods and services	3.3	5.5	4.0	3.7	3.2	3.0
Imports of goods and services	4.6	4.5	3.4	4.1	3.6	3.3
GDP	1.8	2.6	2.1	1.8	1.6	1.4
Industrial Production	1.7	2.9	2.8	2.2	1.6	1.3
Consumer Prices, average	0.2	1.5	1.8	1.7	1.6	1.8
Current Balance (% of GDP)	3.6	3.5	3.3	3.1	3.0	2.9
Government Budget (% of GDP)	-1.5	-0.9	-0.7	-0.8	-0.8	-0.7
Short-Term Interest Rates (%)	-0.3	-0.3	-0.3	-0.1	0.3	0.5
Long-Term Interest Rates (%)	0.9	1.1	1.3	1.9	2.4	2.8
Exchange rate (US$ per Euro), average	1.11	1.13	1.20	1.22	1.25	1.25
Exchange rate (YEN per Euro), average	120.3	126.7	129.3	132.2	135.7	135.9

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Forecast overview

Q1 slowdown driven by exports

A detailed breakdown for eurozone Q1 GDP confirmed the 0.4% rise reported previously. The slowdown from Q4 was due to a plunge in exports, which contracted for the first time in six years after what had been the strongest growth in years during the second half of 2017. While not a surprise, the collapse in exports still highlights the risks posed by rising protectionism that we have been flagging in recent months. The more positive news was the resilience of the domestic sector, household spending in particular, which exceeded expectations in Q1.

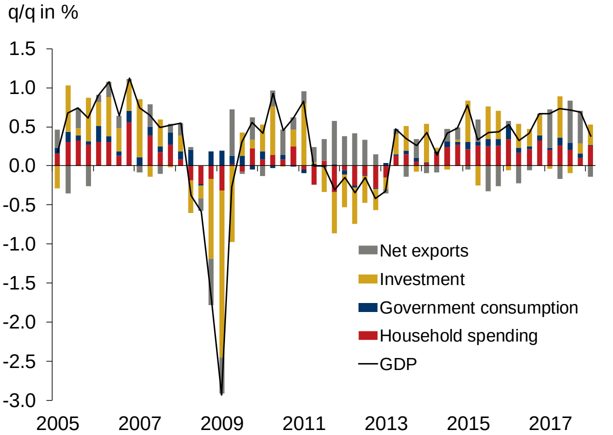
Following the stabilisation of some key surveys in April, the latest soft data are dashing hopes of a rebound in activity. The PMIs fell in May and their Q2 average is going to be significantly below that of Q1. Manufacturing in particular continues to fall sharply from the highs at the end of 2017 as the industrial sector continues to see falling orders amid a less favourable external environment. Services activity is holding up slightly better, but momentum is also clearly on a downtrend. The little available hard data for Q2 does not offer much hope for a strong rebound either, with weak growth in retail sales and industrial production likely to have fallen in April.

…but 2018 still looks set to be a strong year

We expect GDP growth to stabilise at around 0.4% a quarter for the rest of the year, which results in our 2018 forecast being lowered slightly to 2.1% (from 2.2% previously). Despite the deteriorating outlook, this would still make 2018 the second-best year for growth in a decade after 2.6% in 2017. The following factors underpin our forecast:

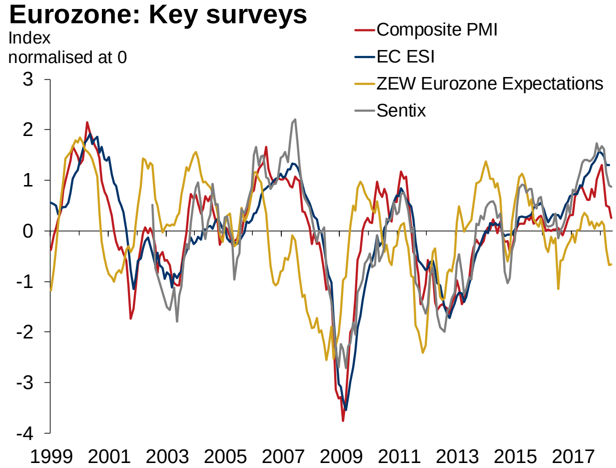
- **Weaker household spending**: consumer spending was resilient in 2017 due to strong employment growth. Although the unemployment rate is at a nine-year low, we think it can fall further as structural unemployment is declining as well. We are yet to see signs of strong wage growth, but there are indications that this may be changing. However, modest wage gains will not be enough to offset the increase in inflation, and we expect households are going to feel an increasing squeeze from diminishing real income growth. We expect private consumption to grow by 1.4% this year, down from 1.7% in 2017.

Eurozone GDP growth contributions



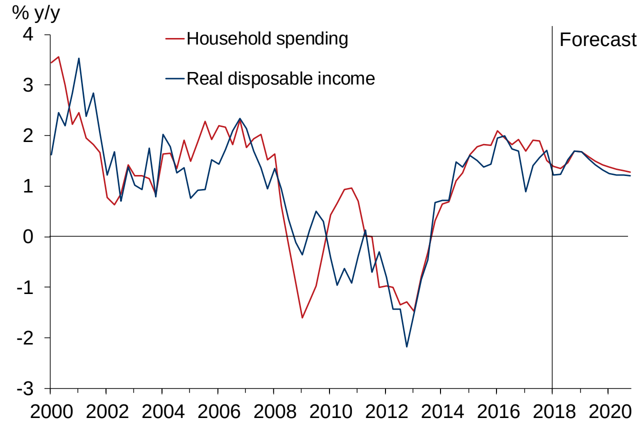
Source: Oxford Economics/Haver Analytics

Eurozone: Key surveys



Source : Oxford Economics/Haver Analytics

Eurozone: Consumption and real income



Source : Oxford Economics/Haver Analytics

- **Solid outlook for investment**: following a good year in 2017, we expect another year of solid, if unspectacular, growth in fixed investment. Spending in machinery and equipment (which was up 5.3% in 2017), should have another strong year, supported by buoyant business sentiment, tight capacity and the continued strength of bank lending to firms. Construction and real estate activity is also picking up across many countries, driving up total investment. We expect capital formation to expand 3% this year and 2.9% in 2019.

- **Exports are starting to feel the heat**: eurozone exports had a stellar year in 2017, rising 5.5%. But with global trade growth now moderating and given the lagged impact of the stronger euro, we expect export volume growth to ease to 4% in 2018. The sharp slowdown in Q1 highlighted that European exporters are going to be under increasing pressure. Rising protectionism and a potential global trade war remain the main risks to our forecast.

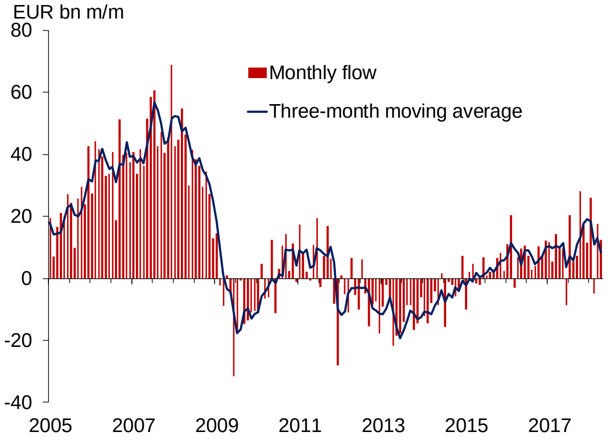
Growth this year will be driven mainly by the domestic sector, but net trade will also make a positive contribution for a second year in a row. For 2019, we now see GDP growth at 1.8%.

ECB announcement on QE expected in July

The ECB took a first small step towards the normalisation of monetary policy in March, removing the explicit pledge to increase or extend asset purchases from its communication. This signals that it may now confident enough about the inflation outlook to end its QE programme later this year.

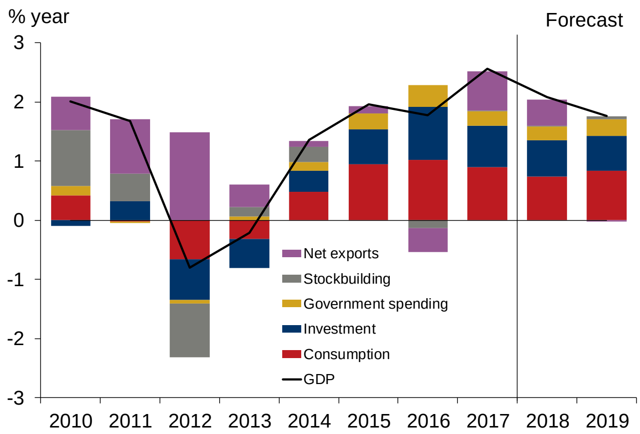
The ongoing debate within the ECB about the shape, timing and speed of policy normalisation will continue in the coming months. We see this as a precursor to an eventual end to the QE programme, probably in December, following a quick taper from September. The ECB has already signalled it will be discussing its exit from the QE programme this month, but we think that the increased uncertainty around the economic outlook means that it is likely to wait until the July meeting to make an announcement of future policy moves. Our expectation of a very gradual exit remains unchanged. Despite strong economic growth, the relatively weak inflation outlook means that the ECB will remain cautious about withdrawing monetary support. As such, we do not expect an interest rate rise until H2 2019.

Eurozone: Loans to non-financial firms (flows)



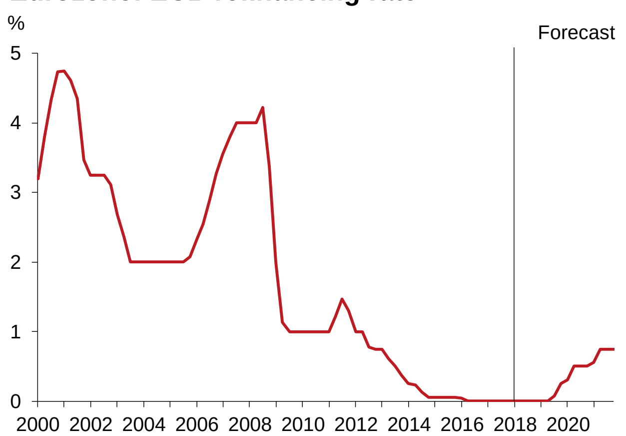
Source : Oxford Economics/Haver Analytics

Eurozone: Contributions to GDP growth



Source: Oxford Economics

Eurozone: ECB refinancing rate



Source: Oxford Economics

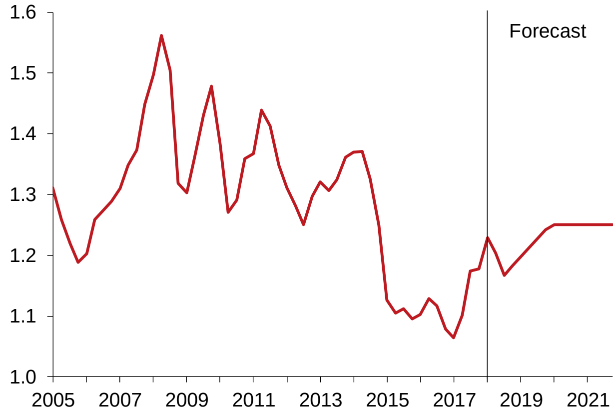
What to watch out for

Risks around political uncertainty: last year showed that stronger global demand and easing 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 is now quickly turning – the recent election of a populist government in Italy, the possibility of a hard Brexit and the Catalan independence crisis in Spain are only 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 maintain a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, it could surprise markets to the upside, pushing bond yields and the euro higher, which in turn could slow growth.

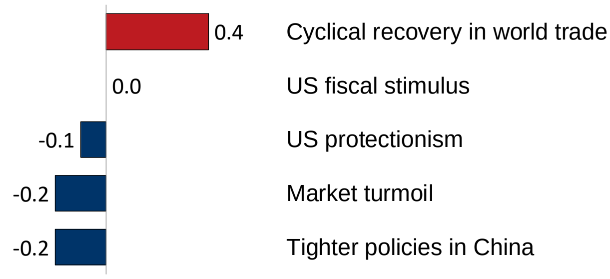
Eurozone: Exchange rate US$ per €



Source: Oxford Economics

Impact of scenarios on GDP growth

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

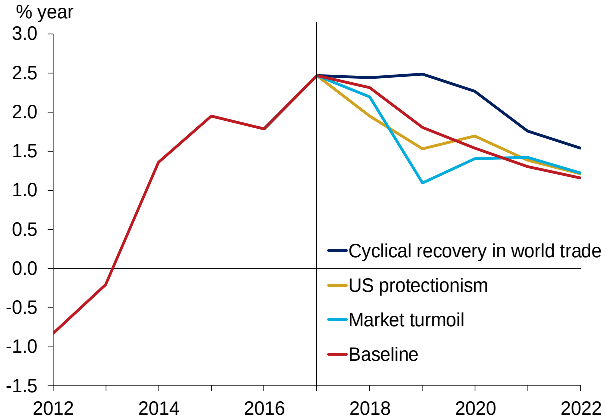


Exposure to key global risks

Cyclical recovery in world trade: in this scenario, optimism over near-term growth prospects rise globally as the strength of activity in China and the US supports a continuation of the resurgent growth in world trade seen in 2017. Investment expenditure picks up accordingly and investor confidence in emerging markets improves too. Stronger external demand prompts eurozone GDP growth of 2.6% in 2018 and 2.4% in 2019. Within the currency bloc, the economies most open to trade should benefit the most from such a shock.

Market turmoil: in this scenario, rising inflationary pressures in the late-cycle US economy trigger a sell-off in equity and bond markets, which then spill over to the broader economy. Headline and core inflation rise above 3% during 2018, prompting the Federal Reserve to raise the Fed funds rates more quickly and signal further significant tightening ahead. The market sell-off then gathers pace as markets reassess their expectations for the future path of US policy rates. Amid the turmoil, the recovery in the world economy falters.

Impact of scenarios on GDP growth



Source : Oxford Economics

Long-term prospects

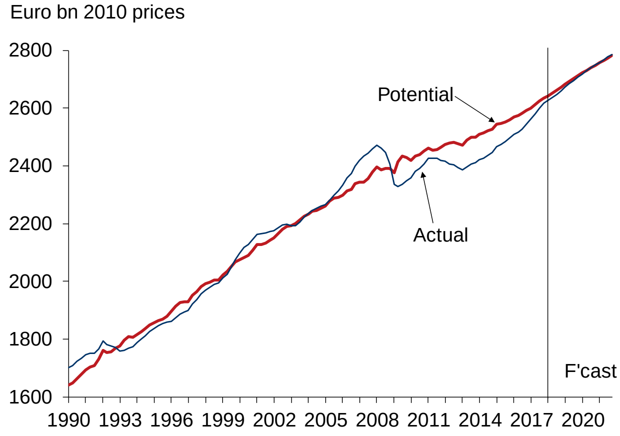
Slow recovery from crises

The global and eurozone crises will leave their mark on growth for years to come. We estimate the eurozone's potential growth rate at only 1.3%, slightly above our estimate for 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 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 be only partly offset by further increases in the participation rate.

Some of the reforms implemented in the peripheral countries should help raise eurozone productivity growth to at least what it was before 2008. But much more will be needed to offset other negative trends.

Eurozone: Actual & potential output



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	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(Potential GDP)=0.65*ln(Employment at NAIRU) +0.35*ln(Capital Stock)+ln(Total Factor Productivity)

Long-Term Forecast for Eurozone
(Average annual percentage change unless otherwise stated)

	2007-2011	2012-2016	2017-2021	2022-2026
GDP	0.5	0.8	1.9	1.1
Consumption	0.4	0.6	1.5	1.1
Investment	-1.4	0.7	2.7	1.4
Government Consumption	1.5	0.8	1.2	1.1
Exports of Goods and Services	2.3	3.8	3.9	2.4
Imports of Goods and Services	1.8	3.3	3.8	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	2.6	3.2	2.6
Exchange Rate (US$ per Euro), average	1.39	1.23	1.21	1.25
General Government Balance (% of GDP)	-3.9	-2.5	-0.8	-0.6
Short-term Interest Rates (%)	2.5	0.1	0.0	1.5
Long-term Interest Rates (%)	4.1	2.2	1.9	3.4
Working Population	0.2	0.2	0.0	-0.2
Labour Supply	0.5	0.3	0.5	0.1
Participation Ratio	76.1	76.7	77.8	79.2
Labour Productivity	0.4	0.4	0.8	0.8

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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 of the eurozone 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 eurozone, 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 end-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.

Data & Forecasts

Key Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Industrial production	Unemploy -ment %	CPI	Business confidence (% balance)	Consumer confidence (% balance)	Exports	Imports	Trade balance (€ bn)
May	3.8	9.2	1.4	1.0	-3.3	13.8	18.7	19.3
Jun	2.1	9.0	1.3	1.2	-1.3	4.2	6.9	25.7
Jul	4.0	9.0	1.3	1.2	-1.7	5.9	9.1	21.8
Aug	4.2	9.0	1.5	1.2	-1.5	7.0	9.2	15.4
Sep	4.0	8.9	1.5	1.4	-1.2	5.2	5.6	25.0
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	8.6	9.3	24.6
Dec	4.9	8.7	1.4	1.6	0.5	0.9	2.6	25.0
2018								
Jan	4.1	8.7	1.3	1.6	1.4	9.0	5.9	3.2
Feb	2.7	8.6	1.2	1.6	0.1	2.8	1.1	19.2
Mar	3.0	8.6	1.4	1.5	0.1	-2.9	-2.5	26.9
Apr	-	8.5	1.2	1.4	0.3	-	-	-
May	-	-	1.9	1.5	0.2	-	-	-

Financial Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Short rate %	Long rate %	Money Supply M3	Exchange rate $/€ avg.	Exchange rate €/£	Nominal effective exch. Rate	Share price DJ STOXX	Net FDI €bn
May	-0.33	1.18	4.9	1.11	1.17	98.4	3555	20.2
Jun	-0.33	1.07	4.9	1.12	1.14	99.6	3442	-28.0
Jul	-0.33	1.21	4.6	1.15	1.13	101.2	3449	-1.9
Aug	-0.33	1.04	5.0	1.18	1.10	103.3	3421	-14.4
Sep	-0.33	1.12	5.2	1.19	1.12	103.4	3595	9.5
Oct	-0.33	1.15	5.0	1.18	1.12	103.0	3674	32.2
Nov	-0.33	0.95	4.9	1.17	1.13	103.0	3570	5.1
Dec	-0.33	0.88	4.6	1.18	1.13	103.4	3504	13.6
2018								
Jan	-0.33	1.03	4.6	1.22	1.13	104.6	3609	24.7
Feb	-0.33	1.27	4.3	1.23	1.13	105.0	3439	4.3
Mar	-0.33	1.17	3.7	1.23	1.13	105.1	3362	63.1
Apr	-0.33	1.13	3.9	1.23	1.15	105.1	3537	-
May	-0.33	1.24	-	1.18	1.14	103.2	3407	-

EUROZONE — **TABLE 1 SUMMARY ITEMS**
Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE (C)	GROSS FIXED INVESTMENT (IF)	DOMESTIC DEMAND (%) (DOMD)	REAL GDP (GDP)	INDUSTRIAL PRODUCTION (IP)	UNEMPLOY-MENT RATE (%) (UP)	AVERAGE EARNINGS (ER)	WHOLE ECONOMY PRODUCT-IVITY (GDP/ET)	COMPETIT-IVENESS (2008=100) (MON)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2016	1.9	4.5	2.3	1.8	1.7	10.0	1.5	0.4	5.0	-1.9	0.2
2017	1.7	3.5	2.0	2.6	2.9	9.1	1.9	0.9	4.8	2.8	1.5
2018	1.4	3.0	1.7	2.1	2.8	8.4	2.5	0.7	3.3	1.9	1.8
2019	1.6	2.9	1.9	1.8	2.2	7.8	2.6	0.7	3.6	1.9	1.7
2020	1.5	2.3	1.8	1.6	1.6	7.5	2.8	1.0	3.2	1.9	1.6
2021	1.3	1.9	1.5	1.4	1.3	7.3	2.7	0.9	3.1	1.9	1.8
2016											
Q1	2.1	3.0	2.1	1.7	2.0	10.3	1.6	0.4	4.8	-2.9	0.0
Q2	1.9	5.5	2.6	1.7	0.9	10.1	1.3	0.4	5.0	-3.3	-0.1
Q3	1.8	5.1	2.3	1.7	1.1	9.9	1.5	0.4	5.1	-1.7	0.3
Q4	1.9	4.5	2.2	2.0	2.8	9.7	1.6	0.6	5.2	0.5	0.7
2017											
Q1	1.7	4.3	1.9	2.1	1.2	9.5	1.7	0.5	5.4	3.8	1.8
Q2	1.9	3.7	2.3	2.5	2.5	9.1	1.9	0.9	4.7	3.2	1.5
Q3	1.8	2.7	2.0	2.8	4.1	9.0	2.0	1.1	4.9	2.2	1.4
Q4	1.4	3.2	1.6	2.8	4.0	8.7	2.1	1.2	4.2	2.0	1.4
2018											
Q1	1.5	3.6	2.0	2.5	3.3	8.6	2.3	1.1	3.2	1.3	1.3
Q2	1.3	2.3	1.4	2.2	3.8	8.4	2.5	0.9	3.3	1.9	1.6
Q3	1.3	3.4	1.6	1.9	2.5	8.3	2.6	0.6	3.4	2.6	2.1
Q4	1.4	2.8	1.8	1.6	1.7	8.2	2.5	0.4	3.4	2.1	2.2
2019											
Q1	1.4	3.0	1.7	1.7	2.8	8.0	2.4	0.6	3.7	1.8	2.0
Q2	1.6	2.9	1.8	1.8	2.1	7.9	2.5	0.7	3.7	1.9	1.9
Q3	1.7	2.8	2.0	1.8	1.9	7.7	2.6	0.8	3.6	1.9	1.5
Q4	1.7	2.7	2.0	1.8	1.9	7.7	2.8	0.9	3.5	1.9	1.5
2020											
Q1	1.7	2.5	1.9	1.7	1.7	7.6	2.8	0.9	3.3	1.9	1.6
Q2	1.6	2.4	1.8	1.7	1.6	7.6	2.8	1.0	3.2	1.9	1.6
Q3	1.5	2.3	1.7	1.6	1.5	7.5	2.8	1.0	3.2	1.9	1.6
Q4	1.4	2.1	1.6	1.5	1.4	7.5	2.8	0.9	3.1	1.9	1.7
2021											
Q1	1.4	2.0	1.6	1.5	1.3	7.4	2.7	0.9	3.1	1.9	1.7
Q2	1.3	1.9	1.5	1.4	1.3	7.4	2.7	0.9	3.1	1.9	1.8
Q3	1.3	1.8	1.5	1.4	1.3	7.3	2.7	0.9	3.1	1.9	1.8
Q4	1.3	1.8	1.4	1.3	1.3	7.3	2.7	0.8	3.1	1.9	1.8

EUROZONE — **TABLE 2 SUMMARY ITEMS**

	TRADE BALANCE (EURO BN) (BVI)	CURRENT ACCOUNT (EURO BN) (BCU)	CURRENT ACCOUNT (% OF GDP) (BCU*100 /GDP!)	GOVERNMENT FINANCIAL BALANCE (EURO BN) (GB)	GOVERNMENT FINANCIAL BALANCE (% OF GDP) (GB*100 /GDP!)	SHORT-TERM INTEREST RATE (RSH)	LONG-TERM INTEREST RATE (RLG)	REAL SHORT-TERM INTEREST RATE (Note 1)	REAL LONG-TERM INTEREST RATE (Note 1)	EXCHANGE RATE US DOLLAR PER EURO (RXD)	EFFECTIVE EXCHANGE RATE 2010=100 (RX)
YEARS BEGINNING Q1											
2016	262.5	387.6	3.60	-159.0	-1.47	-0.26	0.86	-0.51	0.62	1.11	118.6
2017	233.1	386.9	3.46	-98.9	-0.88	-0.33	1.09	-1.87	-0.44	1.13	121.1
2018	230.8	382.3	3.31	-77.9	-0.67	-0.32	1.26	-2.11	-0.53	1.20	124.6
2019	230.1	373.3	3.12	-94.0	-0.79	-0.10	1.94	-1.84	0.20	1.22	123.8
2020	242.2	372.2	3.00	-97.4	-0.79	0.31	2.38	-1.34	0.73	1.25	124.4
2021	246.5	372.3	2.91	-89.2	-0.70	0.55	2.76	-1.23	0.97	1.25	123.7
2016											
Q1	63.8	100.1	3.74	-45.0	-1.68	-0.19	1.03	-0.23	0.99	1.10	118.3
Q2	70.8	103.8	3.87	-41.7	-1.55	-0.26	0.88	-0.17	0.96	1.13	118.9
Q3	64.8	89.3	3.31	-38.1	-1.41	-0.30	0.60	-0.57	0.33	1.12	118.8
Q4	63.1	94.4	3.46	-34.2	-1.26	-0.31	0.92	-1.05	0.19	1.08	118.3
2017											
Q1	53.7	87.6	3.19	-29.9	-1.09	-0.33	1.20	-2.09	-0.56	1.06	117.4
Q2	56.6	77.6	2.79	-25.7	-0.92	-0.33	1.09	-1.85	-0.42	1.10	119.0
Q3	61.1	115.7	4.12	-22.6	-0.80	-0.33	1.10	-1.78	-0.35	1.17	123.7
Q4	61.6	105.9	3.74	-20.7	-0.73	-0.33	0.98	-1.75	-0.44	1.18	124.4
2018											
Q1	62.2	108.5	3.80	-23.5	-0.82	-0.33	1.10	-1.59	-0.16	1.23	126.5
Q2	61.0	97.1	3.38	-19.7	-0.68	-0.32	1.03	-1.94	-0.58	1.20	125.5
Q3	53.8	96.5	3.33	-18.0	-0.62	-0.32	1.35	-2.42	-0.75	1.17	123.4
Q4	53.8	80.2	2.74	-16.7	-0.57	-0.32	1.56	-2.51	-0.63	1.18	122.9
2019											
Q1	57.1	106.7	3.61	-25.5	-0.86	-0.27	1.75	-2.32	-0.30	1.20	122.9
Q2	59.1	92.9	3.12	-23.2	-0.78	-0.22	1.89	-2.09	0.02	1.21	123.5
Q3	56.9	93.8	3.12	-21.8	-0.73	-0.05	2.01	-1.57	0.48	1.23	124.1
Q4	57.0	79.9	2.63	-23.5	-0.77	0.13	2.12	-1.40	0.59	1.24	124.6
2020											
Q1	60.2	108.9	3.56	-27.7	-0.91	0.23	2.22	-1.39	0.61	1.25	124.7
Q2	62.2	94.0	3.05	-24.2	-0.79	0.33	2.33	-1.31	0.69	1.25	124.5
Q3	60.7	93.4	3.00	-23.2	-0.75	0.33	2.43	-1.31	0.79	1.25	124.3
Q4	59.1	75.8	2.42	-22.1	-0.71	0.33	2.53	-1.36	0.84	1.25	124.1
2021											
Q1	62.2	106.3	3.36	-24.3	-0.77	0.46	2.62	-1.25	0.91	1.25	123.9
Q2	63.9	95.3	2.99	-22.6	-0.71	0.58	2.71	-1.18	0.95	1.25	123.7
Q3	61.5	94.3	2.94	-20.8	-0.65	0.58	2.81	-1.23	1.00	1.25	123.6
Q4	58.9	76.5	2.36	-21.4	-0.66	0.58	2.88	-1.27	1.04	1.25	123.4

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

Long-Term Forecast for Eurozone

Annual percentage changes unless otherwise specified

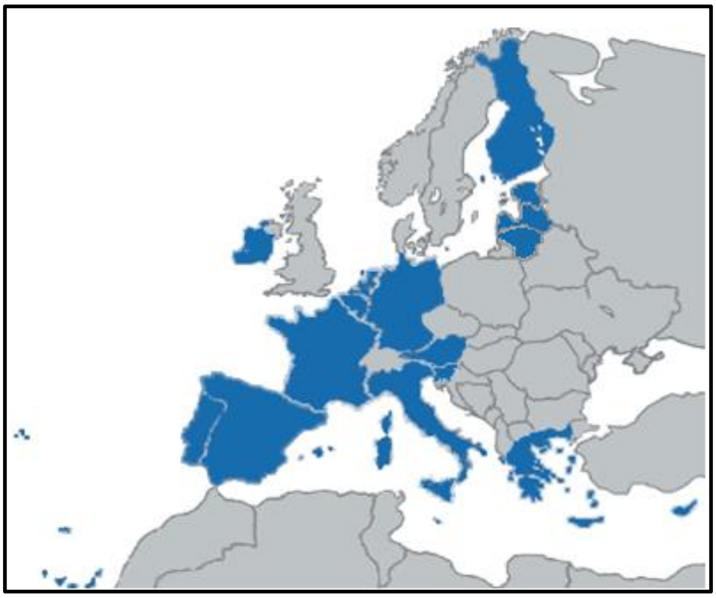
	2007-2016	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
GDP	0.6	-0.2	1.4	2.0	1.8	2.6	2.1	1.8	1.6	1.4	1.3	1.2	1.1	1.1	1.0	1.5
Consumption	0.5	-0.6	0.9	1.8	1.9	1.7	1.4	1.6	1.5	1.3	1.2	1.2	1.1	1.1	1.0	1.3
Investment	-0.3	-2.4	1.8	3.1	4.5	3.5	3.0	2.9	2.3	1.9	1.7	1.5	1.4	1.2	1.1	2.0
Government Consumption	1.1	0.3	0.7	1.3	1.8	1.2	1.2	1.4	1.3	1.2	1.2	1.1	1.1	1.0	1.0	1.2
Exports of Goods and Services	3.0	2.2	4.6	6.2	3.3	5.5	4.0	3.7	3.2	3.0	2.7	2.5	2.4	2.2	2.1	3.1
Imports of Goods and Services	2.5	1.4	4.9	6.5	4.6	4.5	3.4	4.1	3.6	3.3	3.0	2.8	2.5	2.4	2.2	3.2
Unemployment (%)	10.1	12.0	11.6	10.9	10.0	9.1	8.4	7.8	7.5	7.3	7.2	7.0	6.9	6.8	6.7	7.5
Consumer Prices, average	1.5	1.3	0.4	0.0	0.2	1.5	1.8	1.7	1.6	1.8	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	2.2	1.5	1.7	1.8	1.9	1.9	1.9	2.0	2.0	1.8
Current Balance (% of GDP)	1.1	2.2	2.5	3.2	3.6	3.5	3.3	3.1	3.0	2.9	2.8	2.6	2.5	2.5	2.5	2.9
Exchange Rate (US$ per Euro), average	1.31	1.33	1.33	1.11	1.11	1.13	1.20	1.22	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.23
Exchange Rate (US$ per Euro), EOP	1.30	1.38	1.21	1.09	1.05	1.20	1.19	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.24
General Government Balance (% of GDP)	-3.2	-3.0	-2.5	-2.0	-1.5	-0.9	-0.7	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.7
Short-term Interest Rates (%)	1.3	0.2	0.2	0.0	-0.3	-0.3	-0.3	-0.1	0.3	0.5	0.8	1.0	1.4	1.9	2.4	0.8
Long-term Interest Rates (%)	3.1	3.0	2.0	1.2	0.9	1.1	1.3	1.9	2.4	2.8	3.0	3.3	3.4	3.6	3.6	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	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.3
Participation Ratio (%)	76.4	76.6	76.6	76.6	76.7	77.0	77.4	77.8	78.2	78.5	78.7	79.0	79.2	79.4	79.6	78.5
Labour productivity	0.4	0.4	0.7	0.9	0.4	0.9	0.7	0.7	1.0	0.9	0.8	0.8	0.8	0.8	0.9	0.8
Employment	0.2	-0.6	0.6	1.0	1.3	1.6	1.3	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	-3.5	-2.8	-2.2	-1.1	-0.6	-0.3	0.0	0.1	0.2	0.2	0.1	0.1	0.1	-0.1

Country Economic Forecast | Eurozone

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



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

Long-term economic & social development

	1980	1990	2000	2016*
GDP per capita (US$)	-	18204	20692	35426
Inflation (%)	9.9	4.2	2.2	0.2
Population (mn)	302	303	313	337
Urban population (% of total)	69.9	71.3	72.6	76.1
Life expectancy (years)	73.5	75.9	78.3	81.6

Source : Oxford Economics & World Bank

* 2016 or latest available year

Structure of GDP by output

	2016
Agriculture	1.6%
Industry	24.7%
Services	73.7%

Source : World Bank

Corruption perceptions index 2017

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

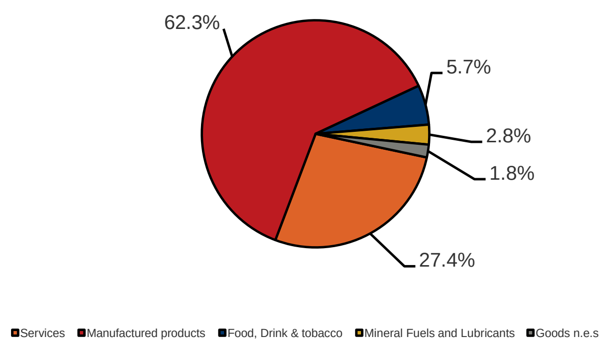
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2016*
Current account (US$ billion)	4	22	-96	429
Trade balance (US$ billion)	-23	64	-31	290
FDI (US$ billion)	-	-	35	-198
Govt budget (% of GDP)	-4	-7	0	-1
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)	9786	10562	11009	9451

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

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