Europe

Research

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Sovereign Ratings Outlook

September 2011

- This is a new regular publication which aims to anticipate changes in sovereign credit ratings, and ratings outlook, for advanced economies.
- We expect a series of sovereign ratings downgrades among euro area countries in the next 3-6 months, including Italy, Spain, Greece, Portugal and Cyprus. We also expect Italy, Spain, Portugal and Ireland to be downgraded further over the longer term (next 2-3 years). Over the next 2-3 years, we also expect that France and Austria are likely to be put on negative outlook, with Belgium at risk of a single notch downgrade.
- Over the longer term (next 2-3 years), we also expect that the sovereign ratings of the US and Japan will be downgraded in response to adverse medium-term fiscal trends.
- We do not currently expect the UK to be downgraded or put on negative outlook in the next few months or the longer term. But the UK is a relatively weak "AAA", given the sharp rise in the fiscal deficit over recent years, surging public debts, large banking system, weak economic outlook and prospect that the deficit will overshoot official forecasts. The UK's rating could be at risk if the coalition falls apart or eases up on the fiscal consolidation programme.
- We regard the smaller European countries (Switzerland, Sweden, Denmark and Norway) as fairly solid AAAs for now, albeit with some concerns over the rising fiscal deficit, sluggish housing market and poor export performance in Denmark.
- We do not expect any ratings upgrades among advanced economies, either over the next few months or the next 2-3 years.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Sovereign Ratings Outlook — September 2011

This publication is a joint product between the Citi economics and rate strategy teams, with input from various other research teams. We aim to forecast the direction and scale of sovereign debt ratings (local currency) changes, as well as any changes in the ratings outlook, for a range of countries. These are our judgments over the ratings outlook, rather than model-determined recommendations. All economic and fiscal forecasts are consistent with those published in Citi's monthly "*Global Economic Outlook and Strategy*" or other research. This publication does not aim to make a judgment on the financial market implications of ratings changes, except in so far as we expect any such market implications to affect other sovereign ratings.[1]

Figure 1. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

	S&P Ratings				Moody's Ratings			
Country	Current Rating	Current Outlook	Citi Nearterm (3-6 months) Forecast Rating	Citi Longterm (2-3 Years) Forecast Rating and Outlook	Current Rating	Current Outlook	Citi Nearterm (3-6 months) Forecast Rating	Citi Longterm (2-3 Years) Forecast Rating and Outlook
US	AA+	Neg	AA+	AA ↓	Aaa	Neg	Aaa	Aa1 ↓
Canada	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Japan	AA-	Neg	AA-	A+ ↓	Aa3	Stable	Aa3	A1 ↓
Germany	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
France	AAA	Stable	AAA	AAA (Neg)	Aaa	Stable	Aaa	Aaa
Italy	A+	Neg	A ↓	A- ↓↓	Aa2 (Neg W)	NA	Aa3 ↓	A3 ↓↓↓↓
Spain	AA	Neg	AA- ↓	A- ↓↓↓↓	Aa2 (Neg W)	NA	Aa3 ↓	A3 ↓↓↓↓
Austria	AAA	Stable	AAA	AAA (Neg)	Aaa	Stable	Aaa	Aaa
Belgium	AA+	Neg	AA+	AA ↓	Aa1	Stable	Aa1	Aa1 (Neg)
Finland	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Greece	CC	Neg	SD ↓	CC/C ↓	Ca	Developing	C ↓	Ca
Ireland	BBB+	Stable	BBB+	BBB ↓	Ba1	Neg	Ba1	Ba2 ↓
Netherlands	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Portugal	BBB-	Neg	BB ↓↓	CC/C ↓↓↓↓↓	Ba2	Neg	Ba3 ↓	Ca ↓↓↓↓↓
Denmark	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Norway	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Sweden	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Switzerland	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
UK	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa

Note: Arrows denote expected ratings changes. (Neg) denotes negative outlook. (Neg W) denotes negative watch. Spain and Italy currently do not have a ratings outlook from Moodys, both are on negative watch. SD means Selective Default. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. In the outlook we have not included an extension of the actual EFSF lending beyond the now targeted €440bn maximum capacity. In the event that a substantial extension of the EFSF takes place and is likely to incur sizeable fiscal costs, the six AAA-rated euro area countries may be at risk of downgrade. NA Not available. Sources: Moody's, S&P and Citi Investment Research and Analysis

[1] See "The Debt of Nations", *Global Economics View*, Willem Buiter, 7 January 2011, Citi, and "The ABC of the US-Triple-A Downgrade and of Others to Come", *Global Economics View*, Willem Buiter,10 August 2011, Citi, and "Europe – Fear and Panic Make Poor Counsellors", *Global Economics View*, Willem Buiter, 12 August 2011, Citi and "The Risks to AA Sovereign Ratings", *Interest Rate Strategy Update*, Mark Schofield, 9 August 2011, Citi.

Key Expected Ratings Issues

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Citi Ratings Outlook: US

	Current	Near-term	Long-Term
S&P	AA+	AA+	AA
Moody's	Aaa	Aaa	Aa1

Sources: Moody's, S&P and CIRA

Although the short-term fiscal outlook in the United States has improved marginally, the challenges to long-run fiscal consolidation remain unresolved. Official projections for the current FY2011 deficit approaching 11% of GDP earlier this year have proved overly pessimistic. With only a month left in the fiscal year, the deficit appears nearer to 8½% or a shade less than last year's $1.3 trillion gap. While that shortfall remains daunting, the official forecast miss cautions against strong reliance on these projections, particularly over longer horizons, without a sharp focus on the important deficit drivers. Nonetheless, barring a much stronger economic recovery or a major policy breakthrough, grudging declines in the deficit over the next few years to a range near 4% with publicly held debt rising from 69% of GDP to more than 75% appear very plausible.

Our projections show larger deficits than would be implied by so-called current law estimates that are based on the scheduled sunsetting of Bush-era tax cuts. Sweeping tax increases scheduled over each of the next three calendar years cumulate to nearly 4% of GDP. Along with the legislative plan embedded in last month's Budget Control Act (BCA) to cap discretionary spending and trim at least $1.5 trillion off ten-year projected deficits, they would lower the ratio of publicly held debt to GDP to near 60% according to CBO's August update. In its just released Mid-Session Review, the Administration reaffirmed the proposal to allow only the upper income tax brackets to rise after 2012, netting a debt trajectory that would steady near 70% in 2021.

A more realistic starting point would assume that these tax increases are deferred but also that the Alternative Minimum Tax is indexed, consistent with policy actions that have been routinely taken in recent years. As a partial offset, projections would expect that overseas troop deployments and war-related spending would be drawn down in contrast to budget baseline rules, yielding an estimated $1.3 trillion in ten-year savings.

For the year ahead, where the deficit is expected to narrow to slightly less than $1 trillion or about 6½% of GDP, our estimates also anticipate that payroll tax relief will be extended for another year and that the so-called Super Committee will successfully meet its goals and avert the harsher trigger of across-the-board, front-loaded spending cuts. Many observers who earlier this year forecast a government shutdown over budget appropriations and a default over the debt ceiling impasse remain sceptical, but we think the costs of failure for both sides leaves a reasonable chance of limited progress.

Even if these savings are carried out, they leave untouched the larger challenge of reconciling the long-run imbalances between revenues and entitlements. One useful gauge of the challenge is the so-called fiscal gap, which measures the present value of the long-term shortfall between current policies on taxes and spending. That gap, which estimates how much deficit reduction would be needed immediately and permanently to keep public debt stable over an extended period stands now at 5% of GDP (using a 25-year horizon). In budgetary terms, this would entail raising revenues by about 25% or cutting noninterest spending by about one fifth, or some combination adding to almost $700 billion.

In recent debates, much of the focus has been on a desire for near-term deficit reduction where the most likely sources of savings would come from discretionary spending. However, this area is too small to make a lasting dent and there is a risk that cutting spending too soon could widen deficits by weakening recovery. The more credible (requiring no additional Congressional action) sources of long-run consolidation involve changes in tax rates, subsidies, premiums, program eligibility, benefit and indexation formulas etc., that dominate the long-run problem. Last year's controversial health insurance legislation greatly expanded health care entitlements and deflected much of the cost with taxes that might otherwise have gone toward deficit reduction. Investors with an eye on the issue of fiscal sustainability probably should focus on these programmatic drivers over agreements to meet dubious deficit reduction targets.

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Citi Ratings Outlook: Canada			
	Current	**Near-term**	**Long-Term**
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

No New Stimulus — Recently, Finance Minister Flaherty noted considerable challenges to the Canadian outlook. He stated that the government is prepared to defend the expansion if necessary, but does not expect more extreme external shocks ahead. Flaherty expressed confidence in the ability of the government to follow through with the five-year fiscal consolidation and debt reduction plan outlined in the June *Budget 2011* document. The Minister cited avoiding the pitfalls of outsized deficits and unsustainable debt as the impetus for staying the course. He noted that there is already additional stimulus in the pipeline to assist at present from the continued implementation of the recession-era *Economic Action Plan.* Short of a material deterioration in the global economic and financial environments, we doubt that any new stimulus would be deployed.

- **Medium-term Restraint** — Consequently, fiscal policy is poised to become a drag on the economy as stimulus, with the exception of a few outstanding infrastructure projects, has ended. We expect the government sector to cut about 1% from 2H 2011 output and 0.4% from 2012 GDP. Nonetheless, Canada's fiscal situation is far superior to its counterparts'. Canada was in the unique position of having both fiscal and current account surpluses heading into the 2008-09 global economic downturn, and was also not saddled with a dysfunctional housing market (in contrast to the US), given strict lending standards that were already in place. Presently, Canada has an outsized current account deficit, due largely to global imbalances and the strength of its currency. But its banks are well capitalized, with limited exposure to risky sovereigns and few dealings in derivatives markets. Canada is still an investor's safe haven.

- **Long-term Support** — Looking ahead, the fiscal balance is expected to return to surplus within the next five years and debt as a percent of GDP is projected to revert to pre-recession rates within six years. The likelihood that these objectives will be met is high, given the Conservative government's majority status. (Political lethargy and apathy are always risks, however.) Additionally, major commitments made to the auto sector during the nadir of the recession have been exited.

- **Domestic Housing Risks** — Regarding the Canadian housing market, there are signs of strain in certain local markets, which the government has attempted to address via macroprudential policies. In early 2010, the government quashed speculative activity, and in early 2011 amortization lengths were shortened. Still, borrowing is fairly substantial and a number of people are acquiring ARMS and HELOCS, which is a source of concern for the government and central bank. Moreover, certain housing markets are being driven by foreign demand, which is largely beyond the control of domestic policies. Activity is expected to cool over time, combining softer economic growth, lagged effects of macroprudential policies, and ultimately higher interest rates.

- **Stable Government** — The next federal election cycle in Canada will not be for another 4 years. This past May, the Conservatives secured a majority government for the first time in the six years that the party has been at the helm. The election also shifted the balance of power among the Opposition from the Liberal Party to the more left-leaning New Democratic Party (NDP). The Bloc Quèbècois also lost ground during the election and the Green Party finally gained a seat. A few weeks ago, The Honorable Jack Layton, leader of the NDP, succumbed to a terminal illness, leaving a bit of a power vacuum for the party given his dynamism, and limited resistance for the ruling Conservatives to execute its agenda.

- **Fiscal Priorities** — The Conservatives' 2011 Budget, passed in June, focused on support for seniors, family caregivers, small businesses and homeowners. The Conservative party's fiscal agenda calls for a balanced budget by FY 2014-15 and a return to pre-recession debt levels as a percent of GDP in five years, as well as further reduction in corporate taxes from 16½% to 15% by early 2012. The latter clause was a key item of contention that helped spark the snap May election. The budget folded in a C$2.5 billion dollar compensation package for Quebec for HST conversion expenditures — a major concession. Also, the government eliminated a C$30 million per year taxpayer-funded subsidy for political parties.

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Citi Ratings Outlook: Japan			
	Current	**Near-term**	**Long-Term**
S&P	AA-	AA-	A+
Moody's	Aa3	Aa3	A1

Sources: Moody's, S&P and CIRA

The current political and economic backdrop bodes ill for Japan's sovereign rating. Japan's fiscal condition has been by far the worst among the major industrialized economies with the total debt to GDP ratio already exceeding 200%. As a result, in mid-2010, the previous Kan Administration set a goal of halving the primary deficit of the general government as a percentage of GDP by fiscal 2015, compared with fiscal 2010 (6% of GDP), and of achieving the primary surplus by fiscal 2020.

However, the government's goal appears extremely difficult to achieve. First, while new PM Noda apparently puts much weight on fiscal consolidation, political momentum towards fiscal reform (including the consumption tax hike) is not strong within the ruling party. As the prospect of general elections, which should be held by summer 2013, draws gradually nearer, it seems unlikely that politicians will make decisions that will lead to pain for the general public. Moreover, nominal GDP growth, a main determinant factor for tax revenues, likely will undershoot the government's assumption amid persistent deflation. In our view, comprehensive judgment that deflation has been eradicated will remain elusive in years to come. The new administration has yet to show concrete and comprehensive plans to improve Japan's medium-term economic outlook. With this backdrop, we expect the debt to GDP ratio to reach 250% in 2015 and Japan's sovereign rating to be downgraded further.

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The government is projecting a return to budget surplus in FY13, but the forecast surplus of $A3bn (0.2% of GDP) leaves little room for slippage on the growth outlook and for any new policy initiatives it might want to introduce. Additionally, the low popularity of the government within the context of a hung Parliament creates some uncertainty about whether the government will survive until the next election is due late in 2013. Important fiscal measures proposed by the government, including a Resources Rent tax on coal and iron ore and a Carbon tax, are yet to pass through Parliament and are not supported by the Opposition. That said, government debt is amongst the lowest of any developed economy sovereign and the Opposition proposes significant expenditure cuts to offset the revenue foregone from not introducing the government's proposed new taxes.

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Citi Ratings Outlook: Germany

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

Germany is on track to achieve a fiscal deficit of close to zero in coming years. We expect that with its high competitiveness and resilient domestic demand, the German economy is likely to expand at a decent pace in coming years. So far, even with lower-than-expected GDP growth in 2Q, tax revenues continued to rise by about 10% YY in July. In addition, the constitutional requirement of close to zero deficits for the federal budget and the state budgets highlight the strong commitment to sound fiscal policies. The government is likely to implement modest fiscal tightening (around ¼%) of GDP per year in coming years, but it is unlikely that the government will put in place a net tax reduction (as requested by one government coalition party). We expect that the general-government deficit-to-GDP ratio will drop from 3.3% in 2010 to around 1.9% this year and about 1.0% in 2012.

Therefore, Germany is likely to meet the required adjustment under the Stability and Growth Pact's (SGP) Excessive Deficit Procedure. Regarding the longer-term outlook, Germany will have to implement additional reforms to deal with the negative implications of demographic changes, particularly in the health sector. We expect the general government debt-to-GDP ratio to peak around 84½% in 2012, although additional contingent liabilities to the banking sector (via bad-banks) or other euro area countries (via EFSF) might contribute to a further increase in the debt ratio in coming years. The biggest potential risk factor for Germany and the other five euro area AAA-rated countries comes from an extension of the EFSF's actual lending beyond the now targeted €440bn. In addition, if there is a move towards E-bonds or some other form of pooled fiscal burden sharing across the euro area, this would be likely to undermine the AAA rating of those countries. In the near term, political uncertainty in Germany has increased sharply. The current federal coalition parties have lost in all recent state elections. And the intra-coalition dispute regarding the EFSF expansion and the Greek bailout package could potentially lead to a break-up of Angela Merkel's government and early elections. However, we do not expect that a likely shift to a centre-left government of SPD and Greens would lead to a change in the rating agencies' assessment of Germany.

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Citi Ratings Outlook: France			
	Current	**Near-Term**	**Long-Term**
S&P	AAA	AAA	AAA (Neg)
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

As economic growth is likely to be lower in coming years than expected by the government, additional measures are probably necessary to reduce the deficit as required under the Excessive Deficit Procedure. Even with the additional fiscal tightening worth ½% of GDP, as proposed in August, a targeted total fiscal tightening of around 1½% is probably not able to reduce the general government deficit to the 4.5% objective for 2012. Hence, we will monitor the autumn budget discussions closely for proposals of incremental fiscal tightening to be implemented after the spring 2012 Presidential and Parliamentary elections.

In coming years, the government assumes that GDP growth will average 2½% YoY. This estimate is too high, in our view. As a result, additional fiscal tightening, on top of the targeted 1% of GDP per year, will be necessary to achieve the objective of reducing the overall deficit-to-GDP ratio from 7.1% in 2010 to 2% by 2014. The winner of the 2012 elections will have very little room for manoeuvre on the fiscal front. A Socialist win would likely see the fiscal pressure increase while a second Sarkozy presidency (currently trailing by a sizeable margin in the polls) could lead instead to a reduction in the size of the state, in our view.

Compared to the government forecast of a debt to GDP ratio around 86% in 2012, we expect a further increase to around 92% in 2014/15. We think that the rising debt profile will probably increase the likelihood of a negative outlook from at least one of the rating agencies, especially if there were delays in the approval of a constitutionally binding ‘golden rule’ following Presidential elections in May 2012. While France probably will have to implement additional reforms of its retirement system, with a more favourable demographic structure, the country has smaller age-related long-term costs than other countries.

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Citi Ratings Outlook: Italy			
	Current	**Near-term**	**Long-Term**
S&P	A+	A	A-
Moody's	Aa2 (Neg W)	Aa3	A3

Sources: Moody's, S&P and CIRA

The fiscal deficit has been progressively falling in the last couple of years, perhaps somewhat faster than we expected given the sluggish economic performance, falling from 5.3% of GDP in 2009 to probably 4% by end-11. This was achieved thanks to a tighter fiscal stance, mainly via lower public spending. A new austerity plan, which includes new budget cuts of 1.5pp of GDP for both 2012 and 2013 and aims to achieve a balanced budget by 2013, is currently under discussion in parliament. Its composition will be crucial for assessing its credibility and effectiveness to achieve the deficit targets. We expect the deficit to keep shrinking and to reach around 1% of GDP by 2013. The limited resolve shown by the Italian government in agreeing on the recent austerity package indicates growing tensions within the governing coalition. Political uncertainty may increase further in coming months, with a government reshuffling or even early elections as possible outcomes. Even if these developments may ultimately be a positive rather than a negative for Italy's austerity drive, the increased political uncertainty may contribute to cause a rating downgrade in the next few months.

Both S&P and Moody’s have highlighted the lack of structural reforms as the main concern around Italy’s fiscal sustainability. Lack of any of these reforms on the policy agenda in the next few months, together with disappointing growth numbers (we expect negative GDP growth in Q3) may prompt Moody’s (more than S&P, we

reckon) to downgrade the sovereign rating (still in the double-A camp at the moment for Moody's).[2 and 3]

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Citi Ratings Outlook: Spain

	Current	Near-term	Long-Term
S&P	AA	AA-	A-
Moody's	Aa2 (Neg W)	Aa3	A3

Sources: Moody's, S&P and CIRA

Due to a high degree of fiscal decentralisation, sub-central government budgets represent a large bulk of the general government accounts. Lack of data on sub-central government accounts means that budget developments are not very transparent. The central government deficit has been shrinking substantially in the past couple of years, but last year this was offset by slippages at the regional levels and met the overall target (9.2%). Based on recent data on the central government budget, the overall fiscal deficit is unlikely to fall this year by as much as the government expects (to 6% of GDP). We expect it is more likely to stay around 7%. Upcoming general elections are due on 20 November, when the centre-right opposition party is likely to win (according to recent opinion polls). Further budget cuts are likely to be implemented by the next government.

The main rating agencies are likely to wait until after the general election before re-assessing the situation. Key factors for them are likely to be the cost and availability of funding for the sovereign (at the moment problems are mitigated by ECB purchases; by November that support may have faded) and more evidence around slippages in regional budgets.[4 and 1]

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Citi Ratings Outlook: Austria

	Current	Near-Term	Long-Term
S&P	AAA	AAA	AAA (Neg)
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

The Austrian economy continued to expand in 2Q (+1.0% QQ) but there has been a substantial deterioration in sentiment indicators since the beginning of 2H, suggesting a cyclical slowdown. However, 2011 GDP growth of around 3% is likely to be above the government projections of 2.5% at the beginning of the year. With this support, the government is likely to reduce the deficit-to-GDP ratio from 4.6% last year to around 3.5% this year, which would be smaller than the government target of 3.9%. With growth likely to be below the government projection of 2.0% for 2012 and so far no additional fiscal measures announced, there will be probably a smaller reduction in the deficit to around 3.3% (in line with the government projection) in 2012. With planned fiscal tightening around 1% per year in coming years, the deficit-to-GDP ratio is likely to decline further in coming years. While domestic developments are likely to be roughly on track and probably will help to limit the debt to GDP ratio around 75% in coming years, the big risk for the sovereign stems from the banking system. While the situation in Central and South East Europe improved recently, there is a risk that, in an environment of slower global growth, problems in the region will intensify. As a consequence Austria is likely to take additional measures to support its banking system, which might undermine the country's rating over time.

[2] See "What Did the ECB Request for Buying Italian Bonds", *Euro Weekly*, Giada Giani, 12 August 2011, Citi and "Italy – Lagging Behind", *Euro Weekly*, Giada Giani, 3 June 2011, Citi

[3] See "Another Summer of Uncertainly", *Euro Weekly*, Jürgen Michels, 8 July 2011, Citi

[4] See "Spain – The Twin Political and Fiscal Risks", *Euro Weekly*, Giada Giani, 20 May 2011, Citi

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Citi Ratings Outlook: Belgium

	Current	Near-term	Long-Term
S&P	AA+	AA+	AA
Moody's	Aa1	Aa1	Aa1 (Neg)

Sources: Moody's, S&P and CIRA

While slowing down somewhat, GDP continued at a decent pace (0.7% QQ) in 2Q. With this cyclical support, the central government balance data improved up to July. With actual GDP of around 2.3% in 1H compared to the government assumption of 2.6% for the full year, the general government deficit path seems to be on track to decline in line with the revised target of 3.4% of GDP, down from 4.1% in 2010. The caretaker government has been in place for an extraordinary period (457 days and counting) and managed to put in place a budget, including fiscal tightening of around 0.6% of GDP in 2011. However, we suspect that political uncertainty probably will make the implementation of additional fiscal tightening difficult. We see a significant risk that a prolonged stalemate could lead to a downgrade as it is not certain that a sovereign rating on negative watch will necessarily send the Belgian political class into overdrive to reach a satisfactory coalition deal. More budgetary efforts will be required to reduce the deficit further in coming years. In its medium projection, the government targets fiscal tightening worth ½% of GDP in 2012 and 1% of GDP in 2013.

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Although the combination of public deficit and public debt is not particularly worrying (debt-to-GDP ratio at 60.8% and deficit ratio at 5.3%), especially relative to other euro area countries, recent fiscal data suggest 2011 deficit-to-GDP ratio is getting out of control and may end up close to 9%, rather than the targeted 4%. A political stalemate has prevented prompt policy action, and we think even the recent austerity package will not be enough to meet the 5.5% target. More importantly, the sheer size of the banking sector (six times GDP excluding subsidiaries and branches of foreign banks), burdened as it is with a very large exposure to Greek sovereign risk (the two largest Cypriot banks have a combined exposure of €5.6bn to Greek debt, equal to 32% of Cypriot GDP), has exacerbated concerns around Cyprus' overall financial sustainability.

While debt refinancing needs are not imminent, 10Y bond yields close to 13% make market funding almost impossible and the chances of Cyprus turning to the EFSF/IMF before year-end for official funding quite high. We think the rating agencies are likely to downgrade Cyprus's rating further in the next few months.

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Citi Ratings Outlook: Greece

	Current	Near-term	Long-Term
S&P	CC	SD	CC/C
Moody's	Ca	C	Ca

Sources: Moody's, S&P and CIRA

Achievement of the deficit target for 2011 (7.6% of GDP) included in the EU/IMF program appears quite unlikely, given recent trends in the central government deficit. Also, growth is likely to disappoint in coming years relative to the program baseline scenario, leaving room for more fiscal slippages. The agreement on a second bail-out package is forcing, for the first time, private bondholders of Greek sovereign debt to write down some losses (generally at least 20% so far). Yet, these write-downs are unlikely to have a meaningful impact on Greece's debt-to-GDP ratio, as they are broadly offset by the additional costs Greece has to bear to purchase the collateral for the debt exchanges/rollovers to happen. We think a much larger debt write-off, with haircuts to the principal, will eventually become necessary in the next few years to restore Greece's fiscal sustainability. Political fatigue has increased significantly in recent months, after several austerity packages have failed to restore market or official lenders' (EU and IMF) confidence in Greece's ability to repay its debt. The Socialist governing party is now lagging behind the main opposition party in opinion polls, and it is facing growing pressures to call for early elections. This would increase even further the uncertainty, further undermining the willingness of official lenders to keep providing liquidity to Greece.

Rating-wise, Greece is already almost at the bottom of the rating scale, with the last step — to some degree of 'default' assessment — likely to happen as soon as the exchange/rollover transactions take place (most likely in end-September/early October).[1 and 5]

Ireland

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Citi Ratings Outlook: Ireland

	Current	Near-term	Long-Term
S&P	BBB+	BBB+	BBB
Moody's	Ba1	Ba1	Ba2

Sources: Moody's, S&P and CIRA

On Sep 2, the IMF released the third tranche of Ireland's €85 billion rescue package, agreed in December 2010, saying *"The Irish authorities have maintained resolute implementation of their economic program."* The 2011 budget deficit target is 10½% of GDP (down from 32.4% of GDP in 2010, which included a 20% one off-factor), which the government expects to meet. In the Jan-Aug span, tax revenues are up 8.3% year on year, compared with a full year target of 9.9%. Income tax revenues are on target, up 25% YY, due to tax increases in the 2011 Budget. Corporation tax and excise duties are broadly on track, but VAT receipts have been falling below target, due to weakness in consumer spending (down 2% QQ in 1Q11), and now are showing a 3% shortfall. Expenditure in the Jan-Aug period is up 0.8% year on year, compared to a target of a YY fall of 0.8%. The exchequer deficit at the end of August 2011 stands at €20.4 billion, compared to a deficit of €12.1bn in the first eight months of 2010. The €8.3 billion increase is due to recapitalisation payments to banks that were carried out in July in accordance with the EU/IMF rescue program. According to the Ministry of Finance, excluding these payments the deficit fell by approximately €2 billion year on year. The deficit target for 2012 of 8.6% of GDP entails a cut in 2012 spending of around €3.6-€4.0bn. In recent statements, the Government has been adamant that this target will be adhered to and is due to release in October a 4-year plan detailing spending cuts and tax increases up to 2015, when the deficit is targeted to be 2.8% of GDP. The 2012 Budget will be released in early December and will entail hard choices, as this is the fifth consecutive Budget of cuts. GDP growth in 2011 is forecast by the Government at 0.75%, by the IMF at 0.4% and the OECD at 0% — 2Q data have not yet been released. The driver of growth has been exports of goods and services, with goods exports up 6% YY in June. However, Ireland's export performance is at risk from the

[5] See "Greece – Stuck in the Mud", *Euro Weekly*, Giada Giani, September 9, 2011, Citi

current global slowdown with a consequent impact on 2012 GDP growth (IMF forecast 1.5%).[1]

Netherlands

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Despite the disappointing GDP data in 2Q, the reduction in the central government deficit continued in 2Q, reflecting further gains in revenues and stable expenditures. The government continues to put a strong emphasis on deficit reduction and we expect the government to put in place measures in order to bring the deficit down from 5.4% in 2010 to around 3% in 2011, so probably undershooting the government target of 3.6% of GDP. We expect the Dutch debt to GDP ratio to increase to around 69% of GDP in 2013, which is above the government target of a peak around 65% of GDP in 2013.

Citi Ratings Outlook: Netherlands

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

Portugal

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Fiscal tightening has just started to have an impact on reducing the deficit in the past two-three months since the bail-out program has been set up, although several austerity measures have been approved since May 2010. The new government, appointed after June general elections, has shown a stronger commitment to fiscal consolidation. However, poor economic growth and likely further upward revisions to the fiscal accounts make the achievement of the program targets quite difficult, in our view.

The IMF/EU programme should cover Portugal's financing needs until early 2013, implying a discussion on an additional bail-out may not start until mid-2012. Some private-sector involvement is likely to be envisaged for Portuguese public debt financing at that point. Eventually, we think a significant haircut, probably in the order of 45%-50%, will become necessary. After a phase of heightened political instability early this year, the June general elections showed fairly broad-based support for the centre-right party, endorsed with a more clear mandate for fiscal austerity. This has probably enhanced the chances of Portugal meeting its programme targets in the next few reviews.

Further rating agency downgrades are likely to follow if (i) large revisions to past fiscal account data occur (likely before year-end) (ii) the terms of the Greek second bailout are made harsher for private bondholders — this would likely make rating agencies conclude the same terms will be applied to Portugal once it needs further assistance.[6and 1]

Citi Ratings Outlook: Portugal

	Current	Near-term	Long-Term
S&P	BBB-	BB	CC/C
Moody's	Ba2	Ba3	Ca

Sources: Moody's, S&P and CIRA

[6] See "The Crisis Goes On – Even With The Portuguese Rescue Package" *Euro Weekly*, Giada Giani, 6 May 2011, Citi.

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From the very strong starting point (surplus of 5% of GDP in 2005-06), Denmark's fiscal position has worsened markedly in recent years, with a deficit of 2.7% of GDP in 2010. The government has used its fiscal room for manoeuvre to support growth, and will continue to do so, pushing the deficit above 4½% of GDP in 2012. Government debt is still low relatively to most other European economies at around 43% of GDP last year. Hence in the near term the fiscal outlook is not too bad. Nevertheless, if Denmark does not get back on track in terms of growth (not generated by government spending) there could be some risks of a markedly worse debt profile in the medium term.

Citi Ratings Outlook: Denmark

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

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We regard Finland as a fairly solid 'AAA'. Finland has a modest fiscal deficit this year (2.3% of GDP according to the IMF), with public debt at about 50% of GDP. The economy fell sharply in the recession but has since recovered modestly and the IMF expects GDP growth of 2-3% in 2011-12.

Citi Ratings Outlook: Finland

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

Norway

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Norway found large oil resources in the North Sea in the early 1970s. On the back of this it has a large fiscal surplus, likely to be around 13% of GDP this year. The non-oil deficit is targeted to be around 4% of the value of the Government Pension Fund Global and is expected to roughly meet that target this year (after being slightly higher in 2009 and 2010). The Norwegian government does sell bonds, but has colossal financial assets and hence a net asset/GDP ratio of more than 150% of annual GDP.

Citi Ratings Outlook: Norway

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

Sweden

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Swedish government finances are very strong end expected to record a surplus this year and in coming years. General government debt is relatively low at around 36% of GDP in 2011 and the debt/GDP ratio has been falling since 2011 (except in 2009) and probably will continue to fall in the next few years. The next election is in 2014, but none of the main political parties are proposing significant fiscal stimulus or retrenchment.

Citi Ratings Outlook: Sweden

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

Switzerland

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We view Switzerland as a fairly solid AAA rating, with no fiscal deficit and a continued drop in the general government debt/GDP ratio in recent years. The level of the debt ratio (53% in 2011, using IMF data) is relatively low compared with other industrial countries, and this ratio has fallen by 8% in the past five years, the biggest drop of any industrial country. The Swiss government does have large contingent liabilities from the assumption that it would bail out the large banking system, but the high capital ratios of Swiss banks (the ‘Swiss finish’) reduces that risk. The SNB’s commitment to engage in unlimited intervention to cap CHF appreciation may well expand the monetary base even further, but does not affect the fiscal or sovereign credit outlook.

Citi Ratings Outlook: Switzerland

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

UK

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Citi Ratings Outlook: UK

	Current	Near-term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Sources: Moody's, S&P and CIRA

The UK has moved out of the danger zone of a possible near-term ratings downgrade, but is not yet a rock solid AAA. The fiscal deficit is still falling, with the cumulative deficit in April-July at £40.1bn this year versus £43.1bn last year, despite adverse base effects from the Bank Bonus tax (which raised £3.5bn in April 2010). The current fiscal plans will cut the deficit further, although the probable undershoot of GDP growth means that the deficit will fall more slowly than the OBR expects. It is unlikely that the government will loosen fiscal policy in response to the economic slowdown, with monetary loosening far more likely. Fiscal policy is constrained by the over-riding priority of avoiding a ratings downgrade or an adverse fiscal judgement from the OBR. In March, the independent OBR judged that the UK will meet its fiscal rules (cyclically adjusted current budget surplus and falling debt/GDP ratio in 2015/16). However, the IMF believes the UK will not meet the first rule in 2015 and, with the economic slowdown, in our view it is touch and go whether the second will be hit. The government has fairly sizeable contingent liabilities stemming from the assumption that it would bail out the UK's large banking system, but the IBC report will aim to cut that contingent liability over several years. The UK's rating (or ratings outlook) would, however, be at risk if the coalition were to split or pull back from the fiscal consolidation plans. See "UK — Assessing AAA Stability", Michael Saunders, August 9, 2011, Citi.

Figure 2. Selected Countries — Economic Forecast Overview (Percent) 2010-2015F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Global	**4.1**	**3.1**	**3.2**	**3.6**	**3.8**	**3.9**	**2.7**	**3.9**	**3.2**	**3.2**	**3.1**	**3.1**	**2.06**	**2.64**	**2.95**	**3.05**	**3.44**	**3.85**
Based on PPP weights	*4.9*	*3.8*	*4.0*	*4.3*	*4.5*	*4.6*	*3.4*	*4.6*	*3.8*	*3.7*	*3.6*	*3.5*						
Industrial Countries	**2.6**	**1.4**	**1.7**	**2.0**	**2.4**	**2.5**	**1.4**	**2.5**	**1.6**	**1.8**	**1.8**	**1.8**	**0.64**	**0.79**	**0.90**	**1.13**	**1.75**	**2.53**
United States	**3.0**	**1.6**	**2.1**	**2.7**	**3.3**	**3.5**	**1.6**	**3.0**	**1.6**	**2.2**	**2.2**	**2.2**	**0.25**	**0.25**	**0.25**	**0.25**	**1.10**	**2.65**
Japan	**4.0**	**-0.2**	**2.4**	**1.5**	**1.5**	**1.5**	**-0.7**	**0.0**	**-0.1**	**-0.1**	**0.1**	**0.3**	**0.10**	**0.10**	**0.10**	**0.10**	**0.13**	**0.48**
Euro Area	**1.7**	**1.7**	**0.6**	**1.1**	**1.4**	**1.4**	**1.6**	**2.6**	**2.0**	**1.9**	**1.9**	**1.7**	**1.00**	**1.31**	**1.50**	**2.00**	**2.56**	**2.81**
Canada	3.2	2.4	2.2	2.2	2.6	2.9	1.8	2.8	2.0	2.0	2.0	2.0	0.69	1.00	1.00	1.63	2.19	2.50
Australia	2.7	1.4	4.0	4.4	4.1	3.8	2.8	3.1	2.7	3.1	3.0	2.6	4.44	4.75	5.00	5.25	5.75	5.50
New Zealand	1.4	2.4	3.4	2.5	2.8	3.0	2.3	4.3	2.9	2.5	2.4	2.6	2.81	2.69	3.63	4.50	5.50	5.50
Germany	3.6	3.0	1.9	2.0	1.6	1.6	1.1	2.3	2.0	2.1	2.2	2.1						
France	1.4	1.6	0.9	1.3	1.7	1.6	1.7	2.1	1.8	3.4	1.5	1.5						
Italy	1.2	0.6	-0.3	0.2	0.7	0.8	1.6	2.8	2.5	1.9	1.9	1.9						
Spain	-0.1	0.6	-0.3	0.4	0.8	0.9	2.0	3.0	1.0	1.5	1.7	1.7						
Greece	-4.4	-4.3	-3.0	-2.0	-2.5	-0.5	4.7	3.3	1.8	1.3	1.4	1.5						
Portugal	1.3	-1.9	-3.8	-2.7	-2.2	-1.4	1.4	3.5	0.8	0.7	1.1	1.0						
Netherlands	1.6	1.5	1.1	1.5	1.7	1.8	1.3	2.3	1.8	1.9	1.8	2.0						
Denmark	1.8	1.6	1.9	2.0	2.2	2.1	2.3	2.7	2.1	2.1	2.2	2.0	1.05	1.36	1.57	2.15	2.66	3.06
Norway	2.1	2.9	3.2	3.0	2.7	2.7	2.4	1.6	1.8	2.1	2.4	2.5	1.91	2.18	2.64	3.48	4.28	4.70
Sweden	5.4	4.7	2.8	2.8	2.6	2.5	1.2	3.0	2.3	2.4	2.2	2.0	0.50	1.76	2.35	2.89	3.52	4.00
Switzerland	2.6	2.2	1.4	1.3	1.3	1.3	0.7	0.5	0.6	0.3	0.1	0.5	0.25	0.15	0.00	0.00	0.00	0.50
United Kingdom	1.4	1.1	1.3	1.6	2.2	3.2	3.3	4.4	3.2	2.7	2.7	2.4	0.50	0.50	0.50	0.81	1.81	2.79
Emerging Markets	**7.2**	**6.0**	**5.8**	**6.1**	**6.1**	**6.0**	**5.3**	**6.4**	**5.7**	**5.5**	**5.1**	**4.9**	**5.02**	**6.00**	**6.44**	**6.13**	**6.03**	**5.77**
China	**10.3**	**9.0**	**9.0**	**8.8**	**8.5**	**8.0**	**3.3**	**5.3**	**4.2**	**4.0**	**4.0**	**4.0**	**2.30**	**3.22**	**3.50**	**3.50**	**3.50**	**3.50**
Hong Kong	7.0	5.6	5.0	4.0	4.0	4.0	2.4	5.2	3.3	3.0	3.5	3.5	0.25	0.28	0.49	0.80	1.30	2.50
India	8.5	7.6	8.2	8.8	8.8	8.9	8.6	9.0	7.5	6.0	6.0	6.0	5.96	8.19	8.50	7.50	7.50	7.50
Indonesia	6.1	6.5	6.3	6.5	6.7	7.0	5.1	5.0	6.2	6.5	6.5	6.5	6.50	6.75	6.75	7.25	7.25	7.25
Korea	6.2	3.7	3.9	4.1	4.5	4.0	3.0	4.3	3.2	3.0	3.1	3.0	2.68	3.53	3.57	3.90	4.50	5.00
Singapore	14.5	5.7	4.0	4.7	5.0	5.0	2.8	4.9	2.8	2.5	2.5	2.5	0.56	0.42	0.40	2.30	2.80	3.20
Czech Republic	2.3	2.1	1.5	3.2	3.7	3.8	1.5	1.8	2.3	2.1	2.6	2.0	0.83	0.75	0.96	1.56	2.44	3.25
Hungary	1.2	1.8	1.6	2.9	2.9	2.9	4.7	3.8	3.3	3.1	3.0	3.1	5.48	6.00	6.00	6.23	5.69	5.50
Poland	3.8	3.8	2.9	3.5	3.4	3.4	2.7	4.2	2.8	2.6	2.5	2.5	3.50	4.25	4.56	5.00	5.00	4.63
Romania	-1.3	1.6	3.0	4.5	4.8	4.8	6.1	6.3	3.7	3.0	3.0	3.0	6.54	6.25	5.13	5.00	5.00	5.00
Russia	4.0	4.0	3.5	4.1	4.0	4.0	6.9	8.8	7.2	6.5	5.5	5.5	7.75	8.25	7.50	6.00	6.00	5.50
Turkey	8.9	6.3	3.9	5.2	5.0	5.0	8.6	5.8	7.1	6.7	6.2	5.7	6.50	5.50	8.00	8.00	8.00	7.50
Nigeria	7.2	6.8	6.7	6.5	6.9	7.2	13.7	10.0	11.8	10.5	10.3	9.5	6.08	7.96	9.00	10.00	10.50	10.00
South Africa	2.8	3.4	3.5	3.9	4.1	4.3	4.1	4.8	5.5	5.8	5.6	5.5	6.41	5.50	6.25	7.75	8.75	8.75
Argentina	9.2	7.8	4.0	3.5	3.5	3.5	18.4	25.0	22.5	27.5	22.5	15.0	10.19	12.18	19.12	13.39	11.00	9.00
Brazil	7.5	3.7	4.0	4.5	4.5	4.5	5.0	6.6	5.5	4.5	4.0	4.0	9.80	11.63	12.50	11.75	10.25	9.00
Mexico	5.4	4.1	3.5	3.4	3.7	3.9	4.2	3.4	3.6	3.8	3.9	3.8	4.40	4.50	4.50	5.38	7.00	7.00
Venezuela	-1.4	3.5	3.9	2.3	2.5	2.4	28.2	26.8	26.5	28.0	26.0	29.0	14.52	19.40	20.40	21.00	21.00	21.00

Note: These forecasts are reproduced from the August *Global Economic Outlook and Strategy*, Willem Buiter et all, 24 August 2011 Citi. Source: Citi Investment Research and Analysis

Figure 3. Selected Countries — Economic Forecast Overview (Percent) 2010-2015F

	Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)						Current Balance (Pct of GDP)					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Global	**-5.7**	**-5.0**	**-4.0**	**-3.2**	**-2.6**	**-2.5**	**65**	**66**	**67**	**67**	**66**	**65**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
Based on PPP weights	*-5.2*	*-4.7*	*-3.9*	*-3.2*	*-2.7*	*-2.6*							*0.6*	*0.2*	*2.0*	*2.0*	*2.1*	*2.2*
Industrial Countries	**-7.2**	**-6.5**	**-5.0**	**-3.9**	**-3.0**	**-2.8**	**89**	**94**	**97**	**99**	**97**	**98**	**-0.8**	**-0.9**	**-0.7**	**-0.7**	**-0.7**	**-0.6**
United States	**-9.0**	**-8.5**	**-6.8**	**-5.0**	**-3.5**	**-3.7**	**63**	**69**	**74**	**77**	**77**	**78**	**-3.2**	**-3.0**	**-2.7**	**-2.7**	**-2.9**	**-3.2**
Japan	**-9.8**	**-10.3**	**-8.8**	**-8.5**	**-8.2**	**-7.7**	**225**	**237**	**239**	**244**	**248**	**252**	**3.6**	**2.3**	**2.6**	**3.0**	**3.2**	**3.3**
Euro Area	**-6.0**	**-4.1**	**-3.1**	**-2.2**	**-1.9**	**-1.6**	**85**	**88**	**91**	**92**	**88**	**87**	**-0.5**	**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-0.6**
Canada	-2.2	-1.9	-1.1	-0.5	0.0	0.2	34	34	33	32	31	29	-3.1	-3.6	-4.4	-2.4	-2.0	-1.2
Australia	-4.2	-3.6	-1.5	0.2	0.2	0.3	3	6	7	7	6	6	-2.6	-1.8	-2.8	-6.3	-6.0	-5.5
New Zealand	-3.3	-8.4	-4.7	-1.8	-0.3	0.5	14	21	26	29	30	30	-2.3	-0.7	-5.5	-5.0	-5.5	-5.7
Germany	-3.3	-1.9	-1.0	-0.3	-0.1	-0.1	83	84	84	84	82	80	5.7	5.2	4.8	4.5	4.6	4.9
France	-7.1	-6.0	-4.5	-3.3	-3.0	-2.5	82	86	90	91	92	92	-1.7	-2.7	-2.3	-1.4	-0.7	0.0
Italy	-4.6	-4.1	-2.5	-1.3	-1.2	-0.8	119	121	122	121	120	118	-3.5	-3.8	-3.5	-3.1	-3.1	-3.0
Spain	-9.2	-6.8	-6.2	-5.9	-5.5	-5.5	60	68	75	82	88	93	-4.6	-3.4	-1.6	-1.2	-1.1	-1.0
Greece	-10.5	-9.8	-7.5	-5.8	-4.0	1.8	143	167	180	185	84	81	-10.4	-7.5	-4.0	-2.1	-2.1	-2.9
Portugal	-9.1	-6.3	-4.7	-3.9	-4.4	-1.6	93	109	121	133	80	82	-10.5	-8.3	-5.7	-3.1	-1.5	-0.3
Netherlands	-5.4	-2.9	-2.4	-2.0	-1.2	0.0	63	65	67	69	68	65	7.2	8.0	7.0	6.9	6.8	6.9
Denmark	-2.7	-3.8	-4.6	-3.8	-2.6	-1.5	44	46	49	50	51	50	5.1	5.1	4.3	3.3	2.8	2.6
Norway	10.6	12.0	12.5	13.5	15.0	19.0	NA	NA	NA	NA	NA	NA	12.4	13.0	14.5	15.0	15.5	16.0
Sweden	0.0	0.5	1.2	2.6	2.6	3.9	39	36	32	30	30	29	6.3	6.4	6.6	6.6	6.7	6.9
Switzerland	0.2	0.3	0.6	0.6	0.9	0.9	55	53	51	50	48	47	14.6	13.6	10.1	9.9	10.1	10.4
United Kingdom	-9.7	-8.2	-6.9	-5.8	-4.5	-3.4	76	81	85	88	89	88	-3.2	-2.0	-0.3	0.7	1.3	1.8
Emerging Markets	**-2.5**	**-2.3**	**-2.2**	**-2.1**	**-2.0**	**-1.9**	**16**	**16**	**16**	**17**	**17**	**17**	**2.5**	**1.7**	**1.2**	**1.2**	**1.2**	**1.1**
China	**-1.6**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**21**	**20**	**21**	**21**	**21**	**21**	**5.3**	**4.0**	**3.5**	**3.0**	**2.8**	**2.5**
Hong Kong	4.2	2.9	3.0	2.5	2.0	2.0	1	1	2	2	3	3	6.2	8.3	9.3	10.0	10.0	10.0
India	-8.1	-8.3	-7.1	-7.0	-6.0	-6.0	67	66	64	63	60	58	-2.6	-2.8	-2.2	-1.8	-1.3	-0.7
Indonesia	-0.6	-1.5	-1.5	-1.5	-1.3	-1.0	26	26	25	24	23	23	0.9	0.1	-0.3	-0.5	-0.7	-0.7
Korea	1.4	0.8	0.9	1.4	1.6	1.3	35	35	34	33	31	30	2.8	1.6	1.2	0.9	0.7	-0.3
Singapore	0.5	0.0	2.0	2.0	1.0	1.0	107	110	115	118	120	120	22.2	16.5	15.0	13.0	13.0	12.0
Czech Republic	-4.7	-4.5	-3.9	-3.4	-2.3	-1.5	39	41	44	45	45	44	-3.7	-4.1	-3.5	-3.4	-3.7	-4.4
Hungary	-4.2	2.0	-3.8	-3.7	-3.7	-3.7	80	74	74	72	71	70	2.1	1.6	0.3	-0.8	-2.0	-2.6
Poland	-7.9	-5.7	-4.1	-2.8	-2.0	-1.8	53	52	52	51	50	48	-3.4	-4.8	-4.4	-4.2	-4.3	-4.0
Romania	-6.7	-4.5	-3.0	-2.5	-2.0	-1.5	35	37	37	36	34	32	-4.2	-4.3	-5.0	-5.5	-5.5	-5.0
Russia	-4.0	-1.4	-2.7	-2.7	-2.3	-1.8	8	9	11	12	13	13	4.8	4.5	0.9	0.4	-1.2	-1.7
Turkey	-3.6	-1.9	-2.7	-3.0	-3.0	-3.0	43	40	38	36	36	36	-6.5	-9.9	-9.1	-8.2	-7.4	-6.6
Nigeria	-4.9	-2.4	-2.0	-1.9	-2.3	-2.8	NA	NA	NA	NA	NA	NA	6.1	8.8	8.1	6.0	4.7	3.8
South Africa	-5.2	-5.4	-5.1	-4.4	-4.0	-3.7	34	38	42	40	37	34	-2.7	-3.8	-5.2	-6.2	-6.6	-6.3
Argentina	0.2	-0.6	1.0	1.5	2.1	2.3	49	49	49	50	52	53	1.0	-0.1	0.9	0.3	-0.1	-0.1
Brazil	-2.5	-2.5	-2.5	-2.2	-2.4	-2.4	63	63	63	70	70	71	-2.3	-2.3	-2.7	-2.5	-2.2	-2.0
Mexico	-2.8	-2.5	-2.0	-1.9	-1.9	-1.9	43	42	42	42	42	42	-0.5	-1.1	-2.4	-2.6	-2.7	-2.7
Venezuela	-6.6	-5.0	-5.0	-5.5	-5.9	-5.8	38	37	31	39	41	40	3.7	11.0	10.6	5.0	4.9	4.7

Note: US debt and deficit figures are for the Federal government only. All other countries are general government debt and deficits. Sovereign ratings usually are for central government debt, not the overall general government debt. We assume sovereign debt restructuring in Greece, Ireland and Portugal in 2014. Note: These forecasts are reproduced from the August *Global Economic Outlook and Strategy*, Willem Buiter et all, 24 August 2011 Citi.
Source: Citi Investment Research and Analysis

Appendix A-1

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