Eurozone

EY Eurozone Forecast

September 2013

Building a better working world

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Foreword

Mark Otty
Area Managing Partner, Europe, Middle East, India and Africa

The Eurozone is emerging from its longest recession for three decades, but many challenges remain. Governments and businesses need to understand economic developments and the environment in which they make their decisions.

Customize data from EY's *Eurozone Forecast* and *Rapid-Growth Markets Forecast*.
Download the *EY Forecasts in focus* app at ey.com/eurozone

At last, the Eurozone's longest recession is over. GDP growth of 0.3% in Q2 brought an end to six consecutive quarters of economic contraction. However, the region's longest recession in at least three decades has taken its toll. In the 18 months prior to Q2, GDP in the currency zone fell 1.5%, to stand 3.5% below the pre-financial crisis peak in 2008, while unemployment has climbed to over 12%.

The road to recovery will be long and difficult. Along the way, there will be plenty of twists and turns for policy-makers to negotiate. The lengthy recession has changed the Eurozone economy, and the political context in which it operates, in a number of important ways.

The latest *EY Eurozone Forecast* makes growth projections for the currency zone, explores the challenges that policy-makers face and examines what the latest developments mean for businesses.

Despite growth in Q2, we still expect the Eurozone economy overall to shrink 0.5% this year, ahead of growth of almost 1% in 2014. Looking to the medium term, we anticipate growth of 1.5% a year in 2015–17. This gradual recovery will be underpinned by the easing of the drag from austerity and a recovery in world trade led by stronger activity in the US. While demand for exports will play a large role in the recovery, policy-makers would do well to heed the warnings from emerging markets. Their weak recent performance demonstrates the risk of relying on external demand to maintain the recovery: sustainable growth also requires a healthy domestic economy.

However, various factors are making this difficult. Governments, businesses and households continue to deleverage, while a thinly capitalized banking sector remains under pressure to keep a lid on lending. At the same time, the steady rise of unemployment is set to continue. We expect the jobless figure to peak at nearly 20 million in 2014, equal to over 12.5% of the labor force, before falling gradually. Peripheral countries in particular are suffering from a lack of affordable finance. This is constraining business investment and limiting the scope for output growth.

The financing problems in the periphery point to a wider development over recent years. Divergence within the Eurozone is more marked than it has been since the early 2000s. As well as sharp differences between the core and the periphery in terms of lending, labor market conditions are also diverging. In addition, businesses across the Eurozone can face very different interest rates. For instance, while German companies are paying around 3% interest on loans, their Spanish counterparts are charged over 5%.

As performance among Eurozone members becomes more divergent, it is more difficult for policy-makers to make decisions that are in the best interests of the economy as a whole. And as stability and coherence are tested, the logic of further integration will come under even greater scrutiny.

Our forecast also identifies challenges for policy-makers on other fronts. As the Eurozone enters a period of relative calm, the time is right to speed up restructuring, especially in the banking sector. Policy-makers should also take the opportunity to address the difficult credit conditions in peripheral countries and press ahead with moves to develop a banking union.

A new Eurozone economy is emerging from the recession. Some familiar challenges remain, and some new obstacles will need to be cleared, as the continent moves down the path to sustainable growth. But as Europe recovers, new opportunities will come into view.

More than ever, it is crucial for businesses to understand the economic developments in the Eurozone and the environment in which policy-makers make their decisions. The *EY Eurozone Forecast* will continue to light the way ahead.

Highlights

The Eurozone is emerging from its longest recession in at least three decades ...

- Quarterly GDP growth of 0.3% in Q2 saw the Eurozone emerge from its longest recession in at least 30 years, in line with our expectations.
- After falling by an expected 0.5% this year, we forecast GDP will grow by almost 1% in 2014 and then by around 1.5% a year in 2015–17.
- The main triggers for the recovery will be an easing in the drag from austerity and a recovery in world trade, led by a strong pickup in the US.

... but recovery will be slow, with access to finance still a major problem

- The recovery will be constrained by deleveraging in the public and private sectors.
- The thinly capitalized and over-leveraged banking sector is a key concern. Banks will remain under pressure to rein in lending until this is addressed.
- A lack of affordable finance, particularly in the periphery, will limit the degree to which business investment recovers and will constrain potential output growth in many economies.
- Unemployment will continue to rise, to peak at close to 20 million in early 2014, and will only fall gradually thereafter.

Widest economic divergence in the Eurozone since the early 2000s ...

- Sharp differences in financing conditions and labor market developments will maintain stark divergence between Eurozone countries.
- This poses a threat to efficient decision-making and further economic integration – both of which are necessary to ensure the Eurozone's stability.

... so policy-makers still have plenty of work to do

- The European Central Bank needs to be ready to counter any tightening in market interest rates emanating from the US.
- Policy-makers should take advantage of the relative economic and financial calm to accelerate restructuring, particularly in the banking sector.
- There should also be clearer assessment of banks' balance sheets and recapitalization needs, as well as measures to ease credit conditions in the periphery and a revival of the banking union project.
- In addition, we estimate that fiscal tightening will amount to more than 1% of GDP again this year. This will cut around one percentage point from GDP growth.

GDP growth

2013	-0.5%
2014	0.9%
2015–17	1.5%

Growth in world trade

2013	2.3%
2014	5.4%
2015–17	6.2%

Unemployment

2014 20m

Unemployment to peak at close to 20 million in 2014.

Inflation

2013–14 1.6% 2015–17 1.4%

Eurozone inflation forecast to fall from 2.5% in 2012 to 1.6% in 2013 and 2014, before dropping further to 1.4% in 2015-17.

Eurozone forecast by sector

	2013	2014
Manufacturing	–0.8	1.7
Agriculture	–0.4	1.1
Construction	–3.0	0.6
Utilities	–0.5	2
Trade	–0.9	0.8
Financial and business services	0.1	1.3
Communications	0.7	2.2
Non-market services	–0.8	–0.4


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Implications for businesses:

From recession to recovery

From recession to recovery

For business leaders everywhere, it is time to revisit the pros and cons of investing in the Eurozone. After 18 months of recession, GDP growth in the 17-nation currency bloc resumed during the second quarter of 2013, with a rise of 0.3%. The prospect now is for a gently accelerating recovery, beginning with GDP expansion of about 1% in 2014. That is hardly stellar. Yet growth rates, currency values and demand patterns everywhere are in flux. And as global growth enters a new era, old assumptions are shaken and risks abound. But today, in some parts of the Eurozone, and some sectors, good ideas are prospering – and it's likely this will continue into the future.

A changing context

The world beyond the Eurozone has changed since the spring. The US has seen a solid recovery develop, and it is now resuming its historic role as a locomotive of global growth. Japan and the UK, key markets for many Eurozone exporters, are picking up too. But growth in many emerging markets has slowed, and, as in China, the nature of that growth is changing, as domestic consumption assumes a bigger share. World GDP grew by just 1.9% during the 12 months to the end of June, but in Q2 2013 it is likely that developed economies contributed more to global growth than emerging markets for the first time since 2007. Against this backdrop, the prospect of 1.4% growth in 2015 in the wealthy Eurozone market of 331 million consumers becomes more appealing.

Regaining confidence

Surveying this changing landscape, many companies will remain cautious. Though Eurozone GDP rose 0.3% in Q2 this year, it was nonetheless down 0.7% year-on-year. And the uptick, although it is in line with the European Union (EU) overall, masks substantial divergences between Eurozone member states. Germany remains the powerhouse, showing 0.7% quarter-on-quarter growth, with France close behind. But most of the troubled peripheral states continue to contract, although their slide is slowing.

For beleaguered businesses wrestling with shrinking markets, an end to contraction offers a foundation for reorganizing and restructuring activities, employees and stocks to fit a new baseline. Companies burdened with excess capacity can get back onto a virtuous track as rising demand helps boost efficiency and offers opportunities for productivity gains. A more predictable outlook may also make it easier to value businesses, facilitating consolidation among companies to reduce surplus capacity.

Preparing for recovery

Manufacturing and exports are leading the recovery. Eurozone industrial production rose 0.7% on the month in June and was up 0.3% year-on-year. Across the Eurozone as a whole, output of capital goods and non-durable consumer goods is rising. Corporate confidence is strengthening. The preliminary composite Markit Purchasing Managers' Index (PMI) – which also covers services – rose to its highest level in two years in August, above the 50 level that signals expansion. With private consumption, government consumption and fixed investment expected to recover more strongly in 2015, companies should review their market forecasts and ensure that they have the facilities, talent and finance available to meet rising demand.

Businesses may need to devote more resources to export markets, for example. Within Eurozone markets, they must identify new consumption patterns, and modify their products or services to fit. Opportunities may emerge to build market share. Executives need to identify the parts of their businesses with the best prospects, and ensure they are underpinned by sufficient investment in innovation. A nascent recovery may also offer the opportunity to shed underperforming activities, and reinforce the best by selective mergers and acquisitions. The shift from recession to recovery brings many changes in the business environment. Companies need to identify how their activities will be affected, and adapt accordingly.

▶ Energy sector: reshaping the power industry

Power and utilities companies in Europe face the challenge of improving environmental performance, keeping customers' costs down, and ensuring the lights stay on.

Under policy pressure to cut carbon emissions, while simultaneously being obliged to renew generating capacity and infrastructure, the sector has an opportunity to reshape the generation mix over the next 30 years. But investment decisions must be taken today.

Meanwhile, technology change enabling smart grids, demand management and customer empowerment are contributing to sweeping changes in the marketplace. Combined, these multiple changes have far-reaching implications for consumers and for business customers, who must ensure they have an energy strategy on their corporate agenda.

Energy firms must decide the best generation mixes for particular markets, navigate shifting policy regimes, fund acquisition or construction of low-carbon and other assets, manage the risks of large-scale production projects and engage more closely with customers.

In a very capital-intensive sector, power and utilities companies must locate the finance to replace existing capacity, renew and upgrade aging distribution networks and transform them into smart grids. Fiscal austerity and pressure on banks to limit lending may make it hard for power companies to obtain the funding they will need.

Greener and smarter

The EU has made a commitment to cut its greenhouse gas emissions by 20% relative to 1990 levels by 2020, and generate 20% of its energy from renewables by the same year. To achieve these targets the industry must burn less coal. Enthusiasm for nuclear power is mixed: Germany plans to forsake it, France to renew it. Reliance on gas to generate base-load power is likely to increase.

20%

EU to generate 20% of its energy from renewables by 2020.

12.4%

Just 12.4% of the EU's gross energy consumption came from renewables in 2010.

Market intervention has driven the emergence of three key "new" renewable power sources. Onshore wind technology has improved enormously. Offshore wind, with different technology and big construction risks, has the potential for vast scale. But the most striking change is in the cost of solar photovoltaic (PV) power, where industrial-scale production by Chinese manufacturers has slashed the cost of PV modules. In time, wave and tidal power and biomass technologies could also add significant new supplies of energy.

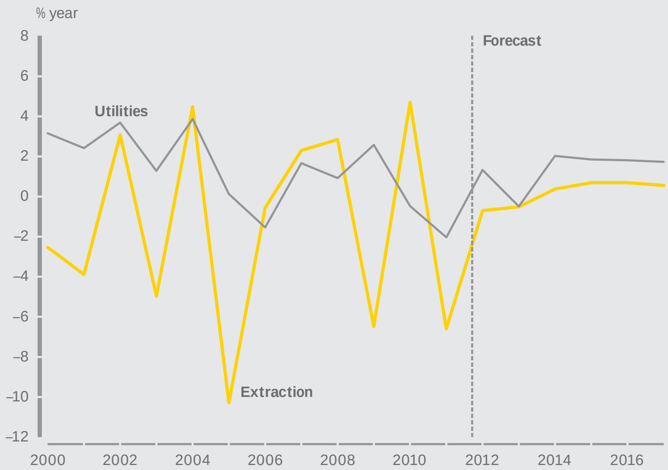
Smart technology enables these distributed power sources to be connected to the grid, introduces price signals, and enables power users to manage their demand and select their energy source. Managing the transformation and the large amounts of data that makes it possible is a growing challenge for power and utilities companies.

New business models for a new energy era

In time, smart technology is likely to cause major disruption to the business models of power and utilities firms. For commercial and industrial power users, investments in energy saving enabled by smart metering, smart appliances, and software platforms offer quick paybacks, while power purchase decisions can contribute to carbon-reduction goals. In the meantime, a vast new service sector has emerged, installing insulation, triple-glazing, heat pumps and distributed generation systems and other kit for consumers and companies. Much of this equipment is manufactured within the EU, underpinning the emergence of an enlarged clean technology sector. The sweeping nature of these changes makes the pace of this energy transformation difficult to predict. But no company, whatever its business, can afford to ignore it.

Figure 1

Eurozone: Energy sector GVA



Source: Oxford Economics.

From recession to recovery

New opportunities

Several factors will add zest to the opportunities available to companies arising from the Eurozone recovery. We expect the euro to weaken, especially against the US dollar. That will make companies within the Eurozone more competitive in export markets, and better able to compete against imports. Structural reforms should help firms in peripheral countries gain productivity and competitiveness, and become more agile. Businesses should monitor reforms to ensure they grasp opportunities arising from changing regulations and privatizations. They should also keep tabs on technology change that creates opportunities for new businesses and adds to the efficiency of old ones, thus aiding economic resurgence.

Recognizing constraints

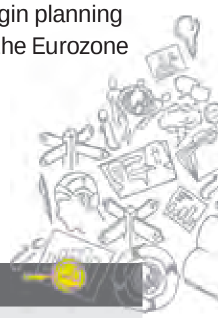
But several factors will be a drag on Eurozone recovery. Chief among these is unemployment, currently 12% and forecast to peak at 12.6% in mid-2014. Initially, the recovery is likely to prove jobless. So unemployment will continue to constrain consumer confidence and purchasing power and reinforce demand for goods and services tailored for those on tight budgets. German elections on 22 September should help clarify the prospects for tackling some of the Eurozone's chief issues, but there is still a real risk of a Greek exit from the Eurozone, or that bailouts of one or more states will need restructuring. Lack of progress on the planned banking union suggests the possibility of renewed liquidity problems. Against this background, companies should ensure contingency planning remains a priority.

Accessing finance

Many European financial institutions are still over-leveraged and under pressure to rein in lending. Smaller businesses in peripheral countries such as Italy and Spain rely heavily on bank funding, yet are paying much higher interest rates than their German and French equivalents. Companies with cross-border operations may choose to borrow in cheaper jurisdictions where possible. But executives heading smaller businesses in peripheral countries may need to seek alternative sources of financing, including angel investors, or choose to launch start-ups in countries that offer a more developed ecosystem for loans and venture capital. Larger companies will have more options, including issuance on debt and equity capital markets, as they put in place finance for the next phase of their development.

Increasing optimism

After 18 months of recession, the hope of sustained growth is starting to take hold across the Eurozone. Though some corporate leaders are still locked in the mentality of downsizing, others can begin to plan for a brighter future. The pace of investment and output expansion will remain slow initially, as policy uncertainty and a spare capacity overhang equal to 4% of Eurozone GDP will be weighty constraints. But shrewd executives will now begin planning for an era in which the balance of rewards and risks in the Eurozone becomes more favorable.



Grasping opportunities, avoiding pitfalls

- **Keep on top of currency shifts:** what impact could a strengthening dollar, weaker emerging market currencies and a lower euro have on inputs, pricing and profitability?
- **Adapt to changing markets:** pursue export opportunities and evaluate options as consumption starts to recover.
- **Align capacity:** a return to Eurozone-wide growth and stabilization in peripheral states offer a chance to reorganize facilities.
- **Evaluate investment opportunities:** big changes in relative attractiveness, arising from continuing recession in some peripheral states and structural reforms, can make some locations and assets more appealing.
- **Review financing and treasury options:** how will the tapering of quantitative easing in the US combine with low Eurozone rates and divergence between the core and periphery to impact your business?
- **Update contingency planning:** could your systems cope with a currency redenomination?
- **Adjust to changing tax rates:** how are changing tax rates within Eurozone countries affecting your business?
- **Contain risks:** review energy options, supply chain, environment and regulatory change.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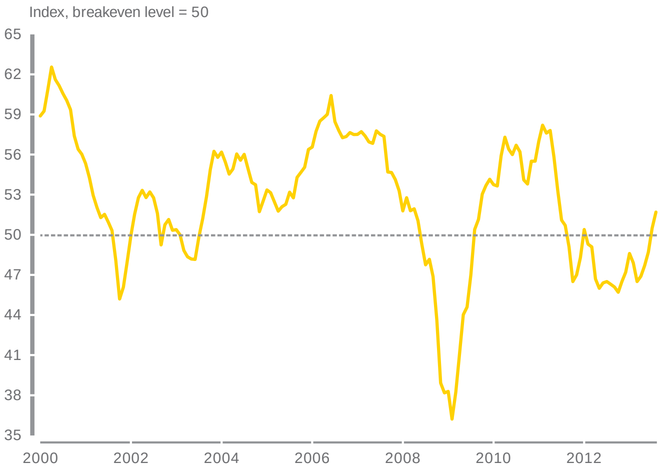
The Eurozone recession is over, but policy-makers still have work to do

Signs that conditions are stabilizing

The longest Eurozone recession in at least three decades came to an end in Q2 2013, with GDP rising 0.3% on the quarter after six quarters of falling GDP. The core countries have started to report rising activity and the periphery is seeing output decline more slowly. Most indicators point to a further modest improvement over the second half of the year. The PMI has been the most notable survey, with the composite index for the Eurozone reaching its highest level in more than two years in August.

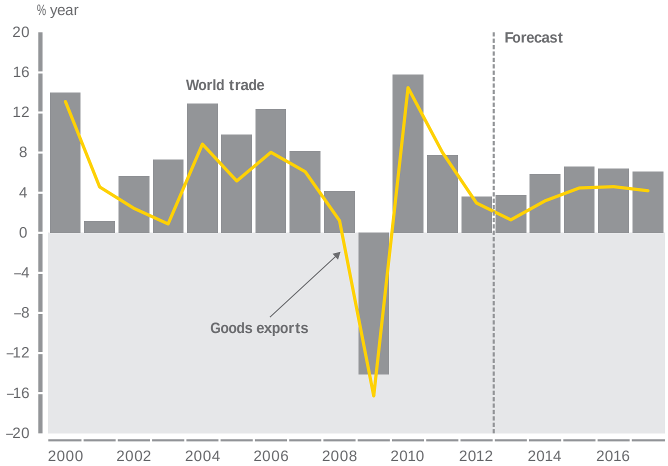
Several factors explain the improvement in economic conditions. Most business surveys cite an increase in export demand as a key factor, with the manufacturing surveys particularly buoyant. At the same time, the drag from the domestic economy has eased. This is partly a reflection of lower inflation, which has reduced the squeeze on household finances and stabilized consumer spending, but it is also a function of an improved investment climate due to the reduced level of downside risk.

Figure 2
Composite PMI



Source: Oxford Economics.

Figure 3
World trade and goods exports



Source: Oxford Economics.

Table 1
Forecast of the Eurozone economy (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	–0.5	–0.5	0.9	1.4	1.6	1.6
Private consumption	–1.3	–0.6	0.4	1.1	1.3	1.5
Fixed investment	–4.2	–3.7	1.6	2.6	2.7	2.6
Stockbuilding (% of GDP)	0.1	–0.1	–0.1	–0.1	–0.1	–0.1
Government consumption	–0.4	–0.4	–0.2	0.3	0.6	0.8
Exports of goods and services	2.9	0.3	3.4	4.3	4.4	4.0
Imports of goods and services	–0.7	–1.6	2.7	4.2	4.4	4.1
Consumer prices	2.5	1.6	1.6	1.4	1.4	1.4
Unemployment rate (level)	11.4	12.2	12.6	12.4	12.0	11.6
Current account balance (% of GDP)	1.3	2.0	2.0	1.9	1.9	1.9
Government budget (% of GDP)	–3.7	–2.8	–2.4	–2.0	–1.6	–1.3
Government debt (% of GDP)	92.7	96.1	97.8	98.8	99.1	98.8
ECB main refinancing rate (%)	0.9	0.6	0.5	0.5	0.5	0.7
Euro effective exchange rate (1995 = 100)*	115.5	119.4	117.7	114.1	112.8	112.1
Exchange rate ($ per €)	1.28	1.31	1.24	1.19	1.18	1.18

*A rise in the effective exchange rate index corresponds to an appreciation of the euro.

Source: Oxford Economics.

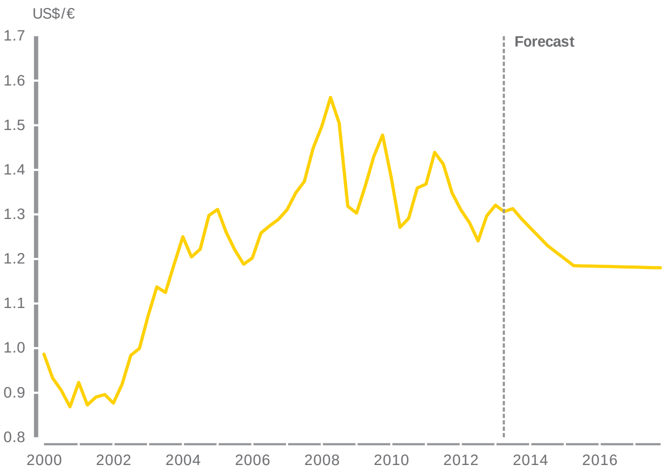
The Eurozone recession is over, but policy-makers still have work to do

Stronger external environment should support the recovery …

In the coming months, the external environment, led by the US, should become increasingly supportive. Personal tax rises and the sequester spending cuts dampened US growth in H1 2013, but most indicators point to an accelerating recovery over H2. With the UK, another key trading partner, also showing encouraging signs of life, this points to a robust pickup in Eurozone export demand. Our forecast shows growth in world trade, weighted by Eurozone export shares, accelerating from 3.8% this year to 5.9% in 2014 and 6.6% in 2015.

We also expect to see a substantial weakening of the euro, particularly against the US dollar. We estimate that the euro is currently overvalued by around 8% compared with our estimates of the exchange rate's equilibrium value. This relative strength should unwind as the US recovery gathers pace and growth differentials widen. We expect the euro to depreciate from its current rate of around US$1.30 to US$1.22 by the end of 2014, which would deliver a sizeable boost to export competitiveness. Ongoing structural reforms in the peripheral economies should also support competitiveness.

Figure 4
US$/€ exchange rate



Source: Oxford Economics.

… as will the shift in fiscal policy and a benign inflation outlook

However, the recent disappointing performance of the emerging markets highlights the risk of relying on an export-driven recovery. Therefore, it is important for the domestic economy to gain momentum if the recovery is to become entrenched. The chances of a stronger domestic recovery have certainly increased since the authorities softened their rhetoric on fiscal austerity. The decision by the European Commission (EC) to give seven member states more time to meet their budget deficit targets has removed the need for any further near-term austerity measures. In addition, current plans imply that the pace of fiscal tightening is set to fall from 0.8% of GDP this year to around 0.5% of GDP in 2014–15. This will substantially reduce the drag on growth from austerity.

While the forecast fall in the euro will provide support for exporters, it will also put upward pressure on import prices. However, there is so little inflationary pressure coming from elsewhere that this should not be a serious impediment to the recovery. In particular, the large amount of spare capacity – which we estimate to be equivalent to more than 4% of GDP – will continue to hold down wage settlements and firms' pricing decisions. Furthermore, the wave of increases in sales tax, which had kept inflation high in 2012, has largely come to an end, while commodity prices have stabilized. We expect Eurozone inflation to fall from 2.5% in 2012 to 1.6% in 2013 and 2014, before dropping further to 1.4% in 2015–17, allowing household spending power to recover.

But while recovery is under way, progress will be slow …

While there is good reason to expect the Eurozone economy to recover over the next couple of years, progress is likely to be very slow. After falling by an estimated 0.5% this year, we expect GDP to grow by about 1% in 2014 and then by some 1.5% a year in 2015–17. This would mean that it will take eight years for the economy to regain its pre-financial crisis peak level of GDP.

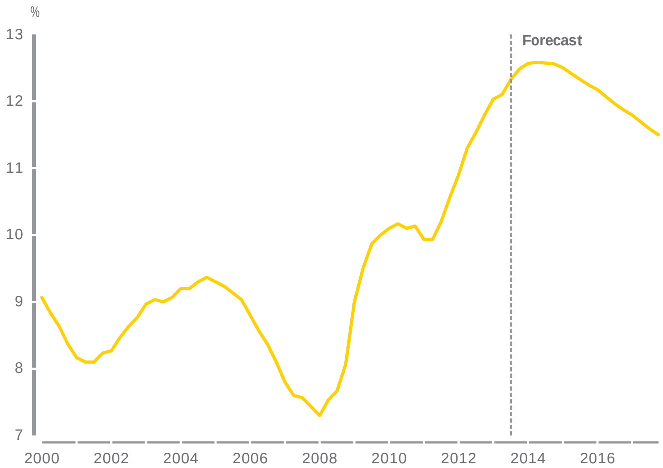
Given the importance of exports to the recovery, we expect manufacturing to enjoy a turnaround in fortunes, with output falling by 0.8% in 2013, but recovering to grow by 1.7% in 2014. Financial and business services are also expected to see an improvement, with output falling modestly this year before accelerating to grow by 1.3% in 2014 as business confidence strengthens. But the outlook is weaker for other sectors, particularly those exposed to the consumer and government sectors. Construction is also

expected to perform very poorly this year. Output is forecast to fall by 3% as the combination of a lack of finance for both public and private projects, plus the legacy of a long period of oversupply in a number of housing markets, continues to be felt.

... with further rises in unemployment hurting consumers

There are several factors that will act as obstacles to a stronger recovery. One short-term factor is that unemployment will continue to rise, particularly in the periphery. Even though the Eurozone is now recovering, it will take some time for that recovery to be strong enough to create new jobs. We expect unemployment to rise from its current rate of just over 12% to peak at 12.6% in mid-2014. This will offset some of the benefits from lower inflation, limiting the boost to real household incomes and meaning that consumer spending grows by just under 0.5% in 2014 and 1.1% in 2015.

Figure 5
Unemployment rate



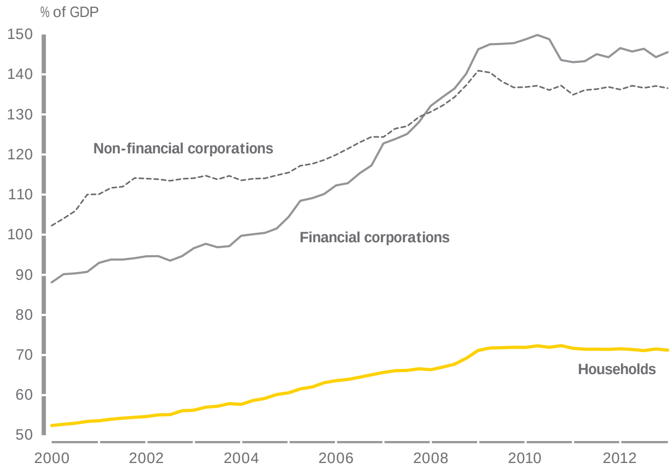
Source: Oxford Economics.

Much deleveraging still to do in the public and private sectors

The process of deleveraging will continue for some time yet. Though 2014 is set to see much less aggressive fiscal tightening than in 2012 or 2013, there is much work still to do over the medium term to try to limit debt levels and keep debt interest payments sustainable – in the periphery in particular. Realistically, this condemns the Eurozone to a decade of austerity and the long-term negative impact on growth that this will entail.

Furthermore, though there has been much focus on reducing public sector debt, high private sector debt also needs to be addressed before the economy can sustain stronger growth. Unlike the US, and to a lesser extent the UK, Eurozone private debt ratios have barely fallen.

Figure 6
Financial balances



Source: Haver Analytics.

Within the private sector, the banks remain the biggest concern, with many Eurozone banks remaining thinly capitalized and over-leveraged. To date, the response of policy-makers has been poor. The asset quality review by the European Central Bank (ECB) is not due to start until early 2014, while the €60b cap on bank recapitalization (equal to just 0.2% of total bank assets) by the European Stability Mechanism (ESM) is far too low. This means that there is still much uncertainty about the actual state of the banking sector and about how recapitalization would be financed where it proves to be needed.

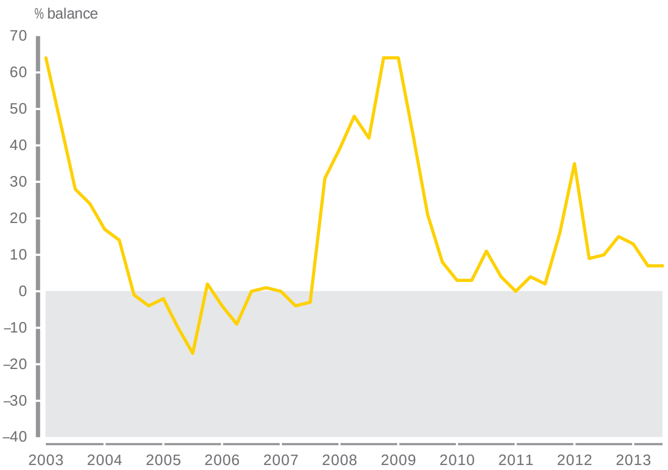
The bailing-in rules bring some clarity about the risk of investing in banks' shares or bonds. In turn, this will enhance market discipline and help trigger restructuring of underperforming institutions. The burden sharing that the rules imply is also positive compared with recent years, where taxpayers have borne the whole burden of banks' restructuring. However, these rules will not come into effect until 2018. Until then, government finances are still exposed to the potentially high costs of bank failures.

The Eurozone recession is over, but policy-makers still have work to do

Until banks have made more space on their balance sheets, they will remain under pressure to rein in lending. The ECB's latest bank lending survey reported that credit standards on loans to non-financial corporations tightened further in Q2 2013. Although the degree of tightening was the same as in Q1, this maintained the ongoing trend of progressively tighter conditions seen since the onset of the financial crisis six years ago. The survey also reported that demand for credit has continued to contract, with the net effect being a very weak flow of funding to firms.

Figure 7

ECB lending survey: credit standards

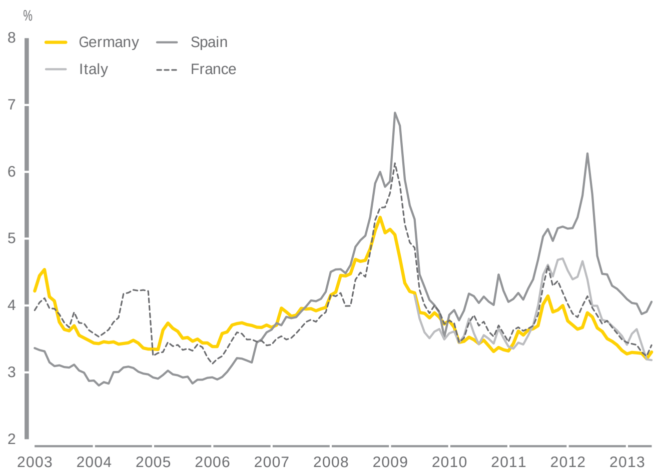


Source: Haver Analytics.

There are still wide disparities between Eurozone countries. This is best illustrated by the divergence in interest rates charged on loans to businesses. Having moved broadly in line up until 2011, Spanish and Italian companies are now paying 5.1% and 4.3% respectively on new loans under €1m. Meanwhile, their counterparts in Germany and France are paying around 3%. We have constructed an indicator of external financing costs that comprises interest rates paid on loans as well as the cost of share and bond issuance. This shows that, given Spanish companies' greater reliance on bank loans as a source of funding (more than 50% of total funding), the rise in interest rates has affected their overall cost of finance particularly badly. It also shows that little relief has been available from other sources of funding, since Spanish companies have had to pay a higher cost to issue shares than their German counterparts.

Figure 8

Financing conditions indicator



Source: Oxford Economics.

Table 2

Forecast of Eurozone by sector (annual percentage changes in gross added value)

	2012	2013	2014	2015	2016	2017
Manufacturing	–1.5	–0.8	1.7	2.2	2.1	1.8
Agriculture	–1.9	–0.4	1.1	1.3	1.3	1.3
Construction	–4.5	–3.0	0.6	1.3	1.4	1.3
Utilities	1.3	–0.5	2.0	1.8	1.8	1.7
Trade	–0.6	–0.9	0.8	1.5	1.7	1.9
Financial and business services	0.7	0.1	1.3	1.6	1.8	1.8
Communications	0.9	0.7	2.2	2.7	2.8	2.8
Non-market services	0.1	–0.8	–0.4	0.3	0.6	0.8

Source: Oxford Economics.

The issue is particularly important for smaller firms, which typically have no direct access to financial markets and therefore rely on retained profits or borrowing from banks to finance their investment spending. The European Investment Bank (EIB) has sought to reduce the scale of the problem, raising its 2013 lending target for small and medium-sized enterprises (SMEs) from €14.1b to €17b, as well as increasing its funding for various other schemes. But the EIB's new lending target is equivalent to just 0.2% of the stock of lending to non-financial corporations, so will do little to resolve the problem.

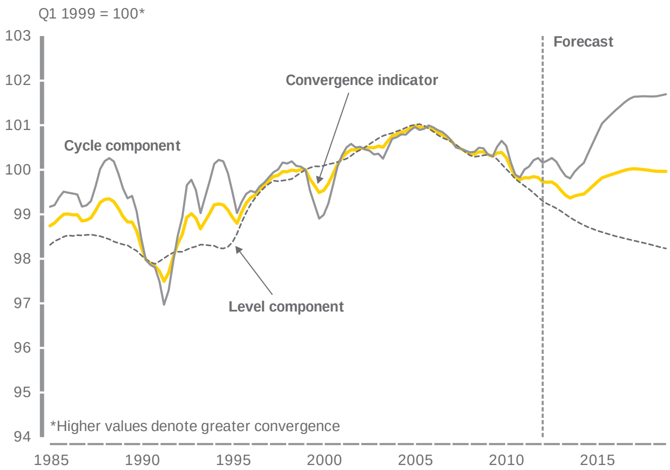
Tight lending conditions have the potential to compromise the recovery on several levels. In the short term, this limits the extent to which the corporate sector can support the recovery by constraining firms' ability to invest in new machinery or hire extra workers. But there are also longer-term implications. A protracted period of under-investment means that growth in the capital stock will be much slower. Furthermore, companies are being forced to lengthen replacement cycles and spend less on research, development and innovation, so the quality of that capital stock will also be compromised. As such, a lengthy period of scarcity of affordable bank funding will limit the degree to which productive potential can expand and, therefore, will act as a constraint on the pace of the medium-term recovery.

A coordinated policy response is required, while divergence between the core and periphery remains

There is a need for a coordinated policy response. Banks should be encouraged to speed up their deleveraging to make space on their balance sheets for new lending. Once they have done this, the ECB could encourage banks to lend to SMEs by easing its collateral rules. This would make loans to SMEs cheaper to use in ECB liquidity operations, and thereby more attractive to banks. The ECB did make a move in this direction in late July, but it extended the pool of collateral that it would accept from banks by just €20b, which, on a theoretical pool of €15t, represents a very small change.

Until the problems in the banking sector are resolved, the economic disparity between the Eurozone's core and periphery will remain. Our convergence indicator (a composite measure comprising cyclical as well as trend (or level) indicators for variables such as GDP, inflation, unemployment rates and government balances) shows that Eurozone countries are now at their most economically divergent since the early 2000s.

Figure 9
Measuring convergence



Source: Oxford Economics.

Levels of GDP per capita, a common proxy for income levels, have also diverged significantly. Greece has fallen from 88% of the Eurozone average in 2007 to just 68% in 2013, and most other peripheral countries are also experiencing large falls. It is a similar story in labor markets, where the degree of divergence in unemployment rates is at its highest since at least the early 1980s. Our forecast suggests little prospect of any meaningful convergence over the next five years. By 2018, Greek GDP per capita is forecast at only 69% of the Eurozone average, barely higher than the current level.

Lack of convergence may add to risk of Eurozone exits ...

Such divergent economic fortunes could threaten the survival of the Eurozone. Greece is approaching the point where it will move from primary fiscal deficit to a surplus. At that point it will no longer need external funding for its day-to-day activities. Greece would then be in a position to make an increasingly credible threat of exiting the Eurozone, if a new government deemed this to be the least bad alternative. The lack of convergence implied by our forecast would potentially help them to make this case. Although a Greek exit is no longer a systemic threat to the Eurozone banking system, it could still trigger a much wider breakup that would damage the economies of both the states exiting and those remaining. Consequently, Greece is likely to use the increased leverage from its move into primary surplus to negotiate a further debt restructuring with its lenders.

The Eurozone recession is over, but policy-makers still have work to do

Forecast assumptions: international environment and commodity prices

Our forecast for the Eurozone depends on a number of assumptions about the international environment, world GDP, and trade and commodity prices.

World GDP

2013 2.1% 2014–17 3.5%

World GDP to grow by a lackluster 2.1% in 2013 and then to pick up gradually to 3%-3.5% a year in 2014-17.

World GDP grew by just 1.9% over the year to Q2 2013, only marginally ahead of the three-year low recorded in Q1. The US endured a soft first half of the year due to the impact of higher tax rates and the sequester cuts in public spending. The performance of the leading emerging markets has been disappointing, with domestic demand failing to respond to stimulus and therefore being unable to offset the drag from weaker global trade. However, the UK and Japan bucked global trends. A pickup in UK growth was founded on a revival in consumer spending and the housing market, while the Japanese economy has responded favorably to aggressive monetary and fiscal stimulus.

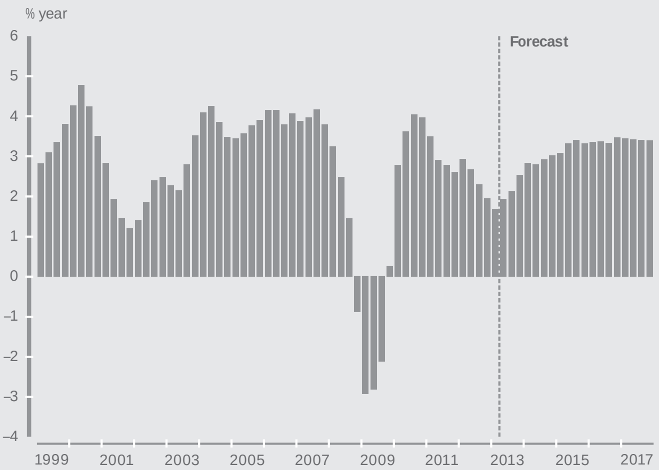
Looking ahead, we expect to see an improvement in prospects led by the US. The combination of improving household finances, a stronger housing market, improved external competitiveness and the benefits of the shale oil and gas boom should lead US growth to accelerate to an annualized rate in excess of 3% in H2 2013 and through 2014. The recoveries in the UK and Japan should continue to gain momentum, with the UK forecast to grow by 1.2% and 2% and Japan by 1.8% and 1.4% in 2013 and 2014 respectively.

But the disappointing recent performances of emerging economies have led us to scale back our forecasts for these markets. The reaction of the authorities to the recent tensions in Chinese financial markets reinforces the impression that the new administration is determined to rebalance the economy away from excessive reliance on credit-driven expansion, even if it means that GDP growth slows to 7% or less. Weaker demand growth in China will also have adverse repercussions for other East Asian economies. Meanwhile, many other emerging markets have faced financial pressures – from falling exchange rates and surging bond yields – in light of the sharp correction in the US bond market. We now expect the leading emerging markets to grow by 4.1% in 2013 and 4.7% in 2014, well below our June projections of 4.3% and 5.3% respectively.

As a result, our forecast is for world GDP to grow by a lackluster 2.1% in 2013, a little below our forecast of three months ago, and then to pick up gradually to 3%-3.5% a year in 2014-17. This modest growth profile will be reflected in world trade, now forecast to rise by just 2.3% this year, down on the 2.4% increase seen in 2012.

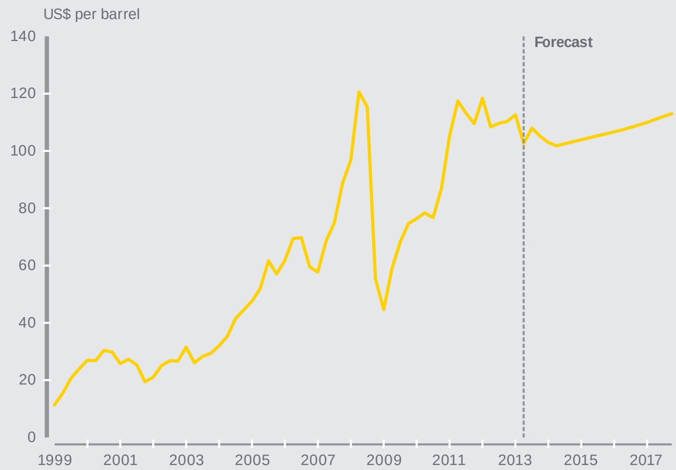
Increased political tensions in the Middle East drove Brent crude oil prices above US$110 per barrel in recent weeks. But assuming these tensions ease, sluggish demand and ample supply should move prices back down to around US$102 per barrel by mid-2014. We expect prices to gradually rise from H2 2014 as the global recovery gains momentum. However, our weaker growth forecasts for the energy-intensive emerging markets mean that we now expect Brent oil prices to average US$107 per barrel in 2014–17, down from the US$114 forecast in our June report.

Figure 10
World GDP growth



Source: Oxford Economics.

Figure 11
Oil Price, nominal



Source: Oxford Economics.

... so policy-makers should remain active

Although there is still a degree of uncertainty and risk, the Eurozone economy appears to be slowly recovering and financial markets have stabilized. In previous periods of relative calm policy-makers have been prone to resting on their laurels, but it is important that these mistakes are not repeated this time around. As well as Greece, there are still some other potential triggers of renewed crisis, including a collapse of the Portuguese or Italian governments, another run of poor data, or Portugal applying for a credit line. It is the latter scenario that looks most likely at the moment, with recent events meaning that a new bailout plan for Portugal will probably be necessary. Given that this eventuality has not been fully priced in by markets, the ECB must be ready in case it needs to activate the outright monetary transactions (OMT) program to quell any negative financial market reaction.

The ECB should also be looking to offset tightening monetary conditions emanating from the US. Bond yields in the US have risen on the back of better economic news and comments from the Federal Reserve suggesting that it could begin to taper its bond purchases. But while this tightening of money market conditions may be warranted in the US, it has been replicated in the Eurozone where the outlook is far more fragile. The ECB should be looking to intervene to keep monetary conditions very loose, which it could do via more explicit forward guidance, relaxing collateral rules for banks (especially on the type of collateral carried by banks in the periphery) or by trying to talk down the value of the euro.

Furthermore, policy-makers could take advantage of the relative calm to accelerate plans for a banking union and further fiscal integration. A clearer assessment of banks' balance sheets and recapitalization needs would also be desirable, followed by any necessary action to tackle the problems it identifies.

Conclusions

The longest recession in Eurozone history came to an end in Q2 2013 and a slow recovery is now in prospect. The Eurozone will remain reliant on export demand to support growth. However, the disappointing recent performance of emerging markets highlights the risk of relying too heavily on an export-driven recovery, so there is a need to get the domestic economy moving. A substantial easing in the pace of fiscal austerity will be important in this respect, but public and private sector deleveraging and a lack of affordable credit in the periphery will be sizeable hurdles to a stronger recovery. GDP is now forecast to fall by 0.5% in 2013, but should recover to grow by close to 1% in 2014 and about 1.5% a year in 2015–17.

Policy-makers should take advantage of the relative calm and signs of improvement to accelerate reform efforts, particularly in the banking sector. Banks' balance sheets and recapitalization needs need to be assessed. In addition, measures to ease credit conditions in the periphery and the revival of the banking union project would be beneficial. The ECB should also be looking to offset the tightening of monetary conditions coming from the US.

Forecast for Eurozone countries

Austria
Belgium
Cyprus
Estonia
Finland
France
Germany
Greece
Ireland
Italy
Luxembourg
Malta
Netherlands
Portugal
Slovakia
Slovenia
Spain

17 Eurozone countries

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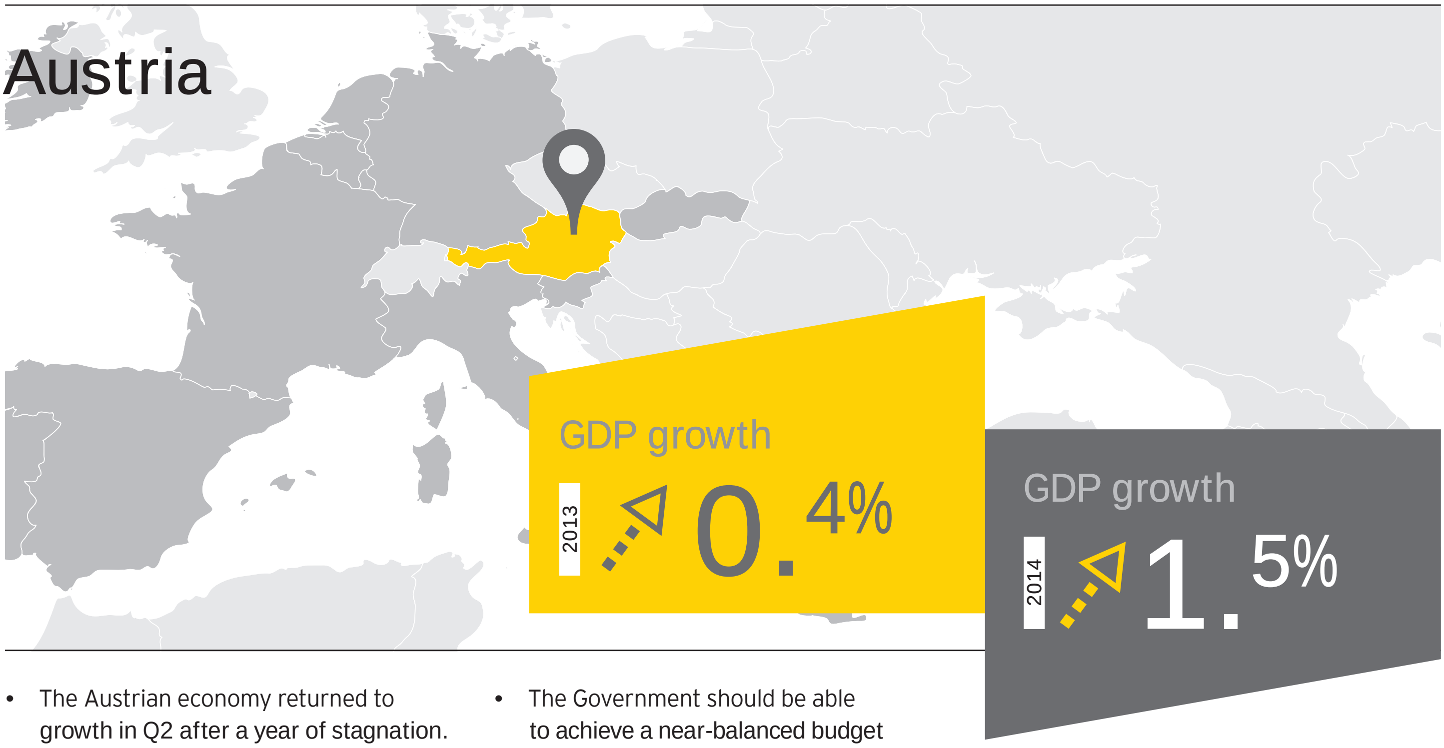
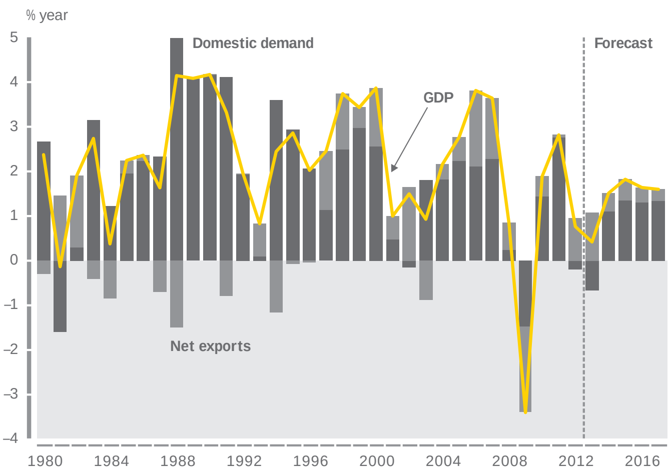
ey.com/eurozone

Austria



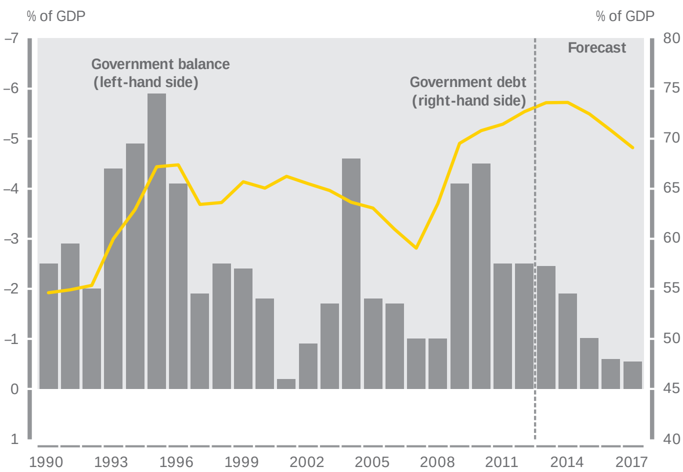
- The Austrian economy returned to growth in Q2 after a year of stagnation. The fact that the Eurozone is now also back on the path of recovery is positive. This will help Austria's exports and encourage consumers and businesses to reconsider spending decisions previously shelved because of uncertainty about the outlook.
- Conditions for a sustained recovery, such as low unemployment, favorable financing conditions and the absence of painful structural adjustment, remain intact and the economy should be on track for growth. But although we expect Austria to outperform most Eurozone countries, growth will be slower than before the crisis, due to sluggish Eurozone demand.
- The Government should be able to achieve a near-balanced budget by 2016, despite the adoption of a new stimulus package. But there are considerable contingent liabilities stemming from the banking sector that could temporarily delay consolidation efforts.

Figure 12
Contributions to GDP



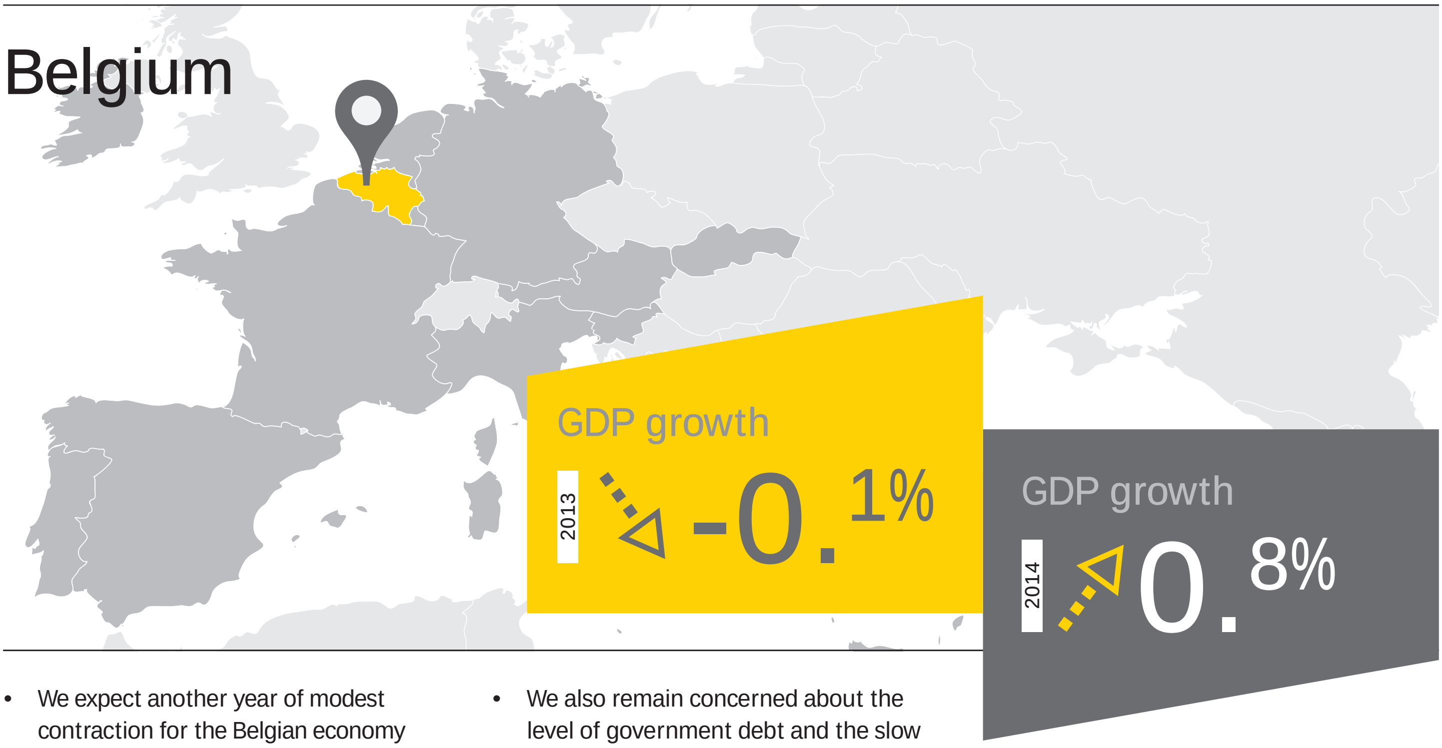
Source: Oxford Economics.

Figure 13
Government balance and debt



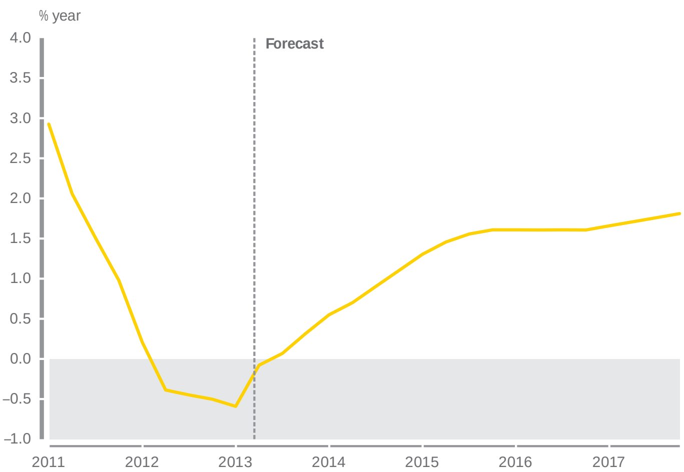
Source: Oxford Economics.

Belgium



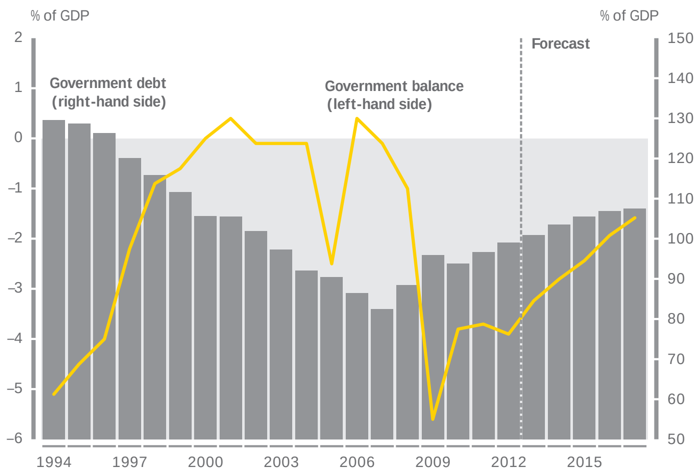
- We expect another year of modest contraction for the Belgian economy in 2013. Belgium did not share in the surprise rebound of some core Eurozone economies in Q2 and, given the weakness of Eurozone trade, fragile business confidence and rising unemployment, we see little reason to expect any improvement in H2 2013.
- However, demand should start to recover from the turn of the year, with Eurozone trade picking up and business confidence improving as a result. Nevertheless, the rebound will be modest, with consumers weighed down by high unemployment and government spending constrained. Growth of less than 1% is likely in 2014.
- We also remain concerned about the level of government debt and the slow pace of reforms to improve longer-term growth prospects. Without more decisive action in both these areas, Belgium is set for a very weak recovery, and may be vulnerable to changes in investor sentiment.

Figure 14
Real GDP growth



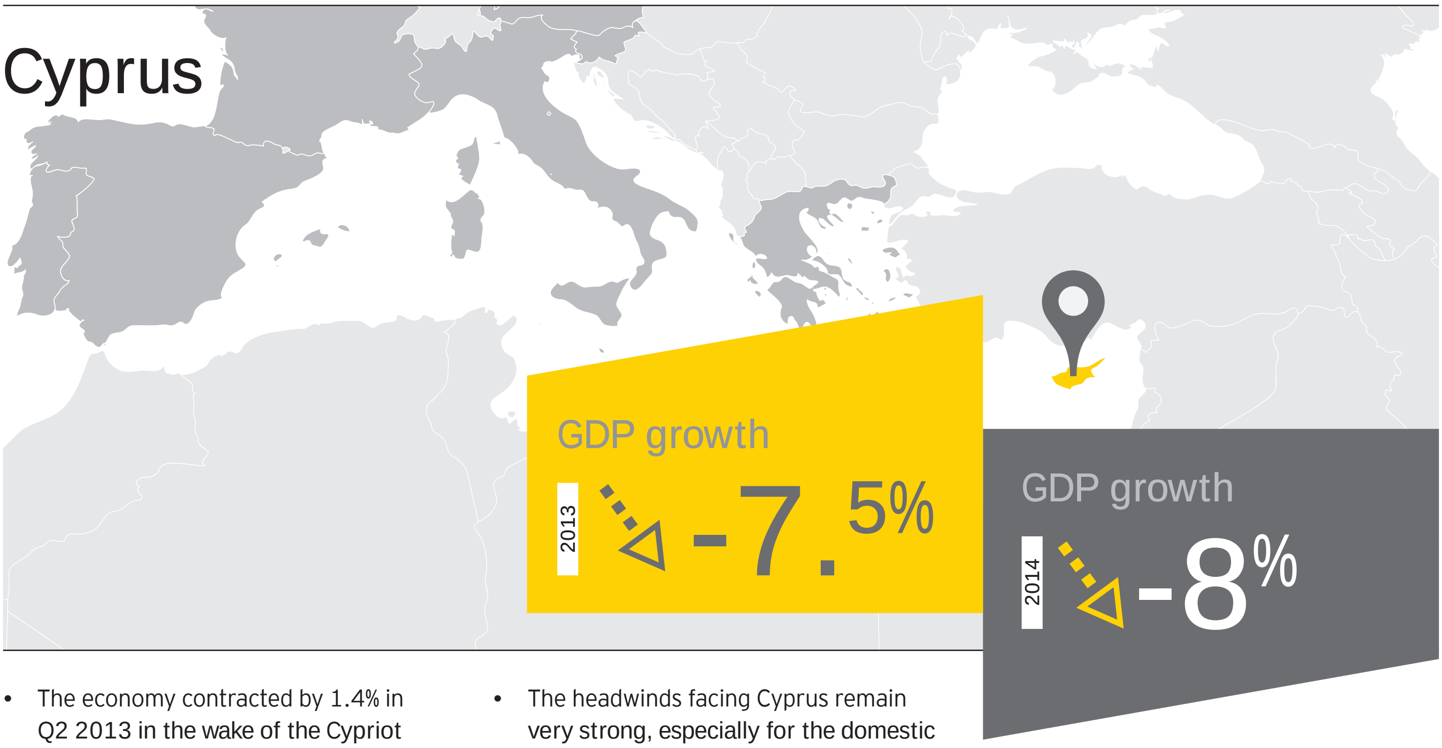
Source: Oxford Economics.

Figure 15
Government balance and debt



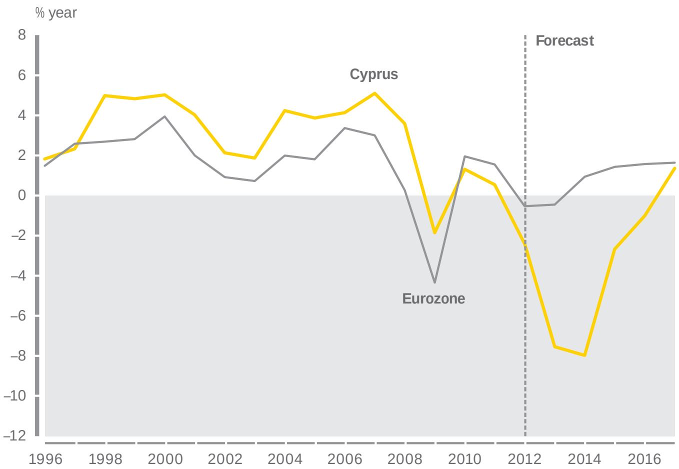
Source: Oxford Economics.

Cyprus



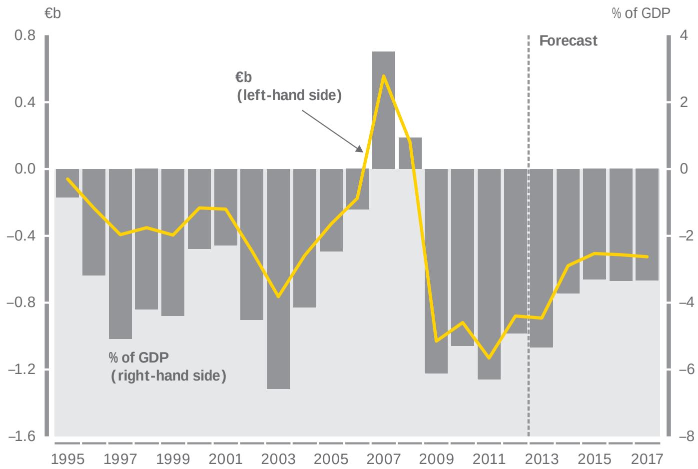
- The economy contracted by 1.4% in Q2 2013 in the wake of the Cypriot financial crisis, to stand 5.2% lower than a year earlier. All key sectors of the economy declined, from construction to banking and tourism. Yet although Cyprus remains deep in recession, the economy did not plunge as much as feared in Q2, so we now expect GDP to decline 7.5% in 2013, rather than the 10.2% drop forecast in our June report.
- Official creditors have assessed the Government's implementation of the bailout program favorably. But although progress with fiscal consolidation and reform of the banking sector has been good, there is still a long way to go and both factors will continue to drag on the economy for some time yet.
- The headwinds facing Cyprus remain very strong, especially for the domestic economy. We still expect a contraction of 8% in 2014 and modest declines in the years thereafter.

Figure 16
Real GDP growth



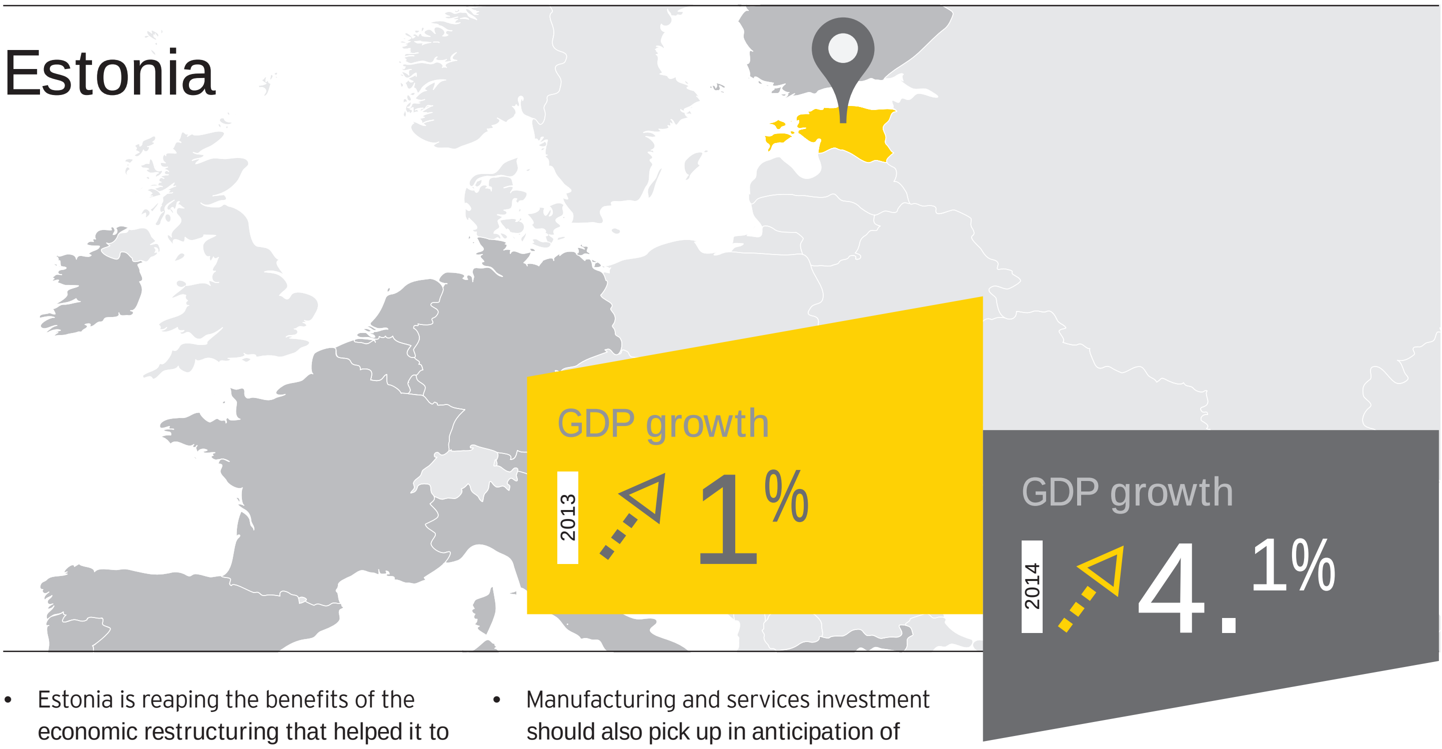
Source: Oxford Economics.

Figure 17
Government budget balance



Source: Oxford Economics.

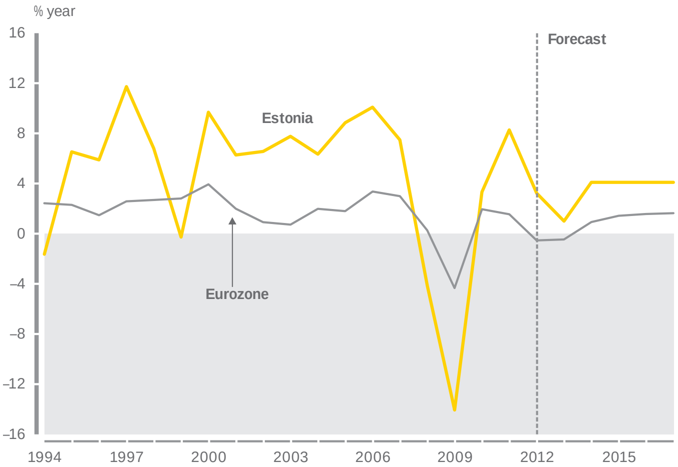
Estonia



- Estonia is reaping the benefits of the economic restructuring that helped it to return to growth after the 2008–09 recession, and it is set to outpace the Eurozone average throughout the next five years.
- We expect economic activity to accelerate in H2 2013, driven mainly by exports as demand in key trading partners picks up modestly. In 2014–17, GDP growth will rise to around 4% a year. This is lower than before the global financial crisis, mainly because of the slower growth in export markets.
- Manufacturing and services investment should also pick up in anticipation of exports recovering. And private consumption will be supported by improving conditions in the labor market. Increasing demand for staff as the economy expands, coupled with a falling supply of labor, means that real wages will grow by around 2% on average in 2013–17, increasing household spending power.

Figure 18

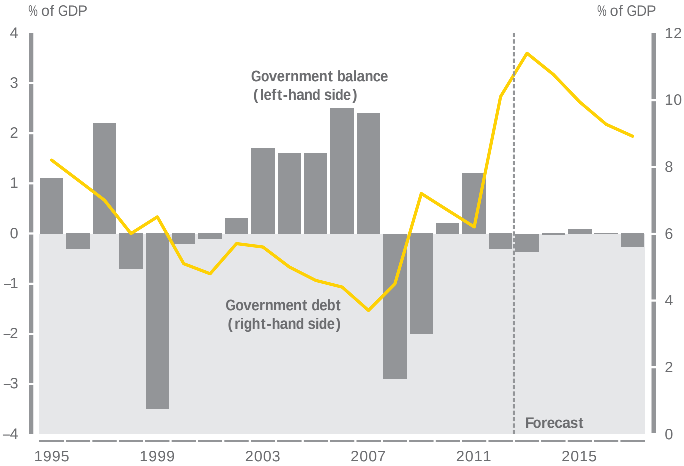
Real GDP growth



Source: Oxford Economics.

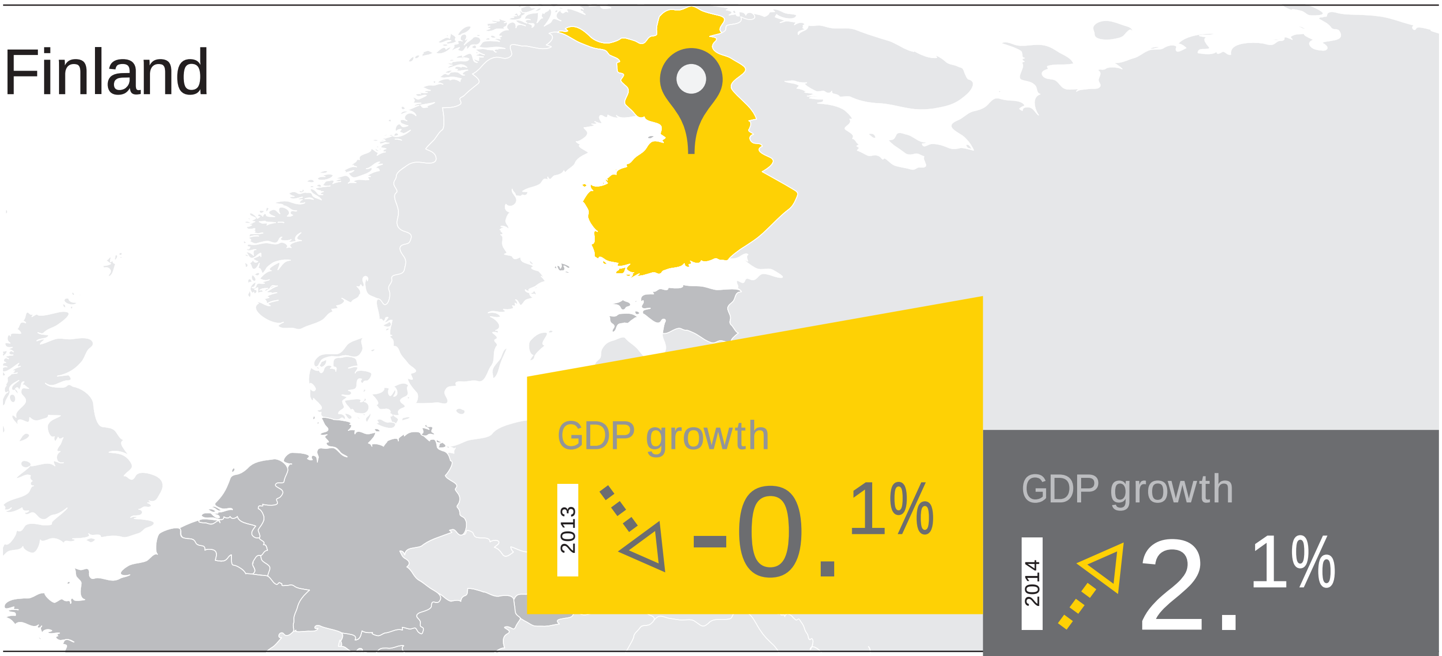
Figure 19

Government balance and debt



Source: Oxford Economics.

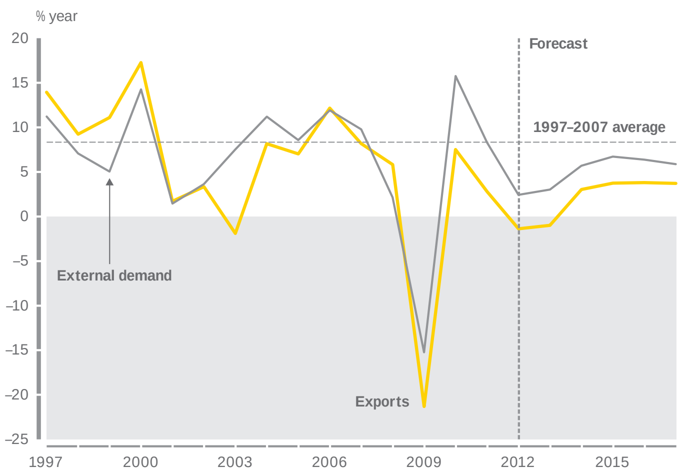
Finland



- GDP was stronger than expected in Q2 2013, rising 0.7% on the quarter. This was due to a substantial contribution from net exports, which occurred because imports fell much more sharply than exports. The fall in imports is worrying. With retail sales stable since the start of the year, declining imports probably indicate a drop-off in intermediate demand, which does not bode well for the industrial sector.
- Weakness in external demand and low business investment suggest that the Q2 pace of growth will not be sustained. We still expect the economy to experience a small contraction this year.
- GDP is forecast to grow by 2.4% a year in 2014-17. External demand will remain fragile, as weak Eurozone investment suppresses demand for Finnish capital and intermediate goods. With industry operating well below historical capacity levels, business investment will continue to be a drag on growth.

Figure 20

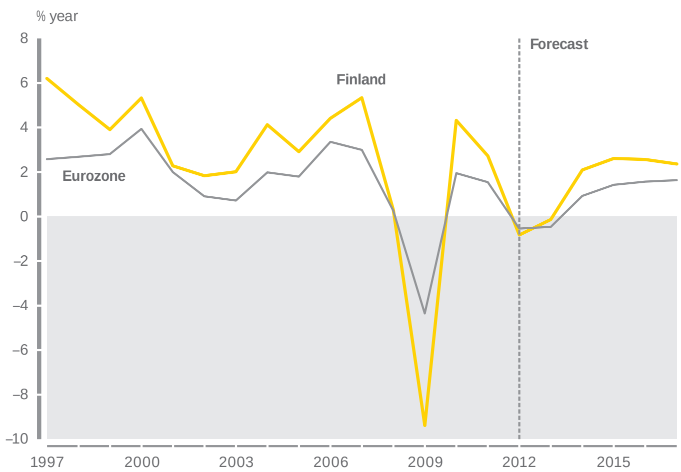
Exports and external demand



Source: Oxford Economics.

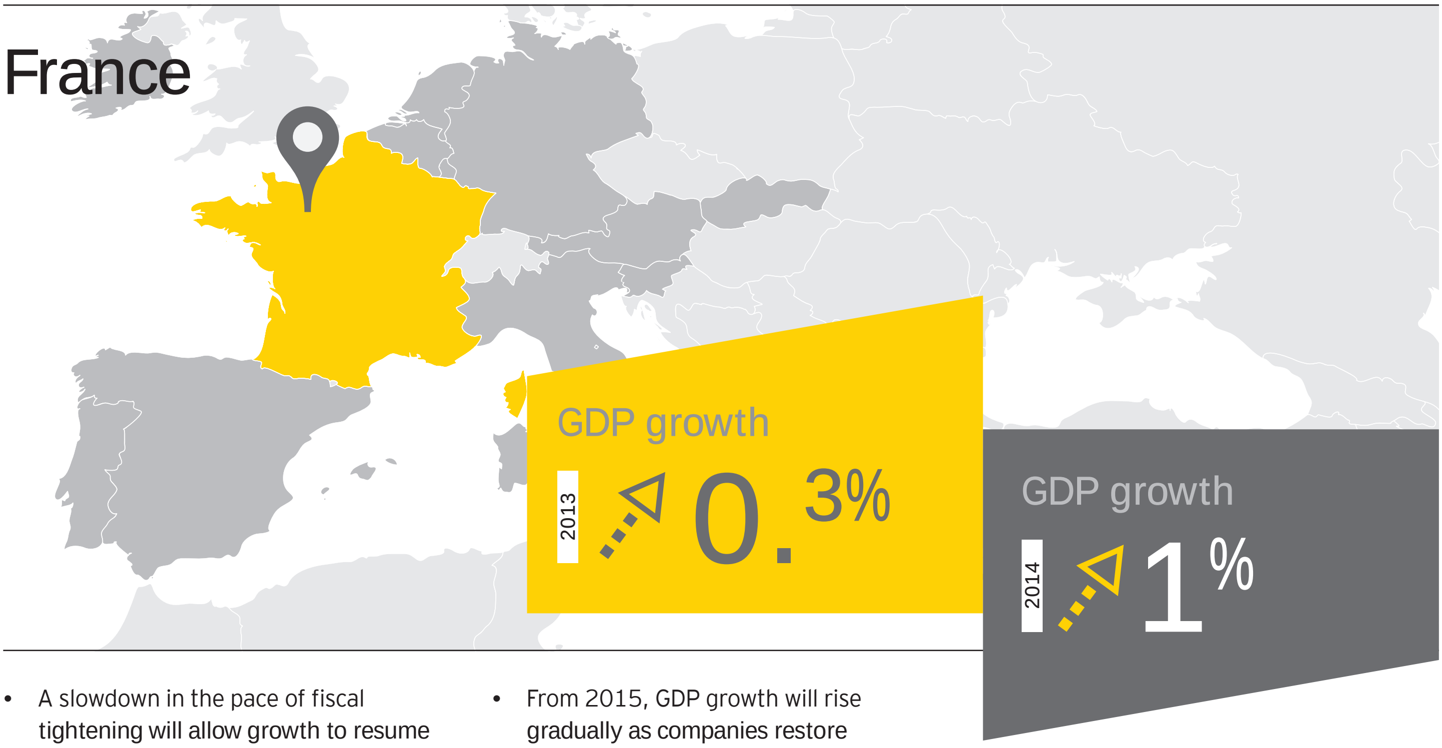
Figure 21

GDP growth



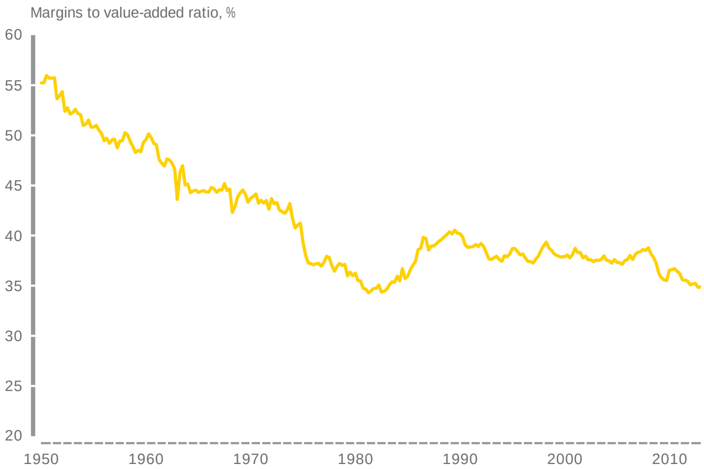
Source: Oxford Economics.

France



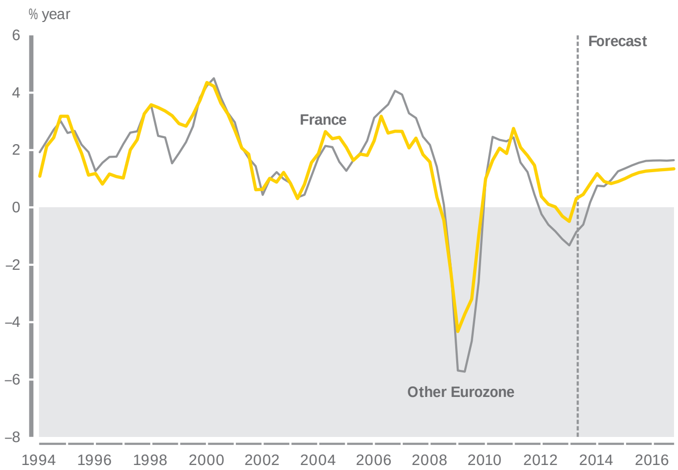
- A slowdown in the pace of fiscal tightening will allow growth to resume from 2014 onwards. But low corporate margins and high and ongoing job losses will constrain the pace of the recovery.
- After a 0.5% rise in Q2 GDP, we now forecast GDP growth of 0.3% in 2013, with a rise to around 1% in 2014.
- We expect households' disposable income to increase by 1% in 2014 in real terms and 1.2% a year in 2015–17, half the pace of increase in the 10 years prior to the global financial crisis.
- From 2015, GDP growth will rise gradually as companies restore profitability and foreign demand accelerates. We forecast GDP growth to average 1.3% a year in 2015–17.

Figure 22
Corporate margins



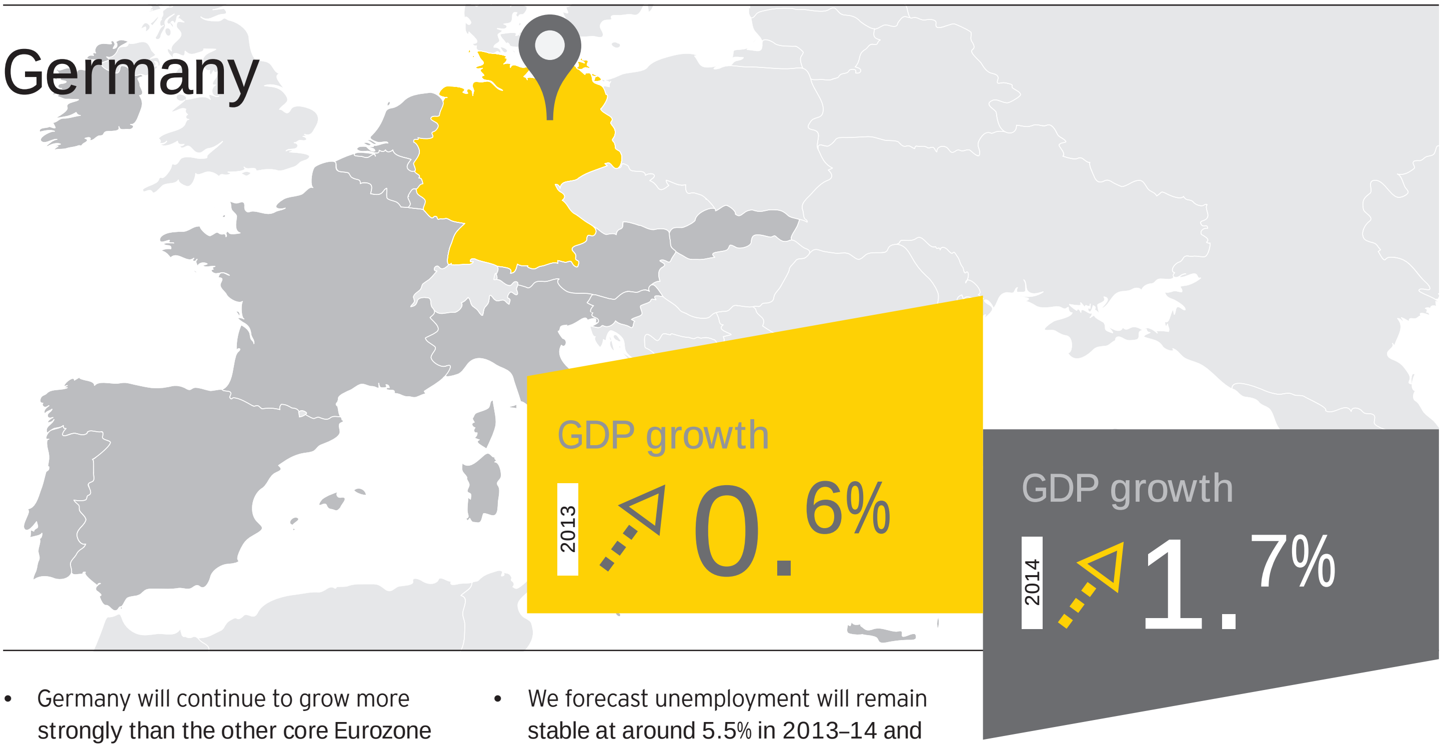
Source: Institut national de la statistique et des études économiques.

Figure 23
GDP growth: France vs. rest of Eurozone



Source: Oxford Economics.

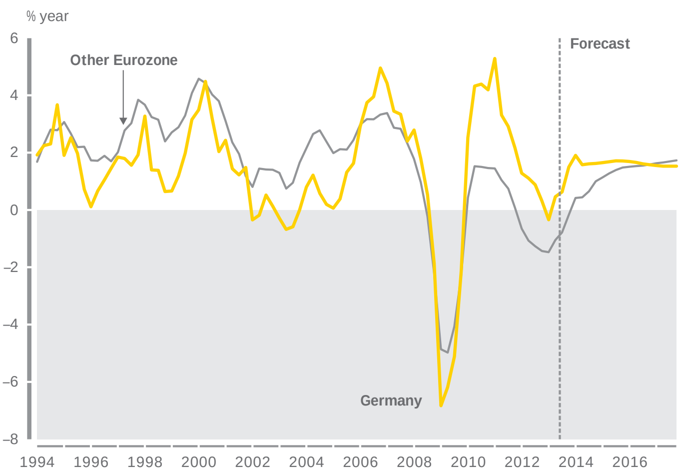
Germany



- Germany will continue to grow more strongly than the other core Eurozone economies, with GDP growth forecast at 0.6% this year and 1.7% in both 2014 and 2015.
- Strong economic fundamentals, including sound fiscal conditions and low leverage of the private sector, lay the basis for continued expansion of the domestic economy and put Germany in a good position to benefit from the global recovery in the coming years. We expect GDP growth of 1.5%–1.6% a year in 2016-17.
- With the economy already operating near capacity and companies benefiting from favorable lending conditions, investment is expected to increase by around 4% a year in the short term.
- We forecast unemployment will remain stable at around 5.5% in 2013–14 and decline further from 2015, as activity expands. Meanwhile, sustained wage growth after years of restraint will support household consumption, but keep inflation just below 2%.

Figure 24

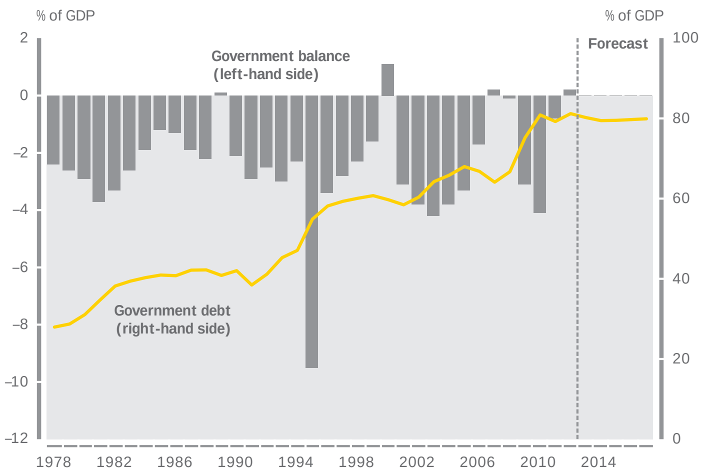
GDP growth: Germany vs. rest of Eurozone



Source: Oxford Economics.

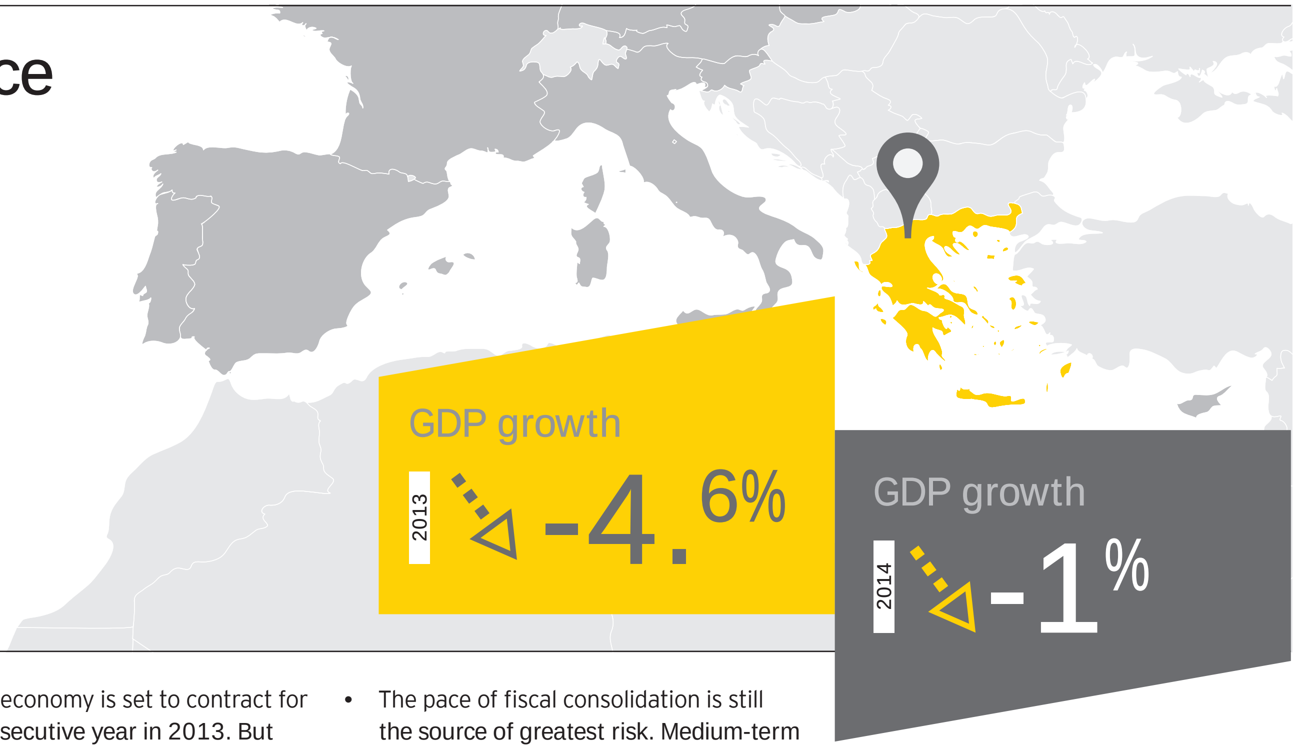
Figure 25

Government balance and debt



Source: Oxford Economics.

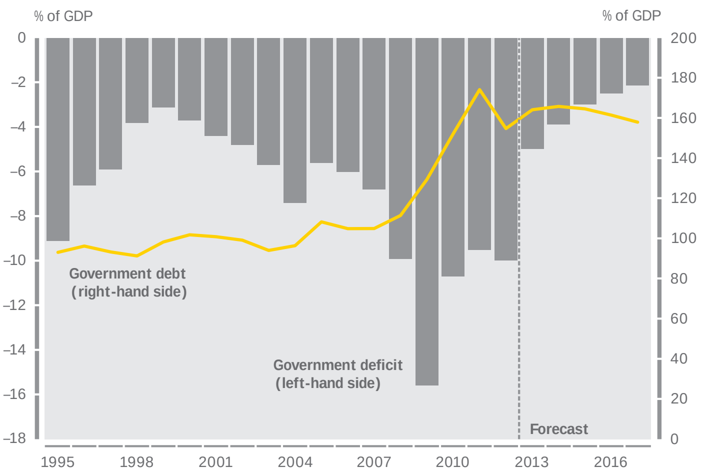
Greece



- The Greek economy is set to contract for a sixth consecutive year in 2013. But with GDP declining by 4.6% in Q2 2013, the pace of contraction appears to be slowing and signs of a recovery may be visible in H2 2014. Even so, GDP is forecast to fall by 4.6% this year and by a further 1% in 2014.
- Tourism is proving to be an early catalyst for what is hoped will be an export-led recovery. With falling real wages and labor market reforms improving the competitiveness of the manufacturing sector, export volumes are forecast to rebound strongly in 2014–17, growing by 3.9% a year on average. By contrast, private consumption will remain weak, as high unemployment and falling wages continue to hit household incomes. We forecast a return to GDP growth of around 1.7% a year in 2015–17.
- The pace of fiscal consolidation is still the source of greatest risk. Medium-term targets will require further austerity measures, despite the imminent prospect of achieving a primary budget surplus (which excludes interest payments). Furthermore, deflationary pressures, if persistent, could undermine these efforts.

Figure 26

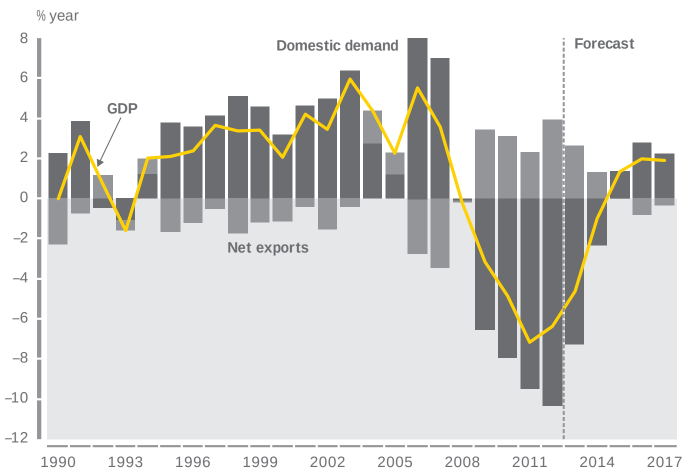
Government deficit and debt



Source: Oxford Economics.

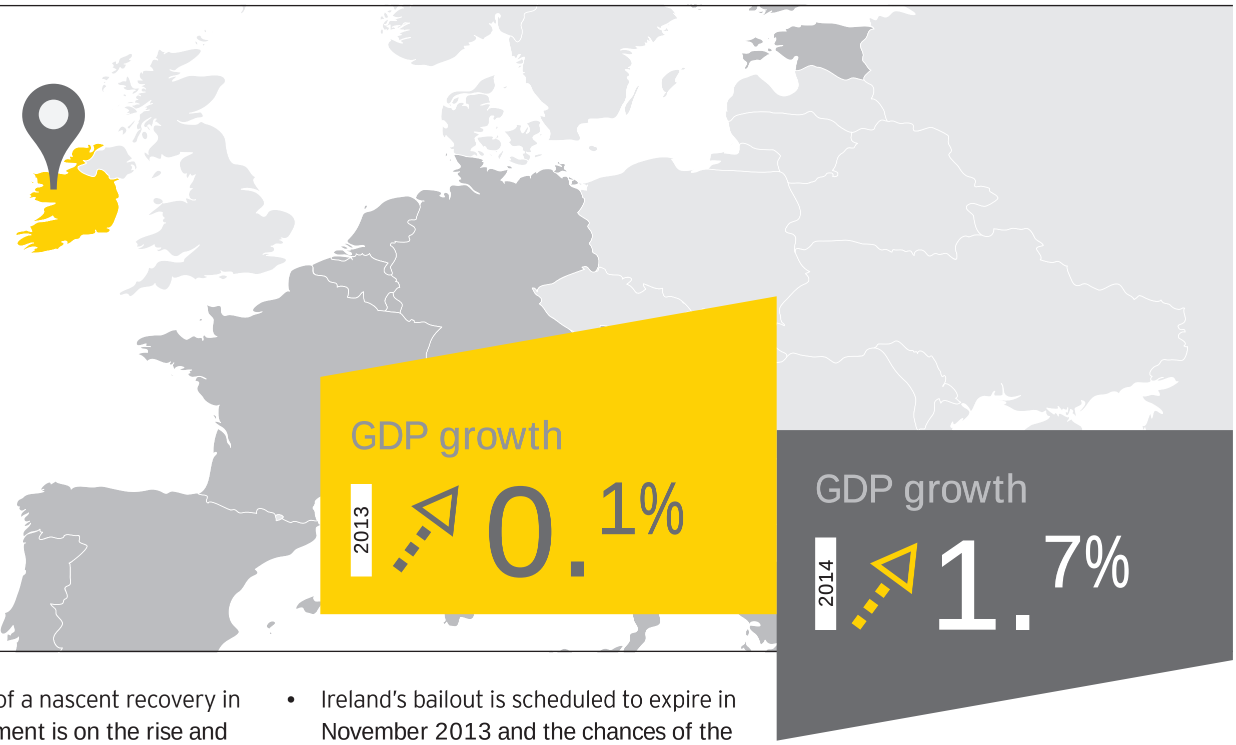
Figure 27

Contributions to GDP growth



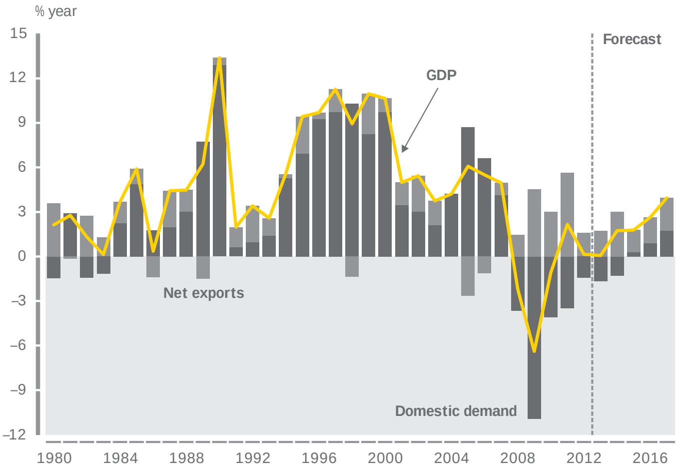
Source: Oxford Economics.

Ireland



- There are signs of a nascent recovery in Ireland. Employment is on the rise and the PMI surveys for both manufacturing and services point to growth, albeit at a modest pace. After an expected rise of 0.1% in 2013, we expect GDP to grow by 1.7% in 2014, accelerating to an average of 2.8% a year in 2015–17.
- Net trade is likely to be the main driver of growth in the near term. But domestic demand is likely to bottom out soon and should start contributing positively to growth by 2014.
- Ireland's bailout is scheduled to expire in November 2013 and the chances of the country being able to make a full return to financial markets are now very high. The Government undershot its deficit target for 2012 by a considerable margin, while 10-year government bond yields have remained below 4% for most of 2013 so far.

Figure 28
Contributions to GDP

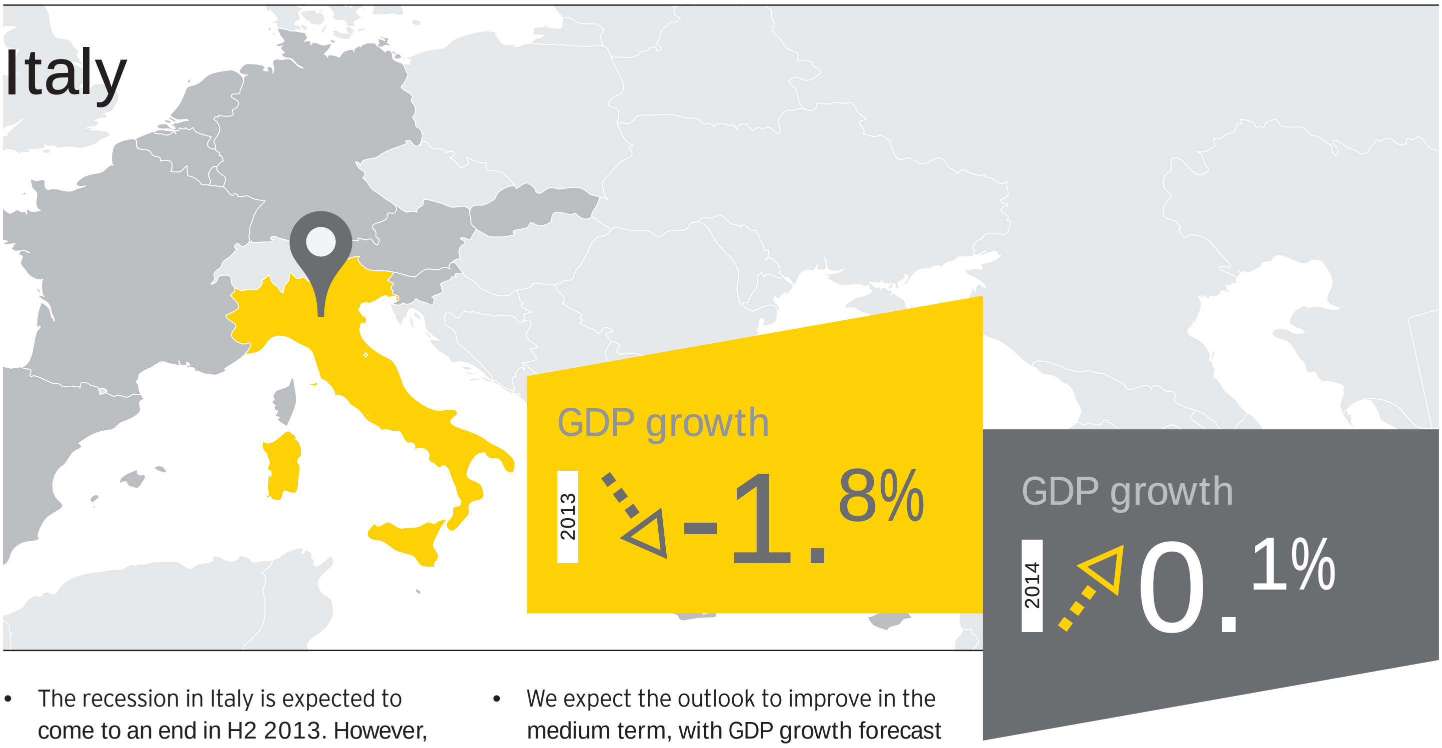


Source: Oxford Economics.

Figure 29
Long-term government bond yields

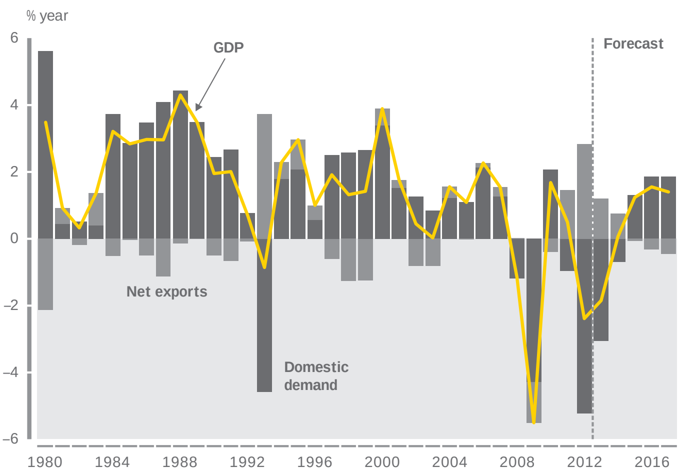
Source: Oxford Economics; Haver Analytics.

Italy



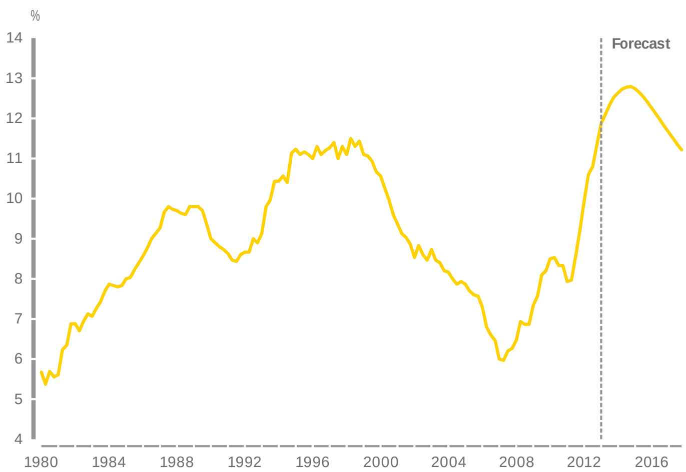
- The recession in Italy is expected to come to an end in H2 2013. However, the recovery will be very gradual, with GDP growth expected to be only just above zero in 2014 after an expected 1.8% decline in 2013.
- Exports will lead the recovery and stimulate investment in the short term. However, tight lending conditions are expected to drag on domestic demand. In particular, investment is expected to increase by just 0.5% in 2014, after a fall of over 6% this year. Meanwhile, consumption will decline in both 2013 and 2014, weighed down by fiscal austerity and rising unemployment.
- We expect the outlook to improve in the medium term, with GDP growth forecast to average 1.4% a year in 2015–17. However, growth will remain below the Eurozone average, as Italian exports continue to lose market share and structural reforms are delayed by ongoing political instability.

Figure 30
Contributions to GDP growth



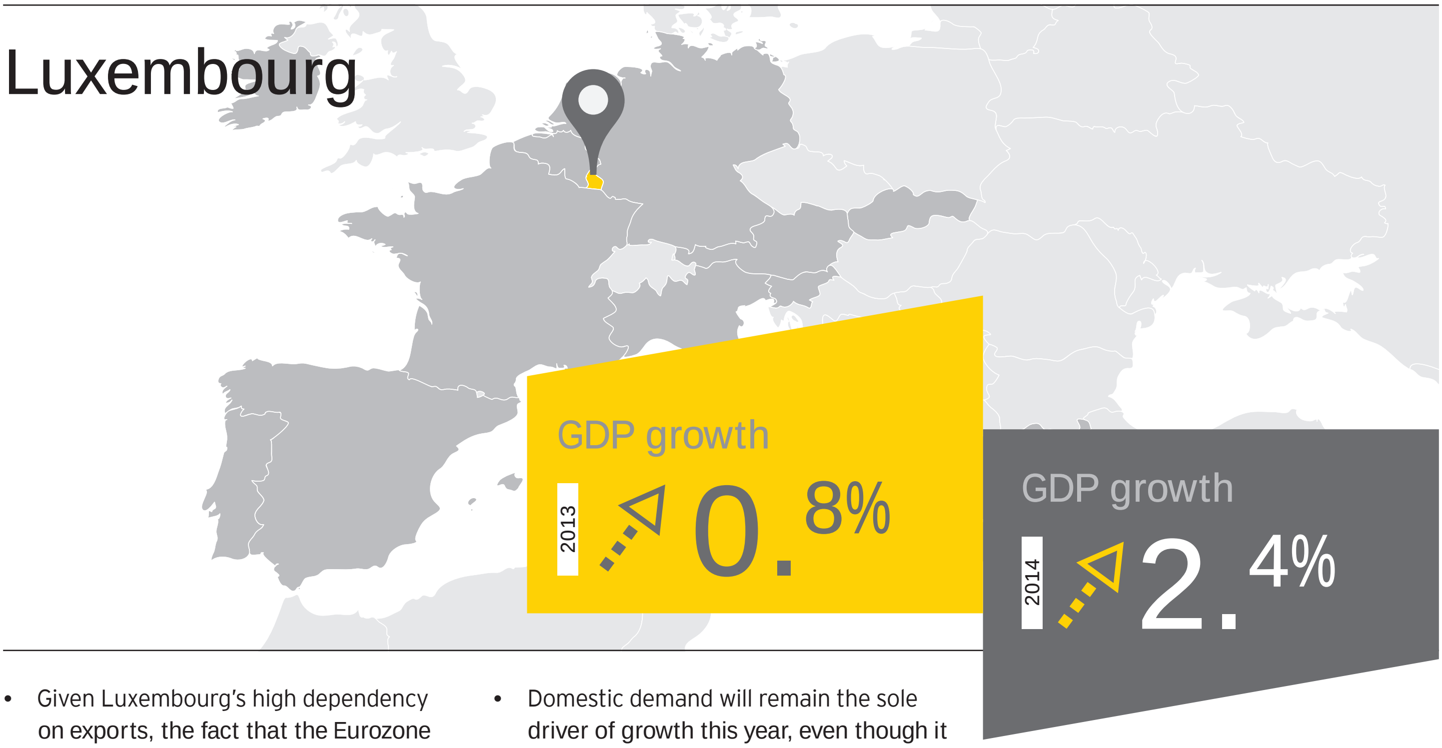
Source: Oxford Economics.

Figure 31
Unemployment rate



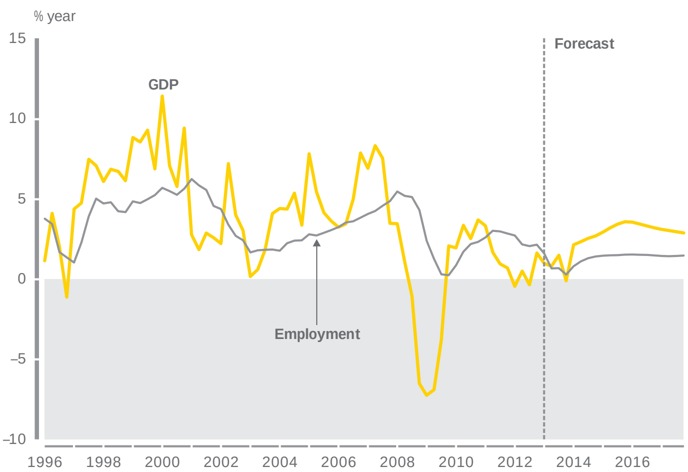
Source: Oxford Economics.

Luxembourg



- Given Luxembourg's high dependency on exports, the fact that the Eurozone returned to growth in Q2 is positive. This sends a signal that things are improving and uncertainty is gradually easing. In turn, this is likely to have a stabilizing effect on European stock markets – an important driver of Luxembourg's financial sector-focused economy.
- Gradually falling consumer prices barely mitigate an otherwise adverse consumer environment in which real wages are stagnating and unemployment is rising. This is why we expect only subdued growth of 0.6% in private spending this year, before it recovers in 2014.
- Domestic demand will remain the sole driver of growth this year, even though it is weak. From 2014, boosts from services exports, especially financial services, will complement this impetus and benefit from good strategic positioning once external demand accelerates and equity prices recover further.

Figure 32
Real GDP and employment

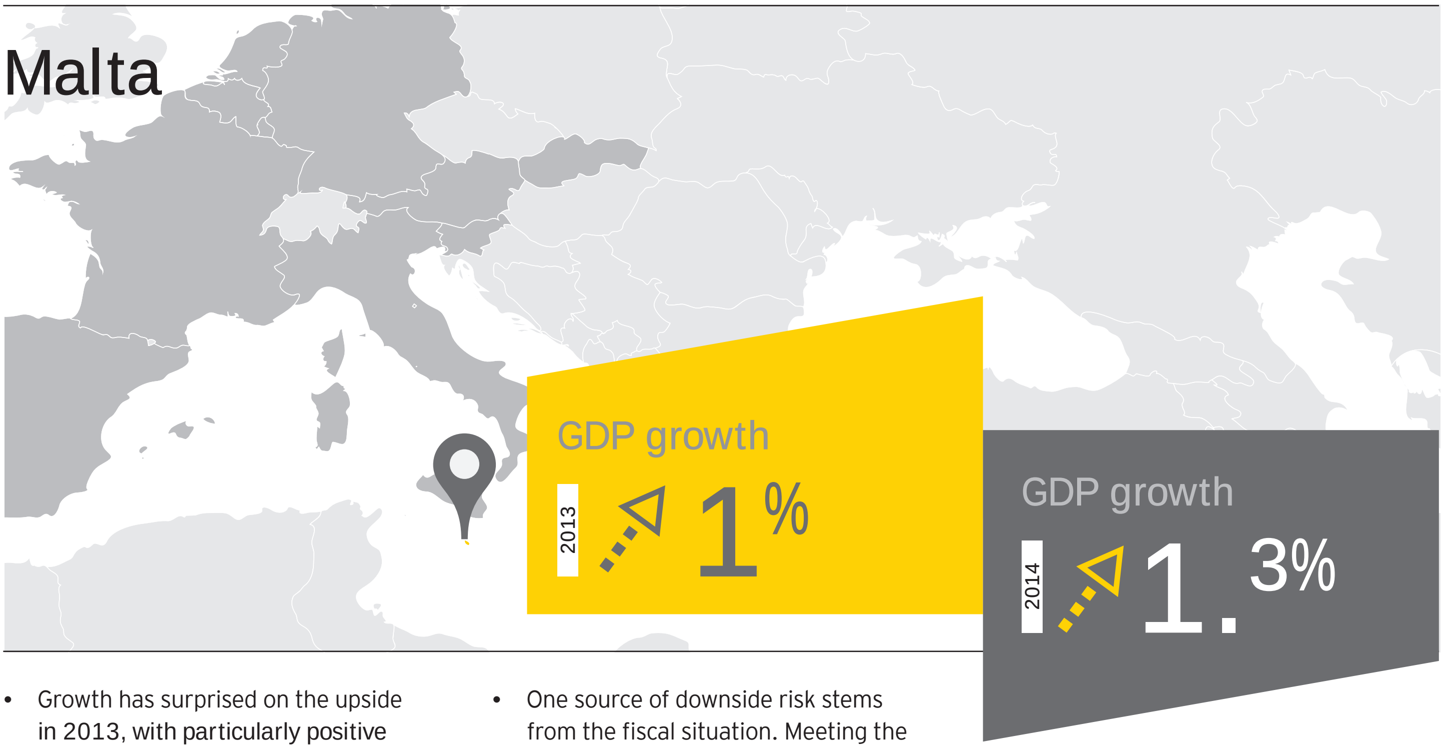


Source: Source: Oxford Economics.

Figure 33
Systemic stress indicator

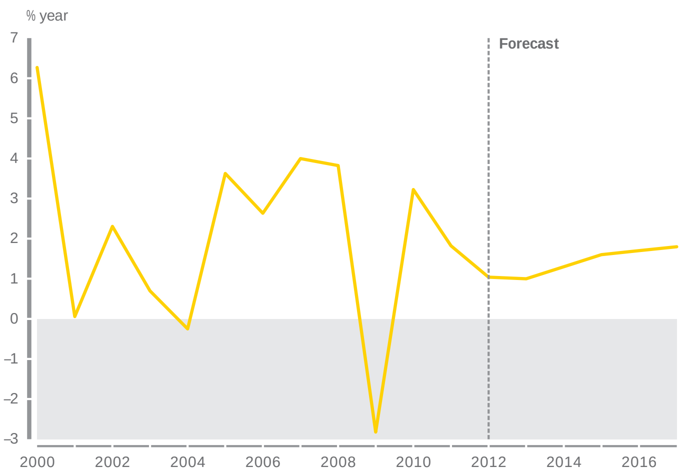
Source: ECB; Haver Analytics.

Malta



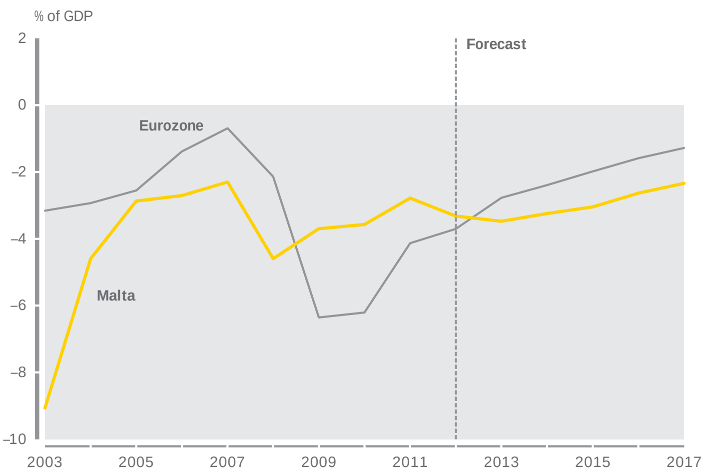
- Growth has surprised on the upside in 2013, with particularly positive developments in tourism and the labor market.
- After growing by about 1% in 2013, we expect GDP to expand by an average of 1.6% a year in 2014–17.
- To sustain competitiveness and give the economy flexibility to adjust to a changing European regulatory and tax environment (needed to drive more robust growth in the medium term), it is important that Malta invests in education and infrastructure.
- One source of downside risk stems from the fiscal situation. Meeting the medium-term objective of a balanced budget will require additional tightening measures, while at the same time sustaining investment in infrastructure and education.

Figure 34
GDP



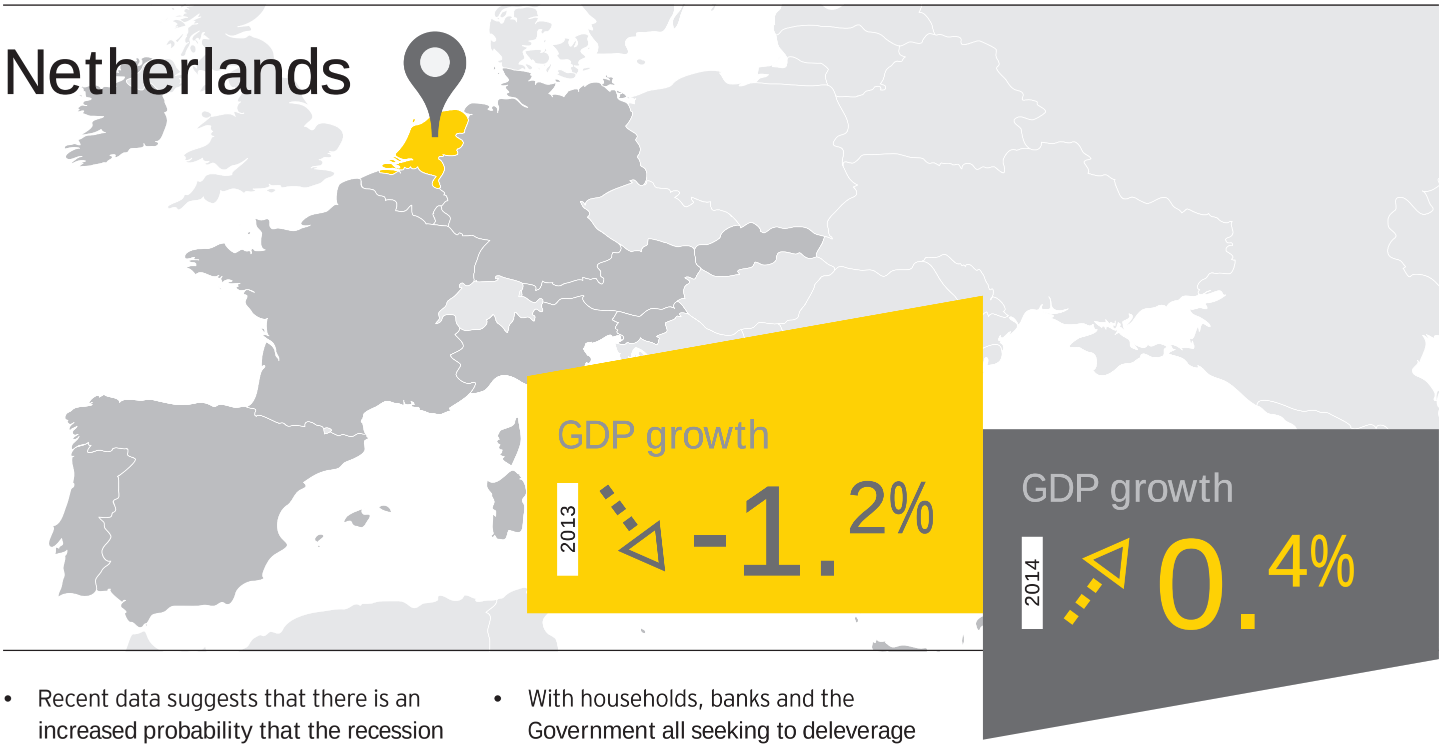
Source: Oxford Economics.

Figure 35
Fiscal balance vs. Eurozone



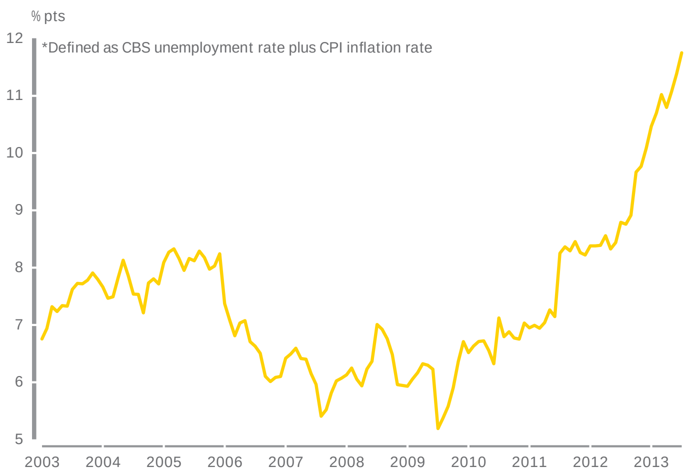
Source: Oxford Economics.

Netherlands



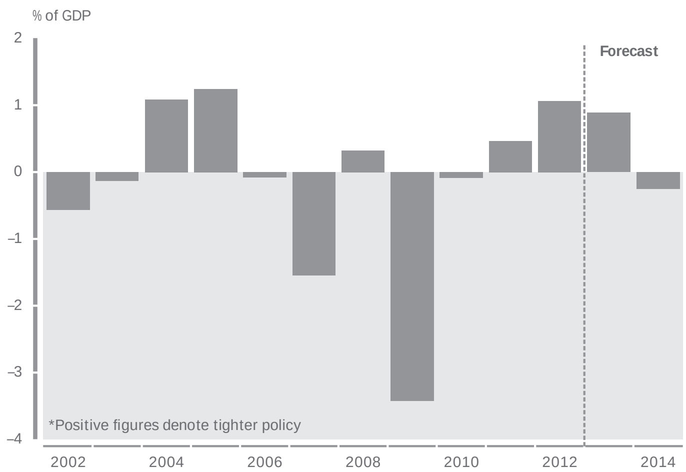
- Recent data suggests that there is an increased probability that the recession in the Netherlands will come to an end in Q3 2013. While the domestic economy continues to struggle, external demand appears to have strengthened sufficiently to get the recovery under way.
- Our forecast shows GDP falling by 1.2% this year, before a weak recovery yields growth of 0.4% in 2014. But if the Government implements its proposed €6b (1% of GDP) of austerity measures for 2014, then this might choke off the recovery.
- With households, banks and the Government all seeking to deleverage simultaneously, growth is likely to remain weak and heavily dependent on exports over the medium term. Our forecast shows GDP growth of only around 1.2% a year from 2015–17. In the 10 years prior to the financial crisis, GDP had grown by 2.6% a year.

Figure 36
Misery index*



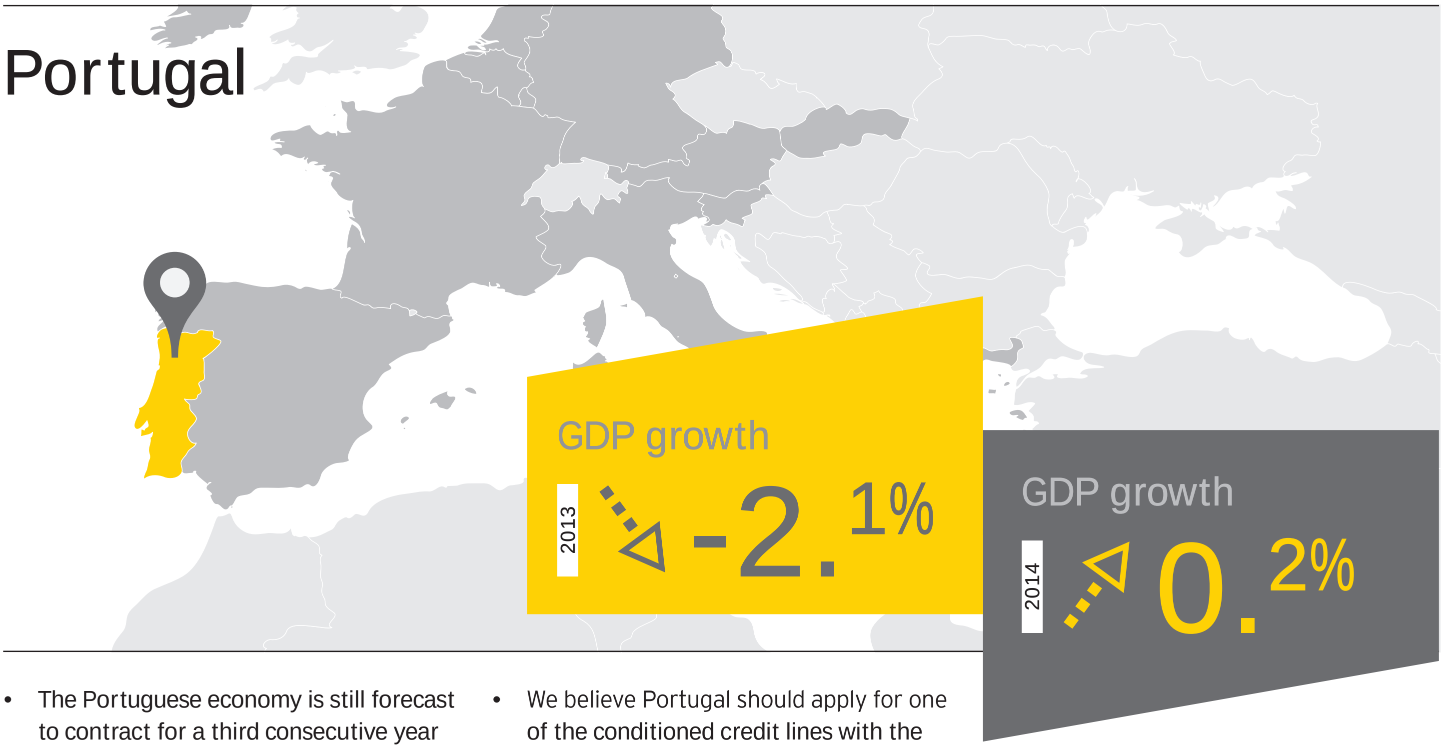
Source: Haver Analytics.

Figure 37
Fiscal tightening*



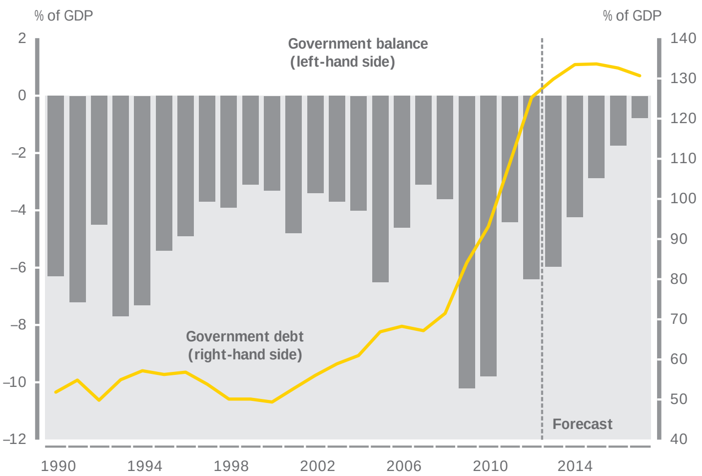
Source: European Commission.

Portugal



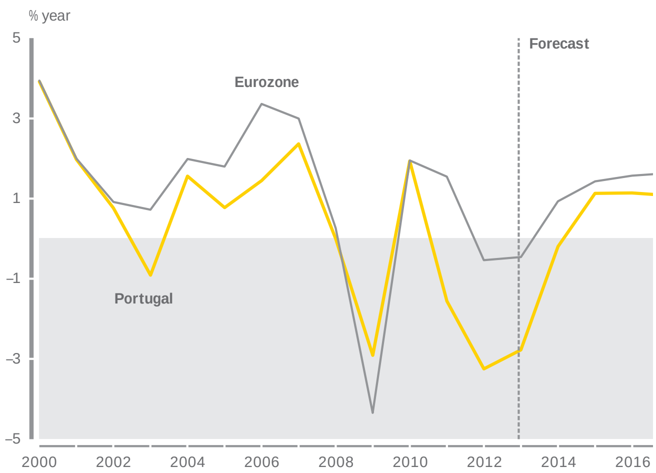
- The Portuguese economy is still forecast to contract for a third consecutive year in 2013, this time by just over 2%. And we continue to expect the recovery to be slow, constrained by public and private sector deleveraging and a lack of affordable credit. We forecast GDP growth of just over 1% a year in 2014–17.
- Our growth forecast remains below official projections and, as a result, we expect budget deficit targets to be missed in the coming years. This, coupled with heightened political turmoil in recent months, suggests that Portugal will not be able to make a full return to financial markets in June 2014 and that it may need further external funding.
- We believe Portugal should apply for one of the conditioned credit lines with the ESM, which would allow it to qualify for the unlimited bond-buying OMT scheme with the ECB.

Figure 38
Government balance and debt



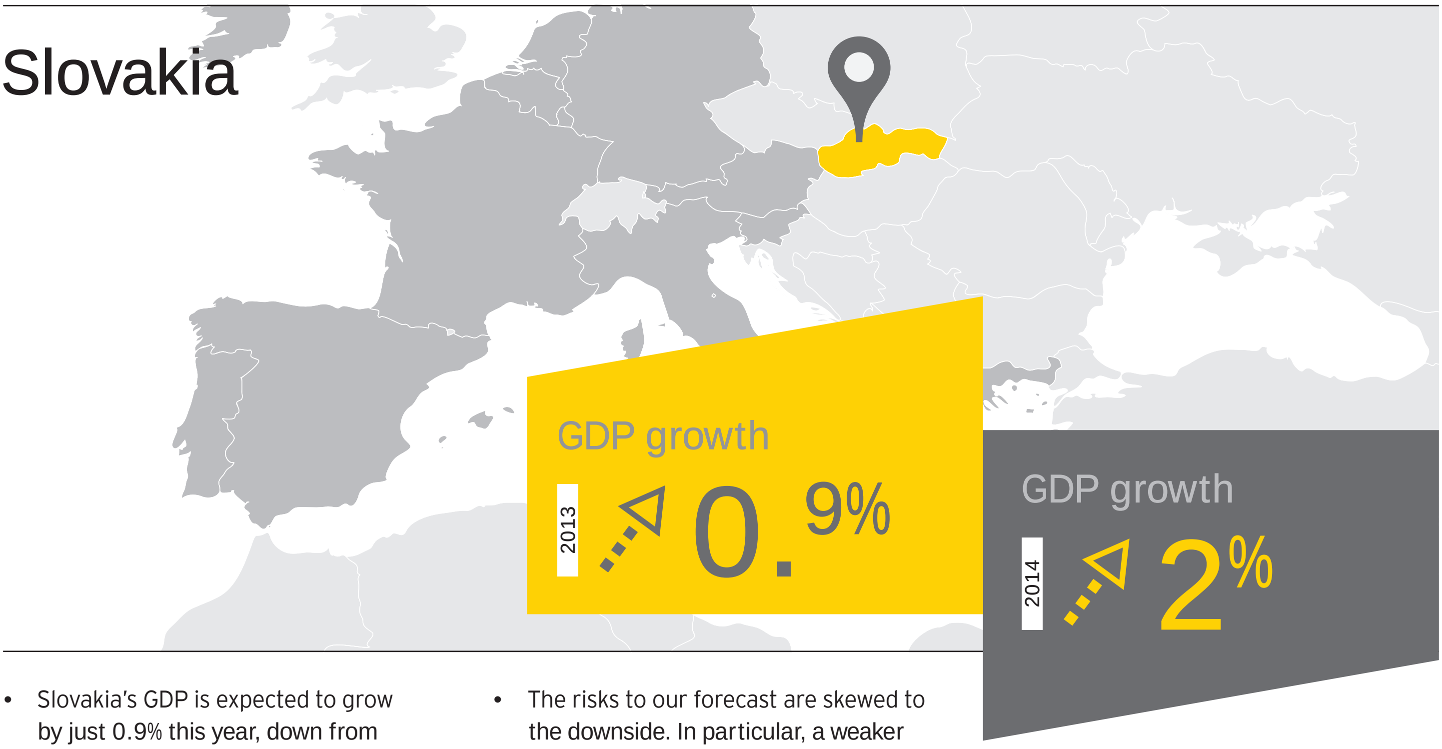
Source: Oxford Economics.

Figure 39
Real GDP growth



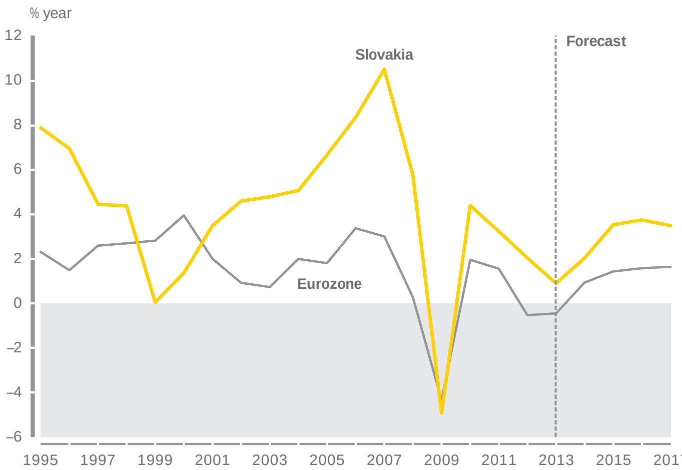
Source: Oxford Economics.

Slovakia



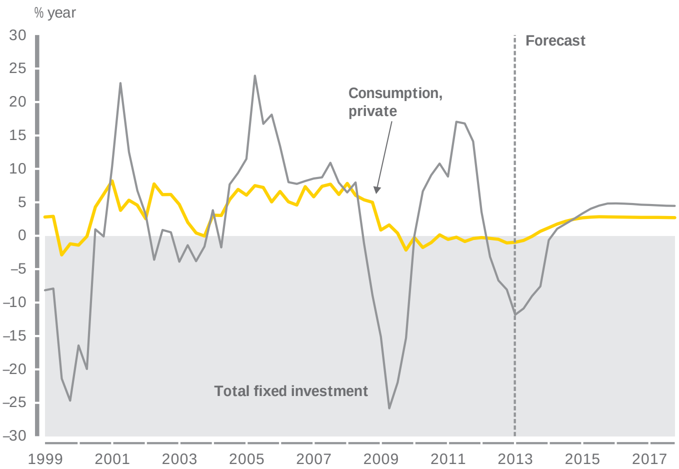
- Slovakia's GDP is expected to grow by just 0.9% this year, down from 2% in 2012. Weak domestic demand depressed by fiscal austerity and subdued demand in key trading partners account for the sluggish growth performance.
- Growth should accelerate from 2014 as pressure on domestic demand from austerity measures eases and export demand picks up. But the pace will be slower than we projected in our June report in the light of further austerity measures required to meet the budget deficit target of 3% of GDP in 2013.
- The risks to our forecast are skewed to the downside. In particular, a weaker or delayed recovery in key trading partners, particularly Germany and the Czech Republic, would slow exports more than currently expected and hurt GDP growth.

Figure 40
Real GDP growth



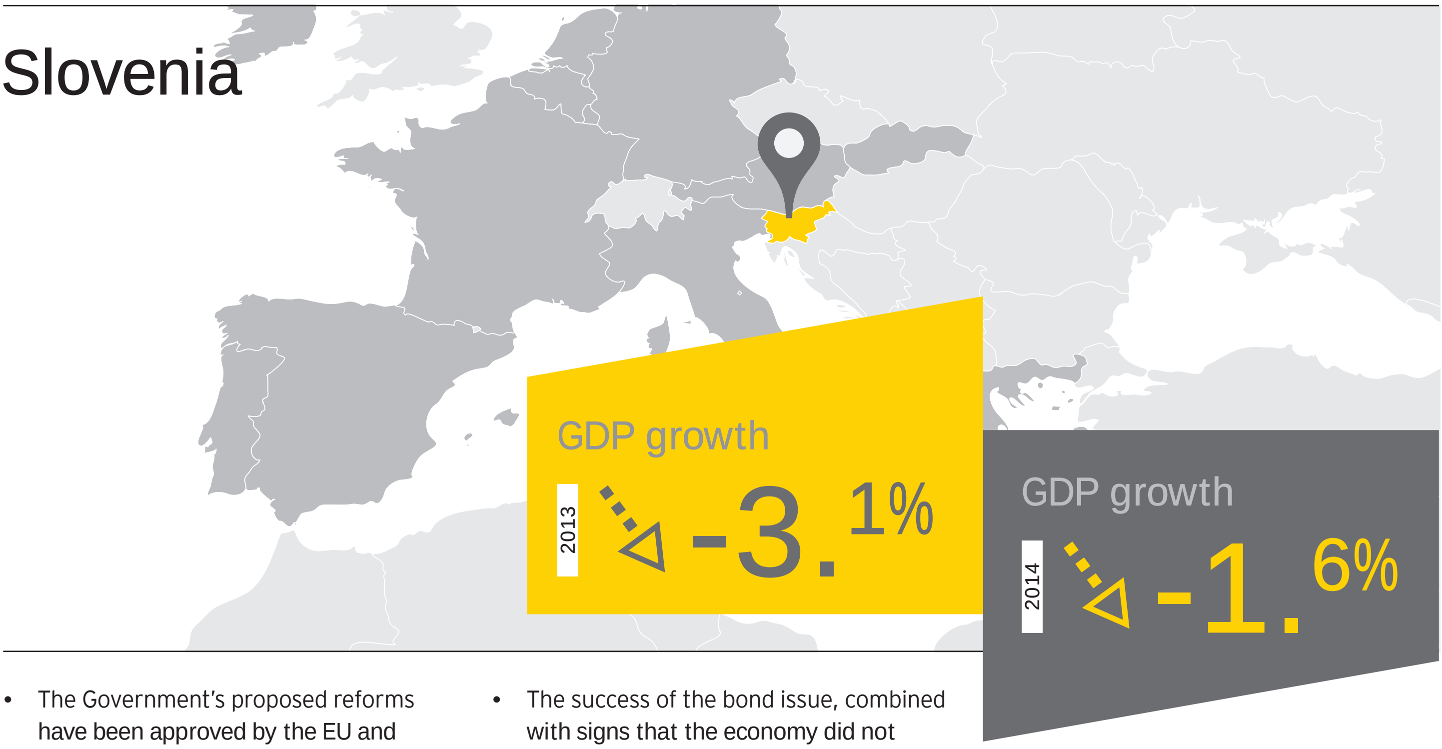
Source: Oxford Economics.

Figure 41
Private consumption and total fixed investment



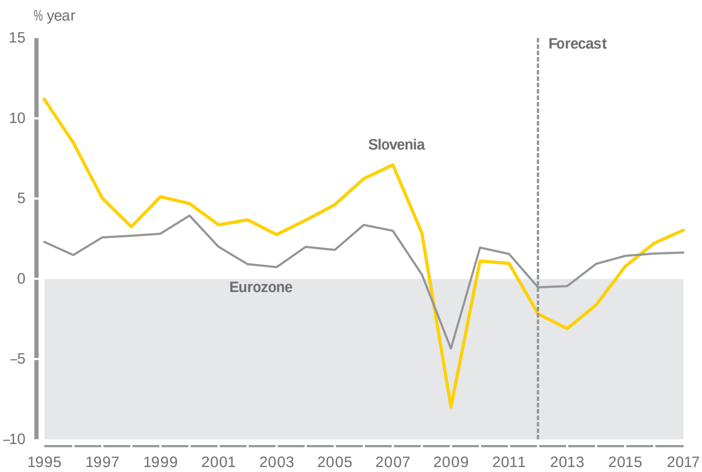
Source: Oxford Economics.

Slovenia



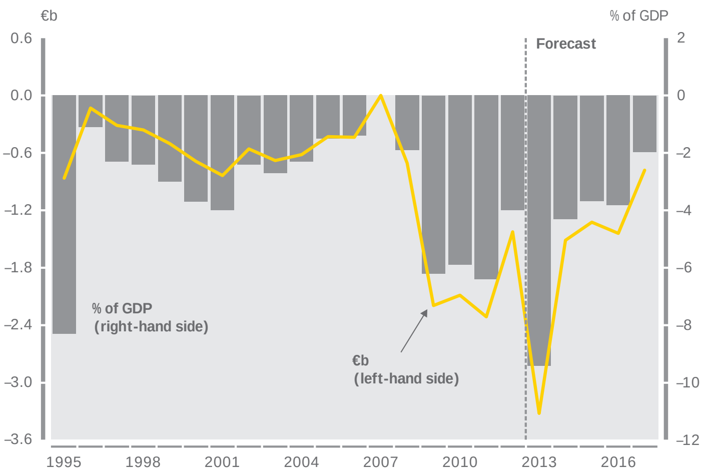
- The Government's proposed reforms have been approved by the EU and financial markets have been much less volatile since Slovenia managed to raise US$3.5b from bond markets in May, supporting our view that a full bailout program will be avoided.
- But the downside risks are high, and delays could raise the prospect of Slovenia having to apply for an International Monetary Fund precautionary credit line. Transfers of bad debts to a newly established bank have been delayed until independent bank stress tests have been approved.
- The banking sector will be recapitalized, at a cost of over 3% of GDP, pushing the budget deficit to almost 9.5% of GDP in 2013.
- The success of the bond issue, combined with signs that the economy did not plunge in response to the financial tensions in Q2, have led us to raise our 2013 GDP forecast from a 5% contraction to a decline of around 3%.

Figure 42
Real GDP growth



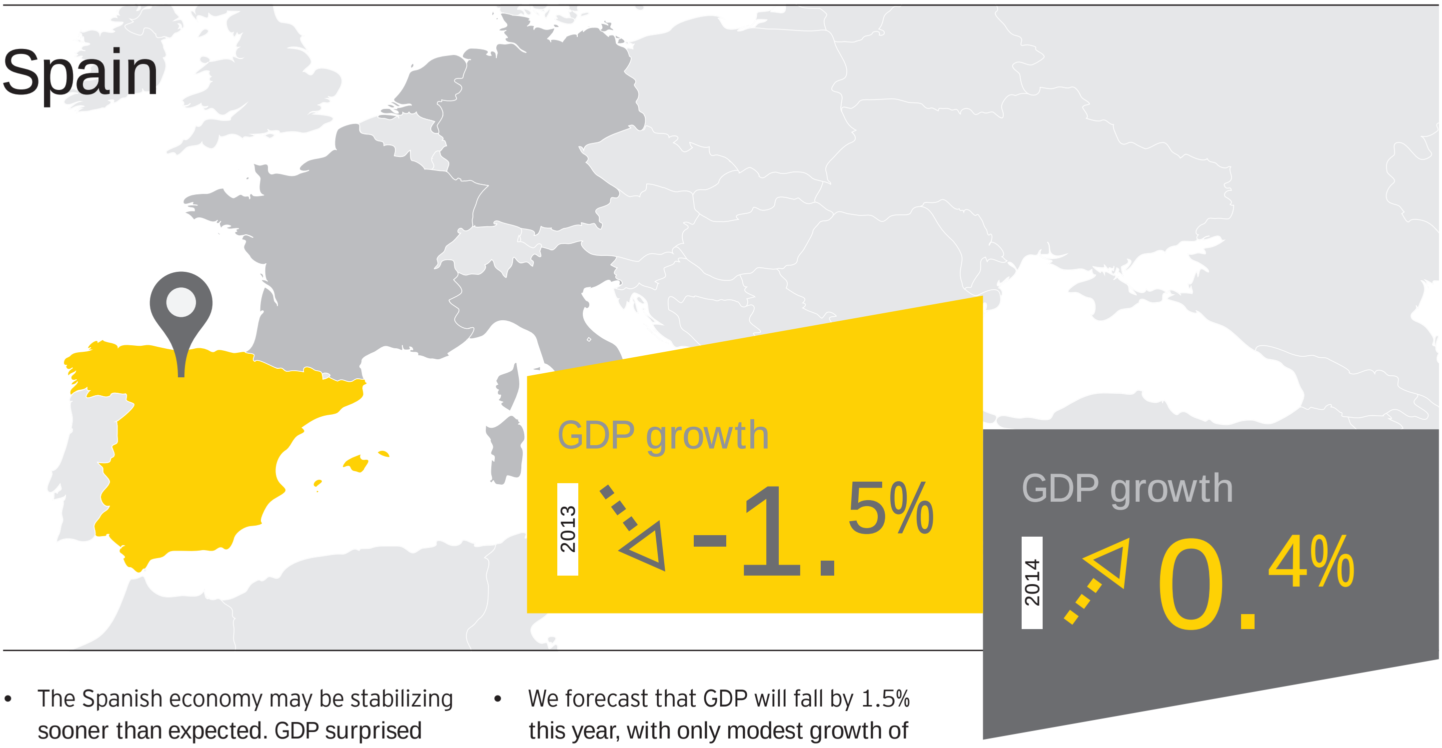
Source: Oxford Economics.

Figure 43
Government budget balance



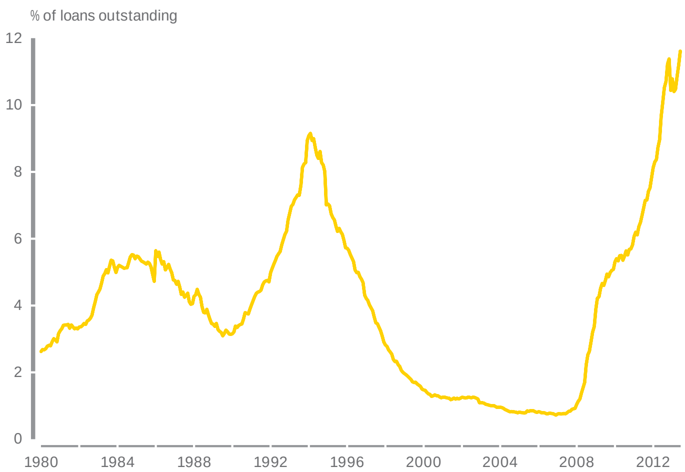
Source: Oxford Economics.

Spain



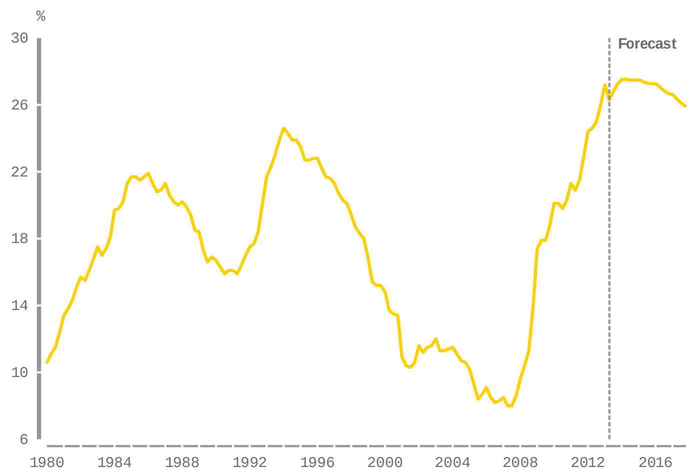
- The Spanish economy may be stabilizing sooner than expected. GDP surprised on the upside in Q2 2013, the unemployment rate fell for the first time in two years and the PMI surveys for August signaled a return to growth in both manufacturing and services for the first time in two years.
- But a return to solid and sustainable growth remains some way off, with unemployment set to rise again to over 27% after the summer holiday season, which will weigh on consumer demand.
- We forecast that GDP will fall by 1.5% this year, with only modest growth of 0.4% expected in 2014. The pace of expansion will gradually gain momentum as the drag from fiscal cutbacks eases and the economy restructures. We expect GDP to rise by 1.1% in 2015 and 2% in 2017.

Figure 44
Non-performing bank loans



Source: Oxford Economics.

Figure 45
Unemployment rate



Source: Oxford Economics.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Detailed tables and charts

Forecast assumptions

	2012	2013	2014	2015	2016	2017
Short-term interest rates (%)	0.6	0.2	0.3	0.3	0.3	0.6
Long-term interest rates (%)	3.9	3.1	3.2	3.4	3.7	4.1
Euro effective exchange rate (1995 = 100)	115.5	119.4	117.7	114.1	112.8	112.1
Oil prices (€/barrel)	86.9	81.9	82.7	88.3	91.2	94.4
Share prices (% year)	–7.8	13.7	7.8	9.3	8.2	6.6

	2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Short-term interest rates (%)	1.0	0.7	0.4	0.2	0.2	0.2	0.2	0.2
Long-term interest rates (%)	4.3	4.2	3.9	3.3	3.1	2.8	3.1	3.2
Euro effective exchange rate (1995 = 100)	116.9	115.9	113.3	115.8	118.8	119.2	120.2	119.4
Oil prices (€/barrel)	90.3	84.6	87.7	85.1	85.2	78.6	82.2	81.5
Share prices (% year)	–15.7	–22.2	0.8	11.7	8.2	21.1	15.5	10.8

Eurozone GDP and components

Quarterly forecast (quarterly percentage changes)

	2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	–0.1	–0.2	–0.1	–0.6	–0.3	0.3	0.1	0.1
Private consumption	–0.2	–0.5	–0.1	–0.6	0.0	0.0	0.1	0.1
Fixed investment	–1.3	–1.8	–0.8	–1.5	–1.9	0.0	0.1	0.4
Government consumption	–0.1	–0.3	–0.1	0.0	–0.2	–0.1	–0.1	–0.2
Exports of goods and services	0.8	1.5	0.8	–0.9	–0.9	0.7	0.7	0.8
Imports of goods and services	0.0	0.3	0.2	–1.2	–1.2	0.1	0.3	0.6

Contributions to GDP growth (percentage point contribution to quarter-on-quarter GDP growth)

	2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	–0.1	–0.2	–0.1	–0.6	–0.3	0.3	0.1	0.1
Private consumption	–0.1	–0.3	–0.1	–0.4	0.0	0.0	0.0	0.0
Fixed investment	–0.2	–0.3	–0.1	–0.3	–0.3	0.0	0.0	0.1
Government consumption	0.0	–0.1	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding	0.0	0.0	–0.1	0.0	0.0	0.1	–0.1	–0.1
Exports of goods and services	0.4	0.7	0.4	–0.4	–0.4	0.3	0.3	0.4
Imports of goods and services	0.0	–0.1	–0.1	0.5	0.5	0.0	–0.1	–0.2

Annual levels – real terms (€b, 2005 prices)

	2012	2013	2014	2015	2016	2017
GDP	8,558	8,519	8,598	8,721	8,858	9,002
Private consumption	4,797	4,767	4,788	4,841	4,906	4,978
Fixed investment	1,554	1,496	1,521	1,561	1,603	1,645
Government consumption	1,830	1,822	1,818	1,824	1,834	1,849
Stockbuilding	6	–5	–6	–6	–6	–10
Exports of goods and services	3,881	3,892	4,022	4,196	4,380	4,557
Imports of goods and services	3,509	3,454	3,546	3,695	3,859	4,016

Annual levels – nominal terms (€b)

	2012	2013	2014	2015	2016	2017
GDP	9,491	9,594	9,815	10,094	10,400	10,724
Private consumption	5,453	5,499	5,610	5,750	5,909	6,085
Fixed investment	1,743	1,693	1,743	1,815	1,891	1,969
Government consumption	2,043	2,061	2,080	2,117	2,162	2,214
Stockbuilding	1	10	4	22	32	34
Exports of goods and services	4,331	4,362	4,576	4,857	5,153	5,450
Imports of goods and services	4,081	4,030	4,199	4,466	4,748	5,028

Prices and cost indicators

(annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
HICP headline inflation	2.5	1.6	1.6	1.4	1.4	1.4
Inflation ex energy	1.8	1.6	1.6	1.3	1.3	1.4
GDP deflator	1.3	1.6	1.4	1.4	1.4	1.5
Import deflator	4.1	0.4	1.4	1.8	1.6	1.6
Export deflator	5.0	0.1	1.5	2.2	1.8	1.8
Terms of trade	1.0	–0.3	0.0	0.4	0.1	0.1
Earnings	1.7	1.7	1.7	2.1	2.3	2.5
Unit labor costs	1.7	1.3	0.6	0.9	1.0	1.2
Output gap (% of GDP)	–2.8	–4.1	–4.1	–3.8	–3.4	–2.9
Oil prices (€/barrel)	86.9	81.9	82.7	88.3	91.2	94.4
Euro effective exchange rate (1995 = 100)	115.5	119.4	117.7	114.1	112.8	112.1

	2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
HICP headline inflation	2.7	2.5	2.5	2.3	1.9	1.4	1.5	1.7
Inflation ex energy	1.9	1.8	1.8	1.6	1.5	1.2	1.8	1.8
GDP deflator	1.3	1.3	1.3	1.3	1.6	1.5	1.5	1.5
Import deflator	4.0	4.4	4.6	3.2	0.8	0.4	0.1	0.5
Export deflator	5.8	4.8	6.1	3.5	–0.7	0.3	–0.2	1.0
Terms of trade	1.8	0.4	1.5	0.3	–1.4	–0.1	–0.3	0.5
Earnings	2.0	1.8	1.7	1.3	1.8	1.5	1.6	1.9
Unit labor costs	1.6	1.5	1.9	1.6	2.0	1.2	1.0	0.9
Output gap (% of GDP)	–2.2	–2.5	–2.8	–3.7	–4.1	–4.0	–4.1	–4.2
Oil prices (€/barrel)	90.3	84.6	87.7	85.1	85.2	78.6	82.2	81.5
Euro effective exchange rate (1995 = 100)	116.9	115.9	113.3	115.8	118.8	119.2	120.2	119.4

Note: HICP is the European Harmonized Index of Consumer Prices.

Labor market indicators

(annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
Employment	–0.7	–0.9	–0.1	0.3	0.3	0.3
Unemployment rate (%)	11.4	12.2	12.6	12.4	12.0	11.6
NAIRU (%)	8.5	8.7	8.8	8.8	8.7	8.6
Participation rate (%)	75.0	75.3	75.6	75.8	76.0	76.3
Earnings	1.7	1.7	1.7	2.1	2.3	2.5
Unit labor costs	1.7	1.3	0.6	0.9	1.0	1.2

	2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Employment	–0.5	–0.8	–0.6	–0.7	–1.0	–0.9	–1.0	–0.7
Unemployment rate (%)	10.9	11.3	11.5	11.8	12.0	12.1	12.3	12.5
NAIRU (%)	8.4	8.5	8.6	8.7	8.7	8.7	8.8	8.8
Participation rate (%)	74.6	74.9	75.2	75.2	75.2	75.2	75.3	75.4
Earnings	2.0	1.8	1.7	1.3	1.8	1.5	1.6	1.9
Unit labor costs	1.6	1.5	1.9	1.6	2.0	1.2	1.0	0.9

Note: NAIRU is the non-accelerating inflation rate of unemployment; i.e., the rate of unemployment below which inflationary pressures would start to appear due to labor market tightness.

Current account and fiscal balance

	2012	2013	2014	2015	2016	2017
Trade balance (€b)	78.9	146.9	185.9	199.1	215.5	231.8
Trade balance (% of GDP)	0.9	1.7	2.2	2.3	2.4	2.6
Current account balance (€b)	126.4	193.7	198.9	192.8	198.1	208.2
Current account balance (% of GDP)	1.3	2.0	2.0	1.9	1.9	1.9
Government budget balance (€b)	–351	–266	–235	–200	–165	–138
Government budget balance (% of GDP)	–3.7	–2.8	–2.4	–2.0	–1.6	–1.3
Cyclically adjusted surplus (+)/deficit (-) (% of GDP)	–3.3	–2.3	–1.9	–1.5	–1.0	–0.7
Government debt (€b)	8,794	9,218	9,599	9,976	10,304	10,595
Government debt (% of GDP)	92.7	96.1	97.8	98.8	99.1	98.8

Measures of convergence and divergence within the Eurozone

	2003-07	2008–12	2013-17
Growth and incomes			
Standard deviation of GDP growth rates	2.0	2.3	1.8
Growth rate gap (max – min)	7.1	9.4	7.4
Highest GDP per capita (Eurozone =100)	241.6	238.9	239.2
Lowest GDP per capita (Eurozone =100)	56.2	67.7	63.9
Inflation and prices			
Standard deviation of inflation rates	1.2	1.0	0.6
Inflation rate gap (max – min)	4.8	3.9	2.0
Highest price level (Eurozone =100)	117.0	116.0	117.4
Lowest price level (Eurozone =100)	52.6	64.8	66.6

Cross-country tables

Real GDP (% year)

Rank		2012	2013	2014	2015	2016	2017	Average 2013-17
1	Estonia	3.2	1.0	4.1	4.1	4.1	4.1	3.5
2	Slovakia	2.0	0.9	2.0	3.5	3.7	3.5	2.7
3	Luxembourg	0.3	0.8	2.4	3.3	3.4	3.0	2.6
4	Ireland	0.1	0.1	1.7	1.8	2.6	4.0	2.0
5	Finland	–0.8	–0.1	2.1	2.6	2.6	2.4	1.9
6	Malta	1.0	1.0	1.3	1.6	1.7	1.8	1.5
7	Germany	0.9	0.6	1.7	1.7	1.6	1.5	1.4
8	Austria	0.8	0.4	1.5	1.8	1.6	1.6	1.4
9	Belgium	–0.3	–0.1	0.8	1.5	1.6	1.7	1.1
10	France	0.0	0.3	1.0	1.2	1.3	1.4	1.0
11	Eurozone	–0.5	–0.5	0.9	1.4	1.6	1.6	1.0
12	Spain	–1.6	–1.5	0.4	1.1	1.4	2.0	0.7
13	Netherlands	–1.3	–1.2	0.4	0.9	1.2	1.5	0.6
14	Italy	–2.4	–1.8	0.1	1.2	1.6	1.4	0.5
15	Portugal	–3.2	–2.1	0.2	1.1	1.1	1.1	0.3
16	Slovenia	–2.2	–3.1	–1.6	0.8	2.2	3.0	0.2
17	Greece	–6.4	–4.6	–1.0	1.3	2.0	1.9	–0.1
18	Cyprus	–2.4	–7.5	–8.0	–2.7	–1.0	1.4	–3.6

Inflation rates (% year)

Rank		2012	2013	2014	2015	2016	2017	Average 2013-17
1	Greece	1.0	–0.4	0.0	0.4	0.8	1.4	0.5
2	Portugal	2.8	0.5	0.6	1.0	0.9	0.9	0.8
3	Cyprus	3.1	0.8	0.8	1.1	1.2	1.5	1.1
4	Spain	2.4	2.0	1.2	0.9	1.0	1.0	1.2
5	France	2.2	1.1	1.6	1.5	1.4	1.4	1.4
6	Italy	3.3	1.6	1.7	1.2	1.2	1.3	1.4
7	Eurozone	2.5	1.6	1.6	1.4	1.4	1.4	1.5
8	Ireland	1.9	0.8	1.6	1.8	1.8	1.8	1.5
9	Malta	3.2	0.5	1.3	1.7	2.0	2.3	1.6
10	Netherlands	2.8	2.9	1.6	1.2	1.1	1.1	1.6
11	Finland	3.2	2.2	1.4	1.5	1.6	1.7	1.7
12	Germany	2.1	1.9	1.9	1.7	1.7	1.7	1.8
13	Austria	2.6	2.0	1.8	1.8	1.8	1.8	1.8
14	Belgium	2.6	1.3	1.9	2.2	2.0	2.0	1.9
15	Luxembourg	2.9	1.9	2.0	2.0	2.0	2.0	2.0
16	Slovenia	2.6	2.2	1.3	1.8	2.1	2.5	2.0
17	Slovakia	3.6	1.7	2.0	2.1	2.1	2.1	2.0
18	Estonia	3.9	3.4	2.9	3.0	3.0	3.0	3.1

Cross-country tables

Unemployment rate (% of labor force)

Rank		2012	2013	2014	2015	2016	2017	Average 2013–17
1	Austria	4.4	4.9	4.9	4.7	4.6	4.5	4.7
2	Germany	5.5	5.4	5.4	5.3	5.0	4.8	5.2
3	Luxembourg	5.1	5.8	6.3	6.0	5.5	4.9	5.7
4	Malta	6.4	6.1	6.1	6.0	5.7	5.5	5.9
5	Netherlands	5.3	6.8	7.4	7.3	7.2	6.9	7.1
6	Finland	7.8	8.1	7.9	7.4	7.1	6.8	7.5
7	Estonia	10.1	8.6	8.1	7.7	7.1	6.6	7.6
8	Belgium	7.6	8.6	8.6	8.2	7.8	7.6	8.2
9	Slovenia	9.0	10.6	10.6	10.3	9.8	8.8	10.0
10	France	10.3	11.0	11.2	11.1	10.9	10.7	11.0
11	Ireland	14.7	13.5	12.9	12.2	11.4	10.6	12.1
12	Eurozone	11.4	12.2	12.6	12.4	12.0	11.6	12.2
13	Italy	10.7	12.2	12.8	12.6	12.1	11.5	12.2
14	Slovakia	14.0	14.2	13.9	12.9	12.0	10.9	12.8
15	Portugal	15.9	18.0	18.8	17.8	16.9	16.4	17.6
16	Cyprus	12.1	18.7	24.1	25.3	25.0	22.2	23.1
17	Spain	25.1	26.8	27.6	27.5	27.1	26.4	27.0
18	Greece	24.3	27.8	29.0	28.2	27.1	26.1	27.6

Government budget (% of GDP)

Rank		2012	2013	2014	2015	2016	2017	Difference 2013–17
1	Germany	0.2	0.0	0.0	0.0	0.0	0.0	0.0
2	Estonia	–0.3	–0.4	0.0	0.1	0.0	–0.3	0.1
3	Netherlands	–4.1	–2.8	–3.3	–2.7	–2.3	–2.1	0.7
4	Slovakia	–4.3	–2.9	–2.8	–2.7	–2.4	–2.1	0.8
5	Malta	–3.3	–3.5	–3.2	–3.0	–2.6	–2.3	1.2
6	Italy	–3.0	–3.0	–2.8	–2.3	–2.0	–1.7	1.3
7	Luxembourg	–0.8	–1.4	–0.9	–0.6	–0.4	–0.1	1.3
8	Eurozone	–3.7	–2.8	–2.4	–2.0	–1.6	–1.3	1.5
9	Belgium	–3.9	–3.2	–2.8	–2.4	–1.9	–1.6	1.6
10	France	–4.8	–3.9	–3.3	–3.0	–2.6	–2.2	1.7
11	Finland	–1.9	–2.3	–1.7	–1.1	–0.7	–0.4	1.9
12	Austria	–2.5	–2.5	–1.9	–1.0	–0.6	–0.5	2.0
13	Cyprus	–4.9	–5.3	–3.7	–3.3	–3.4	–3.3	2.0
14	Greece	–10.0	–5.0	–3.9	–3.0	–2.5	–2.1	2.9
15	Spain	–10.6	–6.4	–5.6	–4.5	–3.2	–2.3	4.1
16	Portugal	–6.4	–6.2	–5.5	–4.0	–2.8	–1.7	4.5
17	Ireland	–7.5	–7.6	–4.8	–3.0	–2.0	–1.2	6.4
18	Slovenia	–4.0	–9.4	–4.3	–3.7	–3.8	–2.0	7.4

Country tables

Austria

Austria (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	0.8	0.4	1.5	1.8	1.6	1.6
Private consumption	0.3	–0.3	0.7	1.1	1.3	1.3
Fixed investment	1.8	–1.8	2.0	2.9	2.3	1.7
Stockbuilding (% of GDP)	0.9	0.5	0.6	0.4	0.3	0.3
Government consumption	0.0	1.0	1.4	1.6	1.6	1.6
Exports of goods and services	1.7	1.6	3.8	5.5	4.9	4.5
Imports of goods and services	0.0	–0.3	3.5	5.4	5.1	4.8
Consumer prices	2.6	2.0	1.8	1.8	1.8	1.8
Unemployment rate (level)	4.4	4.9	4.9	4.7	4.6	4.5
Current account balance (% of GDP)	1.8	2.8	2.3	2.5	2.3	2.2
Government budget (% of GDP)	–2.5	–2.5	–1.9	–1.0	–0.6	–0.5
Government debt (% of GDP)	73.4	74.6	74.3	72.8	71.0	69.3

Source: Oxford Economics.

Austria 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Belgium

Belgium (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	–0.3	–0.1	0.8	1.5	1.6	1.7
Private consumption	–0.3	0.4	0.8	1.3	1.5	1.6
Fixed investment	–0.6	–2.6	0.7	2.1	2.7	2.8
Stockbuilding (% of GDP)	1.0	1.0	1.0	0.6	0.2	0.1
Government consumption	0.4	0.2	0.2	0.4	0.3	0.3
Exports of goods and services	0.7	–1.1	1.8	4.0	4.3	3.9
Imports of goods and services	0.5	–1.4	1.7	3.2	3.8	3.6
Consumer prices	2.6	1.3	1.9	2.2	2.0	2.0
Unemployment rate (level)	7.6	8.6	8.6	8.2	7.8	7.6
Current account balance (% of GDP)	–1.6	–1.8	–1.6	–1.1	–0.6	–0.2
Government budget (% of GDP)	–3.9	–3.2	–2.8	–2.4	–1.9	–1.6
Government debt (% of GDP)	99.6	102.7	105.6	107.5	108.6	109.1

Source: Oxford Economics.

Belgium 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Country tables

Cyprus

Cyprus (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	–2.4	–7.5	–8.0	–2.7	–1.0	1.4
Private consumption	–3.0	–9.3	–9.5	–6.6	–3.7	–0.4
Fixed investment	–23.0	–27.7	–33.5	–3.4	1.4	6.3
Stockbuilding (% of GDP)	0.3	–1.9	–1.2	0.0	0.4	0.5
Government consumption	–1.7	–6.3	–8.9	–6.5	0.5	1.0
Exports of goods and services	2.3	1.5	1.7	3.9	4.5	5.1
Imports of goods and services	–7.2	–10.3	–4.0	0.5	4.2	4.6
Consumer prices	3.1	0.8	0.8	1.1	1.2	1.5
Unemployment rate (level)	12.1	18.7	24.1	25.3	25.0	22.2
Current account balance (% of GDP)	–6.5	–0.8	–0.3	–0.3	–0.3	–0.3
Government budget (% of GDP)	–4.9	–5.3	–3.7	–3.3	–3.4	–3.3
Government debt (% of GDP)	84.5	116.6	155.1	180.4	183.5	181.7

Source: Oxford Economics.

Cyprus 2012–13

- GDP ↘
- Consumer prices ↘
- Unemployment rate (level) ↗
- Current account balance (% of GDP) ↗
- Government budget (% of GDP) ↘
- Government debt (% of GDP) ↗

Estonia

Estonia (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	3.2	1.0	4.1	4.1	4.1	4.1
Private consumption	4.3	2.5	3.4	4.0	4.0	4.0
Fixed investment	21.0	–12.7	6.5	5.5	5.5	5.3
Stockbuilding (% of GDP)	–1.9	–1.2	–0.7	–0.6	–0.4	–0.1
Government consumption	4.0	0.8	0.3	2.7	3.0	3.0
Exports of goods and services	5.6	5.4	5.5	5.3	5.1	5.0
Imports of goods and services	9.1	2.8	5.6	5.6	5.5	5.4
Consumer prices	3.9	3.4	2.9	3.0	3.0	3.0
Unemployment rate (level)	10.1	8.6	8.1	7.7	7.1	6.6
Current account balance (% of GDP)	–1.6	–1.5	–1.1	–0.3	0.2	0.4
Government budget (% of GDP)	–0.3	–0.4	0.0	0.1	0.0	–0.3
Government debt (% of GDP)	10.1	11.4	10.8	9.9	9.3	8.9

Source: Oxford Economics.

Estonia 2012–13

- GDP ↘
- Consumer prices ↘
- Unemployment rate (level) ↘
- Current account balance (% of GDP) ↗
- Government budget (% of GDP) ↘
- Government debt (% of GDP) ↗

Country tables

Finland

Finland (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	–0.8	–0.1	2.1	2.6	2.6	2.4
Private consumption	0.2	0.9	1.9	2.2	2.4	2.4
Fixed investment	–1.0	–2.2	1.7	2.3	3.5	3.2
Stockbuilding (% of GDP)	1.1	–0.2	–0.1	0.1	0.1	0.0
Government consumption	0.6	0.1	1.0	1.2	1.4	1.6
Exports of goods and services	–0.2	–3.4	2.2	3.9	3.8	3.7
Imports of goods and services	–1.0	–6.4	1.6	3.2	3.7	3.9
Consumer prices	3.2	2.2	1.4	1.5	1.6	1.7
Unemployment rate (level)	7.8	8.1	7.9	7.4	7.1	6.8
Current account balance (% of GDP)	–1.8	–0.3	0.3	0.6	0.8	0.8
Government budget (% of GDP)	–1.9	–2.3	–1.7	–1.1	–0.7	–0.4
Government debt (% of GDP)	53.0	54.7	54.3	53.2	51.7	50.1

Source: Oxford Economics.

Finland 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

France

France (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	0.0	0.3	1.0	1.2	1.3	1.4
Private consumption	–0.3	0.4	1.0	1.1	1.2	1.3
Fixed investment	–1.2	–2.2	0.6	1.4	1.9	2.0
Stockbuilding (% of GDP)	–0.2	–0.1	0.0	0.1	0.0	–0.1
Government consumption	1.4	1.5	0.6	0.6	0.7	0.9
Exports of goods and services	2.5	1.0	3.1	4.2	4.7	4.9
Imports of goods and services	–0.9	0.9	3.1	3.8	4.1	4.1
Consumer prices	2.2	1.1	1.6	1.5	1.4	1.4
Unemployment rate (level)	10.3	11.0	11.2	11.1	10.9	10.7
Current account balance (% of GDP)	–2.2	–1.5	–1.4	–1.5	–1.4	–1.2
Government budget (% of GDP)	–4.8	–3.9	–3.3	–3.0	–2.6	–2.2
Government debt (% of GDP)	90.3	94.0	96.8	99.8	101.7	102.4

Source: Oxford Economics.

France 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Country tables

Germany

Germany (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	0.9	0.6	1.7	1.7	1.6	1.5
Private consumption	0.7	1.0	1.2	1.3	1.2	1.2
Fixed investment	–1.9	–1.2	4.2	3.8	3.2	2.8
Stockbuilding (% of GDP)	0.4	0.5	0.5	0.4	0.3	0.1
Government consumption	1.2	0.5	0.7	0.7	0.7	0.8
Exports of goods and services	4.5	–0.9	3.5	4.7	5.0	4.6
Imports of goods and services	2.6	–1.1	3.8	4.9	5.1	4.5
Consumer prices	2.1	1.9	1.9	1.7	1.7	1.7
Unemployment rate (level)	5.5	5.4	5.4	5.3	5.0	4.8
Current account balance (% of GDP)	7.0	6.9	6.6	6.5	6.5	6.6
Government budget (% of GDP)	0.2	0.0	0.0	0.0	0.0	0.0
Government debt (% of GDP)	81.9	80.7	80.3	80.6	80.7	80.9

Source: Oxford Economics.

Germany 2012–13

GDP	↘
Consumer prices	↘
Unemployment rate (level)	↘
Current account balance (% of GDP)	↘
Government budget (% of GDP)	↘
Government debt (% of GDP)	↘

Greece

Greece (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	–6.4	–4.6	–1.0	1.3	2.0	1.9
Private consumption	–9.1	–7.4	–1.9	0.6	1.8	1.9
Fixed investment	–19.4	–7.5	1.2	5.1	5.8	6.1
Stockbuilding (% of GDP)	0.0	0.4	0.1	0.4	0.7	0.5
Government consumption	–4.3	–7.0	–4.8	–0.6	1.7	1.7
Exports of goods and services	–2.1	–0.6	3.7	4.9	3.4	3.5
Imports of goods and services	–13.8	–9.4	–1.3	4.8	6.2	4.5
Consumer prices	1.0	–0.4	0.0	0.4	0.8	1.4
Unemployment rate (level)	24.3	27.8	29.0	28.2	27.1	26.1
Current account balance (% of GDP)	–3.4	–1.4	–0.4	–0.1	0.0	0.0
Government budget (% of GDP)	–10.0	–5.0	–3.9	–3.0	–2.5	–2.1
Government debt (% of GDP)	152.2	165.4	166.8	165.2	162.0	158.3

Source: Oxford Economics.

Greece 2012–13

GDP	↗
Consumer prices	↘
Unemployment rate (level)	↗
Current account balance (% of GDP)	↗
Government budget (% of GDP)	↗
Government debt (% of GDP)	↗

Country tables

Ireland

Ireland (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	0.1	0.1	1.7	1.8	2.6	4.0
Private consumption	–0.3	–2.2	–0.1	0.6	1.2	2.1
Fixed investment	–0.7	–5.2	3.9	2.9	4.1	6.1
Stockbuilding (% of GDP)	0.2	0.4	0.0	0.0	0.0	0.0
Government consumption	–3.8	–2.2	–3.7	–2.3	–0.5	0.6
Exports of goods and services	1.6	0.0	4.6	4.1	5.4	5.4
Imports of goods and services	0.0	–2.1	2.2	3.6	5.1	4.6
Consumer prices	1.9	0.8	1.6	1.8	1.8	1.8
Unemployment rate (level)	14.7	13.5	12.9	12.2	11.4	10.6
Current account balance (% of GDP)	4.4	4.2	4.3	4.2	4.1	4.0
Government budget (% of GDP)	–7.5	–7.6	–4.8	–3.0	–2.0	–1.2
Government debt (% of GDP)	117.6	125.7	126.1	124.9	121.8	116.7

Source: Oxford Economics.

Ireland 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Italy

Italy (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	–2.4	–1.8	0.1	1.2	1.6	1.4
Private consumption	–4.2	–2.5	–0.9	1.0	1.6	1.7
Fixed investment	–8.0	–6.4	0.5	2.6	2.9	2.9
Stockbuilding (% of GDP)	–0.6	–0.8	–0.9	–0.6	–0.3	0.0
Government consumption	–2.9	–1.1	–0.8	0.1	0.5	0.6
Exports of goods and services	2.2	0.1	3.8	3.8	3.3	2.2
Imports of goods and services	–7.8	–4.4	1.5	4.8	5.1	4.2
Consumer prices	3.3	1.6	1.7	1.2	1.2	1.3
Unemployment rate (level)	10.7	12.2	12.8	12.6	12.1	11.5
Current account balance (% of GDP)	–0.5	0.7	1.0	0.6	0.3	0.0
Government budget (% of GDP)	–3.0	–3.0	–2.8	–2.3	–2.0	–1.7
Government debt (% of GDP)	127.0	131.4	133.4	132.5	130.7	128.9

Source: Oxford Economics.

Italy 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Country tables

Luxembourg

Luxembourg (annual percentage changes unless specified)	2012	2013	2014	2015	2016	2017
GDP	0.3	0.8	2.4	3.3	3.4	3.0
Private consumption	1.7	0.6	2.2	2.8	2.9	2.7
Fixed investment	7.1	1.8	4.7	2.8	2.6	3.0
Stockbuilding (% of GDP)	1.6	2.1	1.4	1.3	1.9	2.2
Government consumption	4.9	2.0	1.6	1.9	1.9	1.9
Exports of goods and services	–2.7	2.9	4.8	5.9	4.6	3.6
Imports of goods and services	–2.7	3.7	4.9	5.9	4.8	3.7
Consumer prices	2.9	1.9	2.0	2.0	2.0	2.0
Unemployment rate (level)	5.1	5.8	6.3	6.0	5.5	4.9
Current account balance (% of GDP)	5.7	4.1	5.3	5.6	5.5	5.4
Government budget (% of GDP)	–0.8	–1.4	–0.9	–0.6	–0.4	–0.1
Government debt (% of GDP)	20.8	21.5	21.5	21.0	20.4	19.5

Source: Oxford Economics.

Luxembourg 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Malta

Malta (annual percentage changes unless specified)	2012	2013	2014	2015	2016	2017
GDP	1.0	1.0	1.3	1.6	1.7	1.8
Private consumption	3.9	–2.3	1.3	1.4	1.5	1.6
Fixed investment	–3.3	–3.0	3.5	2.8	2.5	2.2
Stockbuilding (% of GDP)	–2.1	0.2	–0.1	0.0	0.3	0.6
Government consumption	8.3	–1.5	0.7	0.8	1.3	1.4
Exports of goods and services	7.5	–2.0	3.2	3.0	2.7	2.8
Imports of goods and services	9.7	–3.0	3.0	3.0	3.0	3.0
Consumer prices	3.2	0.5	1.3	1.7	2.0	2.3
Unemployment rate (level)	6.4	6.1	6.1	6.0	5.7	5.5
Current account balance (% of GDP)	1.0	0.3	0.3	0.2	0.2	0.1
Government budget (% of GDP)	–3.3	–3.5	–3.2	–3.0	–2.6	–2.3
Government debt (% of GDP)	71.6	74.0	75.4	76.0	75.9	75.2

Source: Oxford Economics.

Malta 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Country tables

Netherlands

Netherlands (annual percentage changes unless specified)	2012	2013	2014	2015	2016	2017
GDP	–1.3	–1.2	0.4	0.9	1.2	1.5
Private consumption	–1.6	–1.9	–0.4	0.4	0.8	1.2
Fixed investment	–4.0	–8.4	0.8	1.9	2.1	2.0
Stockbuilding (% of GDP)	1.0	0.4	0.2	0.2	0.2	0.2
Government consumption	–0.7	–0.8	–0.3	–0.3	–0.1	0.5
Exports of goods and services	3.2	1.4	2.6	3.4	3.5	3.2
Imports of goods and services	3.3	–1.1	2.3	3.3	3.3	3.1
Consumer prices	2.8	2.9	1.6	1.2	1.1	1.1
Unemployment rate (level)	5.3	6.8	7.4	7.3	7.2	6.9
Current account balance (% of GDP)	10.1	11.6	9.7	8.7	8.7	8.8
Government budget (% of GDP)	–4.1	–2.8	–3.3	–2.7	–2.3	–2.1
Government debt (% of GDP)	71.2	73.8	76.2	77.6	78.2	78.2

Source: Oxford Economics.

Netherlands 2012–13	
GDP	↗
Consumer prices	↗
Unemployment rate (level)	↗
Current account balance (% of GDP)	↗
Government budget (% of GDP)	↗
Government debt (% of GDP)	↗

Portugal

Portugal (annual percentage changes unless specified)	2012	2013	2014	2015	2016	2017
GDP	–3.2	–2.1	0.2	1.1	1.1	1.1
Private consumption	–5.6	–3.0	–0.2	0.7	0.5	0.7
Fixed investment	–14.5	–9.2	–0.3	1.6	2.4	2.3
Stockbuilding (% of GDP)	0.2	0.6	0.6	0.2	0.1	–0.2
Government consumption	–4.4	–3.9	–1.6	1.7	1.4	1.3
Exports of goods and services	3.2	4.1	5.4	4.8	3.8	3.6
Imports of goods and services	–6.7	–0.7	3.7	3.6	3.5	3.0
Consumer prices	2.8	0.5	0.6	1.0	0.9	0.9
Unemployment rate (level)	15.9	18.0	18.8	17.8	16.9	16.4
Current account balance (% of GDP)	–1.5	–0.3	0.5	0.5	0.5	0.5
Government budget (% of GDP)	–6.4	–6.2	–5.5	–4.0	–2.8	–1.7
Government debt (% of GDP)	123.6	131.2	135.0	135.8	135.4	134.0

Source: Oxford Economics.

Portugal 2012–13	
GDP	↗
Consumer prices	↘
Unemployment rate (level)	↗
Current account balance (% of GDP)	↗
Government budget (% of GDP)	↗
Government debt (% of GDP)	↗

Country tables

Slovakia

Slovakia (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	2.0	0.9	2.0	3.5	3.7	3.5
Private consumption	–0.6	–0.3	1.9	2.8	2.8	2.7
Fixed investment	–3.7	–9.9	1.2	4.2	4.8	4.5
Stockbuilding (% of GDP)	–2.3	–0.6	–0.1	0.0	0.1	0.1
Government consumption	–0.6	–0.7	0.3	2.9	2.9	2.7
Exports of goods and services	8.6	1.6	3.3	4.7	4.9	4.8
Imports of goods and services	2.8	–0.2	3.4	4.6	4.8	4.6
Consumer prices	3.6	1.7	2.0	2.1	2.1	2.1
Unemployment rate (level)	14.0	14.2	13.9	12.9	12.0	10.9
Current account balance (% of GDP)	2.3	3.8	3.7	3.8	4.0	4.4
Government budget (% of GDP)	–4.3	–2.9	–2.8	–2.7	–2.4	–2.1
Government debt (% of GDP)	52.1	54.0	54.9	54.7	54.1	53.3

Source: Oxford Economics.

Slovakia 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Slovenia

Slovenia (annual percentage changes unless specified)

	2012	2013	2014	2015	2016	2017
GDP	–2.2	–3.1	–1.6	0.8	2.2	3.0
Private consumption	–2.9	–5.2	–1.2	2.2	4.1	4.4
Fixed investment	–9.1	–8.8	–3.9	2.4	5.7	5.3
Stockbuilding (% of GDP)	–0.3	0.8	1.6	1.0	–0.1	–1.0
Government consumption	–1.6	–3.0	–1.2	0.1	2.4	3.0
Exports of goods and services	1.3	–1.0	–0.5	0.6	1.7	2.7
Imports of goods and services	–3.4	–2.4	0.6	1.2	2.4	3.0
Consumer prices	2.6	2.2	1.3	1.8	2.1	2.5
Unemployment rate (level)	9.0	10.6	10.6	10.3	9.8	8.8
Current account balance (% of GDP)	2.5	4.1	3.2	2.7	2.1	1.9
Government budget (% of GDP)	–4.0	–9.4	–4.3	–3.7	–3.8	–2.0
Government debt (% of GDP)	50.8	69.2	73.7	75.5	76.2	74.1

Source: Oxford Economics.

Slovenia 2012–13

GDP

Consumer prices

Unemployment rate (level)

Current account balance (% of GDP)

Government budget (% of GDP)

Government debt (% of GDP)

Country tables

Spain

Spain (annual percentage changes unless specified)	2012	2013	2014	2015	2016	2017
GDP	–1.6	–1.5	0.4	1.1	1.4	2.0
Private consumption	–2.8	–2.5	0.2	1.0	1.5	2.1
Fixed investment	–7.0	–6.1	–0.1	2.0	2.1	2.3
Stockbuilding (% of GDP)	0.8	0.5	0.2	0.2	0.3	0.4
Government consumption	–4.8	–4.4	–3.2	–1.0	–0.3	0.7
Exports of goods and services	2.1	2.4	4.8	4.4	3.4	3.3
Imports of goods and services	–5.7	–5.1	1.0	3.8	3.5	3.4
Consumer prices	2.4	2.0	1.2	0.9	1.0	1.0
Unemployment rate (level)	25.1	26.8	27.6	27.5	27.1	26.4
Current account balance (% of GDP)	–1.1	0.0	0.9	0.9	0.8	0.7
Government budget (% of GDP)	–10.6	–6.4	–5.6	–4.5	–3.2	–2.3
Government debt (% of GDP)	84.2	92.8	99.6	104.5	107.6	109.0

Source: Oxford Economics.

Spain 2012–13

GDP	↗
Consumer prices	↘
Unemployment rate (level)	↗
Current account balance (% of GDP)	↗
Government budget (% of GDP)	↗
Government debt (% of GDP)	↗

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