

Country Economic Forecast

Eurozone

Economist

Ángel Talavera

Lead Eurozone Economist

+44 (0)20 3910 8014

GDP growth in Q4 2017 was confirmed at 0.6%, driven by net exports

Our GDP forecast remains stable at 2.3% for 2018

- **GDP growth was confirmed at a robust 0.6% in Q4. But some of the details were less encouraging, with household spending growing at its slowest rate in four years despite the strong recovery in the labour market. The widespread fall in surveys confirms that the current cycle has now peaked, but we still anticipate another strong year for the Eurozone economy with a 2.3% GDP expansion. Meanwhile, the ECB has taken the first step towards monetary policy normalisation by removing the QE extension bias from its communication.**
- Net exports were a big contributor to growth in Q4, highlighting how the open Eurozone economy is benefiting from strong global trade. Conversely, the details from the domestic sector were a bit underwhelming, with household spending growing a weak 0.2% on the quarter and negative backward revisions to investment.
- Survey indicators continue to moderate across the board. This is not yet a reason for concern, as they remain at levels above those seen in 2017. The moderation in some manufacturing surveys may indicate that the tailwind from global trade for the industrial sector is gradually fading, but buoyant services surveys point to a healthy domestic economy, with employment growth showing no signs of slowing yet.
- But some of the hard data at the start of the year (industrial production, retail sales) has been surprisingly negative. While some of this weakness is likely to be temporary, this adds downside risks to our Q1 forecast, which may be weaker than expected.
- Inflation edged down further to 1.2% in February. But this was in line with our expectations, as energy base effects and the impact of the stronger euro on imported inflation are still weighing on prices. Core inflation inched up to 1.1%, and we expect both headline and core will trend upwards from now on.

Forecast for Eurozone							
(Annual percentage changes unless specified)							
	2016	2017	2018	2019	2020	2021	
Domestic Demand	2.4	1.9	2.1	1.9	1.6	1.3	
Private Consumption	1.9	1.7	1.7	1.6	1.4	1.2	
Fixed Investment	4.5	3.1	3.8	2.8	2.2	1.8	
Stockbuilding (% of GDP)	0.2	0.2	0.2	0.3	0.4	0.4	
Government Consumption	1.8	1.2	1.2	1.2	1.1	1.1	
Exports of goods and services	3.4	5.3	4.9	3.6	3.1	2.8	
Imports of goods and services	4.8	4.3	4.6	3.9	3.3	3.0	
GDP	1.8	2.5	2.3	1.8	1.5	1.3	
Industrial Production	1.5	2.9	3.9	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	3.5	3.3	3.2	3.1	
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	0.0	0.4	0.6	
Long-Term Interest Rates (%)	0.9	1.1	1.4	2.0	2.4	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	136.7	146.1	145.8	144.3	

Forecast overview

Net trade drove GDP expansion in Q4

Quarterly GDP growth in Q4 was confirmed at 0.6%, slightly down from 0.7% in the previous two quarters, and the breakdown showed diverging dynamics. For a second consecutive quarter, external demand was the biggest contributor to growth. On the other hand, household spending expanded a disappointing 0.2% on the quarter, the weakest pace in four years. We had expected a moderation in consumption, but not of such magnitude.

There are increasing signs that growth has already peaked and will slow further as the business cycle matures. The PMIs fell substantially in February, but they remain at elevated levels, above those seen in 2017 and consistent with strong GDP growth, so we do not think this is a reason for concern yet. Given sizeable backlogs of foreign orders, any slowdown in the manufacturing sector should be gradual, although the increasing protectionist rhetoric is a clear risk. Moreover, we think buoyant employment intentions should ensure that the labour market recovery continues, supporting the domestic economy.

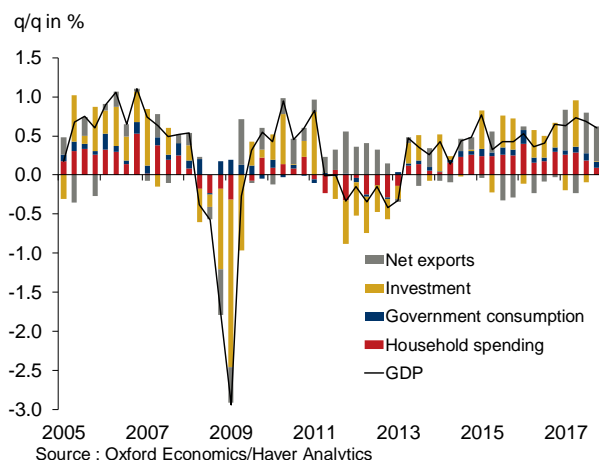
Some hard data did surprise to the downside at the start of the year, but we think some of this was exacerbated by temporary factors that will be reversed. Given all the available information, we still think that quarterly GDP growth will be around 0.5% for most of 2018, down from the 0.6-0.7% rates seen last year. Although this would bring growth down closer to potential, it would still make 2018 the second-best year for growth in a decade (at 2.3%).

A sustained period of above-trend growth

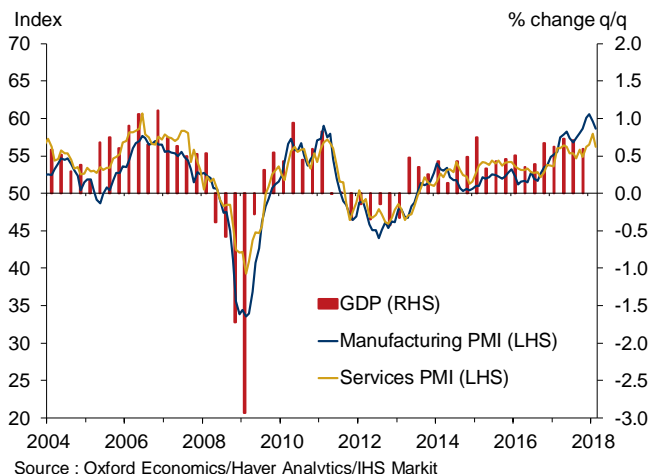
We remain confident that the Eurozone can maintain a period of above-trend GDP growth in 2018 due to the following factors:

- A strong labour market:** although consumer spending took a tumble in Q4, it was largely resilient in the face of higher inflation in 2017 due to strong employment growth. Although the unemployment rate has fallen to a nine-year low, we think there is room to go lower, 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 despite the improving labour market, but there are indications that

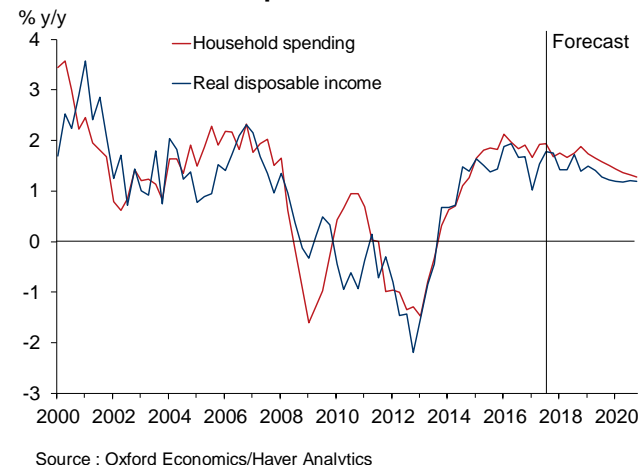
Eurozone GDP growth contributions



Eurozone PMIs & GDP



Eurozone: Consumption and real income



this trend may be changing. And with inflation forecast at a moderate 1.4% this year, we expect a pick-up in real income growth to support household purchasing power. As a result, private consumption is seen growing by a solid 1.7% in 2018, the same as in 2017.

- Solid outlook for investment:** capital spending had a solid 2017 (up 3.1%), 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. Our view is that investment growth will accelerate to 3.8% this year.
- 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 slightly from an estimated 5.3% in 2017 to a still solid 4.9% in 2018.

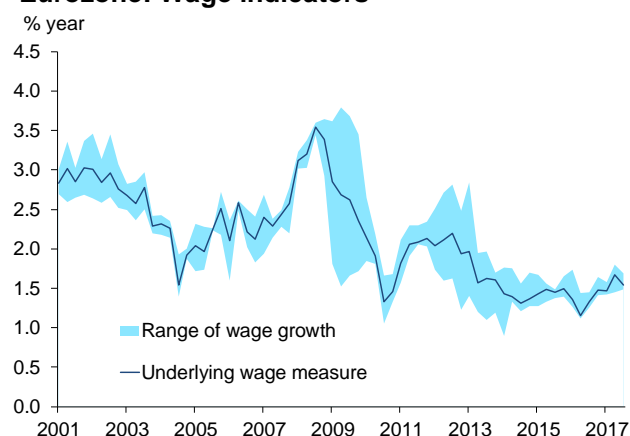
Our GDP growth forecast for 2018 remains unchanged at 2.3%, down only a little from 2.5% in 2017. Growth this year will be mostly driven by the domestic sector, with net trade having a slightly positive impact. For 2019, we see GDP growth at 1.8%, also unchanged from last month.

ECB takes first step towards normalisation

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

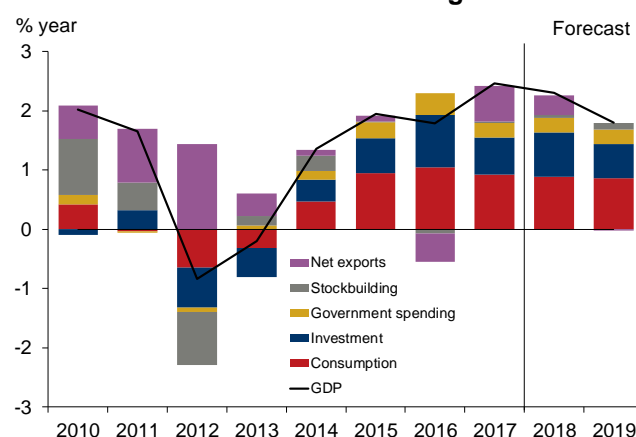
The announcement was not a surprise in itself, although the recent weakness in inflation had led us to think that this could be delayed until the next meeting. The ongoing debate within the ECB about the shape, timing and pace of policy normalisation will continue in the coming months. We see this as 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.

Stronger euro stunts exports: the run of positive news from the Eurozone prompted the euro to climb sharply last year and we expect further gains. While the impact 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.

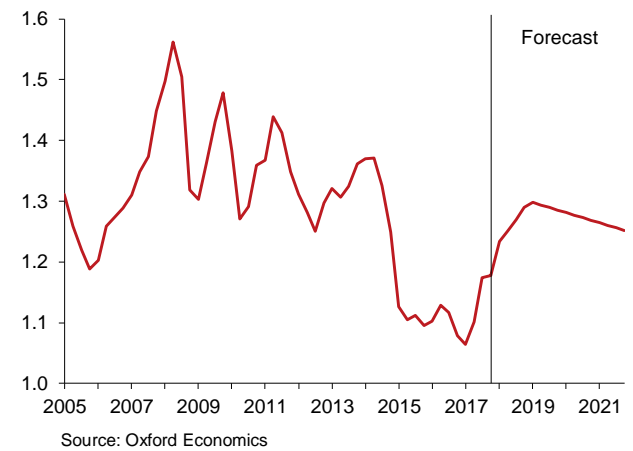
Monetary policy tightening: we expect the ECB to adopt a cautious approach to monetary tightening. But if underlying inflation pressures start to grow, the central bank could surprise markets to the upside, pushing bond yields and the euro higher, which in turn could slow growth.

Exposure to key global risks

Cyclical recovery in world trade: in this scenario, optimism over near-term growth prospects increases 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.

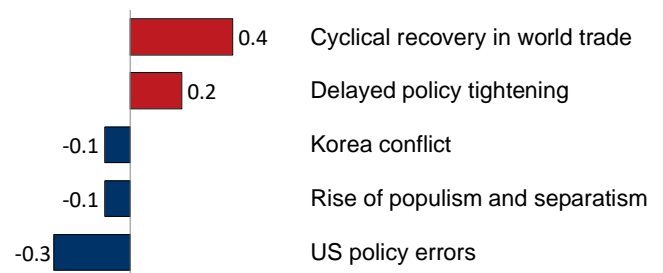
US policy errors: while recent US economic data have remained broadly upbeat, uncertainty persists around the policy stance of the Trump administration. In this scenario, we examine such a turn of events. With consumer spending slowing and impeachment risks rising, President Trump is frustrated in his attempts to implement pro-growth policies, such as deregulation and large-scale fiscal stimulus, and proceeds with immigration curbs and deportations. At the same time, he pushes through via executive order protectionist trade measures on Mexico and China, provoking these trading partners into the imposition of matching retaliatory tariffs on US exporters.

Eurozone: Exchange rate US\$ per €

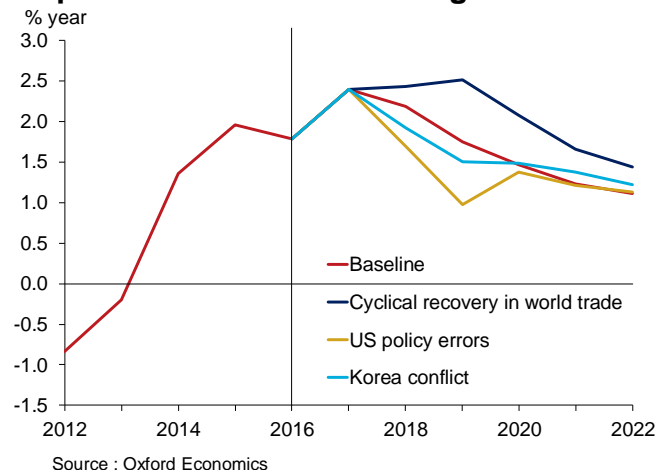


Impact of scenarios on GDP growth

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



Impact of scenarios on GDP growth



Long-term prospects

Slow recovery from crises

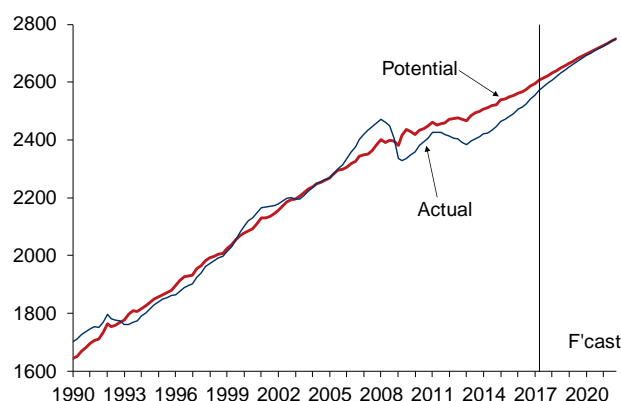
The global and Eurozone crises will leave their mark on growth for years to come. We now estimate that the Eurozone's potential growth rate is only 1.2%, similar to our estimate for the past decade but far lower than 1.8% in the decade prior to 2008.

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

Long-Term Forecast for Eurozone

(Average annual percentage change unless otherwise stated)

	2007-2011	2012-2016	2017-2021	2022-2026
GDP	0.5	0.8	1.9	1.0
Consumption	0.3	0.6	1.5	1.1
Investment	-1.4	0.7	2.7	1.2
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	8.0	7.0
Consumer Prices, average	2.0	0.9	1.7	1.9
Current Balance (% of GDP)	-0.4	2.5	3.3	2.9
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	0.1	1.6
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	0.4	0.0
Participation Ratio	76.1	76.7	77.8	78.7
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.

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)
Feb	1.3	9.5	2.0	0.8	-6.4	5.5	7.1	16.5
Mar	2.3	9.4	1.5	0.8	-5.1	14.7	16.9	28.6
Apr	1.1	9.2	1.9	1.0	-3.6	-1.7	4.4	16.4
May	4.0	9.2	1.4	0.9	-3.3	13.8	18.6	19.5
Jun	2.8	9.0	1.3	1.1	-1.3	4.3	6.8	26.0
Jul	3.8	9.0	1.3	1.0	-1.7	5.9	9.1	21.9
Aug	3.7	9.0	1.5	1.1	-1.5	6.9	9.0	15.4
Sep	3.4	8.9	1.5	1.3	-1.2	5.2	5.5	25.2
Oct	4.0	8.8	1.4	1.4	-1.1	9.1	10.4	19.1
Nov	3.6	8.7	1.5	1.5	0.0	8.5	8.6	25.6
Dec 2018	5.2	8.6	1.4	1.6	0.5	1.0	2.5	25.4
Jan	-	8.6	1.3	1.6	1.4	-	-	-
Feb	-	-	1.2	1.5	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
Feb	-0.33	1.45	4.6	1.06	1.17	95.8	3320	29.2
Mar	-0.33	1.46	5.1	1.07	1.15	96.5	3501	-37.5
Apr	-0.33	1.26	4.8	1.07	1.18	96.2	3560	31.2
May	-0.33	1.18	4.9	1.11	1.17	98.4	3555	21.0
Jun	-0.33	1.07	4.8	1.12	1.14	99.6	3442	-43.3
Jul	-0.33	1.21	4.5	1.15	1.13	101.2	3449	5.5
Aug	-0.33	1.04	5.0	1.18	1.10	103.3	3421	-7.6
Sep	-0.33	1.12	5.2	1.19	1.12	103.4	3595	18.0
Oct	-0.33	1.15	5.0	1.18	1.12	103.0	3674	28.3
Nov	-0.33	0.95	4.9	1.17	1.13	103.0	3570	-17.2
Dec 2018	-0.33	0.88	4.6	1.18	1.13	103.4	3504	-33.5
Jan	-0.33	1.03	4.6	1.22	1.13	104.6	3609	-
Feb	-0.33	1.27	-	1.23	1.13	105.0	3439	-

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	4.5	2.4	1.8	1.5	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	1.8	0.8	4.8	2.7	1.5
2018	1.7	3.6	2.1	2.3	3.9	8.2	2.1	0.8	4.0	1.5	1.4
2019	1.6	2.8	1.9	1.8	2.0	7.7	2.6	0.9	3.9	1.7	1.7
2020	1.4	2.2	1.6	1.5	1.5	7.5	2.7	1.1	3.6	1.9	1.9
2021	1.2	1.8	1.3	1.3	1.3	7.4	2.8	1.0	3.5	1.9	1.9
2016											
Q1	2.1	3.1	2.1	1.7	1.6	10.3	1.6	0.4	4.8	-3.1	0.0
Q2	2.0	5.4	2.6	1.7	1.2	10.1	1.4	0.4	5.0	-3.3	-0.1
Q3	1.8	5.1	2.4	1.7	1.2	9.9	1.5	0.4	5.1	-1.7	0.3
Q4	1.9	4.4	2.3	2.0	2.1	9.7	1.6	0.6	5.1	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	2.6	9.1	1.9	0.8	4.7	3.0	1.5
Q3	1.9	2.4	2.0	2.7	3.6	9.0	1.9	1.0	4.9	2.1	1.4
Q4	1.5	2.5	1.5	2.7	4.3	8.7	1.7	0.9	4.1	2.0	1.4
2018											
Q1	1.6	3.8	2.1	2.6	5.0	8.5	1.8	1.0	3.8	0.8	1.2
Q2	1.6	3.0	1.7	2.4	4.5	8.3	2.0	0.9	4.0	1.6	1.3
Q3	1.7	4.0	2.0	2.2	3.6	8.1	2.1	0.7	4.1	2.1	1.5
Q4	1.9	3.8	2.3	2.0	2.5	8.0	2.5	0.7	4.1	1.4	1.6
2019											
Q1	1.7	3.1	2.0	1.9	2.2	7.9	2.5	0.7	3.9	1.6	1.5
Q2	1.7	2.8	1.9	1.8	2.0	7.8	2.6	0.8	3.9	1.7	1.7
Q3	1.6	2.7	1.9	1.8	2.0	7.7	2.6	0.9	3.8	1.7	1.8
Q4	1.5	2.6	1.8	1.7	1.9	7.6	2.7	1.0	3.8	1.8	1.9
2020											
Q1	1.4	2.4	1.7	1.6	1.7	7.6	2.7	1.0	3.7	1.8	1.9
Q2	1.4	2.3	1.6	1.6	1.6	7.6	2.7	1.1	3.6	1.9	1.9
Q3	1.3	2.1	1.5	1.5	1.5	7.5	2.8	1.1	3.6	1.9	1.9
Q4	1.3	2.0	1.5	1.4	1.4	7.5	2.8	1.0	3.5	1.9	1.9
2021											
Q1	1.3	1.9	1.4	1.4	1.3	7.4	2.7	1.0	3.5	1.9	1.9
Q2	1.2	1.8	1.4	1.3	1.3	7.4	2.8	1.0	3.5	1.9	1.9
Q3	1.2	1.7	1.3	1.3	1.3	7.4	2.8	1.0	3.4	1.9	1.9
Q4	1.2	1.7	1.3	1.2	1.3	7.4	2.8	1.0	3.4	1.9	1.9

COPYRIGHT (C) , OXFORD ECONOMICS

EUROZONE											
TABLE 2 SUMMARY ITEMS											
TRADE BALANCE (EURO BN)	CURRENT ACCOUNT (EURO BN)	CURRENT ACCOUNT (% OF GDP)	GOVERNMENT FINANCIAL BALANCE (EURO BN)	GOVERNMENT FINANCIAL BALANCE (% OF GDP)	SHORT-TERM INTEREST RATE	LONG-TERM INTEREST RATE	REAL SHORT-TERM INTEREST RATE	REAL LONG-TERM INTEREST RATE	EXCHANGE RATE US DOLLAR PER EURO	EFFECTIVE EXCHANGE RATE	
(BVI)	(BCU)	(BCU*100 /GDP)	(GB)	(GB*100 /GDP)	(RSH)	(RLG)	(Note 1)	(Note 1)	(RXD)	(RX)	
YEARS BEGINNING Q1											
2016	262.0	367.6	3.41	-166.5	-1.54	-0.26	0.86	-0.51	0.62	1.11	118.6
2017	238.7	391.4	3.50	-104.6	-0.94	-0.33	1.09	-1.85	-0.43	1.13	121.1
2018	278.3	401.2	3.46	-91.8	-0.79	-0.32	1.39	-1.72	-0.01	1.26	126.9
2019	274.5	396.3	3.30	-100.9	-0.84	0.02	1.99	-1.70	0.27	1.29	127.7
2020	276.3	395.8	3.19	-107.8	-0.87	0.36	2.39	-1.53	0.50	1.28	125.8
2021	276.6	397.1	3.11	-110.6	-0.87	0.61	2.73	-1.28	0.85	1.26	124.1
2016											
Q1	63.9	92.1	3.45	-46.3	-1.73	-0.19	1.03	-0.23	0.99	1.10	118.3
Q2	69.7	99.0	3.69	-42.7	-1.59	-0.26	0.88	-0.17	0.96	1.13	118.9
Q3	65.3	87.5	3.24	-39.8	-1.48	-0.30	0.60	-0.57	0.33	1.12	118.8
Q4	63.2	89.0	3.26	-37.6	-1.38	-0.31	0.92	-1.05	0.19	1.08	118.3
2017											
Q1	53.5	91.1	3.31	-32.3	-1.18	-0.33	1.20	-2.09	-0.56	1.06	117.4
Q2	58.1	80.9	2.91	-27.1	-0.97	-0.33	1.09	-1.85	-0.42	1.10	119.0
Q3	62.2	124.2	4.42	-17.6	-0.63	-0.33	1.10	-1.78	-0.35	1.17	123.7
Q4	64.9	95.2	3.36	-27.5	-0.97	-0.33	0.98	-1.71	-0.40	1.18	124.4
2018											
Q1	71.8	95.7	3.35	-26.0	-0.91	-0.34	1.10	-1.58	-0.14	1.23	126.0
Q2	71.0	101.5	3.52	-22.1	-0.76	-0.33	1.29	-1.66	-0.03	1.25	126.3
Q3	69.0	110.1	3.78	-21.5	-0.74	-0.32	1.48	-1.79	0.00	1.27	127.2
Q4	66.6	93.9	3.20	-22.3	-0.76	-0.27	1.68	-1.83	0.12	1.29	128.1
2019											
Q1	69.9	92.3	3.12	-26.1	-0.88	-0.22	1.83	-1.73	0.32	1.30	128.3
Q2	70.4	100.4	3.36	-25.6	-0.86	-0.05	1.94	-1.75	0.25	1.29	127.9
Q3	68.5	108.7	3.61	-24.1	-0.80	0.13	2.05	-1.65	0.27	1.29	127.5
Q4	65.8	95.0	3.13	-25.1	-0.83	0.23	2.15	-1.67	0.25	1.29	127.1
2020											
Q1	69.0	94.4	3.08	-29.2	-0.95	0.33	2.25	-1.59	0.32	1.28	126.6
Q2	70.5	101.4	3.28	-26.7	-0.87	0.33	2.34	-1.57	0.44	1.28	126.1
Q3	69.9	108.0	3.47	-26.2	-0.84	0.33	2.43	-1.54	0.56	1.27	125.6
Q4	66.8	92.1	2.94	-25.7	-0.82	0.46	2.52	-1.41	0.65	1.27	125.2
2021											
Q1	69.8	92.6	2.93	-28.7	-0.91	0.58	2.61	-1.27	0.76	1.26	124.7
Q2	72.0	103.4	3.25	-27.6	-0.87	0.58	2.70	-1.30	0.81	1.26	124.3
Q3	69.2	108.7	3.39	-27.3	-0.85	0.58	2.78	-1.32	0.87	1.26	123.8
Q4	65.7	92.4	2.86	-26.9	-0.83	0.71	2.86	-1.21	0.94	1.25	123.4

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

COPYRIGHT (C) , OXFORD ECONOMICS

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	2.3	1.8	1.5	1.3	1.2	1.1	1.1	1.0	1.0	1.5
Consumption	0.5	-0.6	0.9	1.8	1.9	1.7	1.7	1.6	1.4	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	3.6	2.8	2.2	1.8	1.5	1.4	1.2	1.1	1.0	2.0
Government Consumption	1.1	0.3	0.7	1.3	1.8	1.2	1.2	1.2	1.1	1.1	1.1	1.0	1.0	1.0	0.9	1.1
Exports of Goods and Services	3.0	2.2	4.6	6.1	3.4	5.3	4.9	3.6	3.1	2.8	2.5	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	3.3	3.0	2.8	2.6	2.3	2.2	2.1	3.1
Unemployment (%)	10.1	12.0	11.6	10.9	10.0	9.1	8.2	7.7	7.5	7.4	7.3	7.1	7.0	6.8	6.7	7.5
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	1.6	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	3.5	3.3	3.2	3.1	3.0	2.9	2.9	2.9	2.9	3.1
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	0.0	0.4	0.6	0.9	1.1	1.5	2.0	2.5	0.8
Long-term Interest Rates (%)	3.1	3.0	2.0	1.2	0.9	1.1	1.4	2.0	2.4	2.7	3.0	3.3	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	0.7	0.6	0.4	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	77.1	77.5	77.9	78.1	78.3	78.5	78.6	78.7	78.8	78.9	78.2
Labour productivity	0.4	0.4	0.7	0.9	0.4	0.8	0.8	0.9	1.1	1.0	0.9	0.9	0.9	0.9	1.0	0.9
Employment	0.2	-0.6	0.6	1.0	1.3	1.7	1.5	0.9	0.5	0.3	0.2	0.2	0.1	0.1	0.0	0.5
Output gap (% of potential GDP)	-1.6	-3.6	-3.3	-2.6	-1.9	-1.1	-0.4	-0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	-0.1

Key Facts

Politics

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

Long-term economic & social development

	1980	1990	2000	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



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	1.6%
Industry	24.7%
Services	73.7%

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

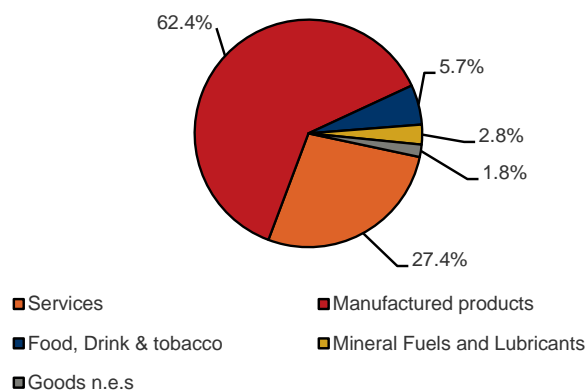
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2016*
Current account (US\$ billion)	4	22	-96	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

Composition of extra-EMU goods & services exports 2016



Source : Eurostat \ Haver Analytics

Destination of goods' exports 2016

Eurozone	83.9%
UK	13.5%
US	13.7%
China	6.8%
Switzerland	5.7%
Poland	5.7%

Source : Eurostat \ Haver Analytics