Eurozone

EY Eurozone Forecast

June 2015

Eurozone rebalancing toward broad-based recovery

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"At last, solid and sustainable growth has returned to the Eurozone. We expect steady growth this year and into the medium term, as investment begins to support stronger consumption."

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

Time to move forward
With more stable growth returning to the Eurozone, business leaders should think about investing for growth and identifying key future trends.

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Eurozone rebalancing toward broad-based recovery
Lower energy prices and increased consumer spending helped the Eurozone make a strong start to 2015. And over the medium term, investment and government spending should begin to underpin this growth.

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Foreword

At last, solid and sustainable growth has returned to the Eurozone. We expect steady growth this year and into the medium term, as investment begins to support stronger consumption.

Customize data from the *EY Eurozone Forecast* at ey.com/eurozone.

At last, it seems that stable, steady growth has returned to the Eurozone. We've been perhaps overly optimistic in the past, but this time it seems that growth is here to stay.

As I write this, the newspapers are focused on fear of a Greek exit from the single currency. Although this makes for eye-catching headlines, it is a distraction from the broader and much more positive Eurozone story. Lower energy prices, higher consumer spending, a stronger labor market and a weaker euro are all contributing to a broad-based recovery.

The UK and the US have been posting solid figures for some time now. The Eurozone actually outperformed both of these economies in the first three months of the year, with growth of 0.4% on the quarter. In March, we forecast Eurozone-wide growth of 1.5% for 2015. Thanks to the solid performance at the start of the year, we've now raised this slightly to 1.6%.

A lot of this early-year uptick has been down to increased consumer spending — chiefly thanks to lower oil prices leaving more change in people's pockets. This effect won't last forever — oil prices will creep up again in the coming years. But the recovery is beginning to find foundations in other areas too. From next year, we expect investment and government spending to help underpin the recovery. As the Eurozone gains stability and momentum, we expect growth of 1.9% in 2016 and 1.7% in 2017.

Despite the positive movement in consumer spending, unemployment is still painfully high in much of the currency bloc, especially in the periphery. Spain, for instance, which has been a real success story in so many respects, won't see its unemployment rate drop much below 20% until around 2018. Italy still sits above 12% and Portugal at about 13%. In Greece meanwhile, over 25% of people are expected to remain out of work this year — and only a handful will find jobs next year. As I've noted, the number of young people out of work could have particularly pernicious long-term effects if it leads to a disaffected and disenfranchised generation in parts of Europe.

Despite all this, we do expect the labor markets throughout the Eurozone to improve gradually. This is behind our forecast of steadily growing consumer spending, at around 1.7% this year and next, even as oil prices return to higher levels.

Into the longer term, we expect the confidence that comes with recovery to result in growing capital spending. Already business confidence surveys are showing promising results. We are forecasting a strong uptick in investment growth next year, moving to nearly 3% after an expected 1.1% in 2015. Increasing investment should help to underpin the recovery, along with stronger government spending across the bloc.

So business leaders with interests in the Eurozone need to prepare themselves for this return to more stable growth. This edition of the *EY Eurozone Forecast* explores what we think are the five key focus areas for businesses and governments: growing consumer confidence, cheaper borrowing, a weaker euro, increasing numbers of flotations and an M&A boom.

Obviously, the fate of Greece remains a major stumbling block for the single currency. And I can only hope that it is resolved soon — for the sake of the Eurozone's stability and the straitened Greek people. I also hope that this June edition of the *EY Eurozone Forecast* is interesting and useful for your business planning. Don't forget to visit ey.com/eurozone to keep up with the latest Eurozone developments and to access information on the 19 member states.

Mark Otty

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

Highlights

A sustained spell of solid growth in prospect

- A positive start to 2015 — with Q1 GDP growing by 0.4% on the quarter, stronger than the US or the UK — suggests that Eurozone consumers are responding to lower energy prices. As a result, we have raised our forecast for growth in 2015 to 1.6% from 1.5% seen in March with 1.9% now projected for 2016. Although growth may then slow a little, the recovery will become more broad-based. Investment spending should become a key growth driver from next year and government spending will make an increasing contribution. We forecast GDP growth of 1.7% in 2017 and an average of about 1.5% a year in 2018–19.

Labor market recovery to support consumer spending

- The latest data suggests consumers are spending their energy windfall, despite stubbornly high unemployment and weak wage growth, and we have lifted our forecast for consumer spending growth in 2015 from 1.6% to 1.7%. But, as oil prices continue to recover gradually in the coming year, this energy windfall will slowly reverse. The modest drag on household income will offset gains from an improving labor market, meaning consumer spending will grow at a similar rate in 2016, around 1.6%. But as firms step up recruitment and labor market slack falls, wage growth will start to gather pace. As such, consumer spending can sustain growth of a little over 1.3% a year in 2017–19.

- Consumer recovery is likely to lead to stronger import growth this year, so even with export growth picking up we have lowered our forecast for the Eurozone current account surplus in 2015 to 2.3% of GDP. But with consumer spending growth easing in the years ahead, and export prospects largely unchanged from our March forecast, we still expect the current account deficit to ease only gradually in the coming years.

Investment will gradually recover as uncertainty fades

- There is evidence that businesses are preparing to invest, with increasingly positive business surveys and loans data in recent months. For now, this is only tentatively feeding into capital spending itself. But as uncertainty over Greece's future is addressed, and with lower borrowing costs than in previous years, we expect this to become more apparent moving into 2016.

- We expect total investment to grow 1.1% in 2015, accelerate to almost 3% in 2016–17, before easing to 2.5% in 2018–19. This is well short of pre-crisis rates of investment growth, but, since much of this was accounted for by housing, a slower pace of capital accumulation need not necessarily imply lower future output growth.

Fiscal squeeze will gradually lift

- As recovery takes hold, tax revenues will do more of the work in reducing budget deficits. Government spending growth should accelerate modestly through the rest of the decade, from 0.5% in 2015, to 0.7% in 2017 and then 0.9% in 2019. But it will be important for governments to ensure new resources are targeted at restoring public investment, which remains 25% below its 2009 level.

GDP
(annual change)

2015	2016	2017-19
1.6%	1.9%	1.6%

Exports of goods and services
(annual change)

2015	2016	2017-19
3.7%	4.2%	3.8%

Consumer spending
(annual change)

2015	2016	2017-19
1.7%	1.6%	1.3%

Eurozone forecast by sector (% change)	2015	2016
Manufacturing	2.2	2.2
Agriculture	1.6	1.9
Construction	0.4	1.6
Utilities	1.9	2.1
Trade	2.0	2.1
Financial and business services	2.0	2.2
Communications	3.3	3.5
Non-market services	0.5	0.7

Inflation

2015	2016
0.1%	1.2%

Unemployment

2015
11.1%

Implications for businesses:

Time to move forward

Time to move forward

Growth in the Eurozone is accelerating. Despite some significant uncertainties, consumers are spending more freely and many companies have resumed hiring. In this fast-changing environment, corporate leaders need to invest and grow their businesses, while policy-makers must step up efforts to nurture economic growth and improve the business climate.

In this section, we explore the five most important concerns for businesses and governments: rising consumer spending, cheap borrowing, changing exchange rates, an upsurge in business flotations, and a boom in mergers and acquisitions (M&A).

Consumer spending

Consumer spending is set to rise 1.7% in 2015 and 1.6% in 2016, up from just 1% in 2014 and well above the average of recent years. In some countries, such as Germany, this is being driven by wage growth in tightening labor markets. In others, such as Italy, consumers are spending their energy windfall on big-ticket items such as cars and white goods, encouraged by stabilizing employment markets.

For businesses

After years of cost-cutting, companies need to overhaul their strategies. They need to look on a country-by-country basis at the recovery of consumer demand and the factors behind it.

In Germany, where rises in real personal disposable income of over 3% are expected to result in a sharp rise in consumer spending, increasing wages and social benefits will underpin continuing growth.

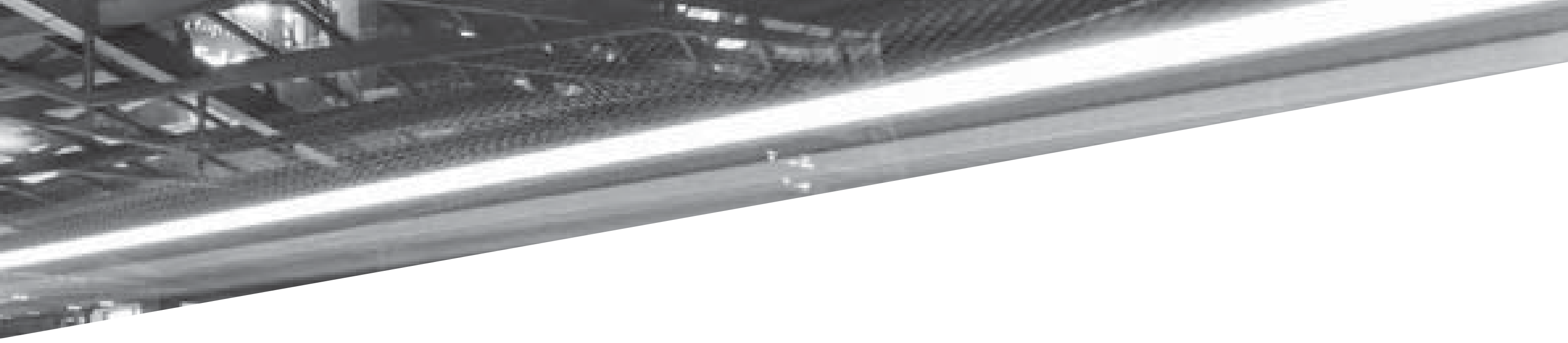
In southern Europe, where wage growth remains weak and unemployment is still high, it may take some time before it is clear whether the uptick in consumer spending will last. To adapt to these varying scenarios businesses should reassess their value chains and logistic costs, deciding on whether to expand or relocate capacity, or if there are more competitive suppliers available. Any new investments should consider whether the most attractive locations are in high-growth consumption markets or where wage stability enables a better management of margins.

- How is your business positioned to respond?
- Do you have sufficient capacity, from production through to after-sales service?
- Do you have the best products for your target markets?
- Do you have the right go-to-market approach?

For governments

The nascent recovery in consumer spending is welcome news for governments, as sales tax receipts will rise too. And as consumer demand drives firms to hire more, employment tax revenues and national insurance receipts should be starting to rise while unemployment benefits fall. Together, these factors should help restore public finances.

- How should policy-makers allocate these additional revenues as they recover room to maneuver?
- Will debt repayment or investment in infrastructure, education, or skills development yield the greatest benefits for citizens?
- How can policy-makers help ensure the recovery gets off the ground?



Financial markets

Quantitative easing will help keep borrowing costs low for businesses, governments and individuals in the Eurozone this year and next. However, the possibility of a Greek exit from the common currency may continue to overshadow financial markets.

For businesses

Cheap money is an advantage at a time of rising demand, enabling companies to invest in additional capacity by hiring, adding plant and buildings, and making acquisitions.

- Do you have an optimal capital structure?
- What kind of fund-raising is right for your business, and what terms are appropriate?
- How does a private placement compare with a public bond issue, and how strong is the appeal of your business to potential lenders?
- How can you optimize your treasury management during this era of low interest rates?

For governments

National, regional and local governments and public bodies can take advantage of cheap rates to lock in affordable debt for years to come. Today's rates are an opportunity to reduce borrowing costs, accelerate debt repayment where needed and fund desirable projects, such as modernizing administration and public services, and developing 21st century infrastructure.

- How can public bodies achieve the best rates?
- Where in their operations should public bodies devote resources to provide the most cost-effective services and facilities for taxpayers?

Exchange rates

Depreciation has left the euro 7% weaker than at the start of 2015, despite recent appreciation, and weaker still against sterling. This has reinforced Eurozone competitiveness in key export markets as the dollar soars. We expect the euro to weaken to US$1.10 by the end of this year and about US$1.05 by the end of 2016.

For businesses

We expect Eurozone exports to grow by 3.7% in 2015, while imports remain strong despite becoming more expensive. Given the scale of shifts under way, many companies will need to review their value chains and opportunities.

- Are your plants and suppliers optimally located?
- Are your contracts sufficiently flexible?
- Are you grasping opportunities to increase exports, or substitute your products and services for imports?
- Are exchange rate shifts eroding or fattening your margins?
- Do you need to update stakeholders, including shareholders?

For governments

With exports and imports growing strongly we expect the Eurozone as a whole to maintain a current account surplus just above 2% of GDP through to 2019. This should be good news, but it is vital to ensure bureaucracy does not impede increased trade flows.

- Are sufficient resources available to finance rising export volumes and ensure there are no delays?
- Are checks in place to ensure sub-standard goods are not among those sucked in by rising demand?

Time to move forward

IPO trends

The Europe, Middle East, India and Africa (EMEIA) region topped the chart for initial public offerings (IPOs) in Q1 2015. The region hosted 67 flotations valued at US$16.8b in total (44% of global IPOs by value). Eleven companies were floated in France, only one fewer than in London, making it the fifth biggest market after China, the US, Japan and the UK. Meanwhile, Madrid ranked second only to Shanghai by funds raised, according to EY's Q1 Global IPO Trends report.

For businesses

Private equity firms exiting investments accounted for 7 of the 10 biggest IPOs in EMEIA during Q1 and a record share (54%) of funds raised. Industrials, consumer goods and health care all sold well. We think 2015 will prove a great year for technology IPOs in the region.

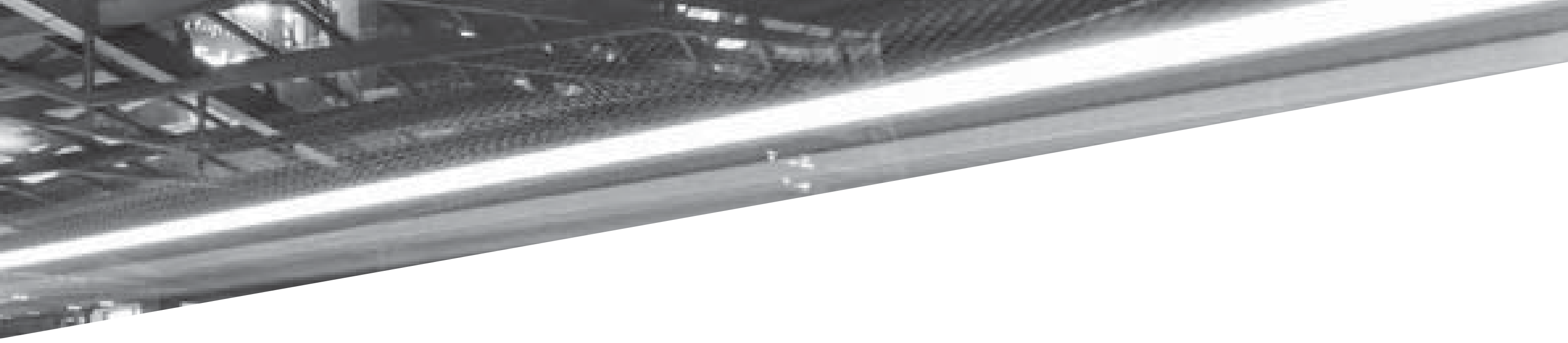
As IPO activity strengthens and euro weakness continues to attract US investors, flotation is an attractive option for company owners.

- How strong is demand likely to be for your business and what valuation could it command?
- How attractive is an IPO relative to other financing or exit options?
- Which would be the most appropriate market or markets?
- What regulatory hurdles must be crossed?

For governments

The world's biggest IPO during Q1 was the US$4.8b privatization of Spanish state airport operator Aena. Pressure to reduce government budget deficits and stimulate growth should continue to encourage states to float more state-owned companies.

- How can the privatization option fit into policy goals?
- What organizational and financial restructuring is needed ahead of an IPO?
- How can the challenges of shifting public employees into the private sector be overcome?



M&A trends

The M&A spree launched by European companies last year (when they accounted for 46% of global cross-border deals by volume) looks set to continue. EY's *European Mid-Market Barometer* shows not only that 6,000 European companies are optimistic about transactions, but that 9% expect a transition of ownership or managing generations in the next few years, adding to Europe's potential for a continuing M&A spree.

For businesses

April's *EY Capital Confidence Barometer* showed soaring confidence among corporate executives in the outlook for the global economy, and especially the Eurozone. While companies have sharpened their focus on cost control, 56% of respondents said they are planning an acquisition in the next 12 months and 84% of the deals are expected to be cross-border, with a focus on developed markets.

Optimism about Europe's prospects was confirmed in May by the annual *EY attractiveness survey: Europe*, which shows that Europe has regained its crown as the world's most attractive destination for foreign direct investment (FDI).

Buying a foothold in new markets, or consolidating rivals, looks like a quick way to profit from a Eurozone recovery. But if that is what you have in mind, have you done your homework thoroughly?

- Have you explored alternatives such as greenfield investment and partnerships?
- Do you have the financial resources available?
- Have you identified the best targets?
- How will you integrate an acquisition whose employees don't share your culture or language?

For governments

Cross-border M&A can raise some difficult questions for policy-makers. Consolidation can boost competitiveness and trigger investment, or cost jobs and swallow national champions.

- How can policy-makers evaluate the consequences for economies, ensure rigorous takeover and competition rules are respected?
- How can they do their best for consumers and competitiveness?
- Where does a country's long-term best interest lie?

Preparing for a new era

Working out exactly how all the above factors will play out over the months ahead is not easy. But all the signs suggest that seven years of crisis are at last drawing to a close.

As we return to a climate of enduring growth, a new style of management will be needed for a more positive, optimistic era. This will require a sea change in management thinking. And as always, the early movers will enjoy an advantage over those who struggle to come to terms with a changing continent.

Viewpoint

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Eurozone M&A upsurge will continue or accelerate

This has been a remarkably positive year for M&A in the Eurozone.

So far in 2015, Eurozone companies have been involved in deals worth €320b, up 28% on 2014 and equal to 22.5% of all global M&A. Most notably, outbound acquisitions in 2015 already total €126b — over three times what they were in the same months of 2014.

You might think that the Eurozone's challenges create headaches for would-be dealmakers. However, they also create opportunities for executives who are ready and willing to take advantage of instability and unpredictability to lay the foundations for growth in the years ahead.

Consolidation within domestic markets to drive down costs and outbound acquisitions in a search for growth have been the dominant drivers of deals. Those trends should continue. We can also expect an increase in inbound investment, as companies outside Europe take advantage of recent falls in the value of the euro to acquire attractively priced assets.

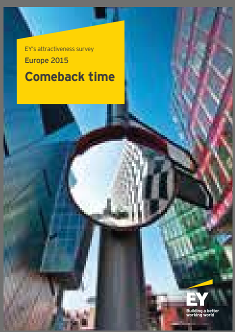
Many companies will make strategic acquisitions, putting cash piles and cheap credit to work in search of fresh growth and efficiency savings. We can also expect a rise in strategic sales as companies look to reshape their portfolios, focus on their core businesses and divest to invest.

Cross-border deals should be highly visibly — especially from the Eurozone to the US — as businesses seek growth outside the area to compensate for low growth at home. At the same time, US, Chinese and Japanese buyers may seek high quality assets in Europe.

We can expect activity in many sectors — life sciences, consumer products, industrials, telecoms, and automotive and transport. Technology, media and telecoms companies will do deals as they respond to technological advances. Health care will see a further drive for high quality assets that are also rich in intellectual property — and deals to keep down costs. Reshaping brand portfolios will underpin activity in consumer products. The oil and gas industry will inevitably see consolidation, driven by volatile oil prices.

The need to recycle capital and maximize efficiencies in operational structures will spur deals across all sectors. The search for innovation will also drive deals at a time when technology and blurring sector lines are disrupting markets.

Major geopolitical or economic shocks notwithstanding, we should see M&A in the Eurozone continue to rise, particularly as more buoyant — albeit modest — growth fosters confidence. As a broad-based recovery takes hold, we can expect even more players coming to the deal table.



EY's attractiveness survey: Europe 2015 examines Europe's investment landscape, including the factors that have led to a new record in FDI.

The report is based on an original methodology that analyses both greenfield and expansion FDI projects. It also surveys 808 international business executives on the perceived attractiveness of Europe for FDI.

Europe sets a new record for foreign investment

There were 4,341 decisions made to invest in 43 European countries in 2014, up 10% on 2013. The UK, Germany and France remain the top destinations, and Turkey has entered the top 10.

Manufacturing, digital and e-commerce have surged as Europe enters a new phase in its recovery.

Western Europe has become the world's most attractive investment destination, pushing China down to third place behind North America.

More than half of FDI projects and 30% of jobs created by investments in Europe were taken by the top three destinations: the UK, Germany and France.

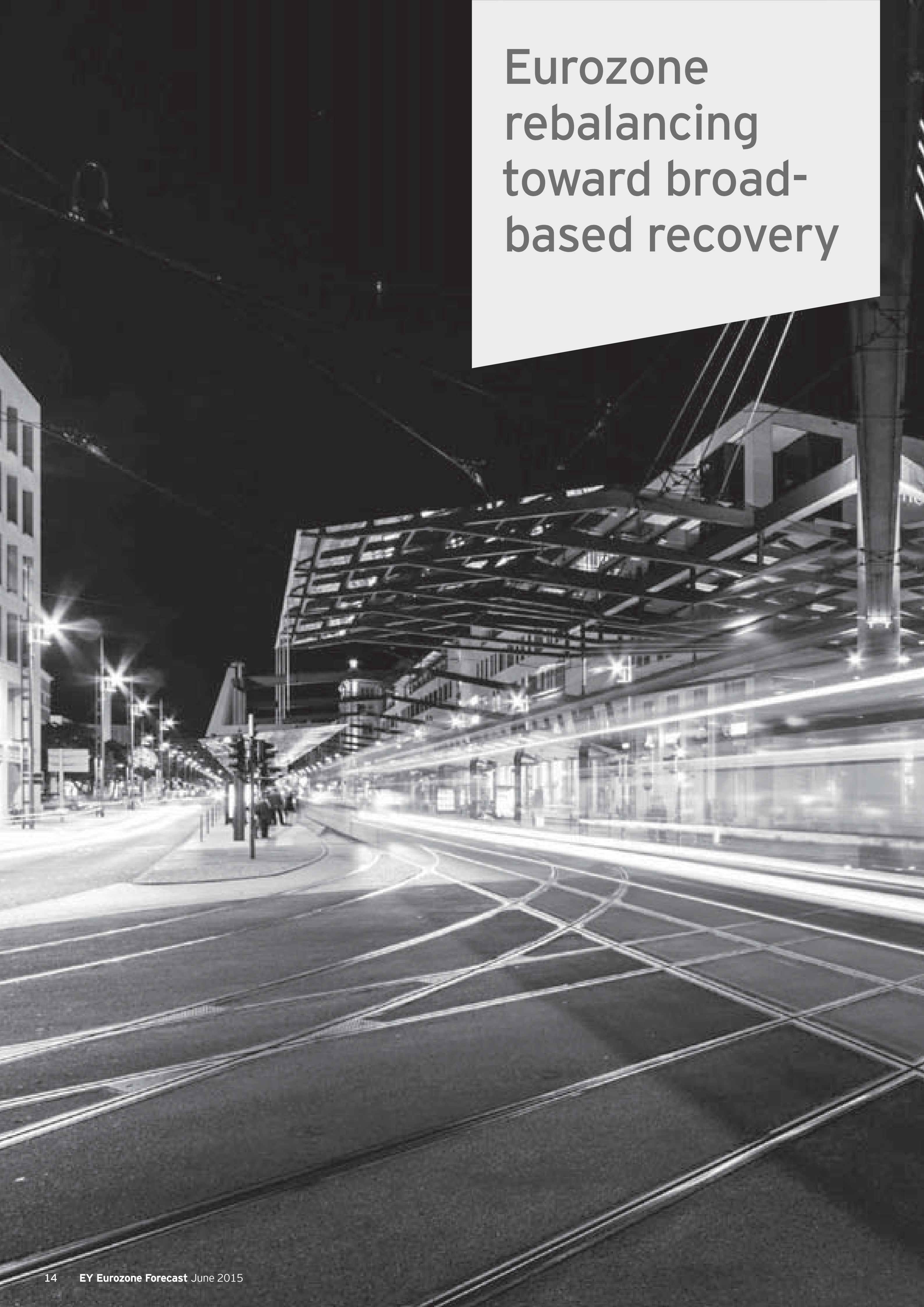
An economic recovery, a depreciating euro and falling energy prices have all helped revive the appeal of manufacturing in Europe. Together these factors are underpinning a 20% surge in FDI manufacturing projects and jobs. Logistics operations rose 27%, driven by this industrial resurgence and a boom in e-commerce.

59%

Looking ahead

Some 59% of investors believe that Europe's attractiveness will improve over the next three years. Only 32% of executives, however, have plans to establish or expand operations in Europe over the next year.

Eurozone rebalancing toward broad-based recovery



The Eurozone economy has experienced an eventful few years. But due to a confluence of temporary and structural factors, it now seems to be in the early stages of a prolonged period of above-trend growth. And importantly, it also seems likely that the recovery will become broader-based in the years ahead. There is still a long way to go until unemployment falls to more acceptable levels and risks to stability remain, principally from events in Greece. But, midway through 2015, prospects for the Eurozone economy seem brighter than they have done for quite some time.

Growth in first half of 2015 fastest since 2011

After growth of just 0.9% in 2014, the Eurozone economy accelerated in Q1 2015. GDP rose 0.4% on the quarter, above the average pace of the previous two years and faster than in the US and the UK.

The main driver of the Q1 performance was households' willingness to spend their energy windfall (see Box 1 for more detail). Declining oil prices through the second half of 2014 saw fuel bills falling more than 5% over the same period (with a further modest fall in bills since). With unemployment still high in many Eurozone countries, it would have been understandable if consumers had not spent this windfall. But in the event, households increased their spending by 0.6% on the quarter in Q1 — more than twice the average rise through 2013-14.

With the Purchasing Managers' Indices (PMIs) for April and May suggesting a modest slowdown from March, it is possible that GDP growth might slow slightly in Q2. But nevertheless, the Eurozone is currently experiencing its strongest period of growth since 2011.

Composition of growth to shift in the second half of the year

In the second half of 2015, households will start to feel energy bills rising in line with world oil prices, taking a little steam out of consumer spending. Nevertheless, we expect consumer spending to grow by 1.7% in 2015, faster than any year since 2006.

Exporters will also continue to benefit from recovery in other advanced economies (Q1 growth in both the UK and US appeared surprisingly weak, implying a rebound in the rest of the year). Moreover, despite the euro having appreciated recently, it remains 7% weaker than at the start of the year, implying further gains in competitiveness. Both these factors will help export growth to pick up in the second half of the year, for a rise of 3.7% for 2015 as a whole.

Furthermore, we expect a gradual pickup in the pace of investment spending through the second half of the year. Credit conditions have continued to improve, as have measures of business confidence. However, with ongoing uncertainty over Greece's future in the

Table 1

Forecast for the Eurozone economy (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	0.9	1.6	1.9	1.7	1.6	1.5
Private consumption	1.0	1.7	1.6	1.4	1.3	1.3
Fixed investment	1.0	1.1	2.9	2.9	2.7	2.3
Stockbuilding (% of GDP)	-0.3	0.0	0.1	0.2	0.3	0.3
Government consumption	0.7	0.5	0.5	0.7	0.8	0.9
Exports of goods and services	3.7	3.7	4.2	4.1	3.8	3.5
Imports of goods and services	3.8	3.8	4.2	4.2	4.0	3.7
Consumer prices	0.4	0.1	1.2	1.4	1.6	1.6
Unemployment rate (level)	11.6	11.1	10.6	10.2	9.8	9.4
Current account balance (% of GDP)	2.1	2.3	2.1	2.0	2.1	2.2
Government budget (% of GDP)	-2.4	-2.0	-1.7	-1.3	-1.1	-0.9
Government debt (% of GDP)	91.9	92.6	92.2	91.3	90.1	88.6
ECB main refinancing rate (%)	0.1	0.1	0.1	0.1	0.2	0.5
Euro effective exchange rate (1995 = 100)*	123.9	114.4	113.1	113.3	114.7	116.2
Exchange rate (US$ per €)	1.33	1.11	1.07	1.06	1.09	1.11

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

Source: Oxford Economics.

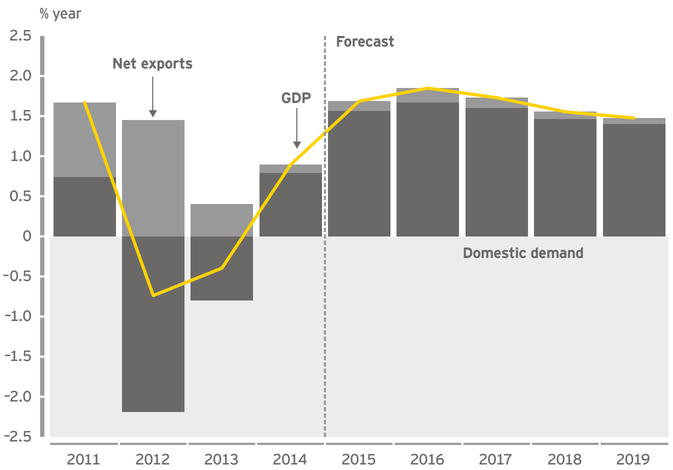
Eurozone rebalancing toward broad-based recovery

Eurozone, and the consequences of its possible exit, this is not yet materializing into higher investment spending. Assuming that uncertainty about Greece's continued membership fades, this should allow investment spending to start to rise in the last six months of the year, with business investment seen rising 1.5% in 2015 as a whole.

With a modest increase in government spending likely in 2015 overall (at the Eurozone level at least — big differences are likely between individual economies) we expect Eurozone GDP growth of 1.6% for the year.

Figure 1

Contributions to GDP growth



Source: Oxford Economics.

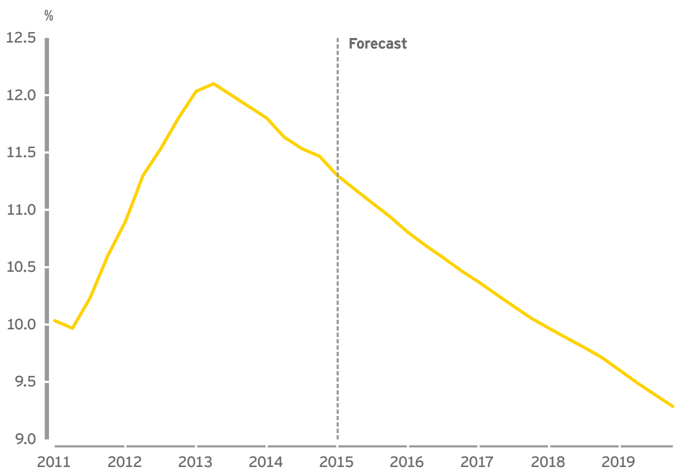
From 2016, the labor market will determine household spending prospects ...

The flipside of the oil price slump in the second half of 2014 is that rising oil prices in the coming months will slow households' real income growth. We expect household energy bills to rise by 5% in 2016, subtracting around half a percentage point from real household income.

Consumer spending will therefore become more reliant on labor market prospects. At the Eurozone level, the unemployment rate has eased by around half a percentage point in the year to Q1 2015, and we expect this pace to be broadly sustained through the coming few years. This would take the unemployment rate from 11.3% in March to just below 9.5% by the end of 2019 — close to the average for the decade to 2007.

Figure 2

Unemployment



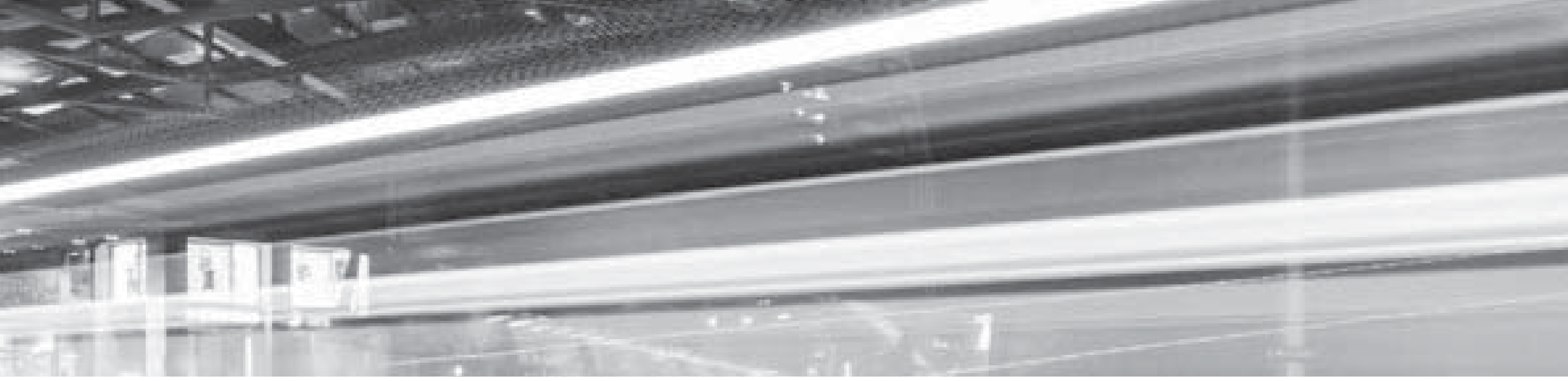
Source: Oxford Economics; Haver Analytics.

Table 2

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

	2014	2015	2016	2017	2018	2019
Manufacturing	1.2	2.2	2.2	2.0	1.8	1.6
Agriculture	2.5	1.6	1.9	1.6	1.3	1.1
Construction	-0.8	0.4	1.6	1.4	1.6	1.7
Utilities	-2.7	1.9	2.1	1.7	1.5	1.3
Trade	1.5	2.0	2.1	1.9	1.7	1.5
Financial and business services	1.1	2.0	2.2	2.0	1.8	1.6
Communications	1.2	3.3	3.5	3.3	3.0	2.8
Non-market services	0.8	0.5	0.7	0.8	0.8	0.9

Source: Oxford Economics.



This will compensate households for lost income from rising energy bills, supporting consumer spending growth of 1.6% in 2016, only slightly below the 2015 pace. But the degree of labor market slack will keep wage growth well below pre-crisis rates. So, although household income will expand in line with more people in employment, income growth for those already in work is likely to be less impressive than might normally be expected. As such, we forecast average consumer spending growth of just 1.3% a year in 2017–19.

... while the stimulus from net trade will ease over time

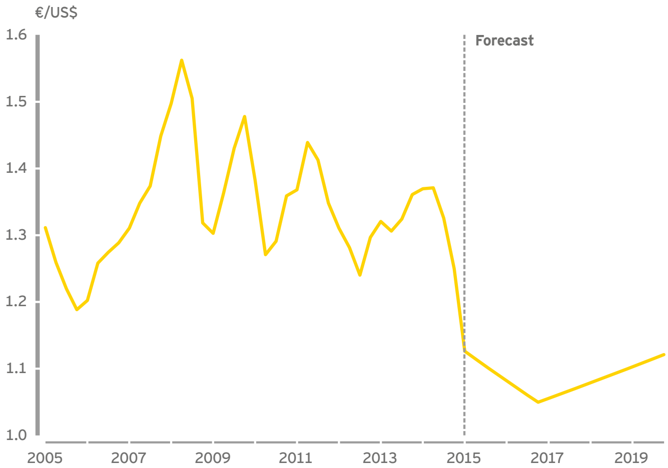
Net trade provided a key counterbalance to falling investment and consumer spending during the crisis, but, as we move into a period of firmer economic growth, this will start to ease. This is mainly a result of rebounding imports, which are set to grow slightly faster than forecast previously this year, by 3.8% (3.7% seen in March), in line with stronger consumer spending growth. Looking ahead, the ongoing recovery in domestic demand will push up imports by 4.2% in 2016, and just below 4% on average in 2017–19.

On the other side of the current account ledger, Eurozone firms will continue to feel the benefit of recovery in the advanced economies' export markets (see Box 2 for our assumptions on the global economic environment) as well as a weaker euro. The sovereign-bond purchase program from the European Central Bank (ECB) has already had a substantial impact on the euro/dollar exchange rate, and this seems set to persist in the years ahead. We expect the euro to weaken to around US$1.10 by the end of 2015 and then to about US$1.05 by the end of 2016, before gradually appreciating back above US$1.10 by 2019 as the ECB completes its sovereign bond purchases and eventually starts to raise interest rates.

Nevertheless, with some emerging economies — in particular China — set for a managed slowdown in the coming years, demand for European capital goods will grow more modestly. As such, we expect to see export growth easing back from a peak of 4.2% in 2016 to 4.1% in 2017 and 3.6% a year in 2018–19.

Figure 3

€/US$ exchange rate



Source: Oxford Economics.

With import and export growth broadly in balance therefore, the Eurozone should continue to run a fairly stable current account surplus, of just above 2% of GDP through the forecast period. This contrasts with a current account broadly in balance through most of the last decade — a testimony to the rebalancing achieved in some of the peripherals that had previously run chronic current account deficits and had been reliant on external debt.

Fiscal squeeze should relent

Over the past couple of years, the burden of deficit reduction has started to shift from emergency spending cuts toward recovering government revenues. As the recovery continues, this should increasingly be the case, while on the expenditure side low government borrowing costs — a side-product of the ECB's sovereign bond purchases — should help trim debt repayments. We expect this will save 0.1–0.2 percentage points of GDP through our forecast period in comparison with 2014.

Eurozone rebalancing toward broad-based recovery

Consumer spending staging an impressive rebound

Private consumption driving the Eurozone recovery …

Our forecasts show private consumption leading the pickup in GDP growth in the Eurozone in 2015. In turn, this will perhaps encourage firms to raise investment from 2016 in order to meet the higher level of consumer demand. Helped by the impact of low inflation and sharply lower oil prices, real personal disposable income in the Eurozone is now rising at its fastest rate since 2001. As a result, and with confidence levels rising, we expect consumer spending to increase by a robust 1.7% this year and then 1.6% in 2016. This will be a big improvement on just 1% in 2014 and declines in the two preceding years.

It always seemed likely that with gradually recovering labor markets and falling energy bills, households across the Eurozone would become more optimistic about their own financial situations in 2015. But the vigor of the consumer rebound has been quite remarkable. Total consumer spending growth of 0.5% in Q1 2015 might not sound particularly impressive, given that it rose 0.4% in Q4 2014, but looking at the more detailed data suggests a greater degree of confidence than the headline numbers imply.

The breakdown of Eurozone retail sales in Q1 shows that of the three main categories — food, beverages and tobacco (FBT), automotive fuel, and goods excluding FBT and fuel — it is clear that the spending recovery is taking place primarily in discretionary items. Fuel and food sales did grow at an accelerating pace in Q1, but other goods (including categories such as clothing, household durable goods and recreational equipment) grew at their fastest annual rate since 2007.

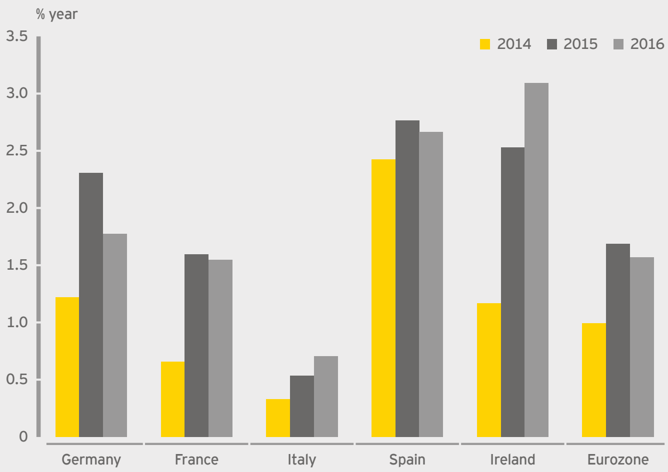
Households are also increasingly willing to purchase big-ticket items. New car registrations in Q1 rose 4.7% from Q4 2014 and 9.5% on a year earlier. Car sales remain 20% below 2006 levels, but the improvement in demand is welcome both from a spending perspective and in terms of production and investment — 12.7 million Europeans work in the automotive sector, so recovering demand will aid the recovery in Eurozone investment and employment and hence lend further support to consumer demand in the coming years.

… with impressive gains in Germany, Spain and Ireland

There will of course be differences across member countries. In Germany, it finally appears that consumers are beginning to spend more freely — which in turn will suck in more imports from other Eurozone countries, boosting demand in these and at last making inroads into the country's much-criticized large current account surplus. Private consumption growth in Germany is forecast to accelerate to 2.3% this year from 1.2% in 2014, with only a slight slowdown seen in 2016 given current high levels of confidence. The GfK household confidence index in June rose to its highest level in over 13 years, which points to continued buoyant German consumer spending. Real personal disposable incomes in Germany could rise by over 3% in 2015, the strongest gain since 1991.

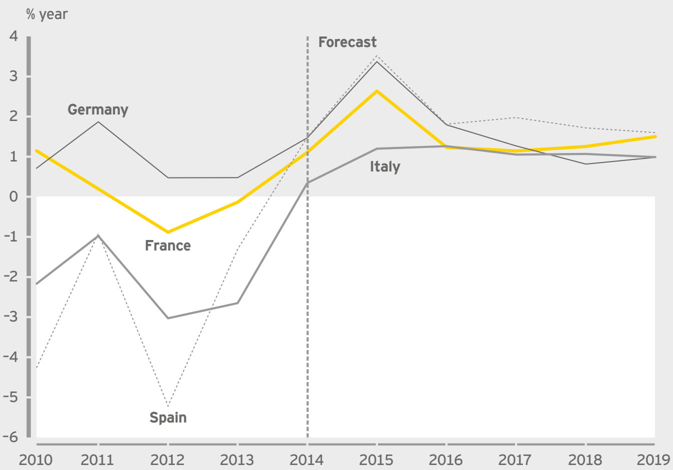
Other Eurozone countries are also experiencing strong growth in consumer spending, notably those countries where faster reforms have been implemented to open up labor markets and support exports, hence leading to rising employment. In Spain, consumer spending is forecast to grow by 2.8% this year, with a similar pace expected in 2016, while in Ireland it is seen more than doubling to 2.5% in 2015 and then rising

Figure 4
Private consumption

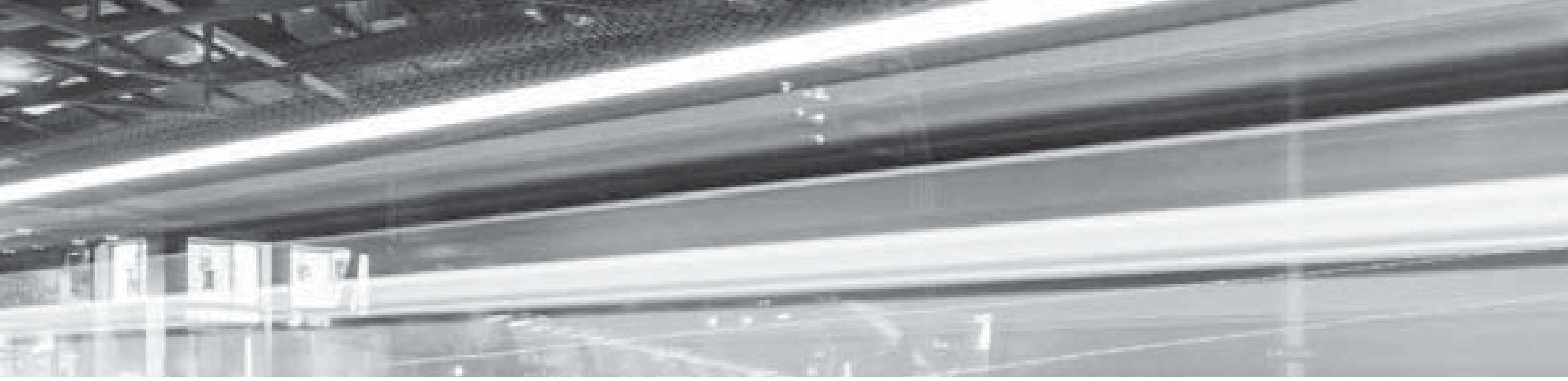


Source: Oxford Economics; Haver Analytics.

Figure 5
Real disposable income



Source: Oxford Economics; Haver Analytics.



above 3% in 2016. Conversely, in countries where the reform effort has been much slower and the labor markets are showing little improvement, such as France and Italy, consumers are more subdued. In Italy, consumer spending is forecast to rise by only about 0.5% in 2015–16.

Confidence rising and unemployment falling …

The improvement in demand for big ticket items is particularly encouraging, as it suggests households are not only feeling the benefit from lower energy bills, but are also more positive about underlying financial prospects. Improving labor market conditions are key in this respect.

Therefore, it is perhaps surprising that such a recovery in consumer confidence — which at the Eurozone level is at its highest since 2010 according to the European Commission (EC) Economic Sentiment Indicator — has occurred with the headline unemployment rate having fallen by just 0.4 percentage points over the year to Q1 2015. But this would be too simplified an assessment of the Eurozone labor market. Firstly, unemployment data refers to the stock of people *seeking work*. This might remain higher than it otherwise would if previously inactive people start to look for work again. This is indeed occurring in the Eurozone, with the working-age labor participation rate rising by 0.2 percentage points in both Q3 and Q4 2014. So the headline unemployment rate partly disguises the strength of job creation in the Eurozone. And as noted above, there are widely differing pictures in labor markets across the region, with the German jobless rate expected to fall below 5% this year and rates in Spain and Ireland now declining steadily (although they are still high). Meanwhile, unemployment rates are seen rising this year in France and Italy.

Secondly, the still-high headline unemployment rate (over 11% in the Eurozone) disguises a more impressive fall in the youth unemployment rate of 1.4 percentage points in the year to Q1 2015. Youth unemployment remains high — 22.8% at the Eurozone level — but nevertheless the improvement in access to employment for the most badly hit cohort of the workforce is a real cause for optimism.

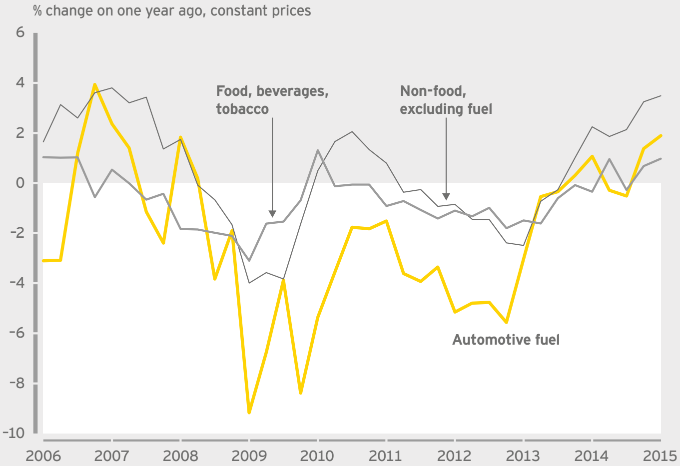
… and the fog is lifting over various risks

However, although households are clearly more optimistic about the financial environment for major purchases at the moment, they are less buoyant about the outlook for the coming 12 months. This suggests that worries about the outlook persist — perhaps as a result of uncertainty over Greece, whether the recent improvement in job creation can be sustained, or the prospect of future tax increases or welfare cuts. These are issues that Eurozone governments have the power to address — although not without a lot of hard work.

But as fiscal austerity eases and unemployment falls, reducing the threat of tax hikes and lessening the squeeze on welfare benefits, consumers should continue to grow in confidence. And if further upheaval in Greece can be avoided, then prospects for consumer spending would be further enhanced. Moreover, as Russia emerges from recession in 2016, this will lift consumer and business confidence, and hence consumer spending, in those Eurozone countries that are currently most affected by the Russian downturn.

Figure 6

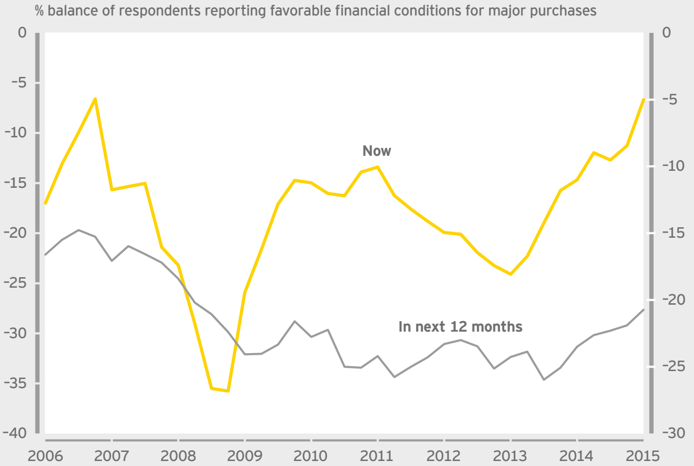
Retail sales, quarterly



Source: Statistical Office of the European Communities; Haver Analytics.

Figure 7

Consumer survey

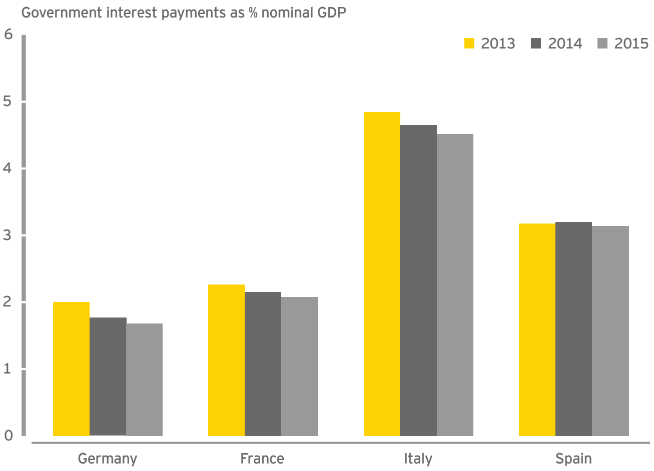


Source: Oxford Economics; Haver Analytics.

Eurozone rebalancing toward broad-based recovery

Figure 8

Government debt interest payments



Source: Oxford Economics; Haver Analytics.

As such, we expect that over the coming years government spending on goods and services should start to pick up – growing by 0.5% in 2015 and 2016, and about 0.8% in each of the following three years. Government spending will therefore make an increasing contribution to growth in economic activity. However, it will remain important for governments to maintain the path of deficit and debt reduction in the years ahead, and to continue to prioritize spending into areas that enhance longer-term growth potential.

Investment will pick up the baton

As already noted, the economic and financial conditions for a rebound in investment are starting to take root in the Eurozone, but uncertainty over Greece continues to make firms wary of implementing their spending plans. We expect this uncertainty to be resolved in the coming months in favor of Greece's continued membership of the currency union, setting the scene for firms to become more active from 2016 onwards.

Moreover, with the ECB's quantitative easing measures keeping borrowing costs near historical lows and inflation set to edge up gradually, the real cost of borrowing will remain low for the coming couple of years. This should provide further incentive for firms to step up capital investment, and we expect business investment to grow by close to 3.3% in both 2016 and 2017, easing by around half a percentage point thereafter.

Housing investment will also begin to rebound from 2016 onwards, as improving labor markets underpin confidence, augmented by increasing interest from overseas buyers in the worst-hit markets. At an average of around 2% a year, the rate of residential investment growth will be substantially lower than in the pre-crisis period – but this is preferable to a renewed construction bubble and oversupply.

Overall, with a modest recovery in government investment as the fiscal squeeze relents, we expect total fixed investment to make an increasing contribution to GDP growth in the years ahead. Total investment is set to grow by 2.9% in both 2016 and 2017, before easing a little to 2.5% a year in 2018–19.

A prolonged period of solid growth expected ...

Overall, it seems the Eurozone is set for a period of solid growth, which should be sufficient to absorb spare labor more rapidly, bring the unemployment rate down and generate sustained real wage growth. Nevertheless, the outlook for the coming two to three years is more favorable than the later years in the forecast, by which time the positive impacts of cheaper energy, a weaker euro and monetary stimulus will have started to unwind. We expect GDP growth to ease from 1.9% in 2016, to 1.7% in 2017and then 1.5% by 2019.

This is somewhat slower than in the decade to 2007, when growth averaged 2.3%. But in the context that a portion of growth in this period was driven by unsustainable debt accumulation – on the part of government and households – this is no bad thing. Growth in the coming few years may be less buoyant than in the past, but it is likely to be more durable and at the same time allow vulnerabilities, such as the stock of government debt, to be tackled.

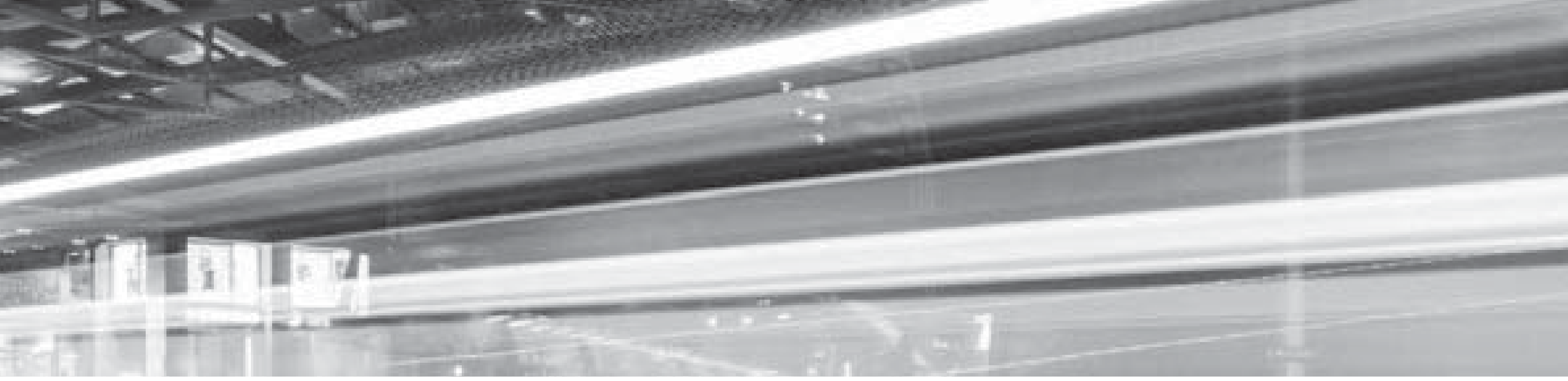
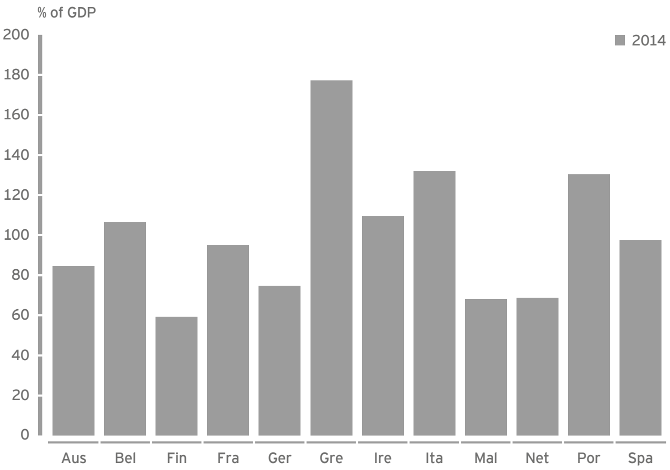


Figure 9

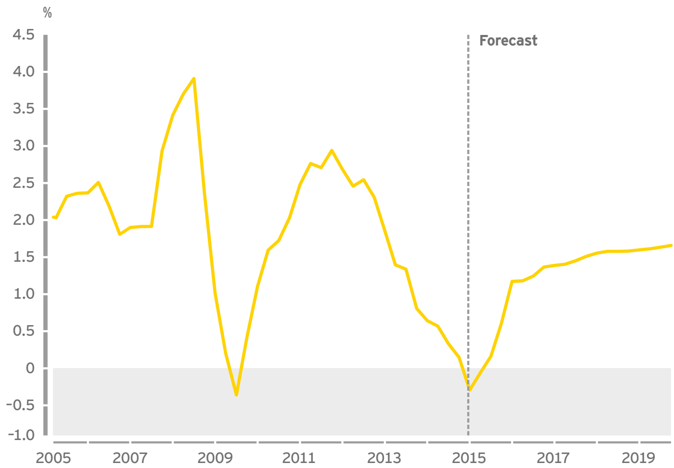
Government debt



Source: Oxford Economics; Haver Analytics.

Figure 10

Consumer price index (CPI) inflation



Source: Oxford Economics; Haver Analytics.

… and risks appear to be more evenly balanced

The economic outlook remains subject to a degree of risk and uncertainty, but we feel the balance of risks is becoming more even. For example, it looks as though the threat of a prolonged deflationary spell has receded — inflation expectations in financial markets (specifically those measured by "five year/five year forward" bond yields) have rebounded by around 0.2 percentage points since the start of the year, although at around 1.7% this remains a little short of the ECB's target of "below, but close to, 2%".

We expect inflation to pick up through 2015, as gradually rising oil prices and a weaker euro raise fuel bills, and in the longer term as firms get closer to something approaching "normal" capacity levels. Nevertheless, with inflation of just 0.1% in 2015, rising to 1.6% by 2019, there is a clear risk that price expectations will remain below the ECB's target.

On the downside though, there remains the danger of a Greek exit from the Eurozone, which would have damaging confidence impacts in financial markets. The contagion impact on the borrowing costs of other peripheral Eurozone economies would undermine debt sustainability, as well as derailing the recovery in the near term. We remain hopeful that a Greek exit can be averted, but there is no doubt that negotiations have become more strained in the first half of 2015.

However, there is potential for upside risk. Our forecasts for France and Italy are based on the assumption that there will be only modest growth-enhancing economic policy measures. Yet the example of Spain demonstrates how effective ambitious reform can be in boosting employment and consumer spending. More radical policy measures to improve the business environment in France and Italy could have both direct and indirect impacts on growth prospects — in the first instance directly on the growth potential of two economies representing 37% of Eurozone GDP, and secondly through the impact on intra-Eurozone trade felt by other Eurozone economies.

However, there is also a danger that the appetite for politically difficult reforms fades as economies start to grow more robustly. It will be important for business to continue to push the case for reform as the recovery continues.

Eurozone rebalancing toward broad-based recovery

The global economy

Our forecast for global GDP growth in 2015 has been lowered slightly to 2.6% from the 2.8% we saw in March. This reflects a combination of temporary weakness in advanced economies, which should reverse as the year progresses, and more fundamental worries about how fast China's economy will lose steam. Nevertheless, world output growth should pick up a little in subsequent years, to 3% in 2016 and about 3.2% a year in 2017–19. This is in line with our previous forecast.

The key development in the global economy since our last forecast was the publication of data showing the US economy slowed sharply in Q1 2015, contracting 0.2% after 0.6% growth in Q4 2014. But a confluence of factors are responsible for the weak showing, including another unusually harsh winter, the impact of the oil price slump on oil capex (down around 50% in the quarter) and a strike at West Coast ports. But the US economy remains fundamentally solid, with the labor market continuing to improve and housing investment also showing ongoing recovery. We have cut our forecast for US growth in 2015 from 3.1% to 2.3%, but the outlook for subsequent years is largely unchanged.

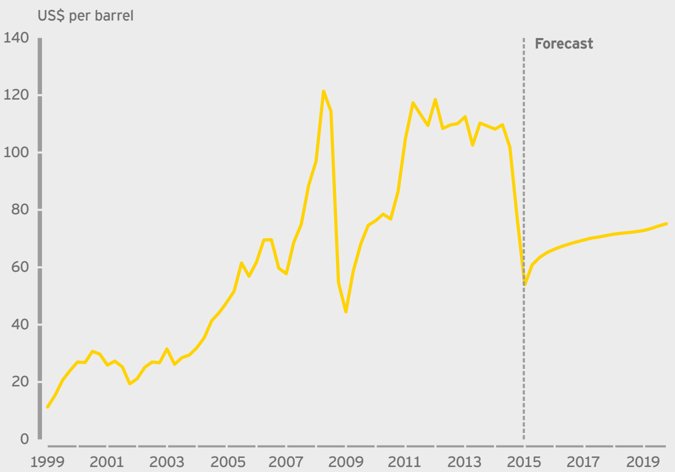
There was also slightly disappointing news elsewhere in the Eurozone's advanced economy trading partners, with UK GDP growth of just 0.3% in Q1 2015. Yet preliminary estimates of UK GDP are often revised upwards, and other indicators suggest this could be the case again. So although we have lowered our forecast for 2015 UK GDP growth from 2.8% to 2.6%, this is subject to reversal. But taking the data at face value, weaker UK growth in Q1 2015 implies greater spare capacity, and hence faster sustainable growth ahead. As such, our forecasts for growth in 2016 (2.8%) to 2019 (2.4%) are around 0.1 percentage points stronger than in March. Japan seems set for a roller-coaster few years — growth should accelerate from a tepid 0.8% in 2015 to 1.8% next year, as ultra-loose monetary policy takes full effect. But with a sales tax increase due in April 2017, growth will slow to below 1% in 2017–19.

Unfortunately for emerging markets — particularly those where firms have borrowed heavily in the US dollar in recent years — the temporary setback in the US recovery seems unlikely to meaningfully delay the Federal Reserve's tightening cycle. We expect the first increase in interest rates in the final quarter of 2015 (a few months later than previously) with a gradual rise of about 25 basis points a quarter thereafter, with the policy rate settling at 3.75% by the end of the decade. The impact on the dollar exchange rate versus emerging market currencies could well pose a risk to financial stability in some of the most exposed emerging markets.

More fundamentally, the shift in the balance of emerging market growth will continue. In China, Oxford Economics forecasts that GDP growth will slow from 7.4% in 2014 to 6.6% this year, and toward a "new normal" of about 5.5%, as the Government seeks to ease property investment, rebalance toward services and demographic factors start to erode the workforce. Meanwhile, India is set to continue growing at 7% a year, as demographic factors are more positive and manufacturing sectors become more capital-intensive.

Figure 11

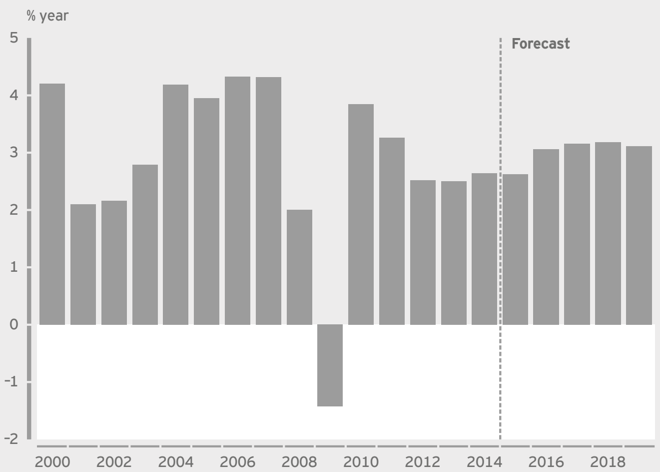
Oil price, nominal



Source: Oxford Economics.

Figure 12

World: GDP Growth



Source: Oxford Economics; Haver Analytics.

Forecast for Eurozone countries

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

19 Eurozone countries

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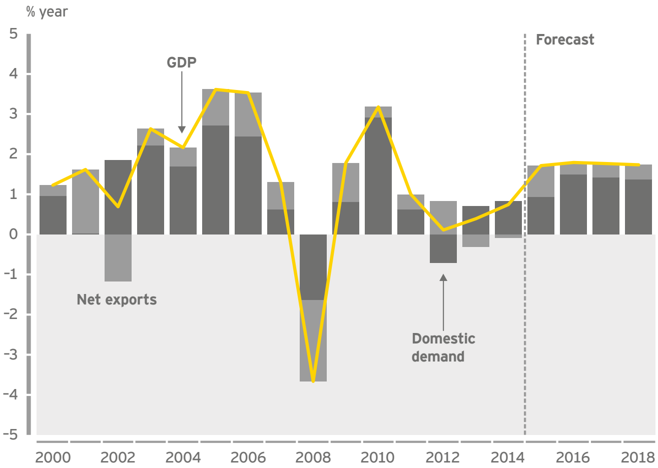
Austria

- The Austrian economy is forecast to grow 0.7% in 2015, underperforming the Eurozone as a whole for the second consecutive year.
- Investment is expected to remain subdued, while the contribution of exports will be only marginal as a consequence of the modest external environment.
- Looking ahead, growth should pick up more strongly, with GDP expanding by 1.7% in 2016 and then around 1.8% a year in 2017–19, as companies (which remain internationally competitive) benefit from a better external environment and exports provide a stronger contribution than they did this year.
- This will gradually spur an increase in investment, helped by supportive credit conditions. Moreover, the labor market remains very tight — the unemployment rate of just 5.5% in Q1 2015 is one of the lowest in the Eurozone.

Figure 13

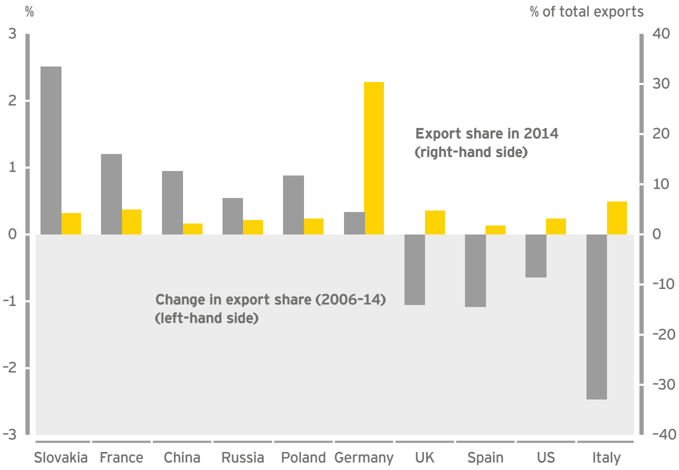
Contributions to GDP



Source: Oxford Economics.

Figure 14

Changes in export shares



Source: Oxford Economics; Haver Analytics.

Austria (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	0.4	0.7	1.7	1.8	1.8	1.7
Private consumption	0.2	0.7	1.3	1.5	1.4	1.4
Fixed investment	0.4	-0.1	4.2	2.1	1.6	1.4
Stockbuilding (% of GDP)	1.6	1.9	1.0	1.0	1.0	1.0
Government consumption	1.0	0.9	1.3	1.4	1.5	1.5
Exports of goods and services	1.6	2.6	4.2	5.1	4.9	4.4
Imports of goods and services	2.3	3.0	3.0	5.0	4.7	4.1
Consumer prices	1.5	0.8	1.5	1.9	1.8	1.8
Unemployment rate (level)	5.6	5.5	5.4	5.2	5.1	5.0
Current account balance (% of GDP)	0.8	2.3	2.5	2.5	2.6	2.7
Government budget (% of GDP)	-2.4	-2.1	-1.7	-1.2	-0.9	-0.9
Government debt (% of GDP)	84.5	84.9	83.7	82.0	80.2	78.4

Source: Oxford Economics.

Belgium

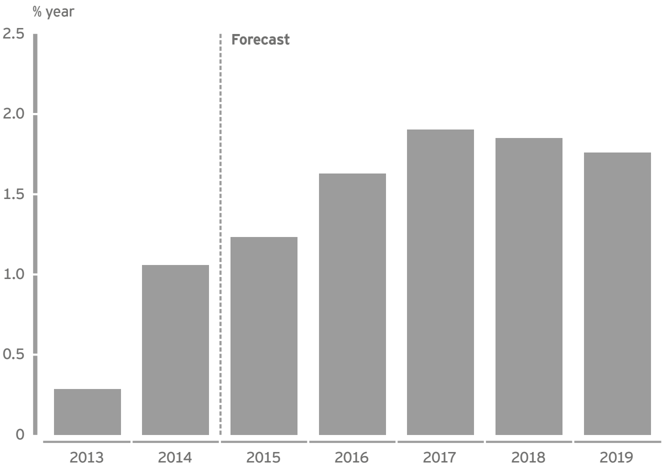
GDP growth

2015 1.2%

- GDP growth in Belgium is set to gather a little pace in 2015, but at 1.2% it will slightly lag behind the Eurozone average. Consumers are enjoying the windfall from lower energy costs and, along with a relatively tight labor market, this will support household spending in the coming few years.
- However, the Government will need to continue trimming expenditure in order to narrow the deficit and get the debt ratio on a downward trajectory. Meanwhile, although we expect Belgian exporters to benefit from recovery in trading partners and a weaker euro, export growth in the medium term will be slower than in the past as Belgium has become less competitive versus some other Eurozone economies.
- Overall, we expect growth to pick up to 1.6% in 2016 and then 1.8%–1.9% in the following years. This is a little way short of the pre-crisis average. More ambitious economic reform would potentially boost growth, aiding a faster reduction of Belgium's debt stock.

Figure 15

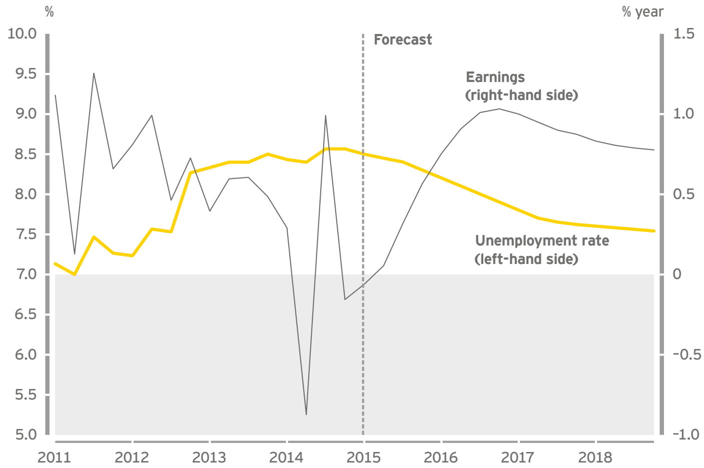
GDP growth



Source: Oxford Economics.

Figure 16

Unemployment and earnings



Source: Oxford Economics.

Belgium (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	1.1	1.2	1.6	1.9	1.8	1.8
Private consumption	0.9	1.8	1.8	1.6	1.6	1.5
Fixed investment	5.1	0.5	3.1	3.0	2.8	2.7
Stockbuilding (% of GDP)	-1.0	-0.7	-0.5	-0.4	-0.6	-0.5
Government consumption	1.0	0.0	0.0	0.5	1.0	1.5
Exports of goods and services	3.8	2.2	4.1	4.4	4.1	3.5
Imports of goods and services	3.6	2.4	4.5	4.2	3.8	3.6
Consumer prices	0.5	0.2	1.7	1.6	1.5	1.6
Unemployment rate (level)	8.5	8.4	8.1	7.7	7.6	7.5
Current account balance (% of GDP)	1.4	0.4	-0.3	-0.2	0.3	0.4
Government budget (% of GDP)	-3.2	-1.7	-1.6	-0.8	-0.3	0.0
Government debt (% of GDP)	106.5	108.2	109.1	108.7	107.7	106.4

Source: Oxford Economics.

Cyprus

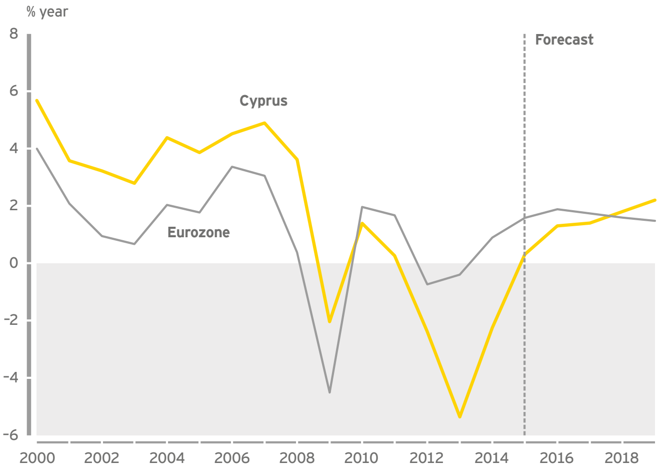
GDP growth

2015 0.3%

- The end of capital controls and approval of key insolvency laws in April appear to have paved the way for a resumption of funding under Cyprus' €10b international bailout agreed in March 2013. This will bolster prospects for a return to growth during 2015, with GDP now forecast to post 0.3% expansion for the year as a whole.
- Renewed International Monetary Fund (IMF) and EC funding and eligibility for the ECB quantitative easing program would mean that Cyprus is gradually returning to normal funding conditions, with a return to market-based financing underlined by its successful €1b international bond issue at the end of April.
- The Government has also announced some economic stimulus measures, including infrastructure spending, aimed at creating new jobs and stimulating domestic demand. Together with the resumption of external funding, we now forecast GDP growth of 1.3% in 2016, followed by a pickup to about 1.8% a year in 2017-19.

Figure 17

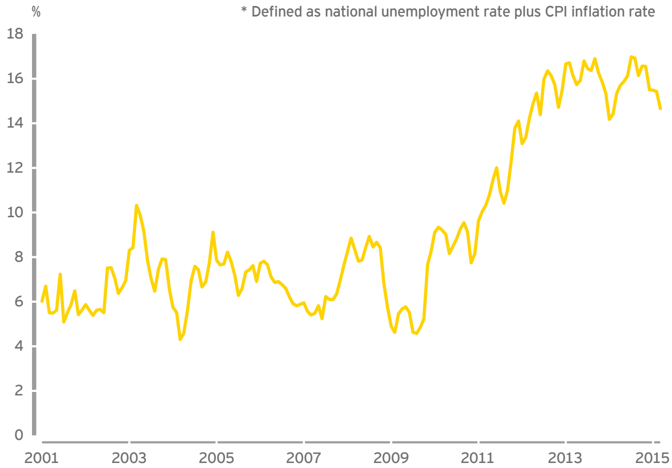
Real GDP growth



Source: Oxford Economics.

Figure 18

Misery index*



Source: Eurostat; Haver Analytics.

Cyprus (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	-2.3	0.3	1.3	1.4	1.8	2.2
Private consumption	0.4	0.3	0.9	1.1	1.6	1.9
Fixed investment	-18.8	-4.0	3.0	4.3	5.5	6.5
Stockbuilding (% of GDP)	1.4	2.2	2.3	2.1	1.8	1.5
Government consumption	-8.7	-0.8	-0.6	0.5	1.0	1.5
Exports of goods and services	5.7	-0.4	1.5	3.2	3.6	4.0
Imports of goods and services	8.1	-0.4	0.9	2.9	3.5	3.9
Consumer prices	-0.3	0.3	1.0	1.8	2.0	2.2
Unemployment rate (level)	16.1	16.2	15.3	13.8	11.9	10.1
Current account balance (% of GDP)	-5.1	-0.5	-0.3	-0.3	-0.4	-0.6
Government budget (% of GDP)	-8.8	-2.9	-2.4	-2.2	-2.1	-1.2
Government debt (% of GDP)	107.5	109.8	109.7	108.4	106.5	103.1

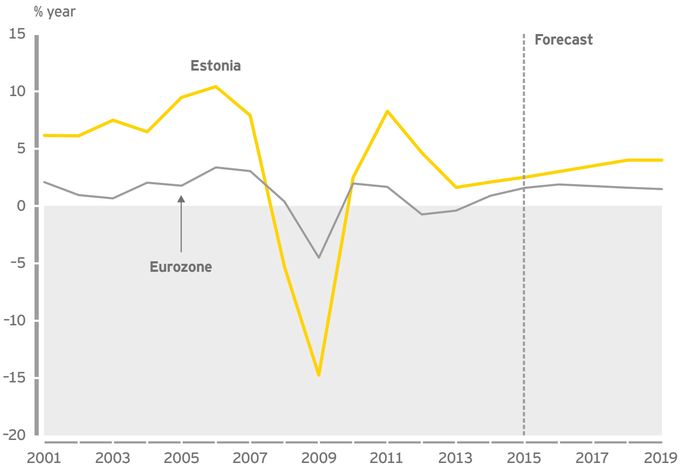
Source: Oxford Economics.

Estonia

- Supported by solid consumer spending and a pickup in investment, Estonia's GDP growth is forecast to accelerate to 2.5% in 2015. And as external demand recovers, growth should rise further, to 3% in 2016, 3.5% in 2017 and 4% a year in 2018-19.
- Inflation slipped into negative territory in Q1 2015, which, coupled with income tax cuts and a 10% increase in the minimum wage, will contribute to rapidly rising real incomes. These factors should support consumer spending growth, which is forecast at 3.5% in 2015 and 3.9% in 2016.
- Weak demand in Estonia's main trading partners means the outlook for exports is less upbeat than previously expected. Continuing weakness in two of Estonia's main trading partners, Finland and Russia, mean that the risks to the forecast are on the downside.

Figure 19

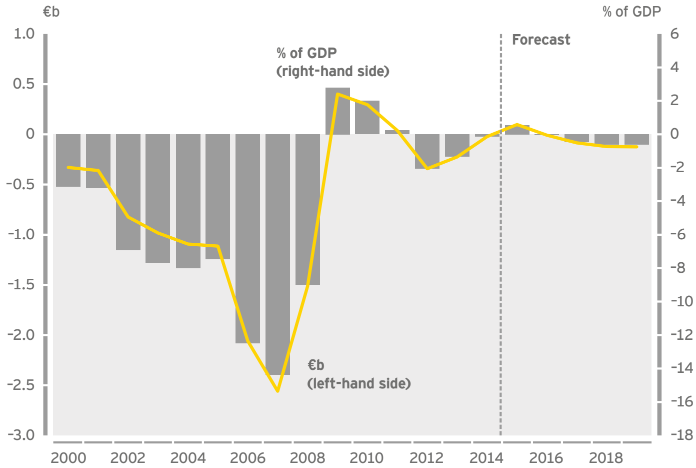
Real GDP growth



Source: Oxford Economics.

Figure 20

Current account balance



Source: Oxford Economics.

Estonia (annual percentage changes unless specified)

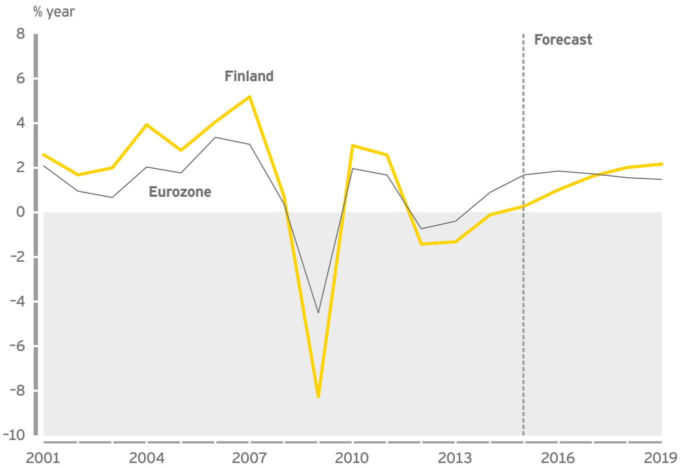
	2014	2015	2016	2017	2018	2019
GDP	2.1	2.5	3.0	3.5	4.0	4.0
Private consumption	4.6	3.5	3.9	4.1	4.1	4.1
Fixed investment	-2.8	2.2	4.5	5.3	4.9	4.9
Stockbuilding (% of GDP)	1.4	1.5	1.6	1.4	1.6	1.7
Government consumption	2.3	1.3	1.5	2.3	2.7	2.6
Exports of goods and services	2.6	3.1	5.9	7.8	7.5	7.0
Imports of goods and services	2.7	3.5	6.7	8.2	7.8	7.2
Consumer prices	0.5	0.5	2.1	2.5	2.5	2.5
Unemployment rate (level)	7.3	6.2	5.4	5.3	5.3	5.4
Current account balance (% of GDP)	-0.1	0.5	0.0	-0.4	-0.5	-0.5
Government budget (% of GDP)	0.6	-0.1	-0.4	-0.1	0.1	0.3
Government debt (% of GDP)	9.2	9.1	9.0	8.7	8.0	7.2

Source: Oxford Economics.

Finland

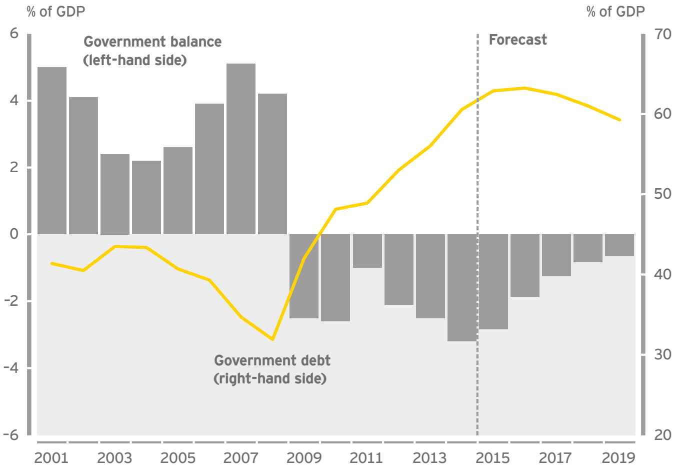
- After contracting by 0.1% in 2014 and then posting another small decline in GDP in Q1 2015, we expect the Finnish economy to remain weak this year, growing by just 0.3%. For 2016, we forecast growth will accelerate mildly to 1%.
- The economy is being hit by a combination of negative factors, both domestic and external. Weak consumption and a lack of investment, coupled with an external sector that is still struggling to cope with the ongoing problems in Russia, are curbing growth prospects.
- In the long run, Finland faces a series of structural problems that need to be addressed, including the necessary restructuring of industry in order to regain lost competitiveness. As a result, growth will pick up only slowly to an average of just over 2% a year in 2018–19.

Figure 21
GDP growth



Source: Oxford Economics.

Figure 22
Government balance and debt



Source: Oxford Economics.

Finland (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	-0.1	0.3	1.0	1.6	2.0	2.2
Private consumption	-0.2	0.0	1.0	1.6	1.8	2.0
Fixed investment	-5.1	-2.4	1.9	2.3	2.3	2.3
Stockbuilding (% of GDP)	0.5	0.8	0.5	0.3	0.4	0.7
Government consumption	0.2	0.9	0.9	1.4	1.4	1.5
Exports of goods and services	-0.4	0.8	2.8	3.2	3.3	3.2
Imports of goods and services	-1.4	0.0	2.4	2.9	3.2	3.2
Consumer prices	1.2	0.1	1.1	1.1	1.3	1.6
Unemployment rate (level)	8.7	9.0	8.8	8.2	7.8	7.4
Current account balance (% of GDP)	-1.9	-0.2	-0.1	0.0	0.0	0.0
Government budget (% of GDP)	-3.2	-2.8	-1.9	-1.2	-0.8	-0.7
Government debt (% of GDP)	61.8	63.9	63.9	62.9	61.3	59.5

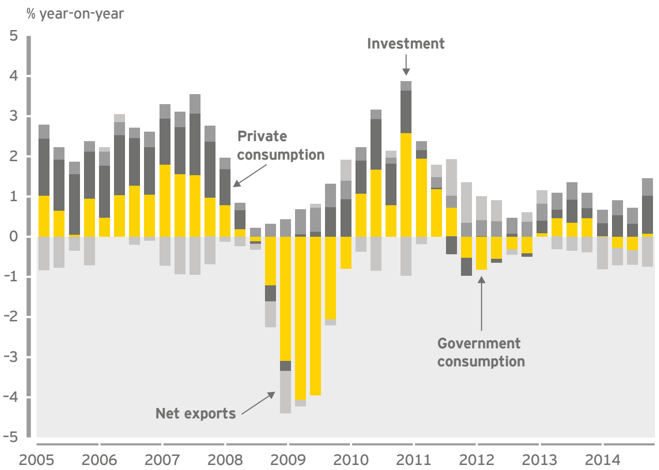
Source: Oxford Economics.

France

- The French economy made a healthy start to the year, with quarterly GDP growth of 0.6%, and, while growth will weaken over the rest of the year, expected 2015 expansion of 1.4% will be a marked improvement on the 0.2% rise in 2014.
- For now, the economy remains reliant on consumers spending their windfall from the oil-related plunge in inflation. Export growth is likely to remain subdued despite the euro's weakness as a result of weak global demand, while the need for firms to boost profits will take precedence over investment. We see GDP growth strengthening only gradually to 1.7% in 2016 and then averaging 1.6% a year in 2017-19.
- Risks to the outlook are balanced, but the key downside risk would be a slump in business and consumer confidence in response to a Greek exit from the Eurozone. Given the fragility of the recovery, such a shock could be enough to push France back into recession.

Figure 23

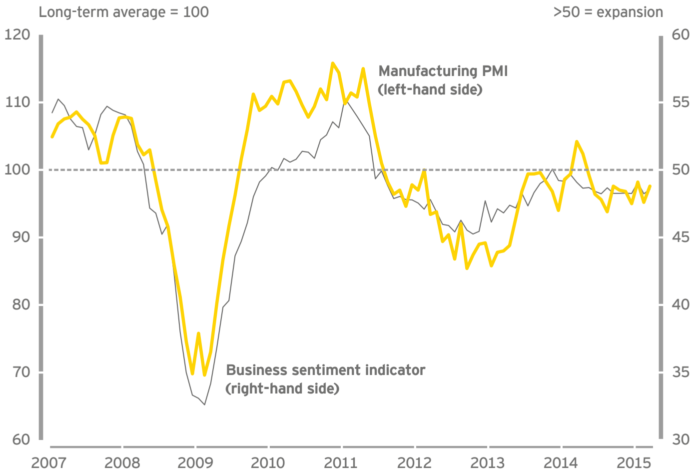
Contributions to GDP



Source: Oxford Economics; Haver Analytics.

Figure 24

Manufacturing Purchasing Managers' Index (PMI) and business sentiment



Source: Oxford Economics; Haver Analytics.

France (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	0.2	1.4	1.7	1.6	1.5	1.6
Private consumption	0.7	1.6	1.5	1.5	1.4	1.4
Fixed investment	-1.2	-0.7	1.9	2.5	2.8	2.4
Stockbuilding (% of GDP)	0.7	0.7	0.7	0.7	0.6	0.6
Government consumption	1.5	1.8	0.6	0.4	0.5	0.7
Exports of goods and services	2.4	3.1	3.4	4.2	4.2	4.1
Imports of goods and services	3.9	2.4	2.1	3.4	3.7	3.8
Consumer prices	0.6	0.1	1.4	1.6	1.6	1.7
Unemployment rate (level)	10.3	10.5	10.3	10.1	9.9	9.8
Current account balance (% of GDP)	-1.5	-1.4	-1.4	-1.2	-0.8	-0.5
Government budget (% of GDP)	-4.0	-4.3	-4.0	-3.3	-2.6	-2.4
Government debt (% of GDP)	95.5	100.2	103.4	105.0	105.3	104.6

Source: Oxford Economics.

Germany

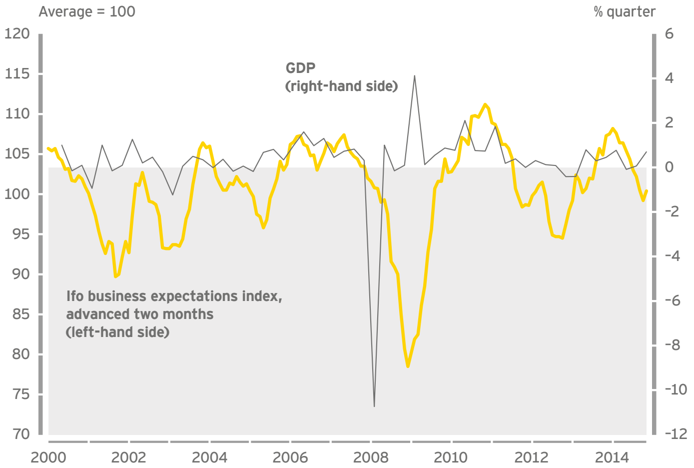
GDP growth

2015 2.0%

- The plunge in the oil price and strengthening labor income in response to the tight labor market will ensure that healthy consumer spending lifts GDP growth to a fairly healthy 2% in 2015 and then 2.2% in 2016.
- Although the prospects for exports and investment growth are also encouraging, growth is likely to be steady rather than spectacular in these two sectors. This is due to relatively subdued global growth and lingering uncertainties over Greece's long-term future in the Eurozone and the continuing problems in Ukraine.
- Beyond this year and next, economic fundamentals suggest that the pace of growth will slow steadily. With Germany's potential growth rate probably somewhere in the region of 1.2%, we expect GDP growth to decelerate to just 1% by the end of the decade.

Figure 25

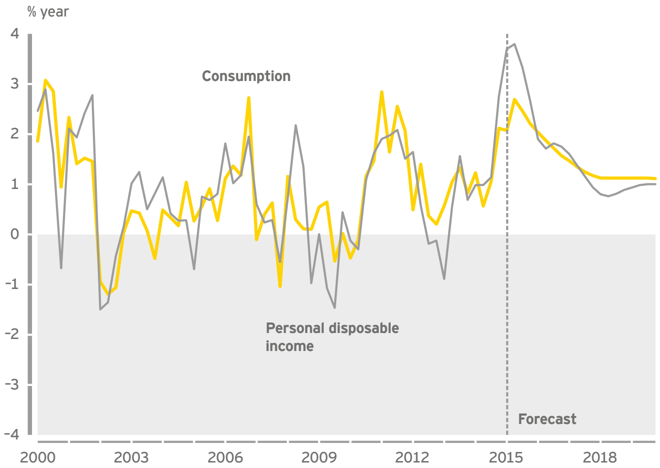
GDP and Ifo business expectations



Source: Oxford Economics; Haver Analytics.

Figure 26

Consumption and personal disposable income



Source: Oxford Economics.

Germany (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	1.6	2.0	2.2	1.7	1.3	1.0
Private consumption	1.2	2.3	1.8	1.3	1.1	1.1
Fixed investment	3.3	2.1	3.9	3.5	2.7	1.9
Stockbuilding (% of GDP)	-1.2	-1.0	-0.3	0.1	0.2	0.2
Government consumption	1.2	1.7	0.9	1.0	1.0	0.8
Exports of goods and services	3.7	4.2	4.3	4.0	3.8	3.4
Imports of goods and services	3.4	5.7	5.8	5.1	4.6	4.2
Consumer prices	0.8	0.3	1.6	1.7	1.8	1.5
Unemployment rate (level)	5.0	4.8	4.9	4.8	4.7	4.5
Current account balance (% of GDP)	7.8	8.2	7.5	7.1	7.0	7.0
Government budget (% of GDP)	0.7	1.1	0.6	0.5	0.3	0.2
Government debt (% of GDP)	74.7	71.2	68.2	65.7	63.4	61.6

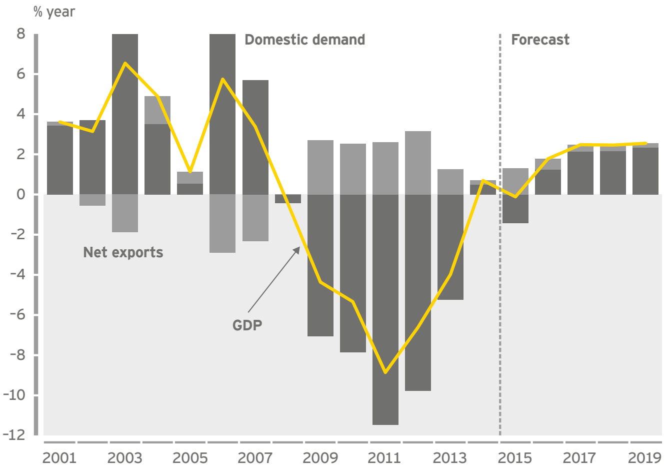
Source: Oxford Economics.

Greece

- The economic outlook for Greece remains highly uncertain. Although the Government agreed an extension to the existing adjustment program in February, it has so far failed to agree a reform agenda with international creditors required to secure the release of much-needed financing.
- As a result, the progress made in 2014, when the economy emerged from six years of recession, now appears to have been lost. The economy probably returned to recession in Q2 2015.
- We now forecast a small decline in GDP in 2015 and then growth of 1.8% in 2016, but this assumes an agreement that will enable Greece to avoid defaulting to the IMF and the ECB and that will trigger fresh funding.

Figure 27

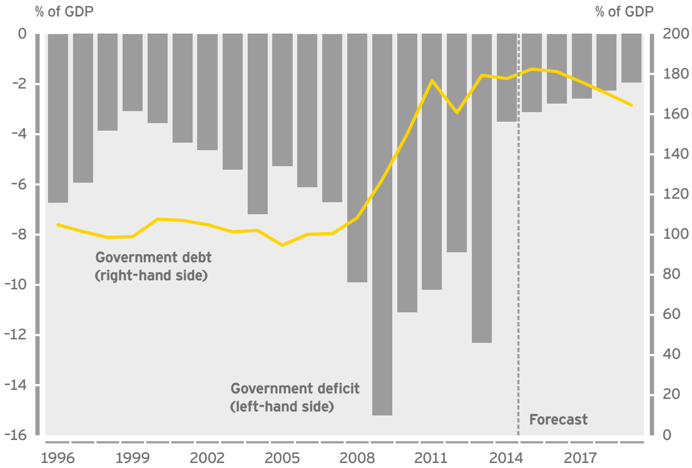
Contributions to GDP growth



Source: Oxford Economics.

Figure 28

Government deficit and debt



Source: Oxford Economics.

Greece (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	0.7	-0.1	1.8	2.5	2.5	2.6
Private consumption	1.4	1.3	1.2	1.4	1.6	1.8
Fixed investment	3.0	-10.1	3.3	5.0	4.8	4.6
Stockbuilding (% of GDP)	-0.4	-0.4	-0.2	0.1	0.3	0.6
Government consumption	-0.8	-5.5	-0.9	1.7	1.6	1.7
Exports of goods and services	8.8	4.0	4.8	4.8	4.9	4.7
Imports of goods and services	7.4	-0.3	3.0	3.7	4.0	4.1
Consumer prices	-1.4	-1.8	-0.4	1.1	1.8	1.9
Unemployment rate (level)	26.6	25.6	24.1	22.2	20.4	18.7
Current account balance (% of GDP)	0.5	0.5	0.5	0.5	0.5	0.5
Government budget (% of GDP)	-3.5	-3.1	-2.8	-2.6	-2.3	-1.9
Government debt (% of GDP)	177.1	183.2	181.9	176.6	170.9	164.9

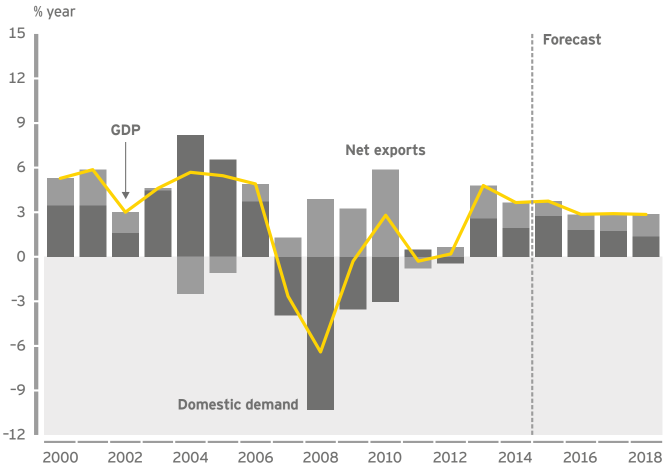
Source: Oxford Economics.

Ireland

- Last year saw clear signs of a recovery in domestic demand. Notwithstanding the effect of some national accounting distortions, robust performances by both consumption and investment showed that the recovery was more broad-based than it previously appeared. Complementing this, the labor market continues to heal, with unemployment dropping to 10.2% by the end of Q1 2015.
- Continued momentum in consumption and investment are expected this year, as low oil prices and building confidence levels spur further household and business spending. But the export sector will continue to drive the recovery, as the weaker euro makes Irish exports more attractive abroad.
- Downside risks include weaker growth in Ireland's main trading partners and destabilization within the Eurozone. Overall, we expect the economy to continuing growing, by 3.7% this year and 3.8% in 2016, slower than the 4.8% posted in 2014, but built on broader foundations.

Figure 29

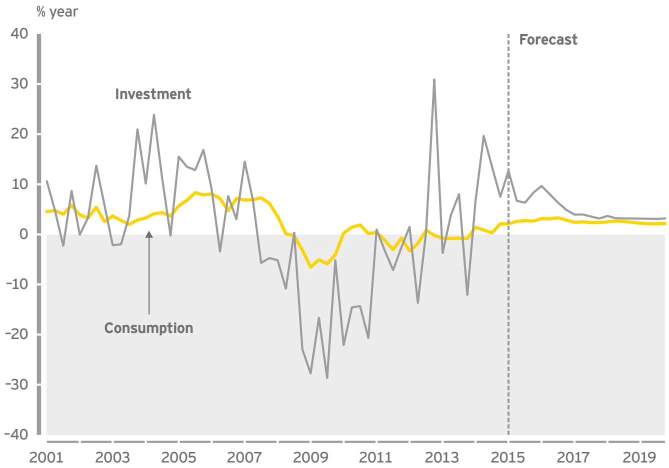
Contributions to GDP



Source: Oxford Economics.

Figure 30

Consumption and investment



Source: Oxford Economics.

Ireland (annual percentage changes unless specified)

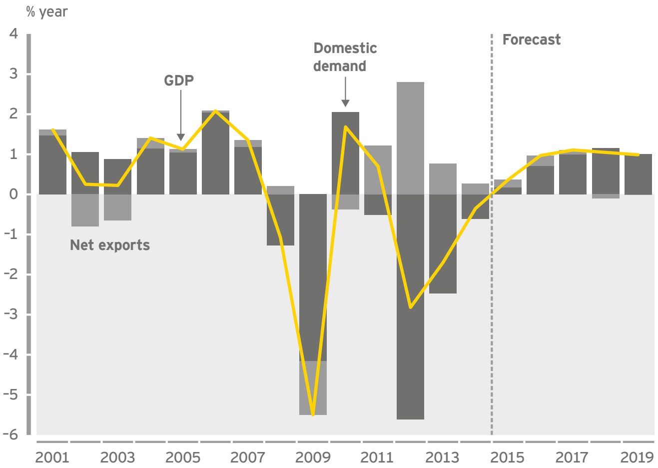
	2014	2015	2016	2017	2018	2019
GDP	4.8	3.7	3.8	2.9	2.9	2.9
Private consumption	1.2	2.5	3.1	2.4	2.5	2.2
Fixed investment	11.7	8.4	7.2	3.7	3.3	3.1
Stockbuilding (% of GDP)	1.5	1.0	1.1	1.1	1.0	0.7
Government consumption	0.2	-0.5	0.1	0.7	0.8	0.8
Exports of goods and services	12.6	5.5	4.4	4.3	4.1	3.7
Imports of goods and services	13.2	5.0	4.4	4.3	3.8	3.1
Consumer prices	0.3	0.3	1.8	2.0	2.3	2.0
Unemployment rate (level)	11.3	9.6	9.0	8.4	8.1	8.0
Current account balance (% of GDP)	6.1	4.9	3.7	3.8	3.8	3.7
Government budget (% of GDP)	-4.1	-1.9	-0.8	0.0	0.2	0.1
Government debt (% of GDP)	109.7	105.4	100.5	95.9	90.9	86.6

Source: Oxford Economics.

Italy

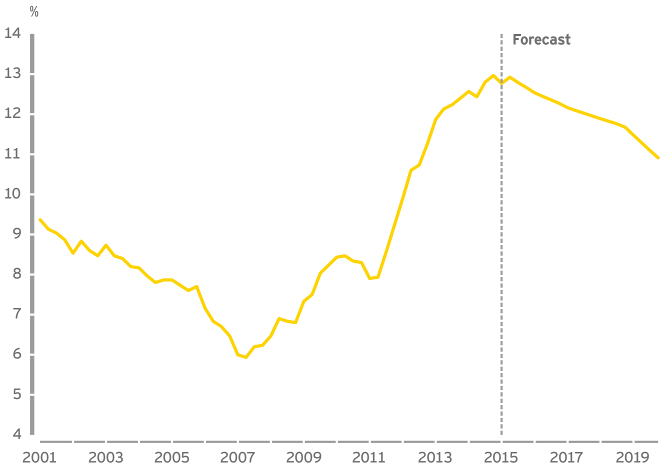
- GDP grew modestly in Q1 after 14 quarters of recession. Nevertheless, Italy will again be the worst performer among the Eurozone's large countries. The economy is seen growing by just 0.5% in 2015, whereas the Eurozone is forecast to expand 1.6%.
- While we expect private consumption to continue its recent positive trend – with benefits coming from the reduction in inflation – households will probably try to restore savings eroded during the prolonged crisis.
- The more competitive euro, as well as a more supportive external environment, should provide a helpful background for exports. We forecast that exports will rise by 4% in 2015 and 2016, before slowing to a little over 3% a year in 2017-19.
- If the Government can accelerate the implementation of structural reforms, such as those in the justice system and public administration, this would help the economy to pick up more strongly than expected.

Figure 31
Contributions to GDP growth



Source: Oxford Economics.

Figure 32
Unemployment rate



Source: Oxford Economics.

Italy (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	-0.4	0.5	1.0	1.1	1.0	1.0
Private consumption	0.3	0.5	0.7	0.8	0.8	0.8
Fixed investment	-3.2	0.1	1.7	2.0	2.0	2.0
Stockbuilding (% of GDP)	-0.1	-0.1	-0.1	0.1	0.3	0.4
Government consumption	-0.9	-0.3	0.0	0.1	0.3	0.4
Exports of goods and services	2.4	4.0	4.0	3.4	3.0	3.0
Imports of goods and services	1.6	3.8	3.5	3.5	3.8	3.4
Consumer prices	0.2	0.1	0.9	1.0	1.3	1.7
Unemployment rate (level)	12.7	12.8	12.4	12.1	11.8	11.2
Current account balance (% of GDP)	1.9	2.5	2.1	1.7	1.5	1.4
Government budget (% of GDP)	-3.0	-2.7	-2.0	-1.5	-1.3	-1.1
Government debt (% of GDP)	132.1	133.2	132.4	130.7	128.8	126.5

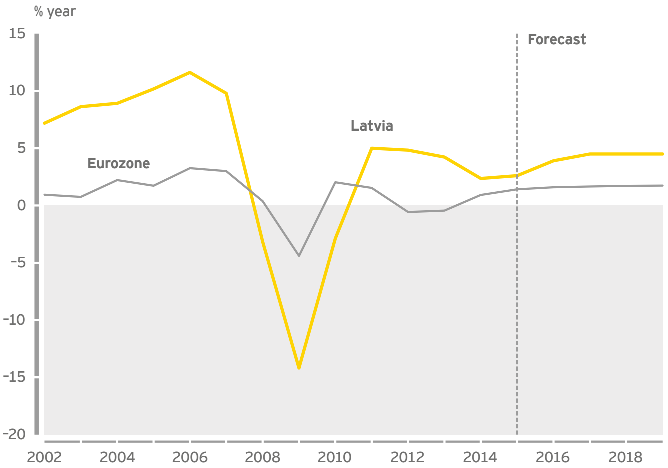
Source: Oxford Economics.

Latvia

- With the uncertain situation in the Baltic region and Russia's move into recession slowing trade and investment, our GDP growth forecast for 2015 has been lowered to 2.6%, despite a pickup in consumer demand.
- But as the external position stabilizes, stronger trade and investment will lead to faster economic growth from next year, with GDP seen rising 3.9% in 2016 and then picking up to 4.5% a year in 2017-19.
- Consumption growth is offsetting the impact of falling fuel prices to keep inflation mildly positive in 2015, and the rate will climb to over 2% from 2016, as stronger demand, rising energy import prices and a weaker euro drive up consumer and producer prices.

Figure 33

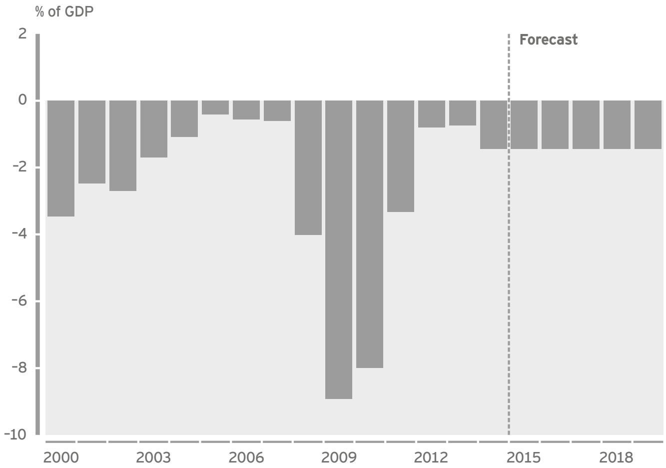
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 34

Government budget balance



Source: Oxford Economics.

Latvia (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	2.4	2.6	3.9	4.5	4.5	4.5
Private consumption	2.3	3.3	3.9	4.1	4.2	4.4
Fixed investment	1.6	2.7	4.5	4.8	4.7	4.6
Stockbuilding (% of GDP)	1.0	0.8	0.5	0.5	0.6	0.6
Government consumption	3.6	2.7	2.7	2.9	3.0	3.0
Exports of goods and services	1.9	3.0	4.9	5.5	5.5	5.8
Imports of goods and services	1.5	3.5	4.1	4.8	5.0	5.2
Consumer prices	0.7	0.7	2.4	2.4	2.4	2.4
Unemployment rate (level)	10.9	10.0	9.1	8.3	7.9	7.7
Current account balance (% of GDP)	-3.1	-0.7	-0.9	-1.0	-0.9	-0.6
Government budget (% of GDP)	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Government debt (% of GDP)	35.4	35.7	35.0	34.1	33.3	32.6

Source: Oxford Economics.

Lithuania

GDP growth

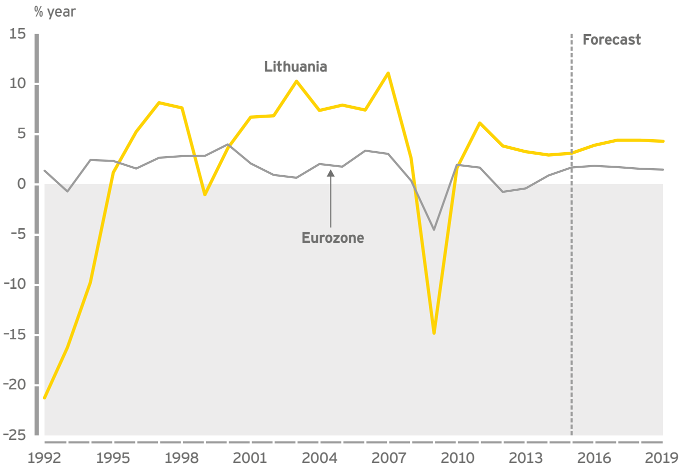
2015

2.6%

- Despite the impact of weaker trade with Russia, Lithuania is set to remain among the Eurozone's fastest-growing economies, with GDP seen rising 2.6% this year and then just over 4% a year in 2016–19, as new export opportunities supplement domestic consumption and investment strength.
- But there are short-term downside risks from the recession in Russia and security concerns, and longer-term overheating risks from the persistent fiscal deficit and tightening labor market.
- Inflation will return in 2016–17 after this year's 0.4% decline, but our forecast shows it staying only a little above the Eurozone average, peaking at 2.2% in 2017, leaving present cost advantages intact.
- The current account is set for reversal from surplus in 2015 to deficit, widening to 2.2% of GDP in 2019, but this remains financeable once a more stable external environment restores the trend growth in FDI.

Figure 35

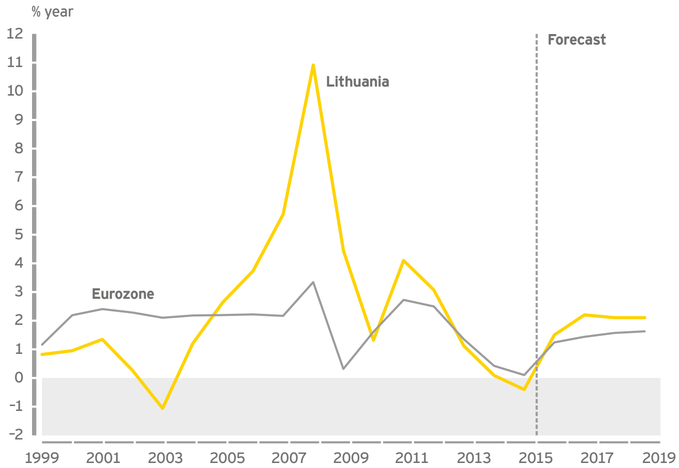
Real GDP growth



Source: Oxford Economics.

Figure 36

Inflation



Source: Oxford Economics.

Lithuania (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	2.9	2.6	3.9	4.4	4.4	4.3
Private consumption	5.6	3.8	4.4	4.4	4.3	4.2
Fixed investment	8.6	1.5	5.0	6.5	5.5	4.8
Stockbuilding (% of GDP)	-3.4	-1.2	-1.5	-1.5	-1.2	-0.8
Government consumption	1.3	1.5	1.9	2.8	3.2	3.2
Exports of goods and services	3.2	2.0	7.5	7.5	7.2	7.0
Imports of goods and services	5.2	5.2	7.4	7.6	7.5	7.3
Consumer prices	0.1	-0.4	1.9	2.2	2.1	2.1
Unemployment rate (level)	10.7	9.9	9.1	8.2	7.3	6.5
Current account balance (% of GDP)	0.1	0.6	-0.5	-1.5	-2.0	-2.2
Government budget (% of GDP)	-0.7	-0.7	-0.8	-0.6	-0.5	-0.3
Government debt (% of GDP)	37.7	37.6	36.4	34.7	33.0	31.3

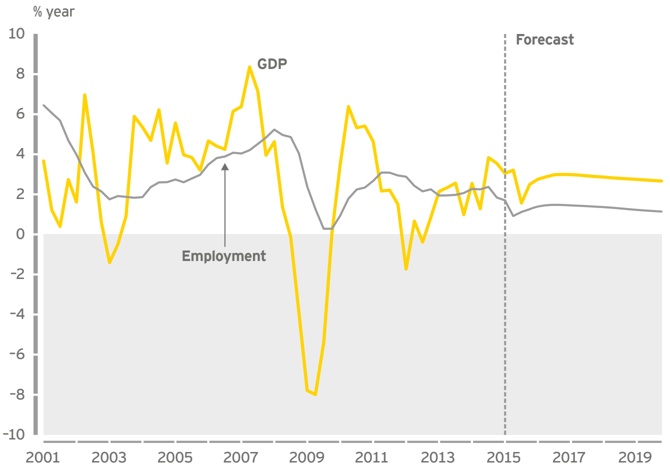
Source: Oxford Economics.

Luxembourg

- After a slight slowdown to 2.6% in 2015, GDP growth is forecast at about 2.8% a year in 2016–19, as fixed investment and consumption offset the gradually falling external surplus.
- Inflation is set to stabilize at around 2% in 2016–19, as lower energy costs offset this year's VAT increase and productivity growth averts labor market tightening.
- Financial services will remain vital to the economy, as asset management firms tap global markets, but banking recovery may be held back by new capital requirements and regulatory change.
- Strong acceleration of export growth seen in 2015–16 will be largely matched by imports, but steady fiscal surpluses and low public debt offer insulation against any slowdown in external demand or renewed financial shocks.

Figure 37

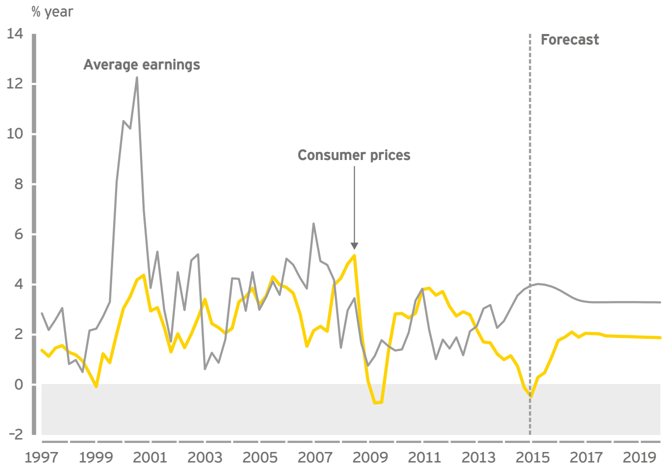
Real GDP and employment



Source: Oxford Economics.

Figure 38

Inflation and earnings



Source: Oxford Economics.

Luxembourg (annual percentage changes unless specified)

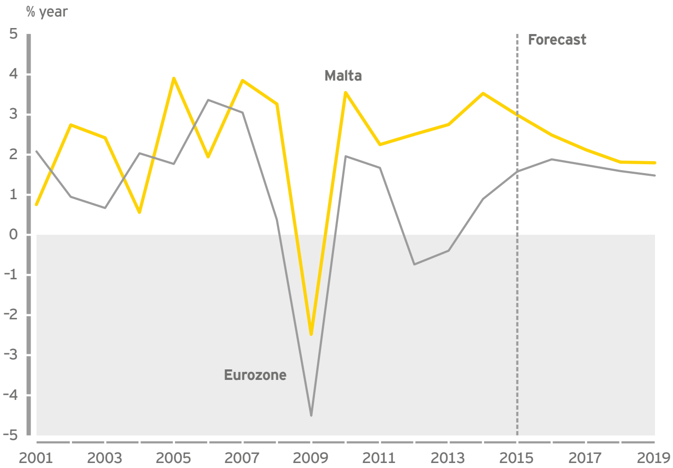
	2014	2015	2016	2017	2018	2019
GDP	2.8	2.6	2.9	2.9	2.8	2.7
Private consumption	2.6	2.0	2.4	2.4	2.4	2.4
Fixed investment	3.9	3.7	3.7	3.3	3.0	2.7
Stockbuilding (% of GDP)	-1.5	-1.3	-2.0	-2.0	-1.5	-1.4
Government consumption	3.2	1.4	1.9	1.9	1.9	1.9
Exports of goods and services	2.4	4.6	5.8	5.0	3.3	2.9
Imports of goods and services	2.0	4.9	5.8	5.2	3.5	2.9
Consumer prices	0.7	0.3	1.9	2.0	1.9	1.9
Unemployment rate (level)	5.9	5.9	5.8	5.6	5.3	4.8
Current account balance (% of GDP)	5.3	4.5	4.9	4.5	3.8	3.5
Government budget (% of GDP)	0.6	0.1	0.0	0.0	0.0	0.0
Government debt (% of GDP)	23.6	22.7	21.6	20.3	19.3	18.5

Source: Oxford Economics.

Malta

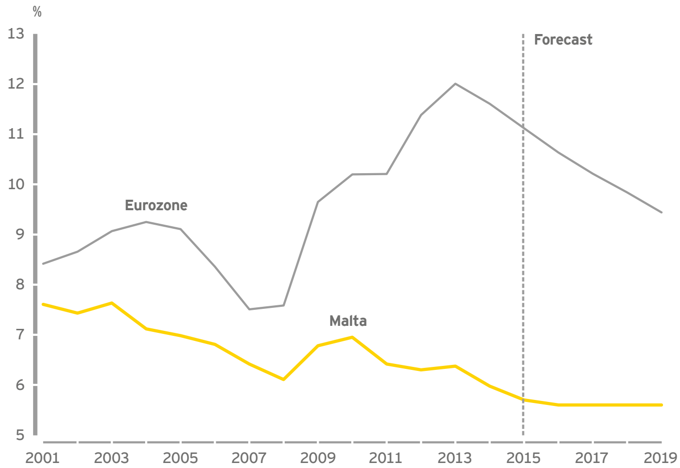
- We expect the economy to grow 3% this year, significantly above the Eurozone average, driven by robust consumer spending, buoyant tourism, investment in energy infrastructure and a pickup in exports. We then expect growth to slow gradually, to about 2% a year in 2017–19.
- Consumer spending rose by 3.2% in 2014, the fastest pace in more than 10 years. With unemployment low and real wages expected to grow steadily, we expect private consumption to expand 2.5% this year, supported by low inflation.
- Strong tourism has helped to swing the current account from deficits in the decade to 2011 to a surplus estimated at 8% of GDP in 2014, up sharply from a year earlier. A recovery in goods exports should also support the surplus, aided by the weaker euro.

Figure 39
Real GDP growth



Source: Oxford Economics.

Figure 40
Unemployment rate



Source: Oxford Economics.

Malta (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	3.5	3.0	2.5	2.1	1.8	1.8
Private consumption	3.2	2.5	2.0	1.9	1.8	1.8
Fixed investment	13.9	2.3	2.7	2.5	2.3	2.2
Stockbuilding (% of GDP)	0.0	-0.6	-1.0	-0.5	-0.3	0.0
Government consumption	7.0	2.4	2.0	1.6	1.7	1.6
Exports of goods and services	-0.2	3.9	4.1	3.7	3.1	2.9
Imports of goods and services	0.1	3.1	3.8	3.9	3.4	3.1
Consumer prices	0.8	0.6	1.9	2.3	2.3	2.3
Unemployment rate (level)	6.0	5.7	5.6	5.6	5.6	5.6
Current account balance (% of GDP)	8.0	7.0	4.6	3.8	3.3	3.2
Government budget (% of GDP)	-2.1	-2.0	-1.7	-1.5	-1.4	-1.2
Government debt (% of GDP)	68.1	67.7	66.5	65.2	63.9	62.6

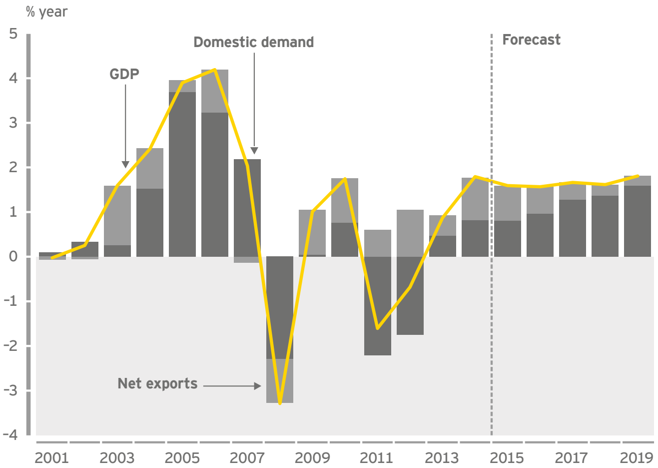
Source: Oxford Economics.

Netherlands

- After a long period of economic weakness, the Dutch economy is gradually showing signs of life with GDP growth in 2014 reaching a three-year high. And various tailwinds should mean that the expansion picks up pace this year. We expect GDP growth of 1.8% for 2015, before a modest slowdown to 1.6% in 2016.
- Very low inflation, due to the fall in oil prices, is boosting households' real incomes and spending power. And Dutch exporters should gain from the fall in the euro, partly driven by the ECB's bond-buying program and expansionary monetary policy.
- But high household debt, the result of weak growth in incomes impeding deleveraging and continued fiscal austerity, means that the economy will see only a modest 1.6% average rate of growth in the coming years.

Figure 41

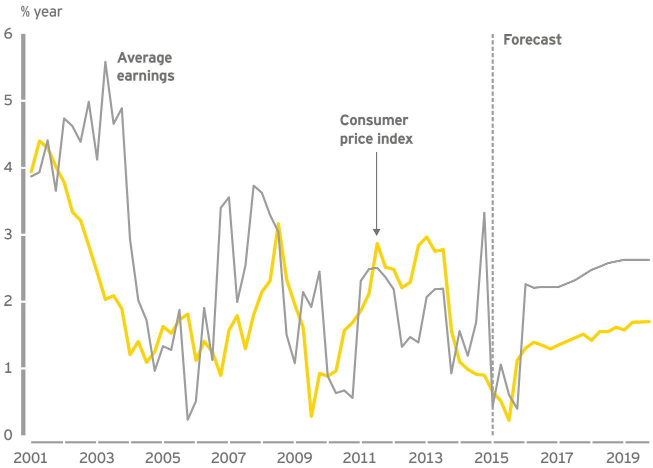
Contributions to GDP growth



Source: Oxford Economics; Haver Analytics.

Figure 42

Prices and earnings



Source: Oxford Economics.

Netherlands (annual percentage changes unless specified)

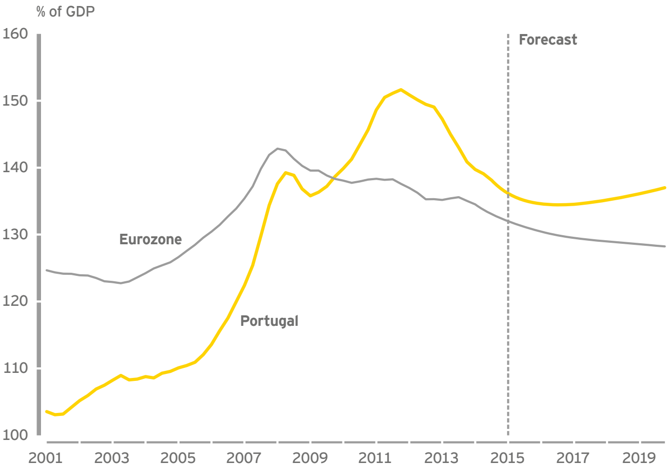
	2014	2015	2016	2017	2018	2019
GDP	0.9	1.8	1.6	1.6	1.7	1.6
Private consumption	0.1	1.0	0.9	1.1	1.4	1.6
Fixed investment	3.5	2.7	2.1	2.0	2.1	2.2
Stockbuilding (% of GDP)	0.0	-0.1	-0.1	0.0	0.0	0.0
Government consumption	-0.3	-0.1	0.0	0.3	0.8	1.3
Exports of goods and services	4.0	2.9	3.6	3.2	2.6	2.2
Imports of goods and services	4.0	2.1	3.1	2.9	2.5	2.3
Consumer prices	0.3	0.6	1.3	1.4	1.5	1.6
Unemployment rate (level)	7.4	6.6	6.3	6.3	6.2	6.0
Current account balance (% of GDP)	10.3	10.8	10.9	11.0	11.1	11.0
Government budget (% of GDP)	-2.4	-1.9	-1.6	-1.5	-1.3	-1.0
Government debt (% of GDP)	69.7	69.9	69.6	69.2	68.6	67.7

Source: Oxford Economics.

Portugal

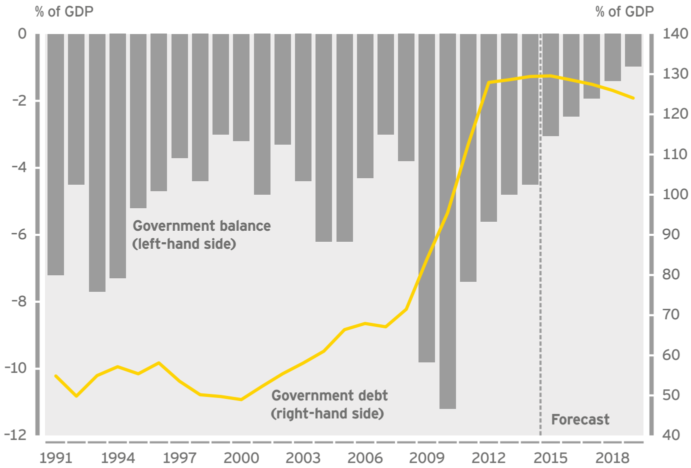
- The Portuguese economy continues to recover steadily. After a 0.4% rise in Q1, GDP is forecast to grow 1.7% in 2015, up from 0.9% last year, helped by the impact of lower oil prices and stronger Eurozone demand.
- Over the coming years, the expansion will be fairly broad-based, with gains in consumption and investment reinforcing the impetus from net trade, although the pace of overall growth is expected to slow to 1.5% in 2016 and then about 1.2% a year in 2017-19.
- The pace of recovery in the years ahead will continue to be constrained by the high levels of public and private debt. Although the household sector has made progress in reducing its debt, public and corporate indebtedness remains worryingly high.
- The annual inflation rate rose to 0.5% in April, the fastest since mid-2013. Assuming that oil prices recover slowly, Portugal is forecast to avoid a second consecutive year of deflation in 2015.

Figure 43
Corporate sector deleveraging



Source: Oxford Economics; Haver Analytics.

Figure 44
Government balance and debt



Source: Oxford Economics.

Portugal (annual percentage changes unless specified)

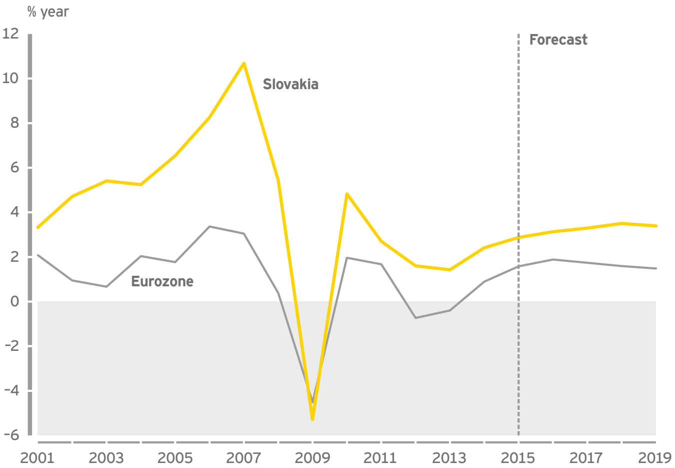
	2014	2015	2016	2017	2018	2019
GDP	0.9	1.7	1.5	1.3	1.2	1.2
Private consumption	2.1	1.3	1.0	0.9	0.9	0.9
Fixed investment	2.5	2.6	3.0	2.5	2.4	2.4
Stockbuilding (% of GDP)	0.2	0.1	0.2	0.0	0.0	0.0
Government consumption	-0.3	-0.7	0.5	0.5	0.5	0.5
Exports of goods and services	3.4	6.0	4.7	4.7	3.8	3.0
Imports of goods and services	6.4	4.3	4.3	3.9	3.3	2.9
Consumer prices	-0.2	0.2	0.8	1.2	1.4	1.7
Unemployment rate (level)	14.1	13.0	11.7	10.8	10.3	10.0
Current account balance (% of GDP)	0.6	2.0	2.4	2.5	2.4	2.1
Government budget (% of GDP)	-4.5	-3.1	-2.5	-1.9	-1.4	-1.0
Government debt (% of GDP)	130.2	130.6	129.4	128.1	126.5	124.4

Source: Oxford Economics.

Slovakia

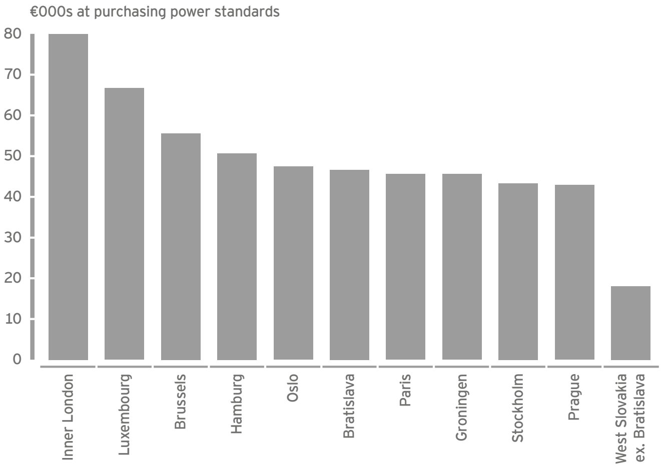
- We expect Slovakia to continue to outperform the Eurozone. Domestic demand, in the form of stronger consumption and positive investment growth, will provide the main impetus to the economy this year.
- Export growth slowed in 2014 and is expected to be 3.7% for 2015, before gathering pace again in 2016. But recent monthly data continues to indicate solid economic activity. Quarterly GDP growth is forecast to average 0.8% this year, with the economy growing by 2.9% in 2015 overall, up from 2.4% last year. We then forecast expansion of 3.1% in 2016 and around 3.4% a year in 2017-19.
- However, the economy still faces a number of longer-term challenges. Regional inequality is very high and the labor market is hampered by aging and structural problems. Population aging will cut the labor supply and raise the cost of health and pension systems. Meanwhile, 70% of the jobless have been unemployed for more than a year, which could make it more difficult for them to rejoin the workforce.

Figure 45
Real GDP growth



Source: Oxford Economics.

Figure 46
GDP per capita by region



Source: European Commission; OECD.

Slovakia (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	2.4	2.9	3.1	3.3	3.5	3.4
Private consumption	2.2	2.5	2.7	2.7	2.7	2.5
Fixed investment	5.7	3.7	3.9	3.2	3.4	3.6
Stockbuilding (% of GDP)	-0.4	0.3	0.5	1.0	1.3	1.1
Government consumption	4.4	1.9	2.3	2.4	2.6	2.4
Exports of goods and services	4.6	3.7	6.0	5.3	5.1	4.9
Imports of goods and services	5.0	4.4	6.2	5.5	4.9	4.2
Consumer prices	-0.1	0.4	1.9	2.5	2.6	2.5
Unemployment rate (level)	13.2	12.1	11.6	10.9	9.9	9.2
Current account balance (% of GDP)	0.1	0.8	0.8	0.7	0.7	0.7
Government budget (% of GDP)	-2.9	-2.9	-2.0	-1.9	-1.3	-1.2
Government debt (% of GDP)	53.6	54.7	53.9	53.0	51.5	49.9

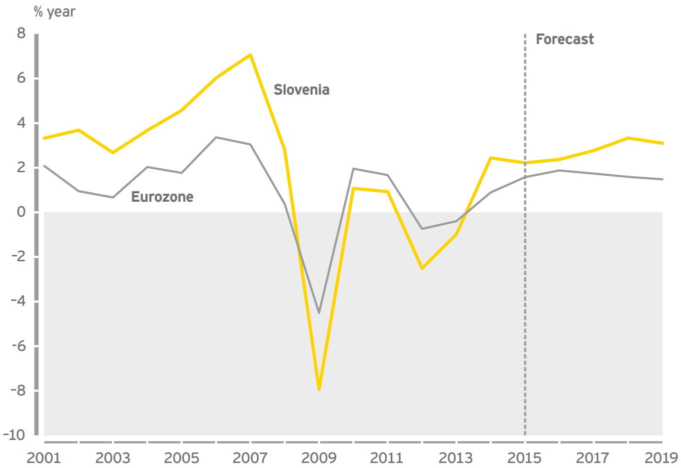
Source: Oxford Economics.

Slovenia

- Slovenia grew by 2.4% in 2014 as investor confidence in the country picked up markedly, encouraged by progress on the privatization program. The fiscal deficit narrowed in 2014, helped by strong revenues, and we expect it to fall below the 3% Eurozone ceiling by 2017.
- We forecast GDP growth of 2.2% this year as exports continue to recover and domestic activity improves steadily. Export volumes rose 5.7% in 2014 and we expect them to grow robustly in 2015, aided by greater competitiveness due to the weaker euro.
- As the fiscal constraints ease and domestic activity gathers momentum, we expect the economy to grow by more than 3% a year in 2018–19.
- The lower oil price and rising Eurozone demand are upside risks, but there are also downside risks. Household spending has been much slower to recover than the export-oriented sectors, while further adverse developments in Greece could pose a threat to Eurozone activity.

Figure 47

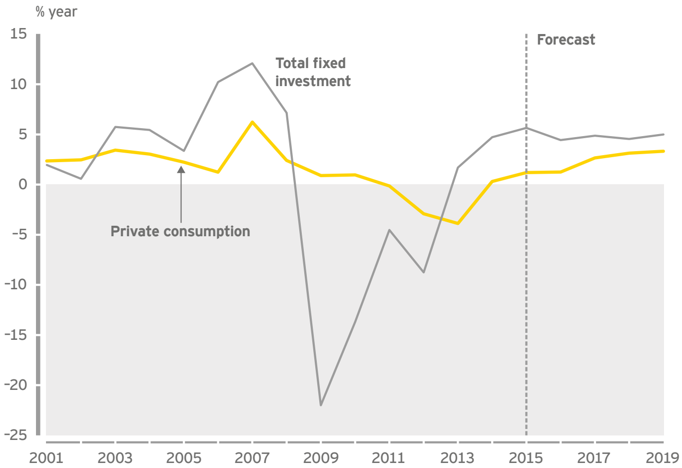
Real GDP growth



Source: Oxford Economics.

Figure 48

Private consumption and total fixed investment



Source: Oxford Economics.

Slovenia (annual percentage changes unless specified)

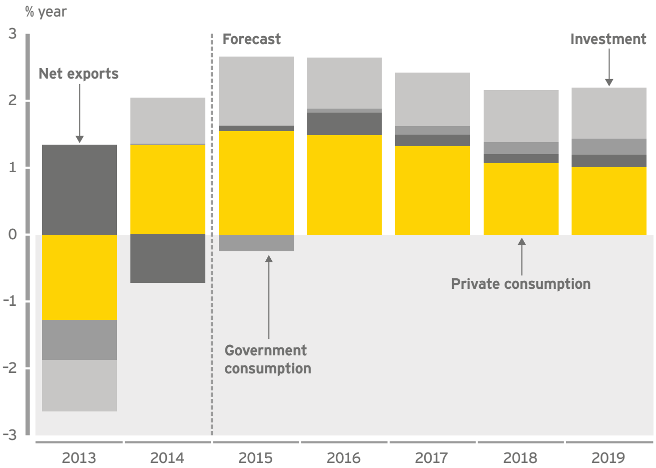
	2014	2015	2016	2017	2018	2019
GDP	2.4	2.2	2.4	2.8	3.3	3.1
Private consumption	0.3	1.2	1.3	2.7	3.1	3.3
Fixed investment	4.7	5.7	4.4	4.9	4.6	5.0
Stockbuilding (% of GDP)	0.0	-0.2	0.7	1.1	1.5	1.2
Government consumption	-0.5	-1.4	1.4	2.5	2.9	3.3
Exports of goods and services	5.7	4.8	3.3	2.9	2.8	2.7
Imports of goods and services	3.7	3.9	4.3	4.0	3.5	3.0
Consumer prices	0.2	-0.1	1.2	1.9	2.5	2.5
Unemployment rate (level)	9.7	9.7	9.2	8.4	7.5	6.8
Current account balance (% of GDP)	5.8	6.6	6.1	5.6	5.2	5.1
Government budget (% of GDP)	-4.9	-3.9	-3.1	-2.8	-2.6	-2.5
Government debt (% of GDP)	81.0	75.3	70.7	68.5	67.3	66.1

Source: Oxford Economics.

Spain

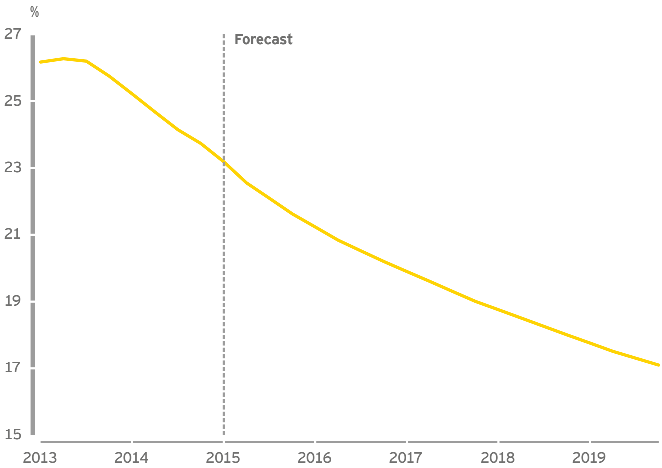
- Spain's economy has continued to outperform the Eurozone in H1 2015, and we expect business investment to have been a key driver. This is encouraging, in that it underlines a continued transition toward more sustainable economic sectors relative to the pre-crisis era.
- We expect GDP growth of 2.8% in 2015, easing a little to 2.5% in 2016, as the boost from lower oil prices fades and consumer spending relies upon a recovering labor market. Exporters will fare rather better in 2016, as the Eurozone recovery continues, and Spanish firms will continue to gain market share.
- In the longer term, with the fiscal squeeze easing, government spending will be able to contribute to economic activity, enabling GDP growth of 2.4% on average in 2017–19.

Figure 49
Contributions to GDP growth



Source: Oxford Economics.

Figure 50
Unemployment rate



Source: Oxford Economics.

Spain (annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
GDP	1.4	2.8	2.5	2.4	2.4	2.3
Private consumption	2.4	2.8	2.7	2.4	1.9	1.8
Fixed investment	3.4	5.1	3.7	3.8	3.6	3.5
Stockbuilding (% of GDP)	0.7	1.0	0.9	0.9	1.1	1.1
Government consumption	0.1	-1.2	0.3	0.7	1.0	1.3
Exports of goods and services	4.2	4.9	5.4	5.0	4.2	4.1
Imports of goods and services	7.6	5.3	4.9	5.1	4.3	3.9
Consumer prices	-0.2	-0.4	1.1	1.1	1.4	1.5
Unemployment rate (level)	24.5	22.3	20.6	19.4	18.3	17.4
Current account balance (% of GDP)	0.8	0.5	0.4	0.3	0.3	0.4
Government budget (% of GDP)	-5.8	-4.3	-3.3	-2.5	-2.1	-1.8
Government debt (% of GDP)	97.7	101.6	103.7	104.9	105.3	105.2

Source: Oxford Economics.

Detailed tables and charts

Forecast assumptions

	2014	2015	2016	2017	2018	2019
Short-term interest rates (%)	0.2	0.0	0.0	0.0	0.2	0.5
Long-term interest rates (%)	2.0	1.2	1.7	2.3	2.7	3.0
Euro effective exchange rate (1995 = 100)	123.9	114.4	113.1	113.3	114.7	116.2
Oil prices (€/barrel)	74.5	54.8	63.5	66.1	66.2	66.6
Share prices (% year)	12.6	17.6	6.7	4.4	5.0	5.2

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Short-term interest rates (%)	0.3	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Long-term interest rates (%)	2.7	2.2	1.8	1.5	1.0	1.0	1.3	1.3
Euro effective exchange rate (1995 = 100)	125.9	125.3	122.8	121.5	115.4	114.1	114.1	114.1
Oil prices (€/barrel)	79.0	80.0	76.8	61.1	47.9	54.6	57.5	59.6
Share prices (% year)	15.5	19.2	14.0	2.8	11.4	15.5	19.5	24.0

Eurozone GDP and components

Quarterly forecast (quarterly percentage changes)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	0.3	0.1	0.2	0.3	0.4	0.6	0.5	0.5
Private consumption	0.2	0.2	0.5	0.4	0.5	0.4	0.4	0.4
Fixed investment	0.4	-0.5	0.0	0.4	0.2	0.3	0.6	0.7
Government consumption	0.2	0.2	0.2	0.2	0.0	0.1	0.1	0.1
Exports of goods and services	0.4	1.3	1.5	0.8	0.7	0.7	1.0	1.1
Imports of goods and services	0.5	1.3	1.7	0.4	1.4	0.2	0.9	1.1

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

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	0.3	0.1	0.2	0.3	0.4	0.6	0.5	0.5
Private consumption	0.1	0.1	0.3	0.2	0.3	0.2	0.2	0.2
Fixed investment	0.1	-0.1	0.0	0.1	0.0	0.1	0.1	0.1
Government consumption	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Stockbuilding	0.1	0.0	-0.1	-0.2	0.4	0.0	0.1	0.1
Exports of goods and services	0.2	0.6	0.7	0.4	0.3	0.3	0.4	0.5
Imports of goods and services	-0.2	-0.5	-0.7	-0.2	-0.6	-0.1	-0.4	-0.4

Annual levels — real terms (€b, 2000 prices)

	2014	2015	2016	2017	2018	2019
GDP	9,667	9,819	10,004	10,178	10,340	10,493
Private consumption	5,337	5,427	5,512	5,590	5,664	5,738
Fixed investment	1,901	1,921	1,977	2,034	2,089	2,138
Government consumption	2,051	2,061	2,072	2,085	2,102	2,121
Stockbuilding	-25	-5	11	23	30	33
Exports of goods and services	4,299	4,460	4,648	4,838	5,021	5,196
Imports of goods and services	3,895	4,045	4,215	4,392	4,566	4,733

Annual levels — nominal terms (€b)

	2014	2015	2016	2017	2018	2019
GDP	10,117	10,372	10,701	11,042	11,394	11,754
Private consumption	5,653	5,755	5,920	6,091	6,271	6,457
Fixed investment	1,972	2,012	2,100	2,194	2,290	2,383
Government consumption	2,127	2,147	2,186	2,232	2,286	2,346
Stockbuilding	-26	8	44	62	60	57
Exports of goods and services	4,494	4,688	4,994	5,296	5,588	5,877
Imports of goods and services	4,103	4,237	4,544	4,835	5,101	5,366

Prices and cost indicators

(annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
HICP headline inflation	0.4	0.1	1.2	1.4	1.6	1.6
Inflation ex. energy	0.9	0.7	1.0	1.3	1.5	1.6
GDP deflator	0.9	0.9	1.3	1.4	1.6	1.7
Import deflator	0.5	0.5	2.3	1.9	1.6	1.6
Export deflator	-2.1	-1.2	3.3	2.2	1.4	1.4
Terms of trade	-2.6	-1.6	0.9	0.3	-0.2	-0.2
Earnings	1.6	1.9	2.3	2.5	2.4	2.5
Unit labor costs	1.1	0.8	1.1	1.2	1.2	1.3
Output gap (% of GDP)	-3.4	-3.0	-2.3	-1.7	-1.3	-1.1
Oil prices (€ per barrel)	74.5	54.8	63.5	66.1	66.2	66.6
Euro effective exchange rate (1995 = 100)	123.9	114.4	113.1	113.3	114.7	116.2

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
HICP headline inflation	0.6	0.6	0.3	0.1	-0.3	-0.1	0.2	0.6
Inflation ex. energy	1.0	0.9	0.8	0.7	0.6	0.7	0.7	0.8
GDP deflator	1.0	0.8	1.0	0.9	0.8	0.9	0.9	1.0
Import deflator	-0.5	-0.4	1.5	1.4	0.0	0.7	0.4	0.8
Export deflator	-2.6	-2.1	-1.8	-2.0	-3.9	-1.2	-0.7	1.2
Terms of trade	-2.2	-1.7	-3.2	-3.4	-3.9	-1.9	-1.1	0.4
Earnings	1.7	1.4	1.5	1.6	1.5	1.9	2.0	2.1
Unit labor costs	0.7	1.0	1.2	1.3	1.0	1.0	0.7	0.7
Output gap (% of GDP)	-3.2	-3.4	-3.5	-3.5	-3.3	-3.1	-2.9	-2.6
Oil prices (€ per barrel)	79.0	80.0	76.8	61.1	47.9	54.6	57.5	59.6
Euro effective exchange rate (1995 = 100)	125.9	125.3	122.8	121.5	115.4	114.1	114.1	114.1

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

Labor market indicators

(annual percentage changes unless specified)

	2014	2015	2016	2017	2018	2019
Employment	0.6	0.7	0.6	0.4	0.3	0.3
Unemployment rate (%)	11.6	11.1	10.6	10.2	9.8	9.4
NAIRU (%)	8.8	8.7	8.6	8.4	8.2	8.0
Participation rate (%)	75.7	76.4	76.6	76.7	76.8	76.8
Earnings	1.6	1.9	2.3	2.5	2.4	2.5
Unit labor costs	1.1	0.8	1.1	1.2	1.2	1.3

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Employment	0.2	0.6	0.7	0.9	0.7	0.7	0.6	0.6
Unemployment rate (%)	11.8	11.6	11.5	11.5	11.3	11.2	11.1	10.9
NAIRU (%)	8.8	8.8	8.8	8.8	8.8	8.7	8.7	8.7
Participation rate (%)	75.5	75.6	75.7	75.8	76.3	76.4	76.5	76.5
Earnings	1.7	1.4	1.5	1.6	1.5	1.9	2.0	2.1
Unit labor costs	0.7	1.0	1.2	1.3	1.0	1.0	0.7	0.7

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

	2014	2015	2016	2017	2018	2019
Trade balance (€b)	195.9	238.0	225.7	231.8	250.3	266.5
Trade balance (% of GDP)	1.9	2.3	2.1	2.1	2.2	2.3
Current account balance (€b)	216.8	243.1	227.3	226.2	241.9	253.9
Current account balance (% of GDP)	2.1	2.3	2.1	2.0	2.1	2.2
Government budget balance (€b)	-246	-211	-177	-145	-121	-111
Government budget balance (% of GDP)	-2.4	-2.0	-1.7	-1.3	-1.1	-0.9
Government debt (€b)	9,293	9,601	9,862	10,080	10,261	10,417
Government debt (% of GDP)	91.9	92.6	92.2	91.3	90.1	88.6

Measures of convergence and divergence within the Eurozone

	2005-09	2010-14	2015-19
Growth and incomes			
Standard deviation of GDP growth rates	5.2	2.7	1.0
Growth rate gap (max – min)	5.5	8.6	3.1
Highest GDP per capita (Eurozone = 100)	251.9	240.0	235.2
Lowest GDP per capita (Eurozone = 100)	55.5	58.0	52.7
Inflation and prices			
Standard deviation of inflation rates	2.5	1.4	0.8
Inflation rate gap (max – min)	6.9	2.7	1.5
Highest price level (Eurozone = 100)	134.3	138.7	141.8
Lowest price level (Eurozone = 100)	82.4	91.5	92.8

Cross-country tables

Real GDP (% year)

Rank		2014	2015	2016	2017	2018	2019	Average 2015–19
1	Latvia	2.4	2.6	3.9	4.5	4.5	4.5	4.0
2	Lithuania	2.9	2.6	3.9	4.4	4.4	4.3	3.9
3	Estonia	2.1	2.5	3.0	3.5	4.0	4.0	3.4
4	Slovakia	2.4	2.9	3.1	3.3	3.5	3.4	3.2
5	Ireland	4.8	3.7	3.8	2.9	2.9	2.9	3.2
6	Luxembourg	2.8	2.6	2.9	2.9	2.8	2.7	2.8
7	Slovenia	2.4	2.2	2.4	2.8	3.3	3.1	2.8
8	Spain	1.4	2.8	2.5	2.4	2.4	2.3	2.5
9	Malta	3.5	3.0	2.5	2.1	1.8	1.8	2.2
10	Belgium	1.1	1.2	1.6	1.9	1.8	1.8	1.6
11	Greece	0.7	-0.1	1.8	2.5	2.5	2.6	1.8
12	Germany	1.6	2.0	2.2	1.7	1.3	1.0	1.7
13	Eurozone	0.9	1.6	1.9	1.7	1.6	1.5	1.7
14	Netherlands	0.9	1.8	1.6	1.6	1.7	1.6	1.6
15	France	0.2	1.4	1.7	1.6	1.5	1.6	1.6
16	Austria	0.4	0.7	1.7	1.8	1.8	1.7	1.6
17	Finland	-0.1	0.3	1.0	1.6	2.0	2.2	1.4
18	Cyprus	-2.3	0.3	1.3	1.4	1.8	2.2	1.4
19	Portugal	0.9	1.7	1.5	1.3	1.2	1.2	1.4
20	Italy	-0.4	0.5	1.0	1.1	1.0	1.0	0.9

Inflation rates (% year)

Rank		2014	2015	2016	2017	2018	2019	Average 2015–19
1	Greece	-1.4	-1.8	-0.4	1.1	1.8	1.9	0.5
2	Spain	-0.2	-0.4	1.1	1.1	1.4	1.5	0.9
3	Italy	0.2	0.1	0.9	1.0	1.3	1.7	1.0
4	Portugal	-0.2	0.2	0.8	1.2	1.4	1.7	1.0
5	Finland	1.2	0.1	1.1	1.1	1.3	1.6	1.1
6	Eurozone	0.4	0.1	1.2	1.4	1.6	1.6	1.2
7	Netherlands	0.3	0.6	1.3	1.4	1.5	1.6	1.2
8	France	0.6	0.1	1.4	1.6	1.6	1.7	1.3
9	Belgium	0.5	0.2	1.8	1.7	1.5	1.6	1.4
10	Germany	0.8	0.3	1.6	1.7	1.8	1.5	1.4
11	Cyprus	-0.3	0.3	1.0	1.8	2.0	2.2	1.5
12	Austria	1.5	0.8	1.5	1.9	1.8	1.8	1.5
13	Lithuania	0.1	-0.4	1.9	2.2	2.1	2.1	1.6
14	Slovenia	0.2	-0.1	1.2	1.9	2.5	2.5	1.6
15	Luxembourg	0.7	0.3	1.9	2.0	1.9	1.9	1.6
16	Ireland	0.3	0.3	1.8	2.0	2.3	2.0	1.7
17	Malta	0.8	0.6	1.9	2.3	2.3	2.3	1.9
18	Slovakia	-0.1	0.4	1.9	2.5	2.6	2.5	2.0
19	Estonia	0.5	0.5	2.1	2.5	2.5	2.5	2.0
20	Latvia	0.7	0.7	2.4	2.4	2.4	2.4	2.1

Cross-country tables

Unemployment rate (% of labor force)

Rank		2014	2015	2016	2017	2018	2019	Average 2015–19
1	Germany	5.0	4.8	4.9	4.8	4.7	4.5	4.7
2	Austria	5.6	5.5	5.4	5.2	5.1	5.0	5.2
3	Luxembourg	5.9	5.9	5.8	5.6	5.3	4.8	5.5
4	Estonia	7.3	6.2	5.4	5.3	5.3	5.4	5.5
5	Malta	6.0	5.7	5.6	5.6	5.6	5.6	5.6
6	Netherlands	7.4	6.6	6.3	6.3	6.2	6.0	6.3
7	Belgium	8.5	8.4	8.1	7.7	7.6	7.5	7.8
8	Lithuania	10.7	9.9	9.1	8.2	7.3	6.5	8.2
9	Finland	8.7	9.0	8.8	8.2	7.8	7.4	8.3
10	Slovenia	9.7	9.7	9.2	8.4	7.5	6.8	8.3
11	Latvia	10.9	10.0	9.1	8.3	7.9	7.7	8.6
12	Ireland	11.3	9.6	9.0	8.4	8.1	8.0	8.6
13	France	10.3	10.5	10.3	10.1	9.9	9.8	10.1
14	Eurozone	11.6	11.1	10.6	10.2	9.8	9.4	10.2
15	Slovakia	13.2	12.1	11.6	10.9	9.9	9.2	10.7
16	Portugal	14.1	13.0	11.7	10.8	10.3	10.0	11.2
17	Italy	12.7	12.8	12.4	12.1	11.8	11.2	12.1
18	Cyprus	16.1	16.2	15.3	13.8	11.9	10.1	13.5
19	Spain	24.5	22.3	20.6	19.4	18.3	17.4	19.6
20	Greece	26.6	25.6	24.1	22.2	20.4	18.7	22.2

Government budget (% of GDP)

Rank		2014	2015	2016	2017	2018	2019	Difference 2015–19
1	Germany	0.7	1.1	0.6	0.5	0.3	0.2	-0.9
2	Luxembourg	0.6	0.1	0.0	0.0	0.0	0.0	-0.1
3	Latvia	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	0.0
4	Estonia	0.6	-0.1	-0.4	-0.1	0.1	0.3	0.4
5	Lithuania	-0.7	-0.7	-0.8	-0.6	-0.5	-0.3	0.4
6	Malta	-2.1	-2.0	-1.7	-1.5	-1.4	-1.2	0.8
7	Netherlands	-2.4	-1.9	-1.6	-1.5	-1.3	-1.0	0.9
8	Eurozone	-2.4	-2.0	-1.7	-1.3	-1.1	-0.9	1.1
9	Austria	-2.4	-2.1	-1.7	-1.2	-0.9	-0.9	1.2
10	Greece	-3.5	-3.1	-2.8	-2.6	-2.3	-1.9	1.2
11	Slovenia	-4.9	-3.9	-3.1	-2.8	-2.6	-2.5	1.4
12	Italy	-3.0	-2.7	-2.0	-1.5	-1.3	-1.1	1.6
13	Cyprus	-8.8	-2.9	-2.4	-2.2	-2.1	-1.2	1.7
14	Slovakia	-2.9	-2.9	-2.0	-1.9	-1.3	-1.2	1.7
15	Belgium	-3.2	-1.9	-1.6	-0.8	-0.3	0.0	1.9
16	France	-4.0	-4.3	-4.0	-3.3	-2.6	-2.4	1.9
17	Ireland	-4.1	-1.9	-0.8	0.0	0.2	0.1	2.0
18	Finland	-3.2	-2.8	-1.9	-1.2	-0.8	-0.7	2.1
19	Portugal	-4.5	-3.1	-2.5	-1.9	-1.4	-1.0	2.1
20	Spain	-5.8	-4.3	-3.3	-2.5	-2.1	-1.8	2.5

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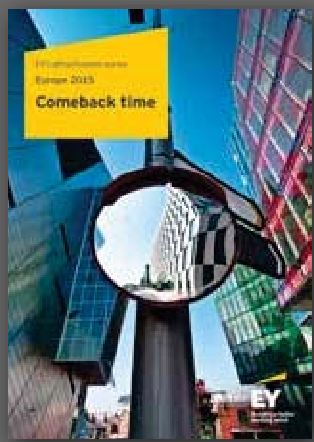

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