

European Economic Forecast Highlights

December 2013

- This companion to *Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2014 and Beyond* gives detailed quarterly forecasts for the main European countries to end 2015. Figures 20-21 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt. Figure 22 shows the change in our forecasts from last month. Figures 23-25 compare current forecasts for each country.
- The euro area is recovering, albeit at a crawling pace, with GDP growth seen at 0.9% in 2014 and 1.0% in 2015. With the balance of risks around the outlook for inflation skewed to the downside, we expect the ECB to cut its key interest rates in H1-14 and introduce additional non-standard measures. However, we doubt that downside surprises to its inflation mandate will be sufficiently large to overcome reluctance to engage in large-scale sovereign bond purchases/QE. Public debt/GDP ratios are likely to rise further in most euro area periphery countries in coming years. More OSI/PSI (official and/or private sector involvement) may still be needed, notably in Greece, Cyprus and Portugal. We no longer have PSI in our medium-term outlook for Italy and Spain, but debt restructuring for those countries remains a material risk, especially if nominal GDP growth disappoints

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Figure 1. Short-Term Interest Rates (Percent), 2013-18F

	History	Forecast				
	2013	2014	2015	2016	2017	2018
Euro Area	0.50	0.06	0.00	0.06	0.50	1.00
Denmark	0.20	0.13	0.25	0.47	0.78	1.00
Norway	1.50	1.50	1.71	2.08	2.74	3.33
Sweden	0.99	0.75	0.98	1.42	2.18	2.80
Switzerland	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	0.50	0.50	0.81	1.75	2.21	2.71

Source: Citi Research

Figure 2. Euro Area – Economic Forecasts Compared (Percent), 2014-15F

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2014F	2015F	2014F	2015F
Euro Area - Citi Forecast	02-Dec-13	0.9	1.0	0.9	0.7
OECD Economic Outlook	19-Nov-13	1.0	1.6	1.2	1.2
EU Commission Forecast	05-Nov-13	1.1	1.7	1.5	1.4
IMF WEO Forecast	08-Oct-13	-0.6	-0.4	1.5	1.5
ECB Forecast - mid-point	5 Dec 13	1.1	1.5	1.1	1.3
Consensus Economics	11-Nov-13	0.9	--	1.3	--

Source: Citi Research

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

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The euro area is recovering, albeit at a crawling pace. The rebound in economic activity during 2014 (0.9%) and 2015 (1.0%) is expected to be slow and uneven, given persistent headwinds from private sector deleveraging, a strong euro and high unemployment. With governments having made significant progress in terms of fiscal consolidation, and with austerity fatigue now pervasive, fiscal policy should turn broadly neutral in 2014. Despite some improvement, domestic demand is underperforming compared to previous recoveries. With the balance of risks around the outlook for inflation skewed to the downside, we expect the ECB to cut its key interest rates in H1-14 and introduce additional non-standard measures. However, we doubt that downside surprises to its inflation mandate will be sufficiently large to overcome reluctance to engage in large scale sovereign bond purchases/QE.

Banking union will be one of the important developments. The ECB is meant to take over as supervisor of the major euro area banks in November 2014 and will carry out a 'comprehensive assessment' of these banks, including an asset quality review, before then. We are modestly optimistic that this assessment will be much more rigorous than prior pan-European stress tests. Although euro area banks have built up capital in recent years to an extent, capital needs could still be large. As sizeable bail-outs of banks are unlikely in most countries, bail-ins of bank creditors could then play a major role. See also [Global Economic Outlook and Strategy](#), pages 46-47 for more on the euro area outlook and also the essay entitled "Will Banking Union Save EMU?" (pages 8-14).

Figure 3. Euro Area – Economic Forecasts, 2013-15F

		History			Forecast			History				Forecast							
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-0.4	0.9	1.0				-1.2	-0.6	-0.4	0.4	0.8	0.8	0.9	0.9	0.8	1.0	1.0	1.1
	QQ SAAR							-0.9	1.1	0.4	1.0	1.0	0.8	0.9	0.8	0.9	1.3	1.2	1.2
Final Domestic Demand	YY	-1.0	0.6	0.9				-2.0	-1.0	-0.8	-0.2	0.5	0.5	0.6	0.7	0.7	0.8	0.9	1.0
Private Consumption	YY	-0.5	0.6	1.1				-1.3	-0.6	-0.3	0.2	0.6	0.6	0.6	0.7	0.9	1.0	1.1	1.2
Public Consumption	YY	0.2	0.0	0.0				-0.4	0.3	0.5	0.4	0.4	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.1
Fixed Investment	YY	-3.8	1.0	1.4				-5.8	-3.8	-3.6	-2.1	0.7	0.7	1.3	1.3	1.2	1.4	1.5	1.5
-- Business Equipment	YY	-3.3	1.2	2.7				-5.9	-3.5	-2.7	-0.9	1.2	1.1	1.2	1.1	2.1	2.6	3.1	3.1
-- Construction	YY	-4.3	-1.2	1.2				-5.7	-4.0	-4.0	-3.4	-2.1	-1.5	-0.9	-0.1	1.3	1.0	1.0	1.2
Stocks (Contrib. to YY GDP Growth)		0.0	0.0	-0.1				-0.1	-0.2	0.1	0.3	0.0	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1
Exports of Goods and Services	YY	0.7	2.7	3.0				0.1	0.7	0.3	1.6	3.2	2.2	2.8	2.6	2.7	2.9	3.0	3.3
Imports of Goods and Services	YY	-0.4	2.4	2.8				-1.9	-0.4	-0.4	1.2	2.8	2.0	2.4	2.3	2.5	2.7	2.9	3.1
Consumer Prices	YY	1.3	0.9	0.8				1.9	1.4	1.3	0.8	0.8	0.9	0.7	1.4	1.0	0.8	0.7	0.5
Core CPI (ex Food, Energy, Tobacco)	YY	1.1	0.6	0.4				1.4	1.1	1.1	0.8	0.7	0.7	0.5	0.5	0.5	0.4	0.4	0.3
CPI Ex Energy and Unprocessed Food	YY	1.3	0.7	0.5				1.5	1.3	1.3	1.0	0.8	0.8	0.6	0.6	0.6	0.5	0.4	0.3
Unemployment Rate	YY	12.1	12.3	12.1				12.0	12.1	12.2	12.3	12.3	12.3	12.2	12.3	12.2	12.2	12.0	12.0
Current Account Balance	€ bn	206.5	252.2	255.2															
	% GDP	2.2	2.6	2.6															
General Government Balance	€ bn	-286.9	-255.7	-220.2															
	% GDP	-3.0	-2.6	-2.2															
Primary Balance	% GDP	0.0	0.4	0.8															
General Government Debt	€ bn	9,220.2	9,563.5	9,803.5															
	% GDP	96.2	98.2	98.9															
Gross Operating Surplus	YY	1.7	2.2	2.4															
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.50	0.06	0.00				1.00	0.75	0.50	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Bund yield (Period Avg.)	%	1.60	1.80	2.00				1.51	1.40	1.78	1.70	1.70	1.70	1.70	1.80	1.90	1.90	NA	NA
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.32	1.39	1.40				1.28	1.30	1.35	1.35	1.37	1.39	1.4	1.40	1.4	1.40	1.40	1.40

Note: Percentage changes unless indicated. Annual data are period averages. Sources: ECB, Eurostat and Citi Research forecasts

Germany

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We expect German economic growth to pick up to an above-trend 1.9% in 2014 and 1.7% in 2015, from 0.5% in 2013. Domestic demand should account for all of the increase, as robust employment and wage growth and probably a modest fiscal stimulus boost domestic consumption, and investment recovers amid an improved external outlook and low financing constraints. Politically, 2014 will also be an important year in Germany. The new (most likely Grand Coalition) government's decisions on energy reform, minimum wages and tax increases will probably have modestly negative effects on German competitiveness. As the European Parliament elections and major decisions on bailout programmes and banking union are approaching, we expect German eurozone support to remain cautious and reactive.

Figure 4. Germany – Economic Forecasts, 2013-15F

		History			Forecast											
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.5	1.9	1.7	-0.3	0.5	0.6	1.5	2.0	1.7	1.8	1.9	1.7	1.7	1.7	1.6
	QQ SAAR				0.0	2.9	1.3	1.6	2.0	2.0	1.7	2.0	1.2	1.9	1.5	1.7
Final Domestic Demand	YY	0.6	2.1	2.0	-0.4	0.7	0.9	1.4	2.1	2.0	2.1	2.1	2.1	2.0	2.0	2.0
	QQ SAAR				-0.6	2.5	1.8	1.9	2.1	2.2	2.1	2.0	2.0	2.2	1.9	2.1
Private Consumption	YY	1.1	1.9	2.1	0.6	1.2	1.1	1.5	1.7	1.6	2.1	2.1	2.1	2.0	2.0	2.1
	QQ SAAR				1.1	2.5	0.4	1.9	2.0	2.2	2.1	1.9	1.9	2.2	2.0	2.2
Public Consumption	YY	0.5	1.1	1.2	0.3	0.6	0.5	0.6	0.7	1.3	1.1	1.2	1.2	1.2	1.2	1.2
	QQ SAAR				0.5	-0.8	1.9	0.8	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Fixed Investment	YY	-0.7	3.8	2.9	-4.3	-0.8	0.6	2.0	4.8	4.1	3.2	3.1	3.0	2.9	2.8	2.7
	QQ SAAR				-7.4	6.5	6.3	3.1	3.4	3.4	2.8	3.0	2.8	3.1	2.3	2.7
-- Business Equipment	YY	-1.8	2.0	2.0	-6.1	-1.4	-0.2	0.9	2.9	2.0	1.8	1.5	1.7	2.0	2.2	2.3
	QQ SAAR				-6.3	4.9	2.1	3.1	1.4	1.6	1.2	1.9	2.0	2.9	1.9	2.4
-- Construction	YY	-0.3	4.4	2.8	-3.8	-0.9	0.9	2.6	6.0	4.9	3.3	3.5	3.2	2.9	2.7	2.4
	QQ SAAR				-8.8	7.9	9.8	2.4	4.2	3.5	3.1	3.2	2.9	2.4	2.1	2.3
Stocks (Contrib. to YY GDP Growth)		0.2	0.0	-0.1	0.1	-0.1	0.4	0.3	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0	-0.1
Exports of Goods and Services	YY	0.3	2.9	3.5	-0.7	0.2	-0.2	1.8	3.7	2.1	2.8	3.3	3.2	3.5	3.5	3.8
	QQ SAAR				-4.1	10.1	0.3	1.2	3.4	3.3	3.2	3.2	3.3	4.2	3.4	4.3
Imports of Goods and Services	YY	0.9	3.5	4.4	-0.7	0.5	1.3	2.6	4.0	3.1	3.3	3.8	4.0	4.3	4.5	4.9
	QQ SAAR				-2.2	8.0	3.3	1.6	3.4	4.1	4.0	3.7	4.4	5.0	4.8	5.2
Net Exports (Contrib. to YY GDP Growth)		-0.3	-0.1	-0.2	-0.3	0.4	-0.3	0.0	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Consumer Prices	YY	1.5	1.5	1.6	1.5	1.5	1.6	1.3	1.4	1.5	1.4	1.7	1.5	1.6	1.7	1.8
Compensation per Employee	YY	2.4	2.3	2.3	2.6	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.4
Employment Growth	YY	0.5	0.6	0.5	0.6	0.6	0.6	0.3	0.4	0.5	0.8	0.7	0.8	0.6	0.3	0.3
Unemployment Rate (ILO)	%	5.3	5.2	5.1	5.4	5.3	5.3	5.4	5.3	5.3	4.7	5.3	5.2	5.1	4.8	5.4
Current Account Balance	€ bn	189.6	191.2	179.6												
	% GDP	6.8	6.8	6.2												
General Government Balance	€ bn	1.3	0.6	-2.9												
	% GDP	0.0	0.0	-0.1												
Primary Balance	% GDP	2.4	2.3	2.0												
General Government Debt	€ bn	2,175.0	2,160.4	2,148.7												
	% GDP	78.5	76.5	73.8												
Gross Trading Profits	YY	3.0	5.6	3.5	-4.7	2.1	4.4	10.6	7.6	7.2	3.8	4.2	2.4	3.2	4.6	3.8

Note: The German annual figures are derived from quarterly Bundesbank data and adjusted for working days. Forecasts for GDP and its components are calendar adjusted. Percentage changes unless indicated. Annual data are period averages. Sources: ECB, Eurostat, Destatis and Citi Research forecasts

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French 3Q GDP showed a surprise drop of 0.1% QQ, with flat domestic demand, underscoring the economy's very weak path. Fiscal pressure has continued to increase in 2013, and will do so again in 2014, including a 1 January 2014 VAT rate hike, putting pressure on household spending. The government suffers from record low levels of popularity (23% of positive opinion for President Hollande and 22% for PM Ayrault), and is likely to do badly in upcoming municipal elections (23 & 30 March) and EU parliamentary elections. Nevertheless, given EU pressure, we doubt that the government can deviate from President Hollande's budget consolidation plans, which are based solely on spending restraint from 2015.

Figure 5. France – Economic Forecasts, 2013-15F

		History			Forecast			Forecast								
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.2	0.8	0.9	-0.4	0.5	0.2	0.7	1.0	0.6	0.9	0.8	0.8	0.8	1.0	1.1
Final Domestic Demand	QQ SAAR				-0.2	2.2	-0.6	1.5	0.9	0.8	0.6	1.0	0.8	1.0	1.2	1.3
	YY	0.2	0.4	0.6	-0.3	0.3	0.4	0.4	0.6	0.3	0.4	0.4	0.5	0.6	0.7	0.8
Private Consumption	QQ SAAR				-0.4	1.5	0.2	0.5	0.2	0.3	0.5	0.6	0.6	0.7	1.0	1.0
	YY	0.4	0.6	0.7	-0.3	0.6	0.6	0.8	1.0	0.6	0.6	0.4	0.5	0.6	0.8	1.0
Public Consumption	QQ SAAR				-0.3	1.8	0.7	1.2	0.2	0.4	0.4	0.6	0.6	0.8	1.2	1.2
	YY	1.6	0.5	0.1	1.6	1.9	1.7	1.3	1.1	0.4	0.3	0.4	0.3	0.2	0.1	0.0
Fixed Investment	QQ SAAR				1.5	2.9	0.9	0.0	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
	YY	-2.4	-0.4	1.1	-2.6	-2.5	-2.4	-2.0	-1.2	-0.8	-0.1	0.4	0.7	1.0	1.2	1.5
-- Businesses	QQ SAAR				-3.3	-1.4	-2.2	-1.1	0.0	0.0	0.8	0.8	1.3	1.3	1.6	1.6
	YY	-2.1	-0.3	1.5	-2.7	-2.1	-1.8	-1.6	-0.8	-0.9	0.0	0.6	1.0	1.4	1.6	1.8
-- Households	QQ SAAR				-3.2	0.3	-2.4	-1.2	0.0	0.0	1.2	1.2	1.6	1.6	2.0	2.0
	YY	-3.8	-0.9	0.7	-2.7	-4.3	-4.5	-3.8	-2.6	-0.9	-0.2	0.2	0.4	0.6	0.8	1.0
Stocks (Contrib. to YY GDP Growth)	QQ SAAR				-4.9	-6.7	-2.4	-1.2	0.0	0.0	0.4	0.4	0.8	0.8	1.2	1.2
		0.3	0.5	0.0	0.2	0.1	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	0.3	1.6	2.6	-0.4	1.2	-0.5	0.8	1.6	0.4	2.3	2.2	2.3	2.4	2.7	2.9
	QQ SAAR				-1.5	7.7	-5.8	3.3	1.8	2.6	1.7	2.6	2.5	2.6	3.0	3.3
Imports of Goods and Services	YY	1.0	1.7	1.5	-0.9	0.4	1.5	3.0	3.1	1.7	1.0	1.0	1.2	1.4	1.6	1.8
	QQ SAAR				0.2	6.6	4.0	1.2	0.8	0.8	1.2	1.2	1.6	1.6	2.0	2.0
Net Exports (Contrib. to YY GDP Growth)		-0.2	0.0	0.3	-0.1	0.1	-0.7	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	1.0	1.2	1.3	1.2	0.9	1.1	0.9	1.2	1.3	1.2	1.4	1.3	1.2	1.3	1.4
Average Monthly Wages	YY	1.9	2.0	2.0												
Employment Growth (Private-Sector)	YY	-0.7	0.3	1.3												
Unemployment Rate	%	10.6	10.7	10.4	10.4	10.5	10.7	10.7	10.7	10.8	10.7	10.7	10.6	10.4	10.4	10.3
Current Account Balance	€ bn	-31.8	-16.2	-3.0												
	% GDP	-1.5	-0.8	-0.1												
General Government Balance	€ bn	-83.6	-75.1	-69.3												
	% GDP	-4.1	-3.6	-3.2												
Primary Balance	% GDP	-1.5	-1.0	-0.6												
General Government Debt	€ bn	1,929.6	2,011.9	2,081.2												
	% GDP	93.9	96.0	97.3												
Gross Trading Profits	YY	0.0	2.5	3.0												

Note: Percentage changes unless indicated. Annual data are period averages. Sources: ECB, Eurostat, INSEE and Citi Research forecasts

Italy

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GDP has lagged the timid recovery in the rest of the euro area, still falling by 0.1% QQ in Q3. We expect growth to be marginally positive in Q4, but not to pick up further in 2014. Tight credit conditions ahead of the ECB's AQR and EBA stress tests, and poor competitiveness are behind the weak growth outlook. Inflation has been weakening significantly in 2013 and we now expect this downtrend to continue in 2014 and 2015 on the back of a wide output gap and euro strength. This may lift real incomes and consumer spending a bit, hence the small upward revision in our real GDP forecasts. Political instability will likely remain elevated, with early elections in 2014 still a possibility. The scope for meaningful structural reforms to benefit medium-term growth remains limited. Poor nominal GDP growth is likely to prevent the debt-to-GDP ratio from stabilizing in coming years.

Figure 6. Italy – Economic Forecasts, 2013-15F

		History			Forecast											
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-1.8	0.2	0.3	-2.5	-2.2	-1.9	-0.7	0.0	0.3	0.5	0.2	0.0	0.2	0.4	0.4
	QQ SAAR				-2.3	-1.1	-0.5	0.9	0.7	0.1	0.3	-0.3	0.2	0.8	0.8	-0.1
Final Domestic Demand	YY	-2.4	0.2	0.2	-3.6	-3.1	-1.9	-0.9	0.1	0.3	0.2	0.1	0.0	0.2	0.3	0.4
	QQ SAAR				-3.1	-1.2	0.1	0.7	0.6	-0.2	-0.2	0.3	0.4	0.4	0.4	0.4
Private Consumption	YY	-2.5	-0.3	0.3	-3.4	-3.3	-2.1	-1.2	-0.7	-0.3	-0.1	0.0	0.1	0.2	0.3	0.4
	QQ SAAR				-1.9	-1.8	-0.8	-0.4	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4
Public Consumption	YY	-0.1	-0.3	-0.6	-0.7	0.0	0.3	0.1	-0.2	-0.4	-0.4	-0.4	-0.5	-0.6	-0.7	-0.8
	QQ SAAR				0.5	0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.8	-0.8	-0.8	-0.8
Fixed Investment	YY	-4.6	2.4	1.2	-7.3	-6.0	-4.1	-0.9	3.1	3.2	2.1	1.1	0.5	1.1	1.7	1.6
	QQ SAAR				-11.2	-1.1	3.6	6.1	4.1	-0.8	-0.8	2.0	1.6	1.6	1.6	1.6
-- Business Equipment	YY	-2.5	6.5	3.5	-7.4	-4.4	-1.9	3.8	8.1	7.7	6.2	3.9	2.4	3.4	4.4	3.7
	QQ SAAR				-6.4	1.9	6.2	14.7	10.1	0.3	0.3	5.0	4.2	4.2	4.1	2.3
-- Construction	YY	-6.6	-1.7	-1.2	-7.2	-7.5	-6.2	-5.3	-1.7	-1.2	-2.0	-1.8	-1.6	-1.4	-1.2	-0.7
	QQ SAAR				-15.6	-4.0	1.2	-2.0	-2.0	-2.0	-2.0	-1.2	-1.2	-1.2	-1.2	0.8
Exports of Goods and Services	YY	0.0	3.3	3.0	-0.6	0.2	0.0	0.5	2.8	3.5	3.7	3.1	2.8	2.9	3.0	3.1
	QQ SAAR				-5.5	2.4	2.9	2.3	3.6	5.0	4.0	-0.3	2.6	5.2	4.6	0.0
Imports of Goods and Services	YY	-2.6	3.6	3.2	-5.0	-4.6	-1.3	0.6	3.0	4.5	3.5	3.3	3.2	3.1	3.3	3.3
	QQ SAAR				-5.6	-1.0	6.5	2.8	4.0	4.6	2.6	1.9	3.7	4.2	3.6	1.7
Net Exports (Contrib. to YY GDP Growth)		0.7	0.1	0.0	1.2	1.3	0.3	0.0	0.1	-0.1	0.2	0.1	0.0	0.1	0.0	0.1
Consumer Prices	YY	1.3	0.2	-0.3	2.1	1.3	1.1	0.6	0.1	0.3	0.1	0.1	0.0	-0.2	-0.5	-0.6
Compensation per Employee		NA	NA	NA												
Employment Growth		-1.7	-0.5	0.1												
Unemployment Rate	%	12.2	12.4	12.2												
Current Account Balance	€ bn	17.6	21.9	23.4												
	% GDP	1.1	1.4	1.5												
General Government Balance	€ bn	-48.0	-44.0	-42.3												
	% GDP	-3.1	-2.8	-2.7												
Primary Balance	% GDP	2.4	2.5	2.8												
General Government Debt	€ bn	2,068	2,138	2,181												
	% GDP	132.8	136.6	139.2												

Percentage changes unless indicated. Annual data are period averages.
Sources: Bank of Italy, ECB, Eurostat, ISTAT and Citi Research forecasts

Spain

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We lift our 2014 and 2015 real GDP forecasts by 0.1ppts (to 0.2% and 0.8%, respectively) but we now see inflation remaining in slightly negative territory in the next couple of years due to still ample spare capacity. This, together with less fiscal drag, will help private consumption and Spain's competitiveness. Exports will continue to perform strongly, but reducing the fiscal deficit will continue to prove difficult and require sizable fiscal efforts, limiting the pick-up in domestic demand. Spain has announced it will exit its bailout programme in December 2013 with no additional support required.

Figure 7. Spain – Economic Forecasts, 2013-15F

		History			Forecast			History				History			
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-1.3	0.2	0.8				-2.1	-1.7	-1.2	-0.3	0.2	0.2	0.3	0.3
	QQ SAAR							-1.6	-0.4	0.4	0.4	0.3	0.1	0.2	0.4
Final Domestic Demand	YY	-3.2	-0.6	0.1				-4.7	-3.7	-3.2	-1.3	-0.9	-0.7	-0.4	-0.5
	QQ SAAR							-2.4	-1.1	-2.1	0.1	-0.6	-0.4	-0.5	-0.4
Private Consumption	YY	-2.5	0.5	1.0				-4.2	-3.1	-2.3	-0.3	0.3	0.5	0.5	0.6
	QQ SAAR							-1.8	-0.1	0.5	0.3	0.5	0.8	0.5	0.6
Government Consumption	YY	-1.6	-1.2	-1.5				-3.3	-2.4	-0.4	-0.1	-0.4	-1.6	-1.2	-1.7
	QQ SAAR							-0.2	3.6	-3.8	0.5	-1.6	-1.6	-2.0	-1.6
Fixed Investment	YY	-7.0	-3.2	-0.8				-7.5	-6.4	-8.6	-5.6	-4.9	-3.5	-2.0	-2.3
	QQ SAAR							-6.0	-8.3	-7.5	-1.0	-2.8	-2.6	-1.7	-2.2
-- Business Equipment	YY	1.1	3.7	3.0				-3.0	1.0	0.4	6.1	5.5	3.6	2.5	3.2
	QQ SAAR							8.1	9.6	8.1	-1.2	5.7	1.9	3.8	1.3
-- Construction	YY	-10.3	-5.0	-3.3				-10.2	-10.6	-10.3	-9.9	-7.5	-4.0	-4.2	-4.5
	QQ SAAR							-13.9	-17.6	-3.8	-3.3	-4.5	-4.5	-4.5	-4.4
Exports of Goods and Services	YY	5.6	5.7	4.0				3.1	9.1	4.7	5.4	11.1	5.0	3.5	3.2
	QQ SAAR							-16.2	28.3	9.0	5.4	3.4	2.2	3.1	4.1
Imports of Goods and Services	YY	0.6	4.6	2.5				-4.7	2.5	0.7	3.9	9.5	4.3	2.3	2.1
	QQ SAAR							-16.7	22.5	11.5	2.3	2.8	1.1	2.2	2.4
Net Exports (Contrib. to YY GDP Growth)		1.5	0.6	0.6				2.3	2.0	1.3	0.6	0.8	0.4	0.6	0.5
Consumer Prices	YY	1.5	-0.4	-0.2				2.8	1.8	1.3	0.0	-0.4	-0.2	-0.5	-0.4
Compensation per Employee	YY	-1.0	-0.7	-0.2				-1.8	-0.6	-0.7	-0.8	-0.6	-0.4	-0.8	-0.9
Employment Growth	YY	-3.3	-1.5	-0.1				-4.6	-3.7	-2.9	-2.1	-1.6	-1.5	-1.5	-1.2
Unemployment Rate	%	26.6	27.0	26.6				27.2	26.3	26.0	26.7	27.6	27.0	26.5	27.1
Current Account Balance	€ bn	11.7	22.0	26.7											
	% GDP	1.1	2.1	2.6											
General Government Balance	€ bn	-70.7	-63.8	-56.3											
	% GDP	-6.9	-6.2	-5.4											
Primary Balance	% GDP	-3.4	-2.5	-1.5											
General Government Debt	€ bn	963.5	1,036.6	1,092.9											
	% GDP	93.9	100.7	105.4											

Note: For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€11.6bn). Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Greece

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The contraction in GDP has recently eased (-3.0% YY in Q3), thanks to a reduced fiscal drag relative to 2011-12 and falling inflation. We revise down our inflation forecasts considerably to account for the persistently large output gap in coming years. Further (planned) tax hikes and spending cuts, together with still not very competitive exports, will likely prevent GDP from expanding in 2014 or 2015. Negotiations on additional debt relief from official lenders may trigger further political instability and increase risks of early elections. Only a haircut on official loans could restore fiscal sustainability in our view, but this is unlikely to be agreed any time soon. Additional official sector involvement (OSI) for Greece also is likely in 2014, but it will probably not be sizable enough to restore debt sustainability.

Figure 8. Greece – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-3.3	-1.9	-0.5	1.1	1.4	1.3
Final Domestic Demand	YY	-6.3	-3.1	-1.9	0.1	0.5	0.4
Private Consumption	YY	-5.6	-2.1	-1.3	0.1	0.6	0.4
Public Consumption	YY	-5.2	-4.6	-3.8	-0.2	0.1	0.1
Fixed Investment	YY	-11.5	-6.1	-2.0	0.5	1.3	0.8
Exports of Goods and Services	YY	1.7	2.6	2.5	3.0	3.3	3.6
Imports of Goods and Services	YY	-8.2	-3.4	-2.5	-0.6	0.5	0.7
Consumer Prices	YY	-0.8	-2.9	-2.4	-1.4	-0.4	0.8
Unemployment Rate	%	27.8	28.7	28.9	28.4	27.1	25.6
Current Account Balance	€ bn	0.8	2.8	3.8	5.8	6.6	6.6
	% GDP	0.4	1.6	2.3	3.5	3.9	3.8
General Government Balance	€ bn	-5.3	-4.0	-3.0	-2.1	-1.1	-0.8
	% GDP	-2.9	-2.3	-1.8	-1.3	-0.6	-0.5
Primary Balance	% GDP	1.2	1.7	1.6	2.2	2.9	3.0
General Government Debt	€ bn	319.5	324.3	329.3	333.4	336.4	340.8
	% GDP	175.2	189.6	199.2	201.9	200.5	197.9

Note: We assume further reductions in the cost of official loans.

Percentage changes unless indicated. Annual data are period averages.

Sources: Bank of Greece, ECB, Eurostat and Citi Research forecasts

Ireland

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The economy seems to have been roughly flat in Q3, with strong retail sales growth (4.0% QoQ) balanced by a 1.6% QoQ drop in industrial production and a 7.0% QoQ plunge in industrial new orders. We do expect positive real economic growth in 2014, but with inflation very low, nominal GDP growth is likely to undershoot official forecasts in 2014 and later years, hence keeping the public debt/GDP ratio above official forecasts (and most likely still above 120% even in 2018). With exports at more than 100% of GDP, and no credit line back up, Ireland's fiscal path is highly vulnerable to external shocks. Ireland has announced that it will exit its bailout programme in December 2013 with no additional support required.

Figure 9. Ireland – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-0.5	1.4	1.6	2.7	3.0	3.3
Real GNP	YY	2.5	0.6	1.0	2.1	2.3	2.6
Final Domestic Demand	YY	-2.5	-0.5	-1.0	-0.7	-0.6	-0.3
Private Consumption	YY	-1.3	0.7	-0.2	-0.5	-0.4	-0.2
Public Consumption	YY	-1.3	-2.8	-2.5	0.3	0.0	0.5
Fixed Investment	YY	-9.9	-3.0	-3.2	-3.5	-3.3	-2.3
Exports of Goods and Services	YY	0.8	5.2	4.2	5.5	5.7	5.9
Imports of Goods and Services	YY	0.9	3.5	2.7	3.6	3.8	4.1
Net Trade		1.5	2.4	2.6	3.3	3.6	3.5
GDP Deflator	YY	-0.3	0.5	1.0	1.5	1.5	1.5
Nominal GDP	YY	-0.8	1.9	2.6	4.2	4.5	4.8
House Prices	YY	-0.2	1.8	1.0	1.0	2.1	4.1
Unemployment Rate	%	13.6	13.2	13.0	13.0	13.0	12.9
Employment	YY	1.6	0.5	-0.3	-0.5	0.1	-0.4
Current Account Balance	€ bn	14.0	16.7	17.7	19.9	22.3	24.6
	% GDP	8.6	10.1	10.4	11.2	12.0	12.7
General Government Balance	€ bn	-11.5	-9.2	-6.8	-6.0	-6.5	-5.9
	% GDP	-7.1	-5.6	-4.0	-3.4	-3.5	-3.1
Primary Balance	% GDP	-2.7	-1.1	0.5	1.3	1.3	1.8
General Government Debt	€ bn	205.9	208.7	215.9	224.0	230.5	236.5
	% GDP	126.9	126.2	127.2	126.6	124.7	122.0

Note: Percentage changes unless indicated. Annual data are period averages.

Sources: Central Bank of Ireland, CSO, ECB, Eurostat and Citi Research forecasts

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Portugal

GDP growth has returned into positive territory in mid-2013, but it is likely to decelerate again if the 2014 Budget (including 2.3pp of GDP of fiscal tightening) is fully implemented. The recent fall in inflation is likely to continue, partly offsetting the negatives of the fiscal drag on real incomes. We now expect inflation to enter and remain in mild negative territory over the next couple of years. Therefore, nominal GDP growth will remain subdued, hence preventing the public debt-to-GDP ratio from stabilizing. Indeed, additional transfers of private sector liabilities onto the government balance sheet will likely keep public debt rising over the next few years. While a precautionary credit line is likely to be agreed in June 2014 when Portugal's bailout programme ends, risks of a full second bailout are high. We do not expect private sector involvement (PSI) on Portuguese sovereign debt in 2014, but some restructuring of non-marketable government liabilities is likely.

Figure 10. Portugal – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.6	-0.5	0.4	0.7	0.9	1.1
Final Domestic Demand	YY	-3.3	-1.4	-0.2	0.6	0.6	0.9
Private Consumption	YY	-2.3	-0.7	0.3	0.8	0.6	0.6
Public Consumption	YY	-2.4	-3.3	-1.1	-0.3	-0.2	0.4
Fixed Investment	YY	-8.3	-1.9	-1.1	0.7	1.9	2.7
Exports	YY	6.2	3.5	3.0	3.0	3.4	3.4
Imports	YY	2.4	1.5	1.5	2.7	3.0	0.0
Consumer Prices	YY	0.4	-0.4	-1.2	-0.2	0.6	1.0
Unemployment Rate	%	16.2	15.4	15.4	14.6	14.4	13.6
Current Account Balance	€ bn	1.2	4.1	4.5	4.7	4.9	5.0
	% GDP	0.7	2.5	2.8	2.9	3.0	3.0
General Government Balance	€ bn	-9.9	-8.1	-7.1	-6.2	-5.6	-5.8
	% GDP	-6.0	-5.0	-4.4	-3.8	-3.4	-3.5
Primary Balance	% GDP	-1.6	-0.2	0.4	1.2	1.7	1.8
General Government Debt	€ bn	213.4	228.9	236.0	242.2	247.8	253.6
	% GDP	130.2	141.1	146.1	149.4	151.1	152.2

Percentage changes unless indicated. Annual data are period averages.

Sources: BdP, INE and Citi Research forecasts

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Netherlands

The Netherlands exited recession in 3Q 2013. Nevertheless, the level of Dutch GDP is 4.1% below its 1Q-08 peak. We anticipate a slow rebound in economic activity during 2014 (+0.4%) and 2015 (+0.9%), with domestic demand still contributing negatively to GDP in 2014, leaving growth dependent on net trade. Downward pressure on the residential housing market as a result of changes in the tax treatment of mortgage interest will likely constrain household investment in coming years. Furthermore, the challenging labour situation and continued focus on budgetary consolidation does not point to near-term disposable income gains.

Figure 11. Netherlands – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.1	0.4	0.9	1.2	1.6	1.9
Final Domestic Demand	YY	-2.6	-0.1	0.3	0.4	0.8	1.1
Private Consumption	YY	-2.0	-0.4	0.4	0.5	0.8	1.1
Public Consumption	YY	-1.1	-0.6	0.0	0.3	0.7	0.8
Fixed Investment (ex Stocks)	YY	-6.6	1.3	0.4	0.7	1.1	1.7
Stocks (Contrib. to YY GDP Growth)		-0.4	0.0	0.1	0.1	0.1	0.1
Exports of Goods and Services	YY	1.6	1.4	2.4	3.1	3.5	3.9
Imports of Goods and Services	YY	-0.3	1.3	2.0	2.7	3.1	3.5
Net Exports (Contrib. to YY GDP Growth)		1.6	0.3	0.6	0.7	0.8	0.8
Consumer Prices	YY	2.6	1.3	1.3	1.4	1.5	1.8
Unemployment Rate	%	8.4	9.2	9.0	8.1	6.9	5.6
Current Account Balance	€ bn	61.3	61.3	53.9	52.4	50.3	49.3
	% GDP	10.2	10.0	8.6	8.1	7.6	7.2
General Government Balance	€ bn	-21.5	-17.6	-13.8	-10.0	-3.7	4.9
	% GDP	-3.6	-2.9	-2.2	-1.5	-0.6	0.7
Primary Balance	% GDP	-1.6	-0.9	-0.2	0.4	1.4	2.6
General Government Debt	€ bn	452.0	466.5	477.1	487.1	490.8	485.9
	% GDP	74.8	76.0	76.0	75.6	73.9	70.5

Note: Percentage changes unless indicated. Annual data are period averages.

Sources: DNB, CBS and Citi Research forecasts

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Belgium

We make no changes to our forecasts. PM Elio Di Rupo has indicated that his Belgian Q3 GDP growth accelerated to 0.3% QQ after a 0.2% QQ gain in Q2, showing the strongest pace of economic activity since Q1 2011. With business and household sentiments surveys recovering gradually, we look for GDP growth of 0.6% in 2014 and 1.0% in 2015. The country goes to the polls in May 2014, and the few polls released so far suggest that support for the Flemish separatists is eroding, with the N-VA in Flanders only receiving 30% of voting intentions. We expect the government formation process to be quicker and smoother than in 2010.

Figure 12. Belgium – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.1	0.6	1.0	1.4	1.9	2.1
Final Domestic Demand	YY	-0.3	0.4	0.9	1.3	1.5	1.5
Private Consumption	YY	0.3	0.4	0.7	0.9	1.1	1.2
Public Consumption	YY	0.7	0.3	0.7	0.9	1.1	1.1
Fixed Investment (ex Stocks)	YY	-3.0	0.4	1.9	2.6	2.9	2.8
Exports of Goods and Services	YY	-0.2	2.4	3.5	3.9	4.7	5.7
Imports of Goods and Services	YY	-0.8	2.4	3.8	3.8	4.2	5.3
Consumer Prices	YY	1.2	1.3	1.1	1.1	1.7	2.0
Unemployment Rate	%	8.7	9.2	9.0	8.5	7.9	7.5
Current Account Balance	€ bn	-15.0	-16.0	-15.5	-13.6	-10.8	-7.5
	% GDP	-3.9	-4.1	-3.9	-3.3	-2.6	-1.7
General Government Balance	€ bn	-11.0	-8.9	-6.0	-4.0	-2.4	0.1
	% GDP	-2.9	-2.3	-1.5	-1.0	-0.6	0.0
Primary Balance	% GDP	0.6	1.2	2.0	2.5	2.8	3.3
General Government Debt	€ bn	388.1	398.3	404.3	408.2	410.6	410.5
	% GDP	101.8	102.5	101.9	99.8	97.1	93.4

Note: Percentage changes unless indicated. Annual data are period averages.

Sources: BNB, Belgostat and Citi Research forecasts

Slovakia

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We maintain our outlook of an acceleration of GDP growth to 1.8% YY in 2014 followed by 2.4% in 2015. The expected recovery reflects stronger average forecast quarterly growth of 0.7% in 2014, supported by a stronger outlook for foreign demand, but limited by more fiscal tightening to avoid an enforced balanced budget, which is a possibility if government debt exceeds 57% of GDP, owing to the debt brake rule. The prospect of low inflation next year reflects a milder increase in core inflation, but also a milder increase in food prices and a negligible increase in regulated prices. Our GDP growth forecasts are below the European Commission's autumn forecasts (0.9%, 2.1% and 2.9% YY in 2013-2015), which are very close to the MinFin forecasts (0.8%, 2.2% and 2.9% respectively). However, we think the risk remains of a downward revision of GDP, given large errors and omissions in the balance of payments (around 5.5% of GDP).

The government plans to continue fiscal consolidation due to the large output gap and its targets for the general government deficit are -2.9% of GDP in 2014, -2.57% in 2015 and -1.5% in 2016 (owing to a positive output gap) after -2.94% this year. However, this plan requires large surpluses for the rest of government (€300-€600mn) and also further consolidation measures of €0.7-€1.5bn in 2014-16, otherwise the central government cash deficit would widen by €0.8-1bn in the next three years. The EC highlights that consolidation measures in 2013-2015 concentrate on the revenue side with extra one-offs in 2013 (sale of oil reserve and transfer from the 2nd pillar). Consolidation next year remains supported by dividends and a longer period of extra taxation for regulated companies. A possible decrease in VAT (by 1% pt to 19%) and no more extra measures after 2014 suggest a wider fiscal deficit at -3.8% of GDP in 2015 after around -3% this and next year. This, together with a wider structural deficit closer to 3% of GDP in 2014 and 2015 (after -2.3% in 2013), could put an abrogation of the Excessive Deficit Procedure at risk, if no new measures are introduced. However, new measures are likely, given the EC's outlook of government debt increasing to 57.2% of GDP in 2014 and to 58.1% in 2015 from 54.3% this year despite privatization and extra dividend revenues. This would require a balanced budget in 2014 according to the debt brake rule (as debt would be above 57% of GDP). We see this scenario as less likely (but we do not exclude it) given likely larger buy-backs by the debt manager ARDAL. Finally, the presidential election may influence economic policy in the long-term, especially if PM Fico does not win the election.

Figure 13. Slovakia – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.8	1.8	2.4	2.9	3.4	3.0
Final Domestic Demand	YY	-1.1	1.4	2.3	3.3	3.5	-
Private Consumption	YY	0.2	0.9	1.7	2.7	3.0	3.0
Public Consumption		-0.1	0.1	1.6	2.0	2.0	2.0
Fixed Investment	YY	-5.1	3.9	4.4	5.5	5.8	4.0
Exports	YY	4.5	5.8	6.2	6.0	6.5	6.0
Imports	YY	2.4	6.1	6.3	6.7	7.3	6.5
Consumer Prices	YY	1.4	1.1	1.8	2.4	2.9	2.9
Unemployment Rate	%	14.3	14.4	13.7	12.9	-	-
Current Account Balance	% GDP	4.3	4.0	3.4	2.7	2.0	0.8
General Government Balance	% GDP	-3.4	-3.2	-2.6	-2.1	-1.8	-1.6
Government Primary Balance	% GDP	-2.0	-1.7	-1.1	-0.6	-0.3	-
General Government Debt	% GDP	55.5	57.0	56.4	55.8	54.7	53.7

Sources: National sources and Citi Research forecasts

Slovenia

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We have slightly modified our forecast for GDP growth in 2013 to a contraction of 2.3% YY (versus -2.4% last month). The milder YY GDP contraction of 1.2% YY sa in 3Q13 was driven (again) by stronger export activity (4.9% YY nsa in 3Q13 after 2.2% in 2Q13), but the contribution of net exports to GDP growth remained at 1.9%pts. By contrast, inventories made the first positive contribution to GDP growth (0.6%pts) after almost 19 consecutive quarters of negative contribution.

Nevertheless, this was the only factor that led to a milder contraction in domestic demand (-2.8% YY vs. -3.5% a quarter ago) as all other parts showed a larger contraction in 3Q13 than in 2Q13 (households -3% YY, government -3.4% and fixed investment -4.4%). This domestic weakness is continuously influenced in a negative manner by banking sector uncertainty, which resulted in a large contraction of private loans of 8% YY in October, reflecting an 11% contraction of loans to non-financial companies and a 3% contraction of loans to households.

We are cutting our 2014 GDP growth forecast by 0.4%pts to -0.9% owing to weaker domestic economic data and the postponement of banking sector resolution. However, this assumes a continuing export-driven recovery, banking sector resolution in 1Q14 and, most important in our view, political stability, which we expect to be under pressure after the AQR and stress test (to be published on 12 December), particularly in the event of large bank recapitalisation costs. However, the MinFin issued €1.5bn of a 3y bond in a private placement, implying central government deposits will be depleted only by 1Q15 and leaving room for these to be used to cover, at least partly, bank recap costs in 2014. Finally, in an adverse scenario, it is possible that in 2014 Slovenia may become the sixth euro area country to request external financial assistance.

We do not expect any strong recovery in 2015 (with GDP YY growth of 0.9%) as banking credit is likely to remain lacklustre.

Figure 14. Slovenia – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-2.3	-0.9	0.9	2.1	2.9	3.2
Final Domestic Demand	YY	-2.7	-1.0	1.5	2.6	2.9	-
Private Consumption	YY	-2.9	-1.7	-0.1	1.1	1.4	1.2
Public Consumption		-2.4	-1.4	0.4	0.9	1.2	1.2
Fixed Investment	YY	-2.5	0.0	1.6	2.8	3.2	3.2
Exports	YY	1.9	3.5	5.5	6.1	6.3	5.0
Imports	YY	-1.3	0.8	4.8	6.5	7.0	5.8
Consumer Prices	YY	1.9	1.9	1.5	1.4	1.6	1.5
Unemployment Rate	%	10.5	11.6	12.5	13.0	12.6	-
Current Account Balance	% GDP	3.9	4.9	4.9	5.0	4.9	4.7
General Government Balance	% GDP	-6.7	-6.8	-4.6	-3.2	-1.7	-1.4
Government Primary Balance	% GDP	-4.0	-3.9	-1.8	-0.2	1.2	1.4
General Government Debt	% GDP	61.6	68.1	71.0	71.6	69.9	67.9

Sources: National sources and Citi Research forecasts

UK

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The UK is set for high economic growth, falling unemployment, and low inflation in 2014-15. We lift our 2014 growth forecast by a further 0.2pp, to 3.2%. Our forecasts are well above consensus (2.3% in 2014). The economy already has grown at an annualised pace of about 3% over the past two quarters, and business surveys point to continued strength. Recovery reflects (1) aggressive monetary and credit stimulus; (2) reduced headwinds from household deleveraging, fiscal policy and the euro crisis; (3) pent-up demand for cars, housing and investment. Rapid economic growth will ensure that the fiscal deficit falls quite rapidly, but the current account deficit is likely to remain at around 3% of GDP in 2014-15. **The jobless rate is likely to hit the MPC's 7% threshold in late 2014**, ending the current forward guidance framework. We expect the MPC will then set policy to anchor their inflation forecast close to the 2% target, accepting tradeoffs from time to time between the inflation target and the desire to reduce or limit imbalances. We expect the MPC probably will look to return real rates to around zero quite promptly in 2015-16, implying a less expansionary (but not neutral) stance, with a further gradual rise to rates of about 2½%-3% (we put neutral at perhaps 3-4%) in 2018 or so.

Figure 15. UK – Economic Forecasts, 2013-15F

		History			Forecast			Forecast															
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15							
Real GDP	YY	1.5	3.2	3.2	0.2	1.4	1.6	2.7	3.0	3.0	3.2	3.4	3.4	3.4	3.3	2.9							
Final Domestic Demand	QQ SAAR				1.6	2.8	3.2	3.3	2.7	3.0	3.8	4.1	2.6	3.0	3.3	2.8							
	YY	1.1	3.7	3.6	-0.2	0.3	1.4	2.8	3.2	3.9	4.0	3.8	3.8	3.7	3.7	3.4							
Private Consumption	QQ SAAR				1.6	1.3	3.3	5.2	3.2	3.9	3.8	4.3	3.1	3.6	3.9	3.0							
	YY	2.0	2.8	3.2	1.7	1.8	2.4	2.3	2.3	3.0	2.9	3.0	3.1	3.0	3.3	3.3							
Public Consumption	QQ SAAR				2.3	1.1	3.1	2.5	2.6	3.6	2.7	3.1	2.9	3.4	3.7	3.0							
	YY	1.1	1.9	-0.4	-1.1	0.8	1.1	3.5	3.6	2.8	2.0	-0.9	-0.7	-0.4	-0.2	-0.2							
Fixed Investment	QQ SAAR				-0.8	2.1	1.9	11.3	-0.4	-1.3	-0.9	-0.9	0.1	0.1	0.1	-0.9							
	YY	-2.5	11.2	11.6	-6.8	-5.3	-1.6	4.3	7.1	9.8	12.6	15.0	14.0	12.8	11.1	8.9							
-- Business Investment	QQ SAAR				0.6	3.1	5.8	7.8	12.0	13.9	16.8	17.6	8.1	9.2	9.9	8.3							
	YY	-5.4	7.2	11.1	-8.2	-8.5	-6.3	1.8	1.6	7.4	9.2	10.6	12.1	11.6	10.5	10.2							
-- Construction of Private Dwellings	QQ SAAR				6.8	-10.3	5.9	6.0	5.8	11.9	13.3	11.6	11.6	10.0	9.1	10.2							
	YY	8.4	24.4	16.6	3.8	5.1	9.1	15.6	19.3	22.0	27.8	28.0	22.3	19.2	15.9	10.1							
Stocks (Contrib. to YY GDP Growth)	QQ SAAR				12.5	11.2	7.4	32.8	27.6	21.8	29.1	34.0	6.2	9.9	15.5	8.9							
		0.5	-0.4	-0.3	0.6	0.4	0.8	0.3	0.4	-0.1	-1.1	-0.6	-0.5	-0.3	-0.2	-0.2							
Exports of Goods and Services	YY	1.6	5.4	5.3	-0.1	3.3	-1.1	4.2	5.4	3.3	7.6	5.5	5.6	5.6	5.1	4.9							
	QQ SAAR				0.3	12.6	-9.1	14.9	4.8	4.1	7.0	6.0	5.2	4.1	5.3	5.2							
Imports of Goods and Services	YY	2.5	6.1	5.5	0.5	1.9	1.5	6.2	7.8	5.7	6.6	4.6	5.0	5.5	5.8	5.7							
	QQ SAAR				-3.2	12.0	1.7	15.1	2.9	3.5	5.4	6.4	4.5	5.7	6.8	5.6							
Net Exports (Contrib. to YY GDP Growth)		-0.1	-0.2	-0.1	-0.2	0.7	-0.6	-0.5	-0.7	-0.8	0.2	0.2	0.1	0.0	-0.3	-0.3							
Consumer Prices	YY	2.6	2.0	1.9	2.8	2.7	2.7	2.2	2.0	2.0	1.9	1.9	1.9	1.8	1.9	1.9							
Average Earnings YY	YY	1.4	1.6	2.4	0.6	2.4	0.8	1.7	2.2	0.7	1.9	1.7	2.2	2.4	2.5	2.7							
Employment Growth	YY	1.2	1.3	1.8	1.5	1.0	1.3	0.9	1.3	1.3	1.1	1.5	1.7	1.8	1.8	1.7							
Unemployment Rate	%	7.7	7.3	6.4	7.8	7.8	7.6	7.6	7.6	7.5	7.3	7.0	6.7	6.5	6.3	6.1							
Current Account Balance	£ bn	-60.1	-51.3	-56.2	-21.8	-13.0	-13.0	-12.3	-12.7	-13.0	-12.6	-13.0	-13.1	-13.8	-14.4	-14.9							
	% GDP	-3.7	-3.0	-3.1	-5.5	-3.2	-3.2	-3.0	-3.0	-3.1	-2.9	-3.0	-3.0	-3.1	-3.2	-3.3							
Public Sector Net Borrowing	£ bn FY	107.2	79.6	59.6																			
	% GDP	-6.5	-4.6	-3.3																			
General Government Balance	% GDP	-6.8	-4.9	-3.7																			
Government Primary Balance	% GDP	-3.5	-1.6	-0.1																			
General Government Debt	£ bn	1,499.5	1,604.1	1,687.2																			
	% GDP	93.1	95.1	95.4																			
Gross Non Oil Trading Profits	YY	4.8	9.1	6.2	12.4	3.2	0.8	3.9	1.1	15.5	12.2	9.7	7.8	6.6	5.9	4.7							
Base Rate (Period Average)	%	0.50	0.50	0.81	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.67	0.92	1.17							
Ten-year Gilt Yield (Period Averages)	%	2.35	3.10	3.60	2.02	1.92	2.73	2.80	2.85	3.05	3.20	3.30	3.40	3.50	NA	NA							
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.84	0.80	0.80	0.84	0.86	0.84	0.82	0.81	0.80	0.80	0.80	0.80	0.80	0.80	0.80							
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.58	1.73	1.75	1.52	1.52	1.62	1.65	1.69	1.73	1.75	1.75	1.75	1.75	1.75	1.75							

Note: Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS, Citi Research forecasts

Switzerland

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Switzerland is set for fairly solid growth with price stability in the next 2-3 years. We are lifting our 2014 growth forecast to 2.0% from 1.5% last month, given the support from ultra-low interest rates, and fairly buoyant trends in the KOF and PMI surveys. The currency-induced decline in the CPI seems to be easing, with CPI ex food, drink and tobacco rising at an annualised pace of 0.7% in the last six months. Further ahead, we are now pencilling in an eventual modest hike in interest rates from 2017 onwards as deflation risks recede further.

Figure 16. Switzerland – Economic Forecasts, 2013-15F

		History			Forecast											
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	2.0	2.0	2.0	1.5	2.1	1.9	2.3	2.1	2.0	1.9	1.8	1.8	1.9	2.0	2.1
Final Domestic Demand	YY	1.9	1.3	2.1	1.5	2.3	2.2	1.6	1.5	1.0	1.2	1.5	1.9	2.2	2.2	2.3
Private Consumption	YY	2.1	1.2	1.7	2.2	2.6	2.1	1.4	1.1	0.9	1.2	1.6	1.7	1.9	1.7	1.5
Public Consumption	YY	2.2	1.2	0.7	2.7	2.0	2.3	1.8	1.6	1.7	0.7	0.7	0.7	0.7	0.7	0.7
Fixed Investment	YY	1.1	1.7	4.2	-1.3	1.4	2.1	2.2	2.7	0.9	1.5	1.9	3.0	4.0	4.4	5.4
Exports of Goods and Services	YY	2.2	3.4	4.0	2.0	2.7	2.1	2.0	3.3	3.2	3.9	3.4	3.6	3.8	4.1	4.4
Imports of Goods and Services	YY	0.4	2.3	5.0	0.9	1.6	-0.3	-0.4	1.6	1.3	2.9	3.5	4.2	5.0	5.2	5.6
Consumer Prices	YY	-0.2	-0.1	0.9	-0.4	-0.4	0.0	0.0	-0.1	0.1	-0.4	0.1	0.5	0.6	1.3	1.3
Unemployment Rate	%	3.1	2.7	2.3	3.1	3.2	3.2	2.9	2.6	2.6	2.9	2.5	2.3	2.3	2.5	2.1
Current Account Balance	Sfr bn	73.9	81.5	82.6	19.2	20.5	15.7	18.6	19.7	23.9	18.7	19.2	19.3	24.2	18.9	20.3
	% GDP	12.2	13.0	12.8	12.8	13.6	10.4	12.0	12.7	15.3	11.9	12.1	12.1	15.1	11.7	12.5
General Government Balance	% GDP	0.2	0.6	0.8												
General Government Debt	% GDP	48.2	46.3	45.1												
SNB Rate (Annual Avge, then qtr-end)	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	0.80	1.00	1.20	0.64	0.65	1.07	0.87	1.02	1.02	1.02	1.07	1.11	1.11	NA	NA
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.23	1.25	1.28	1.22	1.23	1.22	1.23	1.24	1.25	1.25	1.26	1.27	1.28	1.29	1.29
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.93	0.90	0.91	0.95	0.94	0.90	0.91	0.90	0.90	0.90	0.90	0.91	0.91	0.92	0.92

Note: Percentage changes unless indicated. Annual data are period averages. Sources: SNB, BFS and Citi Research forecasts

Sweden

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GDP growth was up a meagre 0.1% QQ in 3Q, and with a 0.1% QQ contraction in 2Q, GDP has on average been flat over the past two quarters. Although GDP undershot the Riksbank's forecast by a wide margin in 3Q (0.4pp on the quarter), a strong upward revision to the first (and second) quarter more than offset this, indicating upside risks to the Central Bank's full-year 2013 forecast of 0.7% YY. Reflecting historical revisions, we raise our GDP forecast for this year to 0.9% YY (from 0.6% YY), and expect the Riksbank to do the same. The labour market continues to be stronger than suggested by GDP, with growing employment and stable unemployment. Combined with a loose fiscal policy stance, low inflation and increasing house prices, this should support private spending ahead. However, with increasing deleveraging risks (from a high household debt burden) and still weak export markets, our base case remains that economic recovery likely will be weak in a historical perspective. With well-below trend GDP growth and high unemployment, the government announced total fiscal stimulus of SEK 24.2bn (0.7% of GDP) for the election year 2014. Ahead, we reckon stimulus will moderate in 2015, amounting to around SEK 10-15bn. This is likely to generate budget deficits of around 1.5% of GDP in coming years. This is small in an international comparison, and Sweden should continue to outperform. Hence, we see no threat to public finances; public debt is likely to stay around 40% of GDP.

Inflation pressure continues to be very low, with CPI inflation slightly negative in October and underlying CPIF inflation (CPI excluding interest rates) at 0.6% YY. Most indications are that inflation will remain low during the next 1-2 years; high unemployment, modest wage growth and a steady decline in import prices support such a view. The Riksbank is weighing low inflation and capacity utilization plus ongoing expansionary policies from international central banks against financial stability consideration (and improving labour market and sentiment data). Although the Central Bank remains concerned about high household debt, accelerating credit growth and a renewed pick-up in house prices, we reckon that once the new macro prudential measures becomes operational, this should leave room for the bank to use the repo rate more actively to get inflation back up to target. Meanwhile, weak growth and a low output gap also support keeping interest rates low for longer.

Figure 17. Sweden – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.9	2.1	2.5	2.6	2.9	3.0
Final Domestic Demand	YY	1.0	2.0	2.3			
Private Consumption	YY	1.8	2.1	2.5			
Public Consumption	YY	1.1	1.2	0.8			
Fixed Investment	YY	-1.1	2.8	4.1			
Exports of Goods & Services	YY	-1.5	1.8	3.7			
Imports of Goods & Services	YY	-2.2	1.4	3.5			
Consumer Prices	YY	0.0	1.1	1.9	2.4	2.3	2.0
Unemployment Rate	%	8.0	7.9	7.6			
Current Account Balance	% GDP	6.2	5.9	5.6	5.6	5.4	5.3
General Government Balance	% GDP	-1.4	-1.6	-0.7	0.7	1.4	1.5
General Government Debt	% GDP	39.5	39.9	38.9	36.4	33.2	30.1
Riksbank Rate (Annual Average)	%	0.99	0.75	0.98	1.42	2.18	2.80
Ten-year Yield (Period Average)	%	2.10	1.55	2.75	2.85	3.00	3.25
EUR-SEK FX Rate (Annual Average)		8.72	9.07	8.64	8.59	8.38	NA
USD-SEK FX Rate (Annual Average)		6.59	6.52	6.30	6.14	5.98	NA

Note: Percentage changes unless indicated. Annual data are period averages.

Sources: Riksbank, Statistics Sweden and Citi Research forecasts

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Denmark

After stagnating for the past three years, the Danish economy extended its recovery in 3Q; GDP growth was up by 0.4% QQ (0.5% YY) after a 0.6% QQ gain in 2Q. The 3Q gain was driven by surging investment activity (partly attributable to the government's investment window) and stronger exports. Despite these very positive signs, the economy barely grew in the first three quarters of the year compared to the same period last year (up by 0.1% YY). Hence, although we expect the economy to maintain momentum in 4Q, the weak starting point implies meagre growth of around 0.3% YY for full-year 2013.

Ahead, our forecast assumes moderately accelerating growth, driven by rising domestic demand, but also supported by growing exports now the euro area has exited recessionary territory. The restraint among households and firms means that the private sector has consolidated in recent years, suggesting some potential for stronger growth in private spending and investment over the years to come. A consumption recovery is also supported by higher real wage growth and the incipient recovery in the housing market. The full effect of the government's investment window (which raises deductions for investments in machinery and transport equipment this year) should continue to make its impact felt in 4Q, providing a further boost to business investment activity.

Several years of crisis and nil growth imply that there currently is plenty of spare capacity in the economy. Economic activity is around 4% lower than in a normal economic situation, which largely reflects a lower-than-normal employment level. The weak growth outlook for coming years will only just help turn the labour market around and slowly start closing the sizeable output gap, in our view.

With our ECB forecast now assuming another 25bp refi rate cut to 0% and a 10bp cut in the deposit rate to -0.1% around June 2014, we expect DNB will lower the lending rate and the CD-rate by 10bp to 0.1% and -0.20%, respectively, around mid-2014, hence, only partly shadowing ECB action. Meanwhile, were the ECB to use quantitative tools (most likely leading to renewed krone strength), we find it unlikely that the DNB would replicate this, continuing at least initially to use the interest rate (the lending rate and/or the CD-rate) to stabilize the DKK vs. the EUR. Alternatively, the DNB could also choose to counteract the appreciation pressures via the currency reserve, which would then grow further from an already high level. See also [Denmark - An Update on the Experience with Negative Interest Rates](#).

Figure 18. Denmark – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.4	1.2	1.5	1.6	1.7	1.9
Final Domestic Demand	YY	0.7	1.4	1.5			
Private Consumption	YY	0.5	1.2	1.6			
Public Consumption	YY	0.2	0.5	0.7			
Fixed Investment	YY	2.1	3.1	2.2			
Exports of Goods & Services	YY	0.6	2.5	2.1			
Imports of Goods & Services	YY	2.3	3.1	2.1			
Consumer Prices	YY	0.8	1.5	1.7	1.8	1.9	2.0
Unemployment Rate	%	7.0	6.9	6.7			
Current Account Balance	% GDP	6.1	5.8	4.7	4.8	5.1	5.0
General Government Balance	% GDP	-1.6	-1.8	-1.5	-1.0	-1.0	-0.9
General Government Debt	% GDP	46.9	47.4	47.5	46.9	46.3	45.4
DNB Bank Rate (Annual Average)	%	0.20	0.13	0.25	0.47	0.78	1.00
Ten-year Yield (Period Average)	%	1.75	2.10	2.10	2.40	2.75	3.00

Note: Percentage changes unless indicated. Annual data are period average.

Sources: DNB, national statistical office and Citi Research forecasts

Norway

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Momentum has peaked and the economy is heading towards a more moderate growth phase with below-trend mainland GDP growth in coming years. After brisk growth last year, the pace has slackened, the labour market weakened and the housing market cooled. Combined with weaker oil investment trends, the business sector – increasingly dependent on the oil industry – will be unable to lean on impulses from the oil (and housing) sectors to the same extent as previously. In addition, ongoing erosion in competitiveness suggests that Norway will not be able to benefit fully from global recovery. Meanwhile, an expansionary fiscal policy stance and ongoing low policy rates – we now expect Norges Bank to be on hold until mid-2015 – should ensure a soft landing rather than an abrupt halt to economic activity, with the result likely to be sub-consensus growth of around 2% YY in coming years. The supplementary 2014 budget by the new Conservative-led government is slightly more expansionary than the budget bill presented by the previous government. Total fiscal easing is estimated at 0.5% of mainland trend-GDP, 0.2pp above indications in the National Budget (the extra spending will be used to lower taxes and boost infrastructure and education). This is still a very modest loosening, suggesting that the new government is aiming to show fiscal prudence. In turn, the 2014 budget proposes to use “only” 2.9% of the oil fund's value next year. The current slowdown of the economy, though, could argue for a slightly easier fiscal stance, and we expect additional budget measures to be announced in spring. **At the Dec 5 meeting, Norges Bank left the key policy rate unchanged at 1.50%, and lowered its conditional interest rate path** in the new MPR, effectively removing any likelihood of a rate hike next year. The path now indicates initial tightening around mid-2015, a year later than suggested in September. Key drivers behind the lower path are weaker-than-expected inflation and wage growth, lower interest rates abroad plus a weaker domestic economic outlook. Meanwhile, a weaker-than-expected NOK exchange rate acted partly as an offset. Although indications of a mid-2015 rate hike are in line with our view, we also acknowledge that with indications of low rates for longer, the Bank has also moved one step closer to a rate cut, should the economic outlook deteriorate. In other words, risks remain to the downside. Norges Bank has also sent its views on the size of the countercyclical capital buffer to the Finance Ministry, and these will be made public once the Ministry has made its decision (no timeframe has been set).

Figure 19. Norway – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	1.8	2.1	2.4	2.6	2.9	2.7
Final Domestic Demand	YY	2.3	2.3	2.8			
Private Consumption	YY	2.2	2.4	2.9			
Public Consumption	YY	2.1	2.6	3.0			
Fixed Investment	YY	2.8	1.6	2.0			
Exports of Goods & Services	YY	0.1	1.1	2.1			
Imports of Goods & Services	YY	2.3	2.5	2.3			
Consumer Prices	YY	2.1	2.0	2.2	2.1	2.3	2.5
Unemployment Rate	%	3.6	3.8	3.9			
Current Account Balance	% GDP	12.8	13.1	13.4	13.7	14.0	14.2
General Government Balance	% GDP	11.3	11.8	11.0	10.0	10.0	9.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.50	1.50	1.71	2.08	2.74	3.33
Ten-year Yield (Period Average)	%	2.55	2.95	2.85	3.00	3.25	3.50
EUR-NOK FX Rate (Annual Average)		7.94	8.00	7.61	7.38	7.21	NA
USD-NOK FX Rate (Annual Average)		6.01	5.76	5.44	5.27	5.15	NA

Note: Percentage changes unless indicated. Annual data are period averages.

Sources: Norges Bank, Statistics Norway and Citi Research forecasts

Figure 20. Long-Term Forecasts – GDP, CPI and Current Balance, 2013-18F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-0.4	0.9	1.0	1.3	1.4	1.5	1.3	0.9	0.8	1.1	1.7	1.7	2.2	2.6	2.6	2.5	2.3	2.2
Germany	0.5	1.9	1.7	1.7	1.7	1.6	1.5	1.5	1.6	1.8	2.0	1.9	6.8	6.8	6.2	5.3	4.7	4.4
France	0.2	0.8	0.9	1.4	1.7	1.8	1.0	1.2	1.3	1.5	1.3	1.6	-1.5	-0.8	-0.1	0.4	0.1	-0.2
Italy	-1.8	0.2	0.3	0.4	0.5	0.6	1.3	0.2	-0.3	0.4	1.2	1.5	1.1	1.4	1.5	1.6	1.7	1.7
Spain	-1.3	0.2	0.8	1.2	1.3	1.4	1.5	-0.4	-0.2	0.1	0.5	0.9	1.1	2.1	2.6	3.0	3.2	3.4
Greece	-3.3	-1.9	-0.5	1.1	1.4	1.3	-0.8	-2.9	-2.4	-1.4	-0.4	0.8	0.4	1.6	2.3	3.5	3.9	3.8
Ireland	-0.5	1.4	1.6	2.7	3.0	3.3	-0.3	0.5	1.0	1.5	1.5	1.5	8.6	10.1	10.4	11.2	12.0	12.7
Portugal	-1.6	-0.5	0.4	0.7	0.9	1.1	0.4	-0.4	-1.2	-0.2	0.6	1.0	0.7	2.5	2.8	2.9	3.0	3.0
Netherlands	-1.1	0.4	0.9	1.2	1.6	1.9	2.6	1.3	1.3	1.4	1.5	1.8	10.2	10.0	8.6	8.1	7.6	7.2
Belgium	0.1	0.6	1.0	1.4	1.9	2.1	1.2	1.3	1.1	1.1	1.7	2.0	-3.9	-4.1	-3.9	-3.3	-2.6	-1.7
Slovakia	0.8	1.8	2.4	2.9	3.4	3.0	1.4	1.1	1.8	2.4	2.9	2.9	4.3	4.0	3.4	2.7	2.0	0.8
Slovenia	-2.3	-0.9	0.9	2.1	2.9	3.2	1.9	1.9	1.5	1.4	1.6	1.5	3.9	4.9	4.9	5.0	4.9	4.7
<i>Austria*</i>	0.4	1.6	1.8	1.7	1.5	1.4	2.2	1.8	1.8	1.8	1.8	1.8	2.8	2.4	2.4	2.3	2.3	2.4
<i>Cyprus*</i>	-8.7	-3.9	1.1	1.9	2.3	2.2	1.0	1.2	1.6	1.7	1.7	1.8	-2.0	-0.6	-0.9	-1.0	-1.3	-1.5
<i>Estonia*</i>	1.5	2.5	3.5	3.6	3.7	3.7	3.5	2.8	2.5	2.5	2.5	2.5	-0.7	-0.2	0.3	0.5	0.5	0.8
<i>Finland*</i>	-0.6	1.1	1.4	2.0	2.0	2.0	2.4	2.4	2.2	2.0	2.0	2.0	-1.6	-1.8	-1.7	-1.5	-1.4	-1.4
<i>Luxembourg*</i>	0.5	1.3	1.6	1.9	2.2	2.2	1.8	1.9	2.8	2.5	2.2	2.3	6.0	6.6	5.7	6.2	6.3	6.4
<i>Malta*</i>	1.1	1.8	2.0	2.1	1.9	1.8	2.0	2.0	2.1	2.1	2.2	2.2	1.1	0.8	0.9	0.8	0.7	0.5
Denmark	0.4	1.2	1.5	1.6	1.7	1.9	0.8	1.5	1.7	1.8	1.9	2.0	6.1	5.8	4.7	4.8	5.1	5.0
Norway	1.8	2.1	2.4	2.6	2.9	2.7	2.1	2.0	2.2	2.1	2.3	2.5	12.8	13.1	13.4	13.7	14.0	14.2
Sweden	0.9	2.1	2.5	2.6	2.9	3.0	0.0	1.1	1.9	2.4	2.3	2.0	6.2	5.9	5.6	5.6	5.4	5.3
Switzerland	2.0	2.0	2.0	2.2	2.0	2.0	-0.2	-0.1	0.9	1.1	1.2	1.2	12.2	13.0	12.8	13.8	14.0	14.0
United Kingdom	1.5	3.2	3.2	2.7	2.0	2.1	2.6	2.0	1.9	2.1	2.0	2.0	-3.7	-3.0	-3.1	-3.2	-3.1	-2.8

Note: All forecasts are Citi forecasts except those marked with an asterisk. *IMF WEO 8 October 2013.

Sources: OECD and Citi Research forecasts

Figure 21. Long-Term Forecasts – Fiscal Balance, Primary Balance, and Government Debt, 2013-18F

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-3.0	-2.6	-2.2	-2.1	-2.0	-1.7	0.0	0.4	0.8	1.0	1.1	1.4	96.2	98.2	98.9	99.4	98.9	98.4
Germany	0.0	0.0	-0.1	-0.3	-0.3	-0.3	2.4	2.3	2.0	1.7	1.7	1.6	78.5	76.5	73.8	71.2	69.6	67.9
France	-4.1	-3.6	-3.2	-2.9	-2.4	-2.0	-1.5	-1.0	-0.6	-0.3	0.2	0.6	93.9	96.0	97.3	97.5	97.1	95.9
Italy	-3.1	-2.8	-2.7	-2.5	-2.6	-2.3	2.4	2.5	2.8	3.0	3.0	3.3	132.8	136.6	139.2	141.0	142.0	141.7
Spain	-6.9	-6.2	-5.4	-4.8	-4.3	-3.9	-3.4	-2.5	-1.5	-0.8	-0.2	0.4	93.9	100.7	105.4	108.6	110.7	111.9
Greece	-2.9	-2.3	-1.8	-1.3	-0.6	-0.5	1.2	1.7	1.6	2.2	2.9	3.0	175.2	189.6	199.2	201.9	200.5	197.9
Ireland	-7.1	-5.6	-4.0	-3.4	-3.5	-3.1	-2.7	-1.1	0.5	1.3	1.3	1.8	126.9	126.2	127.2	126.6	124.7	122.0
Portugal	-6.0	-5.0	-4.4	-3.8	-3.4	-3.5	-1.6	-0.2	0.4	1.2	1.7	1.8	130.2	141.1	146.1	149.4	151.1	152.2
Netherlands	-3.6	-2.9	-2.2	-1.5	-0.6	0.7	-1.6	-0.9	-0.2	0.4	1.4	2.6	74.8	76.0	76.0	75.6	73.9	70.5
Belgium	-2.9	-2.3	-1.5	-1.0	-0.6	0.0	0.6	1.2	2.0	2.5	2.8	3.3	101.8	102.5	101.9	99.8	97.1	93.4
Slovakia	-3.4	-3.2	-2.6	-2.1	-1.8	-1.6	-2.0	-1.7	-1.1	-0.6	-0.3	NA	55.5	57.0	56.4	55.8	54.7	53.7
Slovenia	-6.7	-6.8	-4.6	-3.2	-1.7	-1.4	-4.0	-3.9	-1.8	-0.2	1.2	1.4	61.6	68.1	71.0	71.6	69.9	67.9
<i>Austria*</i>	-2.6	-2.4	-1.9	-1.5	-1.4	-1.4	-0.6	-0.5	0.1	0.4	0.5	0.5	74.4	74.8	74.2	73.6	72.6	71.7
<i>Cyprus*</i>	-6.7	-7.5	-5.3	-2.3	-0.7	0.3	NA	NA	NA	NA	NA	NA	114.1	123.0	125.7	121.7	115.9	115.9
<i>Estonia*</i>	0.3	0.2	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	11.0	10.4	9.8	9.2	8.6	8.1
<i>Finland*</i>	-2.8	-2.1	-1.6	-1.3	-1.0	-0.9	-2.7	-2.1	-1.8	-1.5	-1.4	-1.2	58.0	59.8	60.5	59.8	59.1	58.9
<i>Luxembourg*</i>	-0.7	-0.9	-1.6	-2.1	-2.1	-2.1	-0.4	-0.8	-1.8	-2.6	-2.8	-3.0	22.9	24.6	26.6	29.0	31.3	33.4
<i>Malta*</i>	-3.5	-3.6	-3.6	-3.1	-3.1	-3.1	NA	NA	NA	NA	NA	NA	73.4	74.0	74.4	74.1	74.0	73.9
Denmark	-1.6	-1.8	-1.5	-1.0	-1.0	-0.9							46.9	47.4	47.5	46.9	46.3	45.4
Norway	11.3	11.8	11.0	10.0	10.0	9.0							NA	NA	NA	NA	NA	NA
Sweden	-1.4	-1.6	-0.7	0.7	1.4	1.5							39.5	39.9	38.9	36.4	33.2	30.1
Switzerland	0.2	0.6	0.8	1.2	1.2	0.9							48.2	46.3	45.1	44.5	43.8	44.5
United Kingdom	-6.8	-4.9	-3.7	-1.9	-1.0	0.0	-3.5	-1.6	-0.1	1.9	3.3	4.3	93.1	95.1	95.4	94.0	92.2	89.5

Note: All forecasts are Citi forecasts except those marked with an asterisk. *IMF WEO 8 October 2013.

Sources: OECD and Citi Research forecasts

Figure 22. Changes in Economic Forecasts from Prior Month (Percentage Points), 2013-15F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Euro Area	-0.1	0.1		-0.1	-0.4	-0.6	-0.4	0.1	0.1	-0.2	-0.3	-0.4
Germany	-0.1				-0.1	-0.2	-0.1	0.9	1.0		-0.2	-0.3
France				-0.1	-0.5	-0.1	0.1		0.1	-0.1	-0.1	-0.1
Italy	-0.1	0.1	0.3	-0.1	-0.7	-0.9			0.1			0.1
Spain		0.1	0.1	-0.2	-1.3	-1.0		0.3	0.3	-0.1	-0.3	-0.5
Greece	0.5	1.0	0.9	-0.2	-1.7	-1.9	0.8	0.8	0.9	1.8	1.7	1.0
Ireland												
Portugal	0.1	0.1	0.4	-0.1	-0.3	-0.9	-0.6	-0.8	-0.9			0.1
Netherlands	0.1	0.1		-0.1	-0.1	-0.2	0.8	1.1	-0.9	0.3	0.5	0.6
Belgium	0.1	0.1			-0.4	-0.7	-0.3	-0.9	-1.4	0.1	0.3	0.3
Slovakia				0.2	0.1		0.1	-0.2		0.3	0.3	
Slovenia	-0.1	-0.4		-0.4	-0.9		0.1	1.0			-0.2	
Denmark	0.1		0.1				0.7	0.7	0.5	0.4	-0.3	-0.5
Norway		-0.1	-0.1		0.4	0.2				-0.8		-1.8
Sweden	0.3	-0.1	-0.1		-0.1		0.3	0.3	0.3			
Switzerland	0.3	0.5	0.3		-0.4	-0.3	-0.7		-0.1	-0.5	-0.3	
United Kingdom	0.1	0.2			-0.2	-0.3	0.1	-0.1	-0.2	0.1	0.7	0.8

Source: Citi Research

Figure 23. Euro Area Countries – Economic Forecasts Compared, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Euro Area - Citi Forecast	02-Dec-13	-0.4	0.9	1.0	-3.0	-2.6	-2.2	96.2	98.2	98.9
OECD Economic Outlook	19-Nov-13	-0.4	1.0	1.6	-2.9	-2.5	-1.8	95.2	95.9	95.6
EU Commission Forecast	05-Nov-13	-0.4	1.1	1.7	-3.1	-2.5	-2.4	95.5	95.9	95.4
IMF WEO Forecast	08-Oct-13	-0.6	-0.4	1.0	-3.7	-3.1	-2.5	93.0	95.7	96.1
ECB Forecast - mid-point	5-Dec-13	-1.1	1.5	--						
Germany - Citi Forecast	02-Dec-13	0.5	1.9	1.7	0.0	0.0	-0.1	78.5	76.5	73.8
OECD Economic Outlook	19-Nov-13	0.5	1.7	2.0	0.1	0.2	0.6	78.8	76.1	73.6
EU Commission Forecast	05-Nov-13	0.5	1.7	1.9	0.0	0.1	0.2	79.6	77.1	74.1
IMF WEO Forecast	08-Oct-13	0.9	0.5	1.4	0.1	-0.4	-0.1	81.9	80.4	78.1
France - Citi Forecast	02-Dec-13	0.2	0.8	0.9	-4.1	-3.6	-3.2	93.9	96.0	97.3
OECD Economic Outlook	19-Nov-13	0.2	1.0	1.6	-4.2	-3.7	-3.0	94.0	96.7	97.8
EU Commission Forecast	05-Nov-13	0.2	0.9	1.7	-4.1	-3.8	-3.7	93.5	*5.3	96.0
IMF WEO Forecast	08-Oct-13	0.0	0.2	1.0	-4.9	-4.0	-3.5	90.2	93.5	94.8
Italy - Citi Forecast	02-Dec-13	-1.8	0.2	0.3	-3.1	-2.8	-2.7	132.8	136.6	139.2
OECD Economic Outlook	19-Nov-13	-1.9	0.6	1.4	-3.0	-2.8	-2.0	132.7	133.2	132.6
EU Commission Forecast	05-Nov-13	-1.8	0.7	1.2	-3.0	-2.7	-2.5	133.0	134.0	133.1
IMF WEO Forecast	08-Oct-13	-2.4	-1.8	0.7	-2.9	-3.2	-2.1	127.0	132.3	133.1
Spain - Citi Forecast	02-Dec-13	-1.3	0.2	0.8	-6.9	-6.2	-5.4	93.9	100.7	105.4
OECD Economic Outlook	19-Nov-13	-1.3	0.5	1.0	-6.7	-6.1	-5.1	92.8	98.0	101.8
EU Commission Forecast	05-Nov-13	-1.3	0.5	1.7	-6.8	-5.9	-6.6	94.8	99.9	104.3
IMF WEO Forecast	08-Oct-13	-1.6	-1.3	0.2	-10.8	-6.7	-5.8	85.9	93.7	99.1
Greece - Citi Forecast	02-Dec-13	-3.3	-1.9	-0.5	-2.9	-2.3	-1.8	175.2	189.6	199.2
OECD Economic Outlook	19-Nov-13	-3.5	-0.4	1.8	-2.4	-2.2	-1.4	176.6	181.2	183.0
EU Commission Forecast	05-Nov-13	-4.0	0.6	2.9	-2.9	-2.0	-1.1	176.2	175.9	170.9
IMF WEO Forecast	08-Oct-13	-6.4	-4.2	0.6	-6.3	-4.1	-3.3	156.9	175.7	174.0
Ireland - Citi Forecast	02-Dec-13	-0.5	1.4	1.6	-7.1	-5.6	-4.0	126.9	126.2	127.2
OECD Economic Outlook	19-Nov-13	0.1	1.9	2.2	-7.4	-5.0	-3.1	122.2	120.7	118.5
EU Commission Forecast	05-Nov-13	0.3	1.7	2.5	-7.4	-5.0	-3.0	124.4	120.8	119.1
IMF WEO Forecast	08-Oct-13	0.2	0.6	1.8	-7.6	-7.6	-5.0	117.4	123.3	121.0
Portugal - Citi Forecast	02-Dec-13	-1.6	-0.5	0.4	-6.0	-5.0	-4.4	130.2	141.1	146.1
OECD Economic Outlook	19-Nov-13	-1.7	0.4	1.1	-5.7	-4.6	-3.6	124.9	127.4	129.5
EU Commission Forecast	05-Nov-13	-1.8	0.8	1.5	-5.9	-4.0	-2.4	127.8	126.7	125.7
IMF WEO Forecast	08-Oct-13	-3.2	-1.8	0.8	-6.4	-5.5	-4.0	123.8	123.6	125.3
Netherlands - Citi Forecast	02-Dec-13	-1.1	0.4	0.9	-3.6	-2.9	-2.2	74.8	76.0	76.0
OECD Economic Outlook	19-Nov-13	-1.1	-0.1	0.9	-3.0	-3.0	-2.3	75.4	77.0	77.5
EU Commission Forecast	05-Nov-13	-1.0	0.2	1.2	-3.3	-3.3	-3.0	74.8	76.4	76.9
IMF WEO Forecast	08-Oct-13	-1.2	-1.3	0.3	-4.1	-3.0	-3.2	71.3	74.4	75.6
Belgium - Citi Forecast	02-Dec-13	0.1	0.6	1.0	-2.9	-2.3	-1.5	101.8	102.5	101.9
OECD Economic Outlook	19-Nov-13	0.1	1.1	1.5	-2.7	-2.4	-1.1	100.2	100.4	98.5
EU Commission Forecast	05-Nov-13	0.1	1.1	1.4	-2.8	-2.6	-2.5	100.4	101.3	101.0
IMF WEO Forecast	08-Oct-13	-0.3	0.1	1.0	-4.0	-2.8	-2.5	99.8	100.9	101.2
Slovakia - Citi Forecast	02-Dec-13	0.8	1.8	2.4	-3.4	-3.2	-2.6	55.5	57.0	56.4
OECD Economic Outlook	19-Nov-13	0.8	1.9	2.9	-3.0	-2.8	-2.6	54.6	56.9	56.4
EU Commission Forecast	05-Nov-13	0.9	2.1	2.9	-3.0	-3.2	-3.8	54.3	57.2	58.1
IMF WEO Forecast	08-Oct-13	2.0	0.8	2.3	-4.3	-3.0	-3.8	52.1	55.3	57.5
Slovenia - Citi Forecast	02-Dec-13	-2.3	-0.9	0.9	-6.7	-6.8	-4.6	61.6	68.1	71.0
OECD Economic Outlook	19-Nov-13	-2.3	-0.9	0.6	-7.1	-5.9	-2.9	63.1	70.5	74.7
EU Commission Forecast	05-Nov-13	-2.7	-1.0	0.7	-5.8	-7.1	-3.8	63.2	70.1	74.2
IMF WEO Forecast	08-Oct-13	-2.5	-2.6	-1.4	-3.2	-7.0	-3.8	52.5	71.5	75.3

Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*

Sources: ECB, EU Commission, IMF, OECD and Citi Research forecasts

Figure 24. Euro Area Countries – Economic Forecasts Compared, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	0.4	1.7	2.2	-2.3	-1.9	-1.2	75.7	76.1	75.5
EU Commission Forecast	05-Nov-13	0.4	1.6	1.8	-2.5	-1.9	-1.5	74.8	74.5	73.5
IMF WEO Forecast	08-Oct-13	0.9	0.4	1.6	-2.5	-2.6	-2.4	74.1	74.4	74.8
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-Nov-13	-8.7	-3.9	1.1	-8.3	-8.4	-6.3	116.0	124.4	127.4
IMF WEO Forecast	08-Oct-13	-2.4	-8.7	-3.9	-6.3	-6.7	-7.5	85.8	114.1	123.0
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.0	2.4	4.0	-0.1	-0.1	0.0	9.5	9.3	9.0
EU Commission Forecast	05-Nov-13	1.3	3.0	3.9	-0.4	-0.1	0.1	10.0	9.7	9.1
IMF WEO Forecast	08-Oct-13	3.9	1.5	2.5	-0.2	0.3	0.2	9.7	11.0	10.4
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	-1.0	1.3	1.9	-2.5	-2.3	-1.8	56.4	60.0	62.7
EU Commission Forecast	05-Nov-13	-0.6	0.6	1.6	-2.2	-2.3	-2.0	58.4	61.0	62.5
IMF WEO Forecast	08-Oct-13	-0.8	-0.6	1.1	-2.3	-2.8	-2.1	53.6	58.0	59.8
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.8	2.3	2.3	-0.3	-0.3	-1.1	24.4	26.1	28.2
EU Commission Forecast	05-Nov-13	1.9	1.8	1.1	-0.9	-1.0	-2.7	24.5	25.7	28.7
IMF WEO Forecast	08-Oct-13	0.3	0.5	1.3	-0.8	-0.7	-0.9	20.8	22.9	24.6
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-Nov-13	1.8	1.9	2.0	-3.4	-3.4	-3.5	72.6	73.3	74.1
IMF WEO Forecast	08-Oct-13	1.0	1.1	1.8	-3.3	-3.5	-3.6	71.6	73.4	74.0

Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*. Sources: EU Commission, IMF, OECD and Citi Research

Figure 25. Selected European Countries – Economic Forecasts Compared, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Denmark - Citi Forecast	02-Dec-13	0.4	1.2	1.5	-1.6	-1.8	-1.5	46.9	47.4	47.5
OECD Economic Outlook	19-Nov-13	0.3	1.6	1.9	-4.1	-1.8	-1.8	44.8	46.0	47.5
EU Commission Forecast	05-Nov-13	0.3	1.7	1.8	-1.7	-1.7	-2.7	44.3	43.7	45.1
IMF WEO Forecast	08-Oct-13	-0.4	0.1	1.2	-4.2	-1.7	-2.0	45.6	47.1	47.8
Norway - Citi Forecast	02-Dec-13	1.8	2.1	2.4	11.3	11.8	11.0	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.2	2.8	3.1	13.9	12.3	11.8	34.2	35.5	37.9
IMF WEO Forecast	08-Oct-13	3.0	1.6	2.3	13.8	12.4	11.6	34.1	34.1	34.1
Sweden - Citi Forecast	02-Dec-13	0.9	2.1	2.5	-1.4	-1.6	-0.7	39.5	39.9	38.9
OECD Economic Outlook	19-Nov-13	0.7	2.3	3.0	-0.7	-1.6	-1.1	41.4	42.9	42.8
EU Commission Forecast	05-Nov-13	1.1	2.8	3.5	-0.9	-1.2	-0.5	41.3	41.9	41.0
IMF WEO Forecast	08-Oct-13	1.0	0.9	2.3	-0.7	-1.4	-1.5	38.3	42.2	42.2
Switzerland - Citi Forecast	02-Dec-13	2.0	2.0	2.0	0.2	0.6	0.8	48.2	46.3	45.1
OECD Economic Outlook	19-Nov-13	1.9	2.2	2.7	0.7	0.7	0.6	42.3	42.1	41.9
IMF WEO Forecast	08-Oct-13	1.0	1.7	1.8	0.3	0.2	0.5	49.2	48.2	46.6
UK - Citi Forecast	02-Dec-13	1.5	3.2	3.2	-6.8	-4.9	-3.7	93.1	95.1	95.4
OECD Economic Outlook	19-Nov-13	1.4	2.4	2.5	-6.5	-7.1	-6.5	91.8	95.2	98.5
EU Commission Forecast	05-Nov-13	1.3	2.2	2.4	-6.4	-5.3	-4.3	94.3	96.9	98.6
IMF WEO Forecast	08-Oct-13	0.2	1.4	1.9	-7.9	-6.1	-5.8	88.8	92.1	95.3
OBR	5-Dec-13	1.4	2.4	2.2	-6.0	-4.9	-4.0	75.5	78.3	80.0

Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*.

Sources: EU Commission, IMF, OECD and Citi Research forecasts

Notes

Notes

Appendix A-1

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