10 Apr 2018

Country Economic Forecast
Eurozone

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Q1 GDP growth forecast lowered to 0.4%...

- **The Eurozone economy continues to show signs of having hit a speedbump in Q1. Adding to a widespread decline in surveys, the latest hard data also points to a slowdown in economic activity, leading us to cut our Q1 GDP growth forecast to 0.4%. But we expect some of this weakness to be transitory and we still anticipate another strong year for the Eurozone economy with 2.2% GDP growth, albeit down from our previous forecast of 2.3% and 2.5% in 2017.**
- The realignment between soft and hard data continues with a widespread fall in survey indices, but we are not yet particularly concerned as they remain consistent with robust growth. Manufacturing surveys point to capacity constraints rather than demand weakness, while services surveys indicate a healthy domestic economy, with employment growth showing no signs of slowing yet.
- More worryingly, some of the hard data at the start of the year has been surprisingly negative. Industrial production had a horrid January, and is unlikely to have bounced back in February given the available national data. Meanwhile, retail sales have been surprisingly weak despite high consumer confidence and falling unemployment rates across the continent. While some of this weakness is likely to be temporary, this has led us to cut our Q1 GDP growth forecast to 0.4%.
- Inflation rose to 1.4% in March, but the rise was mostly driven by one-off calendar effects and is likely to be partially reversed in April. Core inflation remained flat at 1% for a third consecutive month, indicating that the Eurozone is still far from showing convincing signs of upward price pressures. We expect both headline and core inflation to rise gradually as the year moves on, but this should still leave plenty of room for the ECB to maintain a very prudent approach to its exit strategy.

...but at 2.2%, we still expect another strong year for the Eurozone economy

Forecast for Eurozone

(Annual percentage changes unless specified)

	2016	2017	2018	2019	2020	2021
Domestic Demand	2.4	1.9	1.9	1.9	1.6	1.3
Private Consumption	1.9	1.7	1.6	1.6	1.3	1.2
Fixed Investment	4.5	3.1	3.4	2.8	2.2	1.8
Stockbuilding (% of GDP)	0.2	0.2	0.2	0.3	0.3	0.4
Government Consumption	1.8	1.2	1.3	1.2	1.1	1.1
Exports of goods and services	3.4	5.3	5.0	3.6	3.2	2.8
Imports of goods and services	4.8	4.3	4.6	3.9	3.4	3.0
GDP	1.8	2.5	2.2	1.8	1.5	1.3
Industrial Production	1.6	2.9	3.5	2.0	1.5	1.3
Consumer Prices, average	0.2	1.5	1.4	1.7	1.9	1.9
Current Balance (% of GDP)	3.4	3.5	3.3	3.2	3.1	3.0
Government Budget (% of GDP)	-1.5	-0.9	-0.8	-0.8	-0.9	-0.9
Short-Term Interest Rates (%)	-0.3	-0.3	-0.3	-0.1	0.3	0.6
Long-Term Interest Rates (%)	0.9	1.1	1.1	1.7	2.2	2.7
Exchange rate (US$ per Euro), average	1.11	1.13	1.26	1.29	1.28	1.26
Exchange rate (YEN per Euro), average	120.3	126.7	136.2	146.1	145.8	144.3

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Forecast overview

A soft patch in Q1

The Eurozone economy continues to show signs of having gone through a soft patch in Q1. The PMIs fell again in March, but they remain at levels above those seen in 2017 and consistent with strong GDP growth. The decline in manufacturing sentiment has been noticeably sharper, but coming off an even higher base. Surveys point to capacity constraints, rather than demand factors, so we remain optimistic about the prospects for the sector, although the increasing protectionist rhetoric is a clear risk. Meanwhile, the services sector continues to show a strong domestic economy, with employment growth displaying no signs of slowing yet.

But hard data at the start of the year has been very disappointing. Industrial production plunged in January and is unlikely to bounce back in February, while retail sales have been surprisingly weak despite high consumer confidence and falling unemployment rates. We think some of this was exacerbated by temporary factors that will be reversed, but it is now evident that economic activity probably slowed substantially in Q1.

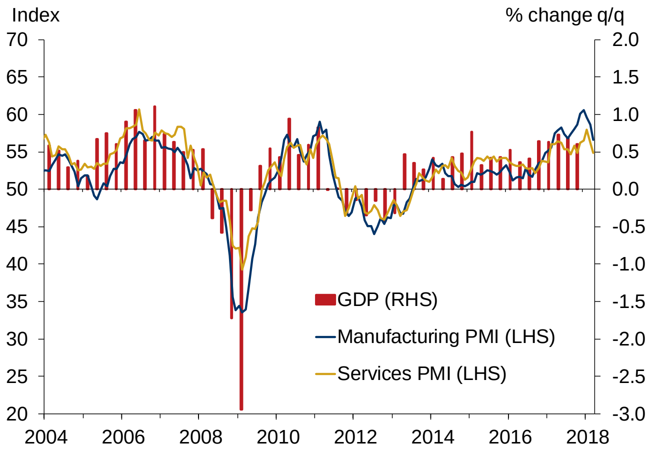
Our GDP indicator, which takes both soft and hard data into account, seems to corroborate this notion and points to 0.4% GDP growth in Q1 (from 0.6% in Q4). We have revised our forecast accordingly, bringing down 2018 growth a notch to 2.2% (from a previous 2.3%). Nonetheless, this would still make 2018 the second-best year for growth in a decade.

A sustained period of above-trend growth

Despite the weakness seen at the start of the year, we still think that the Eurozone can maintain a period of above-trend GDP growth in 2018. The following factors underpin our forecast:

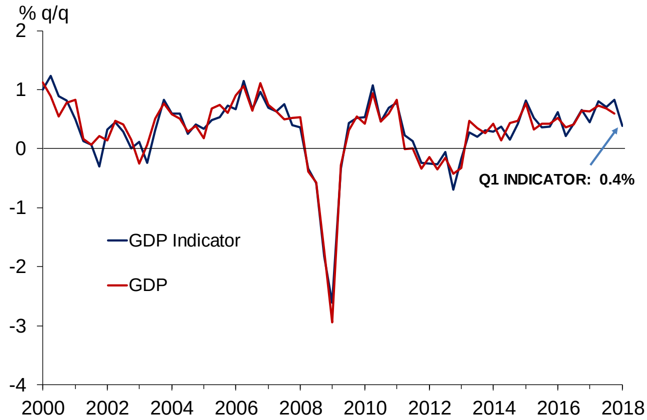
- **A strong labour market**: consumer spending was resilient in the face of higher inflation in 2017 due to strong employment growth. Although the unemployment rate dropped to a nine-year low in February (8.5%), we think it can fall further as structural unemployment is declining as well. We are also witnessing rising workforce participation in a number of countries, a signal of healthy recovery in labour markets. We have not yet seen signs of strong wage growth yet, but there are indications that this trend may be changing. And with inflation forecast at a moderate 1.4% this year, this should help support

Eurozone PMIs & GDP



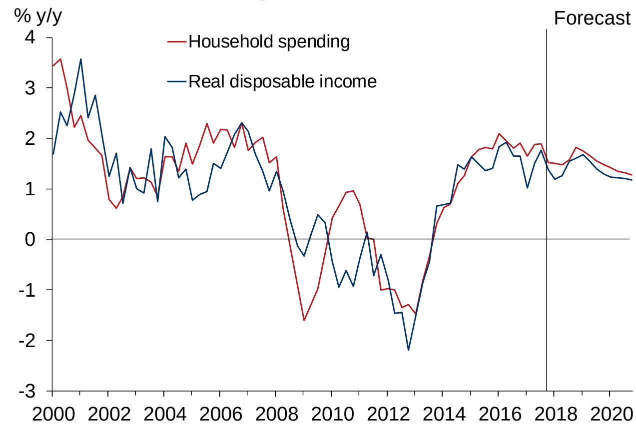
Source : Oxford Economics/Haver Analytics/IHS Markit

Euro area GDP indicator



Source: Oxford Economics/Haver Analytics

Eurozone: Consumption and real income



Source : Oxford Economics/Haver Analytics household purchasing power. We expect private consumption to grow by a solid 1.6% in 2018, only slightly slower than last year.

- **Solid outlook for investment**: fixed investment had a solid 2017, in particular spending in machinery and equipment (up 4.9%), supported by buoyant business sentiment, tight capacity and the continued strength of bank lending to firms. We also think the push from stronger external demand could mean an additional boost to investment in those countries with a large share of capital goods in their export mix. We expect investment growth to accelerate to 3.4% this year from 3.1% in 2017.

- **Mild slowdown in exports**: the rise in the euro has had a limited impact on exports so far. But with global trade growth expected to moderate in 2018 and the euro at levels well above those seen in 2017, export volume growth should ease. Accordingly, we expect export growth to slow from 5.3% in 2017 to a still solid 5% in 2018. The increasing threat of protectionism and a potential global trade war is the main risk to our forecast.

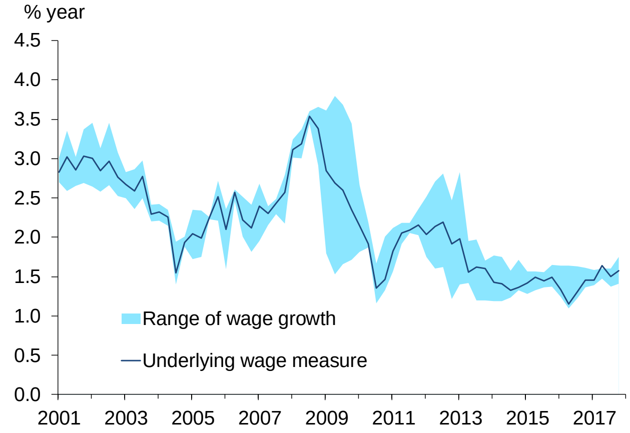
Growth this year will be driven mainly by the domestic sector, but net trade will also make a positive contribution. For 2019, we see GDP growth at 1.8%, unchanged from last month.

ECB takes first step towards normalisation

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 is now confident enough about the inflation outlook to end its QE programme later this year.

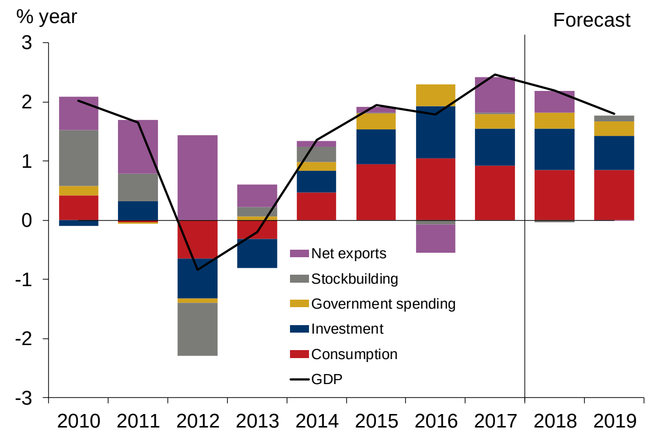
The announcement was not a surprise in itself, although the recent weakness in inflation had led us to think that this could be delayed until the next meeting. The ongoing debate within the ECB about the shape, timing and pace of policy normalisation will continue in the coming months. We see this as a precursor to an eventual end of the QE programme, probably in December, following a quick taper from September. Our expectation of a very gradual exit remains unchanged. Despite strong economic growth, the weak inflation outlook means the ECB will remain extremely cautious about withdrawing monetary support. As such, we do not expect interest rates to rise any time soon, with the first hike still seen in H2 2019.

Eurozone: Wage indicators



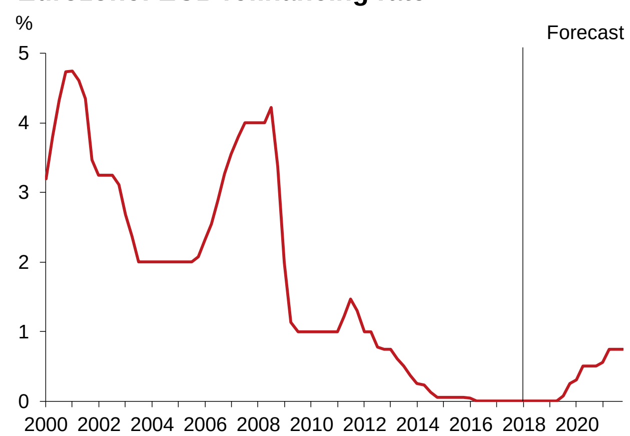
Source : Oxford Economics/Haver Analytics

Eurozone: Contributions to GDP growth



Source: Oxford Economics

Eurozone: ECB refinancing rate



Source: Oxford Economics

What to watch out for

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. But political risks are never far away in Europe: the recent inconclusive elections in Italy, the possibility of a hard Brexit or the Catalan independence crisis 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. A hypothetical global trade war could also be very damaging for Eurozone growth prospects.

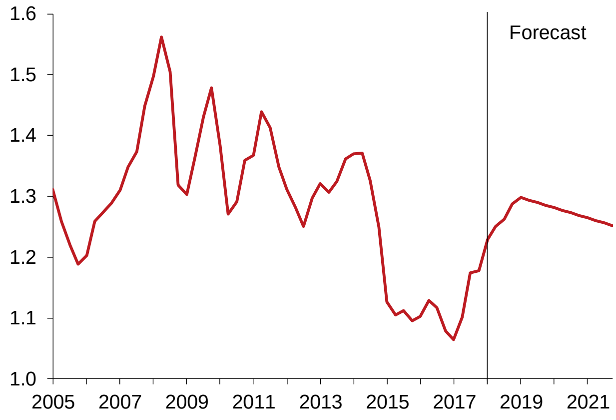
Monetary policy tightening: we expect the ECB to adopt a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, the central bank could surprise markets to the upside, pushing bond yields and the euro higher, which in turn could slow growth.

Exposure to key global risks

Cyclical recovery in world trade: in this scenario, optimism over near-term growth prospects rises globally as strong 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.

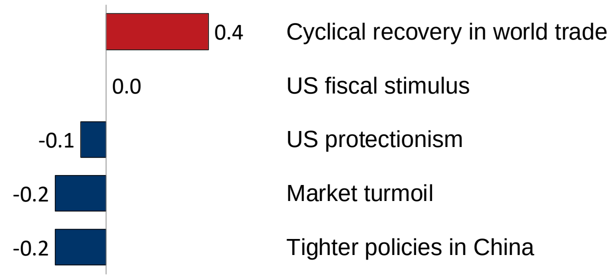
Eurozone: Exchange rate US$ per €



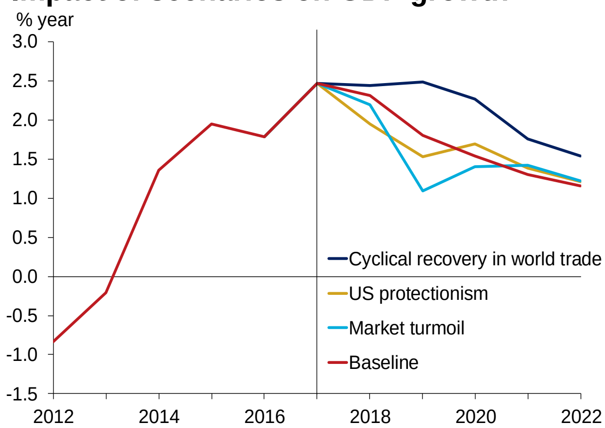
Source: Oxford Economics

Impact of scenarios on GDP growth

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



Impact of scenarios on GDP growth



Source : Oxford Economics

Long-term prospects

Slow recovery from crises

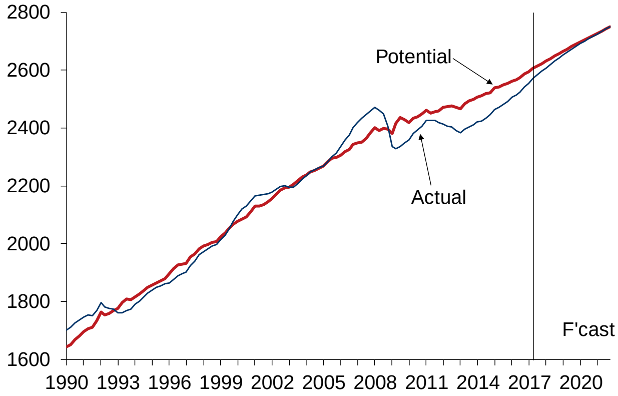
The global and Eurozone crises have left their mark on growth for years to come. We now estimate that the Eurozone's potential growth rate is only 1.2%, a little higher than our estimate for the past decade but far lower than 1.8% in the decade prior to 2008.

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 only be partly offset by further increases in the participation rate.

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

Eurozone: Actual & potential output

Euro bn 2010 prices



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	2007-2016	2017-2026
Potential GDP*	1.0	1.2
Employment at NAIRU	0.6	0.4
Capital Stock	1.3	1.3
Total Factor Productivity	0.2	0.6

*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	1.0
Consumption	0.3	0.6	1.5	1.1
Investment	-1.4	0.7	2.7	1.3
Government Consumption	1.5	0.8	1.2	1.0
Exports of Goods and Services	2.3	3.8	3.9	2.3
Imports of Goods and Services	1.8	3.3	3.8	2.4
Unemployment (%)	9.0	11.2	7.9	6.8
Consumer Prices, average	2.0	0.9	1.7	1.9
Current Balance (% of GDP)	-0.4	2.5	3.2	2.8
Exchange Rate (US$ per Euro), average	1.39	1.23	1.24	1.25
General Government Balance (% of GDP)	-3.8	-2.6	-0.9	-0.6
Short-term Interest Rates (%)	2.5	0.1	0.0	1.5
Long-term Interest Rates (%)	4.1	2.2	1.8	3.4
Working Population	0.2	0.2	0.0	-0.2
Labour Supply	0.5	0.3	0.4	0.0
Participation Ratio	76.1	76.7	77.7	78.6
Labour Productivity	0.4	0.4	0.9	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, at least, September 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)
Mar	2.4	9.4	1.5	0.8	-5.1	14.7	16.9	28.7
Apr	1.1	9.2	1.9	1.0	-3.6	-1.6	4.7	16.1
May	4.3	9.2	1.4	0.9	-3.3	13.8	18.6	19.5
Jun	2.9	9.0	1.3	1.1	-1.3	4.3	6.8	25.9
Jul	3.5	9.0	1.3	1.0	-1.7	5.9	9.1	21.9
Aug	4.0	9.0	1.5	1.1	-1.5	7.1	9.2	15.5
Sep	3.5	8.9	1.5	1.3	-1.2	5.2	5.5	25.1
Oct	3.9	8.8	1.4	1.4	-1.1	9.1	11.0	18.2
Nov	3.5	8.7	1.5	1.5	0.0	8.6	9.2	24.8
Dec	5.1	8.6	1.4	1.6	0.5	0.9	2.8	24.9
2018								
Jan	3.4	8.6	1.3	1.6	1.4	9.1	6.3	3.3
Feb	-	8.5	1.2	1.5	0.1	-	-	-
Mar	-	-	1.4	1.3	0.1	-	-	-

Financial Indicators: Eurozone

Percentage changes on a year earlier unless otherwise stated

	Short rate %	Long rate %	Money Supply M3	Exchange rate $/€ avg.	Exchange rate €/£	Nominal effective exch. Rate	Share price DJ STOXX	Net FDI €bn
Mar	-0.33	1.46	5.1	1.07	1.15	96.5	3501	8.6
Apr	-0.33	1.26	4.8	1.07	1.18	96.2	3560	24.8
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	4.5	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	4.5	1.22	1.13	104.6	3609	27.1
Feb	-0.33	1.27	4.2	1.23	1.13	105.0	3439	-
Mar	-0.33	1.17	-	1.23	1.13	105.1	3362	-

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	2.4	1.8	1.6	10.0	1.5	0.4	5.0	-1.9	0.2
2017	1.7	3.1	1.9	2.5	2.9	9.1	1.9	0.8	4.8	2.8	1.5
2018	1.6	3.4	1.9	2.2	3.5	8.2	2.3	0.8	4.1	1.8	1.4
2019	1.6	2.8	1.9	1.8	2.0	7.7	2.6	0.8	3.8	1.7	1.7
2020	1.3	2.2	1.6	1.5	1.5	7.4	2.7	1.0	3.4	1.9	1.9
2021	1.2	1.8	1.3	1.3	1.3	7.3	2.8	0.9	3.3	1.9	1.9
2016											
Q1	2.1	3.1	2.1	1.7	1.8	10.3	1.6	0.4	4.8	-3.1	0.0
Q2	2.0	5.4	2.6	1.7	1.1	10.1	1.4	0.4	5.0	-3.3	-0.1
Q3	1.8	5.1	2.4	1.7	1.3	9.9	1.5	0.4	5.1	-1.7	0.3
Q4	1.9	4.4	2.3	2.0	2.3	9.7	1.6	0.6	5.2	0.5	0.7
2017											
Q1	1.6	4.1	1.9	2.1	1.2	9.5	1.7	0.5	5.4	3.8	1.8
Q2	1.9	3.4	2.3	2.4	2.7	9.1	1.9	0.8	4.8	3.0	1.5
Q3	1.9	2.4	2.0	2.7	3.7	9.0	2.0	1.0	4.9	2.1	1.4
Q4	1.5	2.5	1.5	2.7	4.2	8.7	2.1	1.1	4.1	2.1	1.4
2018											
Q1	1.5	3.5	2.0	2.5	4.5	8.5	2.1	1.0	3.9	1.1	1.3
Q2	1.5	2.7	1.5	2.3	4.1	8.3	2.3	0.8	4.1	1.9	1.3
Q3	1.6	3.8	1.9	2.1	3.2	8.1	2.4	0.7	4.1	2.5	1.5
Q4	1.8	3.7	2.2	1.9	2.2	8.0	2.4	0.6	4.2	1.7	1.5
2019											
Q1	1.7	3.2	2.0	1.9	2.2	7.9	2.5	0.7	3.9	1.6	1.5
Q2	1.6	2.9	1.9	1.8	2.0	7.7	2.6	0.8	3.8	1.7	1.7
Q3	1.5	2.7	1.8	1.8	1.9	7.6	2.6	0.8	3.7	1.7	1.8
Q4	1.5	2.5	1.8	1.7	1.9	7.6	2.7	0.9	3.6	1.8	1.9
2020											
Q1	1.4	2.4	1.7	1.7	1.7	7.5	2.7	1.0	3.5	1.8	1.9
Q2	1.4	2.3	1.6	1.6	1.6	7.4	2.7	1.0	3.3	1.9	1.9
Q3	1.3	2.2	1.5	1.5	1.5	7.4	2.8	1.0	3.3	1.9	1.9
Q4	1.3	2.1	1.5	1.4	1.4	7.4	2.8	1.0	3.3	1.9	1.9
2021											
Q1	1.2	1.9	1.4	1.4	1.3	7.3	2.7	1.0	3.3	1.9	1.9
Q2	1.2	1.9	1.4	1.3	1.3	7.3	2.8	1.0	3.3	1.9	1.9
Q3	1.2	1.8	1.3	1.3	1.3	7.2	2.8	0.9	3.3	1.9	1.9
Q4	1.2	1.7	1.3	1.2	1.3	7.2	2.8	0.9	3.3	1.9	1.9

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	262.1	367.6	3.41	-166.5	-1.54	-0.26	0.86	-0.51	0.62	1.11	118.6
2017	236.6	391.7	3.51	-105.6	-0.94	-0.33	1.09	-1.85	-0.43	1.13	121.1
2018	267.3	387.3	3.34	-92.3	-0.80	-0.32	1.14	-1.71	-0.25	1.26	127.5
2019	280.9	382.9	3.19	-101.2	-0.84	-0.10	1.74	-1.81	0.03	1.29	128.3
2020	281.4	380.1	3.07	-107.8	-0.87	0.31	2.25	-1.57	0.38	1.28	126.4
2021	280.4	380.5	2.98	-110.7	-0.87	0.55	2.69	-1.33	0.81	1.26	124.6
2016											
Q1	64.1	92.1	3.45	-46.3	-1.73	-0.19	1.03	-0.23	0.99	1.10	118.3
Q2	69.8	99.0	3.69	-42.7	-1.59	-0.26	0.88	-0.17	0.96	1.13	118.9
Q3	65.0	87.5	3.24	-39.8	-1.48	-0.30	0.60	-0.57	0.33	1.12	118.8
Q4	63.1	89.0	3.26	-37.6	-1.38	-0.31	0.92	-1.05	0.19	1.08	118.3
2017											
Q1	54.4	91.1	3.31	-32.3	-1.18	-0.33	1.20	-2.09	-0.56	1.06	117.4
Q2	57.8	80.9	2.91	-27.1	-0.97	-0.33	1.09	-1.85	-0.42	1.10	119.0
Q3	61.8	124.2	4.42	-17.6	-0.63	-0.33	1.10	-1.78	-0.35	1.17	123.7
Q4	62.6	95.6	3.37	-28.5	-1.01	-0.33	0.98	-1.71	-0.40	1.18	124.4
2018											
Q1	64.6	92.2	3.23	-26.1	-0.91	-0.33	1.10	-1.58	-0.16	1.23	126.5
Q2	67.5	102.4	3.55	-22.2	-0.77	-0.32	0.95	-1.63	-0.36	1.25	127.1
Q3	66.5	109.5	3.77	-21.6	-0.74	-0.32	1.13	-1.78	-0.33	1.26	127.8
Q4	68.7	83.2	2.83	-22.5	-0.77	-0.32	1.37	-1.86	-0.18	1.29	128.7
2019											
Q1	71.4	91.1	3.08	-26.2	-0.89	-0.27	1.54	-1.79	0.02	1.30	128.9
Q2	71.5	101.1	3.39	-25.7	-0.86	-0.22	1.67	-1.90	-0.01	1.29	128.5
Q3	69.6	107.7	3.58	-24.2	-0.80	-0.05	1.81	-1.81	0.05	1.29	128.1
Q4	68.4	83.0	2.74	-25.2	-0.83	0.13	1.94	-1.73	0.08	1.29	127.6
2020											
Q1	70.5	92.2	3.01	-29.2	-0.95	0.23	2.07	-1.66	0.18	1.28	127.1
Q2	71.3	101.9	3.30	-26.7	-0.87	0.33	2.19	-1.54	0.32	1.28	126.6
Q3	70.6	106.7	3.43	-26.2	-0.84	0.33	2.31	-1.52	0.46	1.27	126.2
Q4	69.0	79.3	2.53	-25.7	-0.82	0.33	2.43	-1.54	0.56	1.27	125.7
2021											
Q1	70.9	89.7	2.84	-28.7	-0.91	0.46	2.53	-1.39	0.68	1.26	125.3
Q2	72.4	103.4	3.25	-27.7	-0.87	0.58	2.64	-1.30	0.76	1.26	124.8
Q3	69.6	107.4	3.35	-27.4	-0.85	0.58	2.75	-1.31	0.86	1.26	124.4
Q4	67.5	80.0	2.48	-27.0	-0.84	0.58	2.84	-1.33	0.93	1.25	124.0

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

Long-Term Forecast for Eurozone

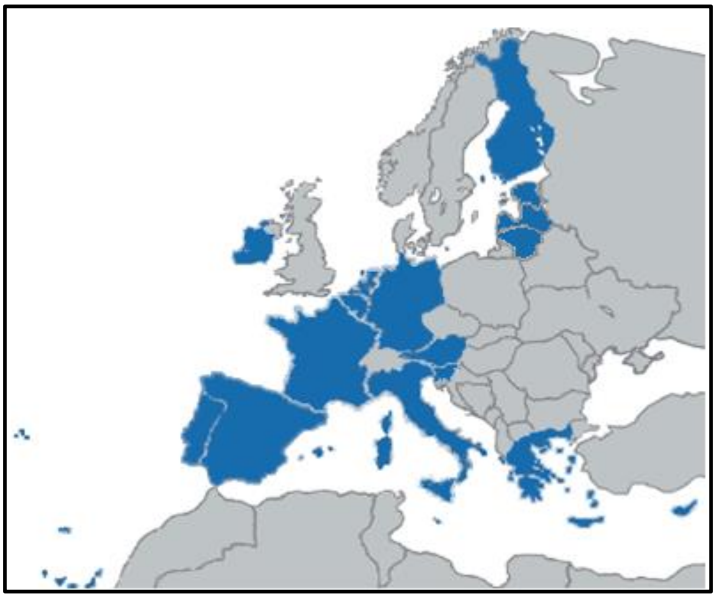
Annual percentage changes unless otherwise specified

	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	2.5	2.2	1.8	1.5	1.3	1.1	1.1	1.0	1.0	1.0	1.5
Consumption	0.5	-0.6	0.9	1.8	1.9	1.7	1.6	1.6	1.3	1.2	1.1	1.1	1.1	1.0	1.0	1.3
Investment	-0.3	-2.4	1.9	3.0	4.5	3.1	3.4	2.8	2.2	1.8	1.6	1.4	1.3	1.1	1.0	2.0
Government Consumption	1.1	0.3	0.7	1.3	1.8	1.2	1.3	1.2	1.1	1.1	1.1	1.0	0.9	0.9	0.9	1.1
Exports of Goods and Services	3.0	2.2	4.6	6.1	3.4	5.3	5.0	3.6	3.2	2.8	2.6	2.5	2.3	2.2	2.0	3.1
Imports of Goods and Services	2.5	1.4	4.9	6.5	4.8	4.3	4.6	3.9	3.4	3.0	2.8	2.6	2.4	2.2	2.1	3.1
Unemployment (%)	10.1	12.0	11.6	10.9	10.0	9.1	8.2	7.7	7.4	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	1.4	1.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8
Consumer Prices, EOP	1.5	0.8	0.2	0.2	0.7	1.4	1.5	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8
Current Balance (% of GDP)	1.1	2.2	2.4	3.1	3.4	3.5	3.3	3.2	3.1	3.0	2.9	2.8	2.7	2.8	2.8	3.0
Exchange Rate (US$ per Euro), average	1.31	1.33	1.33	1.11	1.11	1.13	1.26	1.29	1.28	1.26	1.25	1.25	1.25	1.25	1.25	1.25
Exchange Rate (US$ per Euro), EOP	1.30	1.38	1.21	1.09	1.05	1.20	1.30	1.28	1.27	1.25	1.25	1.25	1.25	1.25	1.25	1.25
General Government Balance (% of GDP)	-3.2	-3.0	-2.6	-2.1	-1.5	-0.9	-0.8	-0.8	-0.9	-0.9	-0.8	-0.7	-0.6	-0.5	-0.5	-0.7
Short-term Interest Rates (%)	1.3	0.2	0.2	0.0	-0.3	-0.3	-0.3	-0.1	0.3	0.6	0.8	1.1	1.4	1.9	2.4	0.8
Long-term Interest Rates (%)	3.1	3.0	2.0	1.2	0.9	1.1	1.1	1.7	2.2	2.7	3.0	3.2	3.4	3.5	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	0.5	0.5	0.3	0.2	0.1	0.0	0.0	-0.1	-0.1	0.2
Participation Ratio (%)	76.4	76.6	76.7	76.6	76.7	77.0	77.4	77.8	78.0	78.3	78.4	78.5	78.6	78.7	78.8	78.2
Labour productivity	0.4	0.4	0.7	0.9	0.4	0.8	0.8	0.8	1.0	0.9	0.9	0.9	0.9	1.0	1.0	0.9
Employment	0.2	-0.6	0.6	1.0	1.3	1.6	1.4	1.0	0.6	0.4	0.2	0.2	0.1	0.1	0.0	0.6
Output gap (% of potential GDP)	-1.6	-3.6	-3.4	-2.7	-2.0	-1.1	-0.5	-0.2	0.0	0.1	0.1	0.0	0.0	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$)	-	18228	20713	35427
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	82.1

Source : Oxford Economics & World Bank

Structure of GDP by output

	2016
Agriculture	1.6%
Industry	24.7%
Services	73.7%

Source : World Bank

* 2016 or latest available year

Structural economic indicators

	1990	1995	2000	2016*
Current account (US$ billion)	4	22	-96	407
Trade balance (US$ billion)	-22	65	-31	290
FDI (US$ billion)	-	-	35	-198
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)	9716	10478	10930	9515

Source : Oxford Economics / World Bank / EIA

Destination of goods' exports 2016

Eurozone	83.8%
UK	13.5%
US	13.7%
China	6.8%
Switzerland	5.7%
Poland	5.7%

Source : Eurostat \ Haver Analytics

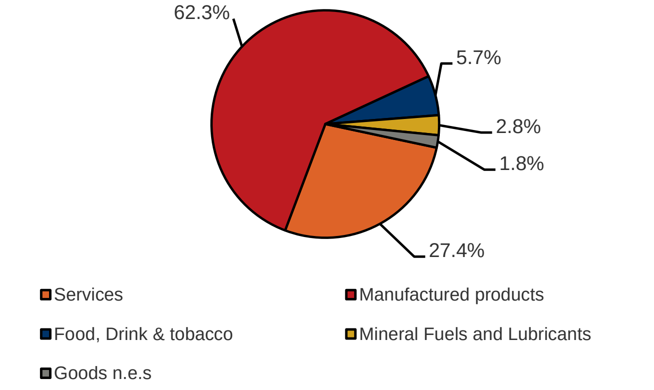
Corruption perceptions index 2017

	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

Composition of extra-EMU goods & services exports 2016



Source : Eurostat\ Haver Analytics

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