11 Sep 2018

Country Economic Forecast
Eurozone

Economist

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Q2 GDP growth stable at 0.4%, driven by capital spending

Our growth forecasts remain unchanged at 2.0% for this year and 1.7% in 2019

- **Final Q2 GDP data confirmed that growth was stable at 0.4%. Surveys suggest the eurozone economy is expanding at a similar pace in Q3 but continue to point to external risks despite the easing of trade tensions with the US in recent weeks. Overall, our GDP growth forecasts remain unchanged at 2.0% for this year and 1.7% for 2019.**
- The detailed GDP breakdown by components confirmed our expectations that household spending was very weak in Q2 and that net trade posted a negative contribution to growth for a second consecutive quarter despite a mild rebound in exports. Fixed investment, on the other hand, rebounded strongly from a weak Q1.
- Leading indicators continue to suggest stable growth in the second half of the year. The composite PMI was virtually unchanged in August and its average in Q3 looks likely to be very similar to that of Q2. We expect the eurozone economy to maintain the current 0.4% pace in Q3 and Q4.
- Inflation edged down to 2.0% in August, but remains close to the highest in six years, primarily a result of high energy prices. Core inflation remains significantly lower (currently at 1%), but we still expect it to start rising as wage growth climbs across the region. We see headline inflation remaining close to 2% over the coming months, resulting in an average of 1.8% for 2018, before easing slightly to 1.7% in 2019.
- The ECB will meet this week, but no policy announcements are expected. QE purchases are still on track to end this year, and we do not expect the first interest rate hike until H2 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	2.2	1.8	1.8	1.9	1.7	1.5
Private Consumption	1.9	1.7	1.4	1.6	1.5	1.4
Fixed Investment	3.7	2.9	3.1	2.9	2.5	1.9
Stockbuilding (% of GDP)	0.2	0.2	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	5.5	3.2	3.5	3.3	3.1
Imports of goods and services	4.0	4.2	2.9	4.1	3.6	3.3
GDP	1.8	2.5	2.0	1.7	1.6	1.4
Industrial Production	1.7	3.0	1.7	1.9	1.7	1.5
Consumer Prices, average	0.2	1.5	1.8	1.7	1.7	1.8
Current Balance (% of GDP)	3.6	3.5	3.2	2.9	2.8	2.7
Government Budget (% of GDP)	-1.5	-0.9	-0.5	-0.5	-0.6	-0.7
Short-Term Interest Rates (%)	-0.3	-0.3	-0.3	-0.1	0.3	0.6
Long-Term Interest Rates (%)	0.9	1.1	1.2	1.7	2.2	2.6
Exchange rate (US$ per Euro), average	1.11	1.13	1.19	1.22	1.25	1.25
Exchange rate (YEN per Euro), average	120.3	126.7	130.6	132.3	135.7	135.9

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Forecast overview

Investment drove Q2 growth

The latest release for national accounts in Q2 confirmed that GDP growth was stable at 0.4%. As we had suspected, the breakdown by components showed weaker growth in consumer spending (which rose at its slowest pace since 2014) and a negative contribution from net trade despite a mild rebound in exports. Fixed investment provided the largest contribution to economic growth.

The latest survey data continue to suggest stable economic activity in the second half of the year. The composite PMI in Q3 is likely to be similar to the average in Q2. The EU's Economic Sentiment Indicator paints a slightly more negative trend, but this is an indicator that has been consistently over-estimating growth in the past quarters, so we think there is some room for it to fall further without automatically translating into slower GDP growth. There is little hard data available yet for Q3, but so far it has been on the soft side. Retail sales contracted in July, while we expect industrial production – to be released this week – to have declined as well based on the available national figures.

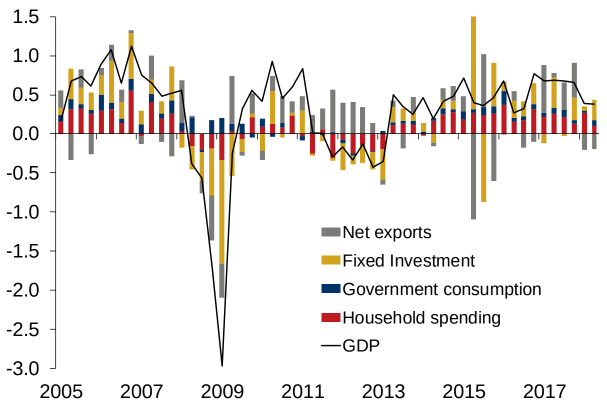
Despite some easing in trade tensions with the US in recent weeks, data for factory orders and manufacturing PMIs continue to suggest a challenging environment in the second half of the year. We continue to expect GDP growth to stabilise at around 0.4% a quarter in H2, which results in a 2018 GDP forecast of 2.0%. This would still be the second-best year for growth in a decade after 2.5% in 2017.

Stable growth in H2 2018

Our forecasts for 2018-19 reflect the following factors:

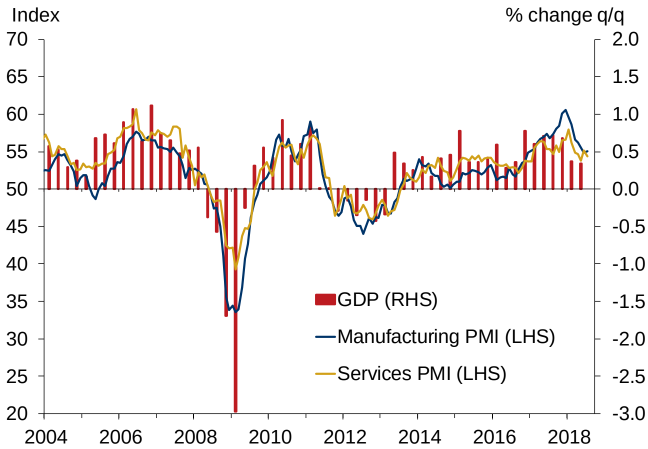
- **Weaker household spending**: consumer spending was resilient in 2016 and 2017 due to strong employment growth. The pace of job creation remains solid and has driven the unemployment rate down to a nine-year low of 8.3%, but we think it can fall further as structural unemployment is declining as well. Although there are no strong signs of robust wage growth yet, there are indications that the trend may be changing in some countries. However, modest wage gains will not be enough to offset the rise in inflation (which will reach a six-year high of 1.8% this year) and we expect households to be increasingly squeezed by slower real income growth. We forecast private consumption growth

Eurozone GDP growth contributions



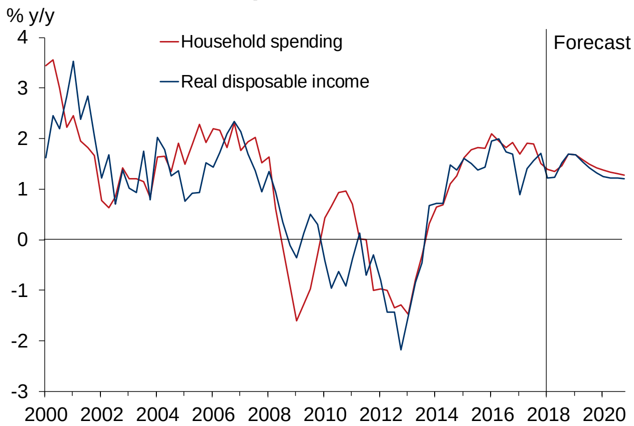
Source: Oxford Economics/Haver Analytics

Eurozone PMIs & GDP



Source: Oxford Economics/Haver Analytics/IHS Markit

Eurozone: Consumption and real income



Source : Oxford Economics/Haver Analytics of 1.4% this year, down from 1.7% in 2017 and the weakest in four years.

- **Solid outlook for investment**: following a 2.9% rise in 2017, we expect another year of solid growth in fixed investment. Spending on machinery and equipment (up 5.4% in 2017), should be supported by buoyant business sentiment, tight capacity and the continued improvement of 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 3.1% this year and 2.9% in 2019.

- **Downside risks for exports materialising**: following an excellent year in 2017, eurozone exports have suffered from a worsening global environment, with risks posed by rising protectionism and a potential trade war with the US already materialising and hitting sentiment and orders. Despite a mild recovery in Q2, European exporters remain under pressure. Given the slowdown already taking place in global trade volumes, combined with the lagged impact of the stronger euro, we expect eurozone export growth to ease to 3.3% in 2018 (from 5.5% last year).

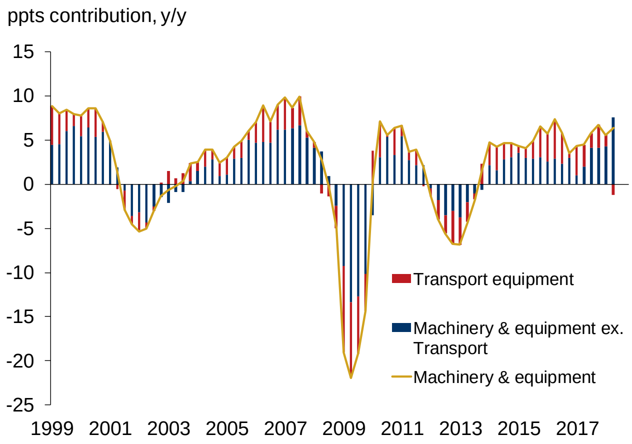
Growth this year will be driven mainly by the domestic sector, but net trade will also make a positive contribution for a second year in a row. For 2019, we still see GDP growth slowing to 1.7%, despite stronger domestic demand.

ECB to end QE in December as expected

The ECB announced in June that it will end its QE purchases in December, following a quick taper in the last three months of the year when purchases will be cut from the current €30bn a month to €15bn a month. The central bank did leave the door open for a further extension, but we think this is very unlikely.

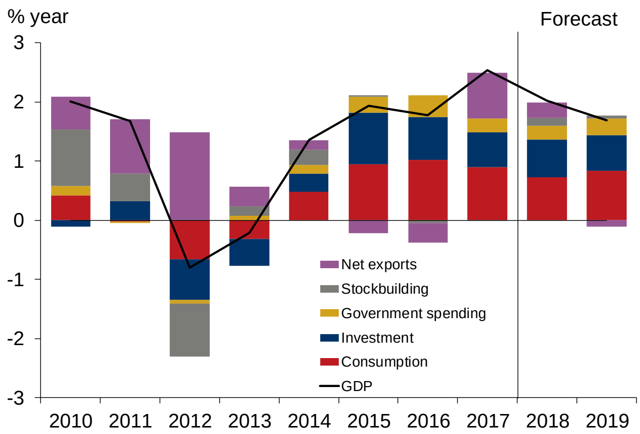
The central bank also provided some dovish forward guidance, indicating that interest rates will remain unchanged at least "through the summer of 2019". In practical terms, this means a rate hike could take place in either Q3 or Q4. Our view of a very gradual exit remains unchanged. Despite solid economic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

Eurozone: Equipment investment by type



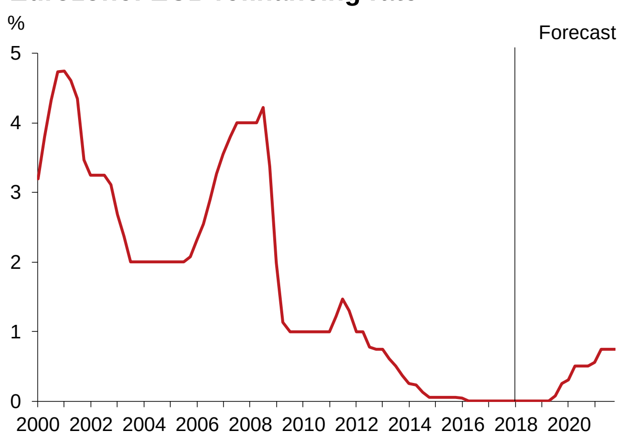
Source: Oxford Economics

Eurozone: Contributions to GDP growth



Source: Oxford Economics

Eurozone: ECB refinancing rate



Source: Oxford Economics

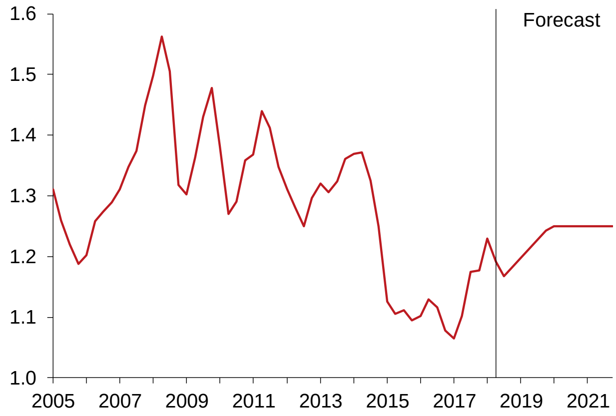
What to watch out for

Risks around political uncertainty: 2017 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 widely expected. But political risks are never far away in Europe and the tide is quickly turning: the recent election of a populist government in Italy, the possibility of a hard Brexit or 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 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.

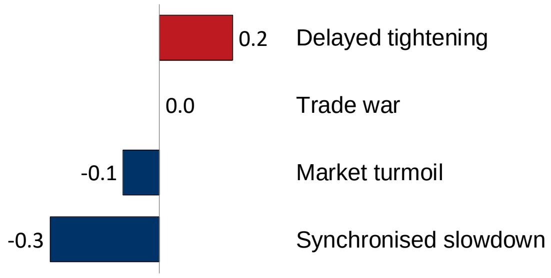
Eurozone: Exchange rate US$ per €



Source: Oxford Economics

Impact of scenarios on GDP growth

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

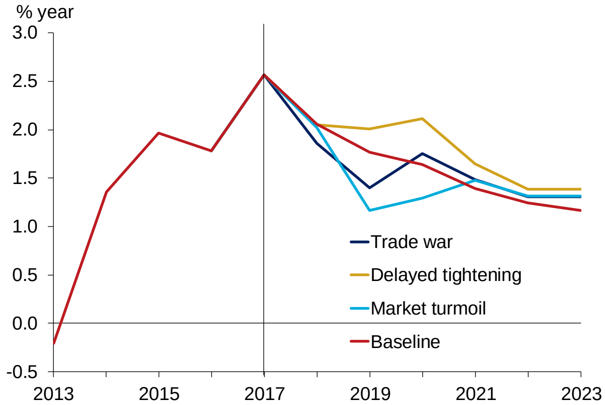


Exposure to key global risks

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.

Impact of scenarios on GDP growth



Source: Oxford Economics

Long-term prospects

Slow recovery from crises

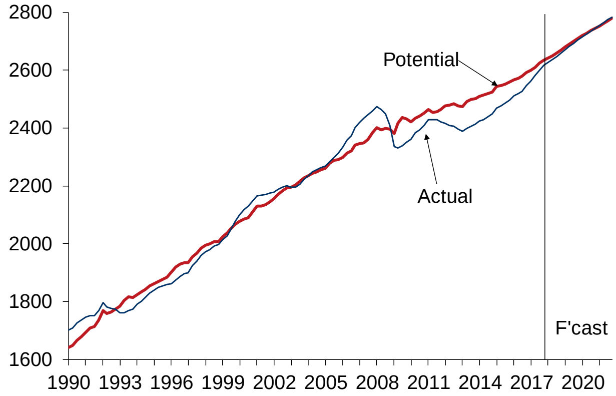
The global and eurozone crises will leave their mark on growth for years to come. We estimate the Eurozone's potential growth rate at only 1.3%, a little higher than the past decade but far lower than 1.8% in the decade prior to 2008.

While credit availability is improving, it is unlikely to be as free-flowing as during 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*	1.1	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	0.8	2.7	1.4
Government Consumption	1.5	0.8	1.2	1.1
Exports of Goods and Services	2.3	3.7	3.7	2.4
Imports of Goods and Services	1.7	3.3	3.6	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	3.0	2.4
Exchange Rate (US$ per Euro), average	1.39	1.23	1.21	1.25
General Government Balance (% of GDP)	-3.9	-2.5	-0.6	-0.7
Short-term Interest Rates (%)	2.5	0.1	0.0	1.5
Long-term Interest Rates (%)	4.1	2.2	1.7	3.4
Working Population	0.2	0.2	0.0	-0.2
Labour Supply	0.5	0.3	0.5	0.1
Participation Ratio	76.0	76.7	77.7	79.2
Labour Productivity	0.4	0.4	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 now expected to end in 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.

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)
Aug	4.2	9.0	1.5	1.2	-1.5	7.0	9.3	15.3
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	9.1	10.8	18.3
Nov	4.4	8.7	1.5	1.6	0.0	8.4	9.3	24.2
Dec	4.9	8.6	1.4	1.6	0.5	0.9	3.0	24.6
2018								
Jan	4.0	8.6	1.3	1.6	1.4	9.1	6.2	3.0
Feb	2.8	8.6	1.2	1.6	0.1	1.8	1.7	16.6
Mar	3.1	8.5	1.4	1.5	0.1	-3.2	-2.0	25.6
Apr	1.8	8.4	1.2	1.4	0.3	8.2	8.5	16.5
May	2.4	8.2	1.9	1.4	0.2	-0.9	0.6	16.6
Jun	2.3	8.2	2.0	1.4	-0.6	5.7	8.5	22.5
Jul	-	8.2	2.1	1.3	-0.5	-	-	-
Aug	-	-	2.0	1.2	-1.9	-	-	-

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
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	27.8
Nov	-0.33	0.95	4.9	1.17	1.13	103.0	3570	0.8
Dec	-0.33	0.88	4.6	1.18	1.13	103.4	3504	9.6
2018								
Jan	-0.33	1.03	4.6	1.22	1.13	104.6	3609	41.2
Feb	-0.33	1.27	4.3	1.23	1.13	105.0	3439	32.7
Mar	-0.33	1.17	3.7	1.23	1.13	105.1	3362	60.0
Apr	-0.33	1.13	3.8	1.23	1.15	105.1	3537	33.3
May	-0.33	1.24	4.0	1.18	1.14	103.2	3407	-17.8
Jun	-0.32	1.29	4.5	1.17	1.14	102.5	3396	-48.2
Jul	-0.32	1.20	4.0	1.17	1.13	103.2	3525	-
Aug	-0.32	1.37	-	1.15	1.12	102.7	3393	-

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	3.7	2.2	1.8	1.7	10.0	1.5	0.4	5.0	-1.9	0.2
2017	1.7	2.9	1.8	2.5	3.0	9.1	1.9	0.9	4.8	2.8	1.5
2018	1.4	3.1	1.8	2.0	1.7	8.3	2.6	0.6	4.2	2.2	1.8
2019	1.6	2.9	1.9	1.7	1.9	7.8	2.6	0.7	4.5	1.9	1.7
2020	1.5	2.5	1.7	1.6	1.7	7.5	2.8	0.9	3.8	1.9	1.7
2021	1.4	1.9	1.5	1.4	1.5	7.3	2.8	0.9	3.5	1.9	1.8
2016											
Q1	2.0	6.1	2.8	1.7	2.0	10.3	1.6	0.4	4.8	-2.9	0.0
Q2	1.9	-0.2	1.4	1.7	0.9	10.2	1.4	0.3	5.0	-3.3	-0.1
Q3	1.8	5.3	2.4	1.7	1.1	9.9	1.5	0.3	5.1	-1.7	0.3
Q4	1.9	3.8	2.2	2.0	2.7	9.7	1.6	0.6	5.1	0.5	0.7
2017											
Q1	1.6	2.8	1.7	2.0	1.1	9.5	1.6	0.5	5.4	3.8	1.8
Q2	1.8	3.7	2.3	2.5	2.6	9.1	1.9	0.9	4.7	3.2	1.5
Q3	1.9	2.6	2.0	2.8	4.1	9.0	1.9	1.1	4.9	2.2	1.4
Q4	1.4	2.8	1.4	2.8	4.0	8.7	2.2	1.2	4.2	2.0	1.4
2018											
Q1	1.6	3.6	2.0	2.5	3.3	8.6	2.3	1.1	3.3	1.3	1.3
Q2	1.3	2.8	1.6	2.2	2.2	8.3	2.7	0.6	4.4	2.3	1.7
Q3	1.3	3.4	1.7	1.9	1.1	8.1	2.7	0.5	4.5	2.9	2.0
Q4	1.4	2.7	2.1	1.6	0.5	8.0	2.7	0.2	4.5	2.4	2.1
2019											
Q1	1.4	3.1	1.9	1.7	1.5	8.0	2.7	0.5	5.0	2.1	1.9
Q2	1.6	2.7	1.8	1.7	2.2	7.8	2.4	0.8	4.4	1.9	1.7
Q3	1.7	3.0	1.9	1.7	1.9	7.7	2.6	0.8	4.4	1.9	1.6
Q4	1.7	2.9	1.9	1.7	1.8	7.6	2.7	0.8	4.2	1.9	1.5
2020											
Q1	1.6	2.8	1.8	1.7	1.7	7.6	2.8	0.9	4.0	1.9	1.6
Q2	1.6	2.6	1.7	1.6	1.7	7.5	2.8	1.0	3.8	1.9	1.6
Q3	1.5	2.4	1.7	1.6	1.7	7.5	2.8	1.0	3.7	1.9	1.7
Q4	1.5	2.2	1.6	1.5	1.7	7.4	2.8	1.0	3.6	1.9	1.7
2021											
Q1	1.4	2.1	1.5	1.5	1.6	7.4	2.8	0.9	3.5	1.9	1.7
Q2	1.4	2.0	1.5	1.4	1.5	7.3	2.8	0.9	3.5	1.9	1.8
Q3	1.4	1.9	1.5	1.4	1.5	7.3	2.8	0.9	3.4	1.9	1.8
Q4	1.3	1.8	1.4	1.4	1.4	7.2	2.8	0.9	3.4	1.9	1.9

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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	262.9	387.6	3.59	-159.0	-1.47	-0.26	0.86	-0.51	0.62	1.11	118.6
2017	232.0	386.6	3.46	-98.9	-0.88	-0.33	1.09	-1.87	-0.44	1.13	121.1
2018	207.4	372.3	3.22	-52.1	-0.45	-0.32	1.15	-2.10	-0.63	1.19	126.6
2019	180.6	346.9	2.90	-58.4	-0.49	-0.10	1.71	-1.78	0.03	1.22	128.2
2020	181.9	346.1	2.80	-78.2	-0.63	0.31	2.19	-1.35	0.53	1.25	128.2
2021	176.7	348.8	2.73	-86.9	-0.68	0.55	2.57	-1.26	0.77	1.25	126.0
2016											
Q1	63.5	100.1	3.74	-45.0	-1.68	-0.19	1.03	-0.23	0.99	1.10	118.3
Q2	71.4	103.8	3.87	-41.7	-1.55	-0.26	0.88	-0.17	0.96	1.13	118.9
Q3	65.1	89.3	3.31	-38.1	-1.41	-0.30	0.60	-0.57	0.33	1.12	118.8
Q4	62.9	94.4	3.46	-34.2	-1.26	-0.31	0.92	-1.05	0.19	1.08	118.3
2017											
Q1	53.3	89.5	3.26	-29.9	-1.09	-0.33	1.20	-2.09	-0.56	1.06	117.4
Q2	57.3	79.0	2.84	-25.7	-0.92	-0.33	1.09	-1.85	-0.42	1.10	119.0
Q3	60.9	115.7	4.11	-22.6	-0.80	-0.33	1.10	-1.78	-0.35	1.17	123.7
Q4	60.5	102.4	3.61	-20.7	-0.73	-0.33	0.98	-1.75	-0.44	1.18	124.4
2018											
Q1	57.1	111.1	3.89	-20.6	-0.72	-0.33	1.10	-1.59	-0.16	1.23	126.5
Q2	51.4	77.2	2.68	-14.9	-0.52	-0.33	1.06	-2.02	-0.63	1.19	126.6
Q3	51.2	101.5	3.50	-9.0	-0.31	-0.32	1.10	-2.34	-0.92	1.17	126.7
Q4	47.7	82.5	2.82	-7.6	-0.26	-0.32	1.35	-2.46	-0.78	1.18	126.8
2019											
Q1	44.4	87.3	2.96	-14.3	-0.49	-0.27	1.52	-2.21	-0.42	1.20	127.3
Q2	45.0	80.8	2.72	-13.5	-0.45	-0.22	1.65	-1.97	-0.10	1.21	128.0
Q3	45.8	96.8	3.22	-13.6	-0.45	-0.05	1.78	-1.60	0.22	1.23	128.6
Q4	45.5	82.0	2.71	-16.9	-0.56	0.13	1.90	-1.34	0.43	1.24	129.1
2020											
Q1	45.2	88.1	2.89	-21.5	-0.71	0.23	2.02	-1.40	0.39	1.25	129.1
Q2	46.3	83.8	2.72	-18.9	-0.61	0.33	2.13	-1.32	0.49	1.25	128.5
Q3	46.3	96.7	3.12	-18.8	-0.61	0.33	2.24	-1.32	0.59	1.25	128.0
Q4	44.1	77.5	2.48	-18.9	-0.60	0.33	2.34	-1.38	0.64	1.25	127.4
2021											
Q1	43.8	85.1	2.70	-22.2	-0.70	0.46	2.44	-1.27	0.71	1.25	126.9
Q2	45.1	85.3	2.68	-21.6	-0.68	0.58	2.53	-1.21	0.74	1.25	126.3
Q3	45.1	98.9	3.09	-20.7	-0.65	0.58	2.62	-1.26	0.78	1.25	125.8
Q4	42.7	79.5	2.46	-22.3	-0.69	0.58	2.71	-1.29	0.83	1.25	125.2

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

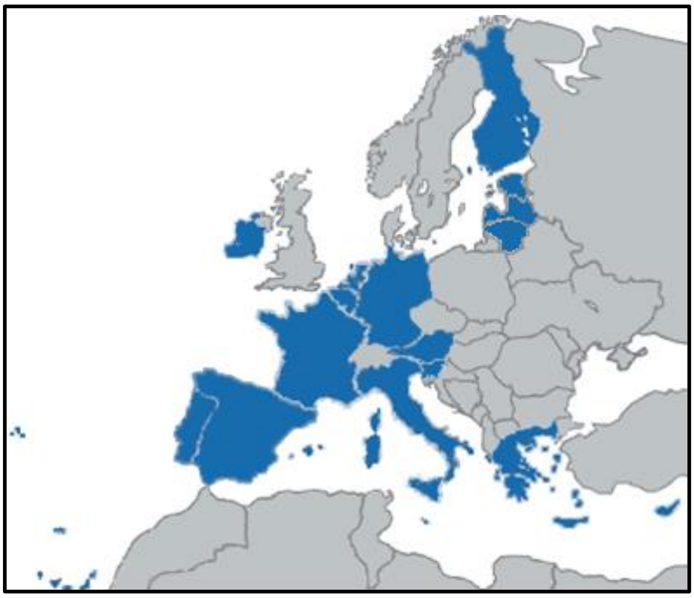
	2007-2016	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
GDP	0.7	-0.2	1.4	1.9	1.8	2.5	2.0	1.7	1.6	1.4	1.3	1.2	1.1	1.1	1.0	1.5
Consumption	0.5	-0.6	0.9	1.8	1.9	1.7	1.4	1.6	1.5	1.4	1.3	1.2	1.1	1.1	1.0	1.3
Investment	-0.3	-2.3	1.6	4.6	3.7	2.9	3.1	2.9	2.5	1.9	1.7	1.5	1.4	1.2	1.1	2.0
Government Consumption	1.1	0.3	0.7	1.3	1.8	1.2	1.1	1.4	1.3	1.2	1.2	1.1	1.0	1.0	1.0	1.2
Exports of Goods and Services	3.0	2.2	4.6	6.3	3.0	5.5	3.2	3.5	3.3	3.1	2.8	2.6	2.4	2.2	2.0	3.1
Imports of Goods and Services	2.5	1.6	4.7	7.5	4.0	4.2	2.9	4.1	3.6	3.3	3.1	2.8	2.6	2.4	2.2	3.1
Unemployment (%)	10.1	12.0	11.6	10.9	10.0	9.1	8.3	7.8	7.5	7.3	7.1	7.0	6.9	6.8	6.7	7.4
Consumer Prices, average	1.5	1.3	0.4	0.0	0.2	1.5	1.8	1.7	1.7	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	2.1	1.5	1.7	1.9	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	3.2	2.9	2.8	2.7	2.6	2.5	2.4	2.3	2.3	2.7
Exchange Rate (US$ per Euro), average	1.31	1.33	1.33	1.11	1.11	1.13	1.19	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	-0.5	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-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	1.2	1.7	2.2	2.6	2.9	3.3	3.5	3.6	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	76.7	77.0	77.4	77.8	78.1	78.4	78.7	78.9	79.2	79.4	79.6	78.4
Labour productivity	0.4	0.4	0.7	0.9	0.4	0.9	0.6	0.7	0.9	0.9	0.9	0.8	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	0.6	0.5	0.4	0.3	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	-0.5	-0.3	-0.1	0.1	0.2	0.2	0.2	0.2	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$)	-	18223	20704	35437
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	1.5%
Industry	22.2%
Services	76.4%

Source : World Bank

Corruption perceptions index 2017

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

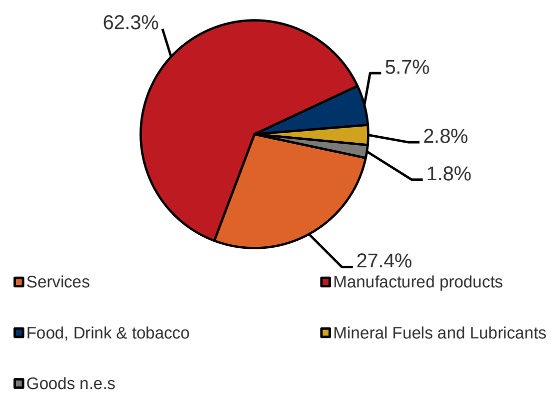
Source: Transparency International
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2016*
Current account (US$ billion)	4	22	-96	429
Trade balance (US$ billion)	-23	64	-31	291
FDI (US$ billion)	-	-	35	-211
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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