

## Economics

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# European Economic Forecast Highlights

September 2011

- This document is a companion piece to our [Global Economic Outlook and Strategy: September 2011](#).
- It contains detailed quarterly economic forecasts (consistent with GEOS) for the main European countries to end 2012.
- It is updated every month once GEOS has been released.
- Tables 13 and 14 give annual forecasts to 2015 for GDP growth, CPI inflation, short-term interest rates, current balance, fiscal balance and government debt.

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

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## Euro Area

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With lower global growth, Greece's non-compliance with the programme conditions and increasing opposition in creditor countries to further bail-outs, we now expect a substantial and probably coercive debt restructuring of the Greek sovereign by the end of 2012 at the latest and likely much sooner (by the spring of 2012 or even December 2011). We expect Ireland and Portugal to follow Greece into sovereign debt restructuring soon afterwards, mainly because of 'political contagion'. We expect haircuts to all non-IMF debt (so including the European official lending) of around 55% for Greece and 35% for Portugal and Ireland, which will likely bring their debt ratios close to the Euro Area average. There are now plans to leverage the amended version of the EFSF. However, the amended framework of the EFSF (with a lending capacity of €440bn) still has to be approved by all 17 EU member countries, which is likely to happen by mid-October. Even with a leveraged EFSF, additional fiscal tightening and tighter financial conditions are likely to be sizeable drags for Euro Area growth. Therefore, we revise down our Euro Area 2012 GDP growth forecast from +0.6% to -0.2%, now expecting a mild recession to start in 4Q 2011. In this scenario, the ECB is likely to reduce rates back to 1.0% by year-end. With reasonable GDP growth in 3Q and inflation likely to increase in September, we expect that the ECB will leave the policy rate unchanged in October, although the probability of a rate cut has risen recently. The ECB is likely to expand its non-standard measures by providing a series of 12M LTROs and probably to resume purchases of covered bonds.

Figure 1. Euro Area – Economic Forecasts, 2010-12F

		History			Forecast			History				Forecast				
		2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	1.7	1.6	-0.2	0.9	2.0	2.0	2.0	2.4	1.6	1.4	0.9	0.1	-0.2	-0.4	-0.3
	QQ SAAR				1.4	3.7	1.5	1.2	3.1	0.6	0.8	-0.8	-0.4	-0.3	-0.3	-0.1
Final Domestic Demand	YY	0.4	0.9	-0.3	-0.5	0.5	0.8	0.9	1.4	0.7	0.7	0.6	-0.1	-0.1	-0.4	-0.5
Private Consumption	YY	0.8	0.6	0.0	0.4	0.7	1.0	1.1	0.9	0.5	0.6	0.3	0.1	0.2	-0.1	-0.3
Public Consumption	YY	0.5	0.2	-0.8	1.1	0.7	0.3	-0.1	0.8	0.3	0.0	-0.2	-0.8	-0.8	-0.8	-0.7
Fixed Investment	YY	-1.0	2.4	-0.5	-5.0	-0.6	0.6	1.2	3.7	1.7	2.0	2.3	0.1	-0.5	-0.8	-0.8
-- Business Equipment	YY	2.1	4.8	-0.9	-2.8	2.6	3.7	5.0	6.2	4.7	4.6	3.7	0.8	-0.9	-1.7	-1.9
-- Construction	YY	-3.8	-0.5	-1.4	-7.1	-3.4	-2.3	-2.4	1.3	-1.6	-1.5	-0.4	-2.2	-1.5	-1.1	-0.7
Stocks (Contrib. to YY GDP Growth)		0.6	0.1	-0.1	0.2	0.8	0.6	0.7	0.3	0.2	0.0	-0.1	-0.2	-0.2	-0.1	0.0
Exports of Goods and Services	YY	10.6	6.2	2.0	7.0	12.7	11.7	11.1	9.6	6.3	5.3	3.7	2.1	1.8	1.6	2.4
Imports of Goods and Services	YY	8.9	4.8	1.5	3.8	11.0	10.5	10.5	8.2	4.7	3.8	2.8	1.3	1.2	1.4	1.9
Consumer Prices	YY	1.6	2.7	1.9	1.1	1.6	1.7	2.0	2.5	2.8	2.6	2.9	2.2	2.0	2.0	1.4
Core CPI	YY	1.0	1.4	1.1	0.9	0.9	1.0	1.1	1.1	1.6	1.2	1.6	1.3	1.3	1.2	0.6
CPI Ex Energy and Unprocessed Food	YY	1.0	1.7	1.4	0.9	0.9	1.0	1.1	1.3	1.8	1.6	2.1	1.7	1.7	1.4	0.8
Unemployment Rate	YY	10.1	10.0	10.3	10.1	10.2	10.1	10.1	10.0	10.0	10.0	10.1	10.2	10.3	10.3	10.3
Current Account Balance	€ bn	-43.2	-63.0	-106.2												
	% GDP	-0.5	-0.7	-1.1												
General Government Balance	€ bn	-550.5	-406.0	-331.5												
	% GDP	-6.0	-4.3	-3.5												
General Government Debt	€ bn	7837.2	8378.2	8659.8												
	% GDP	85.1	88.7	90.5												
Gross Operating Surplus	YY	3.7	3.5	-0.5												
ECB Refi Rate (Ann Avg, then qtr-end)	%	1.00	1.19	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.00	1.00	1.00	1.00	1.00
Ten-year Bund yield (Period Avg.)	%	2.78	2.50	1.40	3.20	2.82	2.45	2.61	3.17	3.13	2.30	1.50	1.25	1.35	1.50	1.50
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.32	1.38	1.26	1.42	1.22	1.36	1.34	1.42	1.45	1.35	1.29	1.28	1.26	1.25	1.26

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

## Germany

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With likely negative repercussions of the multiple defaults in the Euro Area and weaker global demand we have revised down our forecast for 2012 German exports and GDP substantially for a second consecutive month. However, with indications of stronger-than-expected 3Q GDP and despite the new forecast of a contraction in GDP in 4Q, we have left our 2011 GDP forecast unchanged. We expect that domestic demand will be more resilient than during the 2008 recession. Even with the recent environment of sharply falling sentiment, companies continue to plan an increase in employment, suggesting that households' disposable income will continue to support private consumption. Although the government is likely to achieve approval of the extended version of the EFSF, Angela Merkel's coalition remains fragile, particularly in Europe-related questions.

Figure 2. Germany – Economic Forecasts, 2010-12F

		History			Forecast			History								Forecast			
		2010	2011	2012	2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	3.6	3.0	1.0				2.4	4.1	4.0	3.8	4.6	2.8	2.6	2.0	1.0	1.2	0.7	1.1
	QQ SAAR							2.1	8.0	3.2	1.9	5.5	0.5	2.7	-0.6	1.4	1.2	0.8	1.1
Final Domestic Demand	YY	1.7	2.3	1.6				0.2	1.4	2.3	2.8	3.6	1.9	1.8	1.9	1.2	1.9	1.6	1.6
	QQ SAAR							0.9	5.7	3.0	1.4	4.4	-1.1	2.8	1.4	1.7	1.7	1.5	1.6
Private Consumption	YY	0.6	1.1	1.4				-0.5	-0.1	1.0	1.8	2.2	0.7	0.9	0.6	0.6	1.8	1.5	1.6
	QQ SAAR							-0.2	3.4	1.7	2.2	1.5	-2.6	2.6	1.1	1.5	1.9	1.5	1.3
Public Consumption	YY	1.7	0.8	0.4				2.7	1.3	1.5	1.2	0.6	1.4	0.7	0.7	0.5	0.4	0.4	0.4
	QQ SAAR							3.7	-2.3	3.3	0.3	1.0	1.0	0.4	0.4	0.0	0.4	0.4	0.4
Fixed Investment	YY	5.4	7.9	3.4				-0.5	6.6	7.8	7.9	12.0	6.4	6.2	7.1	3.7	3.9	3.1	3.1
	QQ SAAR							1.6	24.4	7.1	0.1	18.2	1.5	5.9	3.6	3.6	2.5	2.5	3.7
-- Business Equipment	YY	10.0	10.4	3.4				0.2	8.6	13.6	18.0	15.4	11.6	8.2	6.5	5.4	3.8	2.4	2.2
	QQ SAAR							17.6	22.7	20.9	11.0	8.5	7.1	6.8	4.3	3.2	1.0	1.1	3.5
-- Construction	YY	1.9	6.3	3.5				-1.9	5.4	3.7	0.5	10.1	2.5	4.6	8.1	2.1	4.1	3.9	4.0
	QQ SAAR							-9.7	29.1	-3.1	-9.8	31.2	-3.6	5.1	3.1	4.0	4.1	4.3	3.7
Stocks (Contrib. to YY GDP Growth)		0.7	0.3	-0.1				1.1	-0.1	-0.5	0.2	0.0	0.7	-0.2	0.0	0.0	-0.1	0.0	0.0
Exports of Goods and Services	YY	13.4	8.3	3.6				7.9	16.7	15.1	13.9	12.5	7.6	7.5	6.1	4.5	3.4	2.4	4.1
	QQ SAAR							14.2	30.9	8.2	3.9	8.8	9.7	7.5	-1.1	2.1	5.2	3.5	5.6
Imports of Goods and Services	YY	11.5	7.9	4.4				3.4	16.0	12.1	14.6	10.2	7.1	7.6	6.8	5.7	3.6	3.5	4.7
	QQ SAAR							25.2	27.1	3.5	5.2	6.8	13.5	5.0	2.3	2.2	4.9	4.7	6.9
Net Exports (Contrib. to YY GDP Growth)		1.4	0.7	-0.1				-0.7	0.7	0.6	-0.1	0.3	-0.2	0.4	-0.4	0.0	0.1	-0.1	-0.1
Consumer Prices	YY	1.1	2.3	2.0				0.8	1.1	1.2	1.5	2.1	2.3	2.4	2.2	2.1	1.8	2.1	2.2
Compensation per Employee	YY	2.2	4.1	4.9				1.8	2.4	2.2	2.3	3.2	4.0	4.5	4.7	4.8	4.8	4.9	4.9
Employment Growth	YY	0.5	1.3	0.3				-0.3	0.4	0.8	1.0	1.4	1.4	1.3	1.3	0.9	0.5	0.1	-0.3
Unemployment Rate (ILO)	%	7.1	6.1	6.2				7.5	7.2	6.9	6.6	6.4	6.2	6.1	6.0	6.0	6.1	6.2	6.3
Current Account Balance	€ bn	141.1	126.3	100.8															
	% GDP	5.7	4.9	3.8															
General Government Balance	€ bn	-82.0	-43.5	-38.2															
	% GDP	-3.3	-1.7	-1.5															
General Government Debt	€ bn	1757.9	1841.4	1887.6															
	% GDP	83.2	84.0	87.1															
Gross Trading Profits	YY	10.5	0.6	-2.5				15.0	15.7	7.0	5.3	5.7	0.4	0.2	-3.7	-7.2	0.4	-1.2	-1.8

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

## France

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Sentiment surveys are weakening markedly, reflecting an economy that is getting dangerously close to stalling speed. Pressure on French financial institutions, if it continues, will impact credit availability and leave the economy more vulnerable to shocks. We argue that the government's projection of 1.75% GDP growth in 2012 is not achievable. Our new baseline scenario of an early Greek default would impact France's macroeconomic performance and could lead to a technical recession if not managed with an overwhelming policy response. We are lowering our 2012 GDP forecast from 0.9% to 0.2%, implying a 1.2ppt reduction since the July GEOS. We doubt the government will tighten fiscal policy aggressively ahead of the May 2012 elections, preferring to rely on automatic stabilisers to cushion the blow.

Figure 3. France – Economic Forecasts, 2010-12F

		History			Forecast			History								Forecast			
		2010	2011	2012				1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q 11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	1.4	1.6	0.2				1.0	1.5	1.6	1.4	2.1	1.6	1.5	1.4	0.3	0.2	0.1	0.1
	QQ SAAR							0.7	2.0	1.5	1.3	3.6	0.0	1.1	0.8	-0.7	-0.3	0.4	0.9
Final Domestic Demand	YY	0.8	1.3	-0.1				0.3	0.7	1.2	1.0	1.7	1.2	1.1	1.0	0.2	0.1	-0.3	-0.3
	QQ SAAR							-0.6	1.2	2.1	1.5	2.1	-0.9	1.8	1.0	-1.3	-0.9	0.2	0.8
Private Consumption	YY	1.3	0.8	0.0				1.3	1.3	1.6	1.2	1.5	0.7	0.6	0.4	-0.2	0.4	0.0	-0.1
	QQ SAAR							0.4	0.4	2.2	1.8	1.5	-2.7	2.0	0.8	-0.8	-0.4	0.4	0.4
Public Consumption	YY	1.2	0.7	0.1				1.9	1.3	1.0	0.5	0.9	0.8	0.6	0.5	0.3	0.1	-0.1	0.0
	QQ SAAR							-0.3	1.0	0.9	0.5	1.4	0.3	0.4	0.0	0.4	-0.4	-0.4	0.4
Fixed Investment	YY	-1.3	3.6	-0.5				-4.8	-1.8	0.3	1.3	3.7	3.5	3.4	3.6	1.1	-0.6	-1.2	-1.3
	QQ SAAR							-4.3	4.5	3.4	2.0	5.2	3.4	3.2	2.8	-4.8	-3.2	0.4	2.6
-- Businesses	YY	2.0	5.4	-1.1				-3.4	2.2	4.5	5.1	7.1	5.0	4.7	4.7	1.0	-0.9	-2.2	-2.3
	QQ SAAR							0.1	11.2	5.5	3.8	7.9	2.8	4.5	3.6	-6.6	-4.7	-0.8	3.2
-- Households	YY	-1.4	2.7	-0.1				-5.0	-3.1	0.3	2.2	2.5	3.8	2.5	2.1	1.2	-0.6	-0.5	-0.5
	QQ SAAR							-1.8	0.4	7.0	3.5	-0.5	5.5	1.6	2.0	-3.9	-2.0	2.0	2.0
Stocks (Contrib. to YY GDP Growth)		0.1	0.6	0.1				-0.4	0.3	0.4	-0.2	0.8	0.0	-0.1	-0.1	0.0	0.1	0.0	0.0
Exports of Goods and Services	YY	9.4	4.4	3.2				5.8	9.9	11.0	10.7	7.7	4.3	2.6	3.2	2.2	3.0	3.8	4.0
	QQ SAAR							19.6	13.7	8.8	1.5	7.2	-0.1	1.9	4.1	3.0	3.2	4.8	4.9
Imports of Goods and Services	YY	8.3	5.8	2.1				2.1	8.6	13.4	9.0	10.9	6.2	2.7	4.0	1.0	2.4	2.5	2.6
	QQ SAAR							5.8	14.9	18.0	-1.5	13.2	-3.5	3.2	3.6	0.8	2.0	3.6	4.1
Net Exports (Contrib. to YY GDP Growth)		0.1	-0.5	0.2				0.7	-0.1	-0.6	0.2	-0.4	0.3	-0.1	-0.3	0.3	0.1	0.3	0.3
Consumer Prices	YY	1.7	2.2	1.8				1.5	1.8	1.8	1.9	2.0	2.2	2.3	2.1	1.7	1.5	1.8	2.2
Average Monthly Wages	YY	1.8	1.9	2.2															
Employment Growth (Private-Sector)	YY	0.1	1.4	1.5															
Unemployment Rate	%	9.4	9.2	9.3				9.5	9.3	9.3	9.3	9.2	9.1	9.2	9.2	9.3	9.4	9.4	9.3
Current Account Balance	€ bn	-33.9	-54.2	-47.8															
	% GDP	-1.7	-2.7	-2.3															
General Government Balance	€ bn	-136.5	-112.9	-96.5															
	% GDP	-7.1	-5.6	-4.7															
General Government Debt	€ bn	1591.2	1704.1	1800.7															
	% GDP	81.7	84.8	92.7															
Gross Trading Profits	YY	1.1	3.5	2.0															

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

## Italy

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We have cut back once again our GDP forecasts, as the deterioration of the euro debt crisis will likely cause further tightening in financing conditions, especially in a high-debt country like Italy. Recent austerity packages imply sizable fiscal tightening already in 2012, focused mainly on tax increases which are likely to hit spending. The fiscal deficit should keep falling, but with a negative growth environment preventing it reaching the government's target of close-to-zero by 2013. The debt ratio should stabilise just above 120%, but, barring major privatizations, it is unlikely to start falling any time soon. Political uncertainty is bound to stay high, with early elections or a major government reshuffle as likely developments in the near term.

Figure 4. Italy – Economic Forecasts, 2010-12F

		History			Forecast			History				Forecast			
		2010	2011	2012	2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Real GDP	YY	1.2	0.5	-1.0				0.7	1.4	1.4	1.5	1.0	0.8	0.2	-0.2
	QQ SAAR							2.6	1.9	1.3	0.3	0.5	1.2	-1.1	-1.5
Final Domestic Demand	YY	0.9	0.4	-1.5				0.4	1.1	1.2	0.9	1.0	0.7	0.0	-0.2
	QQ SAAR							1.0	1.7	1.2	-0.2	1.1	0.7	-1.5	-1.1
Private Consumption	YY	1.0	0.7	-0.9				0.9	1.1	0.9	1.0	0.9	1.1	0.6	0.4
	QQ SAAR							1.0	0.3	1.7	1.1	0.5	0.9	-0.2	0.1
Public Consumption	YY	-0.6	-0.3	-2.1				0.1	-0.6	-0.7	-1.0	0.1	-0.2	-0.4	-0.5
	QQ SAAR							-2.5	1.4	-1.5	-1.4	1.8	0.1	-2.0	-2.0
Fixed Investment	YY	2.4	0.0	-2.5				-1.0	3.0	4.6	2.9	2.1	0.6	-1.4	-1.6
	QQ SAAR							5.4	6.7	2.9	-2.9	2.0	0.7	-5.1	-3.8
-- Business Equipment	YY	8.5	2.1	-3.7				4.6	11.2	10.8	7.5	4.2	2.6	1.2	0.5
	QQ SAAR							16.0	14.0	1.9	-1.1	2.4	7.2	-3.5	-3.5
-- Construction	YY	-3.7	-2.5	-1.2				-6.5	-4.9	-1.6	-1.7	-0.1	-1.5	-4.2	-4.0
	QQ SAAR							-4.9	-0.9	3.9	-4.9	1.5	-6.3	-6.8	-4.0
Exports of Goods and Services	YY	8.9	3.5	0.2				6.2	9.7	9.8	9.7	6.8	5.4	1.2	1.0
	QQ SAAR							16.3	9.6	12.0	1.5	4.7	3.6	-4.9	0.8
Imports of Goods and Services	YY	10.3	1.8	-2.4				6.4	9.3	13.0	12.4	7.5	4.5	-1.2	-3.7
	QQ SAAR							19.5	1.9	18.3	10.8	-0.2	-8.8	-5.4	0.0
Net Exports (Contrib. to YY GDP Growth)		-0.5	0.4	0.7				-0.3	0.4	-0.4	-0.6	0.3	0.9	0.1	0.1
Consumer Prices	YY	1.6	3.0	2.7				1.1	1.6	1.8	1.9	2.3	2.9	2.7	3.9
Compensation per Employee		2.9	NA	NA											
Employment Growth		-0.7	0.1	-0.4											
Unemployment Rate	%	8.4	8.1	8.5											
Current Account Balance	€ bn	-53.5	-60.8	-54.7											
	% GDP	-3.5	-3.8	-3.3											
General Government Balance	€ bn	-71.2	-63.7	-44.8											
	% GDP	-4.6	-4.0	-2.8											
General Government Debt	€ bn	1843	1907	1952											
	% GDP	119.0	120.8	122.7											

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

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We expect 2011-H2 and 2012 GDP growth to suffer from the worsening of the euro debt crisis and further tightening in financing conditions. The downward adjustment in the construction sector has re-accelerated recently, and further house price declines are likely to hit private sector balance sheets. Fiscal restraint is the other major drag on private spending, although probably not large enough to ensure the deficit will fall in line with the government's targets (6.0% of GDP in 2011 and 4.4% in 2012). More fiscal austerity is likely to be implemented after the elections (on 20 Nov). The debt ratio remains below the Euro Area's, but likely slippages in the fiscal consolidation path and additional capital needs from the banks keep the uncertainty around the future debt-to-GDP trajectory elevated.

Figure 5. Spain – Economic Forecasts, 2010-12F

		History			Forecast			History				Forecast				
		2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	-0.1	0.6	-0.7	-1.4	0.0	0.2	0.7	0.9	0.7	0.6	0.2	-0.3	-0.7	-0.8	-1.0
Final Domestic Demand	QQ SAAR				0.3	1.3	0.0	1.0	1.3	0.6	-0.5	-0.8	-0.7	-0.8	-0.9	-1.6
	YY	-1.2	-1.0	-2.2	-2.9	-0.4	-0.8	-0.7	-0.4	-1.8	-0.9	-1.1	-2.0	-2.2	-2.3	-2.5
Private Consumption	QQ SAAR				-0.2	4.2	-5.2	-1.2	1.0	-1.6	-1.8	-1.9	-2.5	-2.5	-2.5	-2.5
	YY	1.3	0.5	-0.9	-0.3	2.1	1.6	1.7	0.7	-0.2	0.9	0.4	0.0	-0.9	-1.3	-1.4
Public Consumption	QQ SAAR				3.7	6.0	-3.8	1.0	0.0	2.3	0.2	-0.9	-1.4	-1.4	-1.4	-1.4
	YY	-0.7	0.2	-2.6	-1.0	-0.1	-0.7	-0.8	2.6	-1.0	-0.6	-0.3	-3.7	-2.0	-2.3	-2.4
Fixed Investment	QQ SAAR				-2.1	4.5	-2.8	-2.8	12.1	-9.1	-1.2	-2.0	-2.4	-2.4	-2.4	-2.4
	YY	-7.5	-6.1	-5.8	-10.6	-6.7	-6.6	-6.1	-6.0	-6.7	-5.9	-5.7	-5.6	-6.0	-5.6	-5.9
-- Business Equipment	QQ SAAR				-7.0	-1.1	-10.6	-5.6	-6.4	-4.2	-7.6	-4.8	-5.9	-5.9	-5.9	-5.9
	YY	-1.8	-2.4	-4.1	-8.9	1.1	0.4	0.3	0.0	-3.3	-2.5	-3.8	-4.5	-4.4	-3.5	-3.9
-- Construction	QQ SAAR				0.1	9.9	-11.0	3.3	-0.9	-4.2	-7.8	-2.0	-3.9	-3.9	-3.9	-3.9
	YY	-11.1	-8.8	-7.4	-11.4	-11.2	-11.3	-10.6	-10.4	-9.3	-8.3	-7.3	-6.5	-7.6	-7.7	-7.8
Exports of Goods and Services	QQ SAAR				-11.4	-7.9	-11.3	-11.7	-10.6	-3.5	-7.4	-7.4	-7.8	-7.8	-7.8	-7.8
	YY	10.3	7.7	-0.2	9.4	11.9	9.4	10.5	12.0	8.4	7.7	2.7	-2.3	-0.1	0.5	0.9
Imports of Goods and Services	QQ SAAR				18.7	5.5	2.2	16.5	25.5	-7.4	-0.7	-3.7	2.9	1.2	1.8	-2.1
	YY	5.5	1.7	-4.0	1.9	9.6	5.0	5.3	6.3	-1.8	2.6	-0.5	-5.8	-3.1	-3.7	-3.5
	QQ SAAR				16.8	17.9	-16.2	6.6	21.4	-14.1	-0.4	-5.6	-2.6	-3.8	-2.9	-4.7
Net Exports (Contrib. to YY GDP Growth)		1.1	1.8	1.3	-0.1	-1.0	1.7	0.6	0.1	0.7	0.0	0.2	0.5	0.4	0.4	0.2
Consumer Prices	YY	2.0	2.9	0.7	1.3	2.3	2.0	2.5	3.2	3.3	2.9	2.3	1.1	0.6	0.5	0.5
Employment Growth	YY	-2.3	-1.2	-0.8	-3.6	-2.5	-1.7	-1.3	-1.3	-0.9	-1.2	-1.2	-0.5	-0.9	-0.8	-0.8
Unemployment Rate	%	20.1	21.0	21.6	20.1	20.1	19.8	20.3	21.3	20.9	20.6	21.2	21.8	21.6	21.3	21.8
Current Account Balance	€ bn	-48.4	-41.3	-33.0												
	% GDP	-4.6	-3.8	-3.0												
General Government Balance	€ bn	-98.2	-74.1	-67.5												
	% GDP	-9.2	-6.8	-6.2												
General Government Debt	€ bn	638.8	742.2	820.8												
	% GDP	60.1	68.3	75.6												

Note: Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Spain, ECB, Eurostat, INE and Citi Investment Research and Analysis

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## Greece

With the targets of the EU/IMF Greek program looking increasingly unattainable and rising political fatigue in donor countries, we now expect a Greek debt restructuring soon (with haircuts of at least 50-55% on non-IMF debt), possibly even before year-end. We expect the likely very negative effects on confidence, on Greek banks and on overall financing conditions to cause an even deeper recession in 2012/2013. The fiscal deficit should be much smaller, but a primary surplus is unlikely before 2013. A post-default second bail-out package would still be necessary to fill the primary balance gap and bank recapitalizations, keeping the pressure for fiscal discipline high.

Figure 6. Greece – Economic Forecasts, 2010-12F

		History	Forecast				
		2010	2011	2012	2013	2014	2015
Real GDP	YY	-4.4	-5.6	-4.9	-2.0	-1.0	-0.5
Final Domestic Demand	YY	-5.9	-7.8	-6.4			
Private Consumption	YY	-4.6	-5.6	-5.2			
Fixed Investment	YY	-8.2	-14.5	-10.7			
Exports of Goods and Services	YY	3.9	-0.1	0.5			
Imports of Goods and Services	YY	-4.8	-9.4	-6.2			
Consumer Prices	YY	4.7	3.2	1.2	1.3	1.4	1.5
Unemployment Rate	%	12.5	17.2	20.1			
Current Account Balance	€ bn	-24.1	-20.2	-9.4	-6.2	-6.2	-4.2
	% GDP	-10.4	-9.2	-4.5	-2.9	-2.9	-1.9
General Government Balance	€ bn	-24.2	-22.8	-14.1	-4.7	1.3	3.1
	% GDP	-10.5	-10.4	-6.8	-2.3	0.6	1.5
General Government Debt	€ bn	328.6	359.8	190.5	190.2	186.4	183.3
	% GDP	142.8	164.6	91.1	92.0	90.3	88.4

Note: Percentage changes unless indicated. Annual data are period averages.  
Sources: Bank of Greece, ECB, Eurostat and Citi Investment Research and Analysis

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## Portugal

We think early debt restructuring in Greece would quickly spread contagion to Portugal, making the implementation of the EU/IMF adjustment program economically and politically more difficult. Also, upward revisions to the public deficit/debt numbers are likely in coming months. We expect a debt restructuring to happen sometime before end-2012 in Portugal too, with haircuts of around 35%-40%, to bring the debt ratio down to around the Euro Area average of 80%. The recession will likely get deeper in 2012-13, but it may be shorter than in a scenario of delayed restructuring to 2014.

Figure 7. Portugal – Economic Forecasts, 2010-12F

		History	Forecast				
		2010	2011	2012	2013	2014	2015
Real GDP	YY	1.3	-2.0	-5.7	-3.8	-0.4	1.2
Consumer Prices	YY	1.4	3.4	0.7	0.5	1.0	0.8
Current Account Balance	€ bn	-18.1	-14.8	-10.8	-5.7	-3.3	-3.1
	% GDP	-10.5	-8.7	-6.3	-3.4	-2.0	-1.9
General Government Balance	€ bn	-15.8	-10.2	-7.9	-4.2	-4.4	-3.9
	% GDP	-9.1	-6.0	-4.7	-2.5	-2.7	-2.3
General Government Debt	€ bn	160.5	184.9	148.0	157.3	164.5	168.4
	% GDP	93.0	108.4	87.2	94.2	99.2	101.5

Note: Percentage changes unless indicated. Annual data are period averages.  
Sources: BdP, INE and Citi Investment Research and Analysis



## United Kingdom

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We now expect that the UK economy is likely to slow close to recession in the next few quarters, with consumer spending remaining sluggish and weakness in business investment and exports — the previous engines of recovery. Although inflation is far above the 2.0% target this year, it is likely to slow sharply next year as the VAT hike drops out and the slowdown takes hold. We do not currently expect that inflation will fall back to the 2.0% target next year, but the MPC believe it will fall back to target even if the economy picks up significantly. The MPC are likely to restart QE soon. The BoE believe that QE is effective in boosting nominal GDP — they believe the QE programme of 2009-10 — £200bn (14% of GDP) — lifted nominal GDP by about 2¼%-3½%, a far smaller effect than they expected when QE was implemented. It follows that the MPC now are likely to use QE in bigger scale, relative to any given shortfall in expected economic growth, than previously. We expect they will begin with £50bn-100bn of QE in October or at the latest in November, with a total of about £300bn over the next few quarters. At that point, the BoE would own roughly half the gilt market. If necessary, we would expect them to buy the whole gilt market.

Figure 8. UK – Economic Forecasts, 2010-12F

		History			Forecast			History								Forecast			
		2010	2011	2012	2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	1.4	1.0	0.7				-0.2	1.6	2.5	1.5	1.6	0.8	0.5	1.0	0.8	0.8	0.7	0.8
	QQ SAAR							1.6	4.1	2.4	-2.0	2.0	0.8	1.0	0.2	1.0	0.9	0.5	0.6
Final Domestic Demand	YY	1.2	-0.1	0.6				0.2	1.5	2.0	1.2	-0.2	0.1	-0.2	-0.1	0.8	0.7	0.4	0.5
	QQ SAAR							3.6	0.6	1.7	-0.8	-2.0	1.5	0.7	-0.8	1.7	1.1	-0.3	-0.4
Private Consumption	YY	0.9	-0.1	1.5				0.4	1.5	1.4	0.3	-0.5	-0.4	-0.1	0.5	1.4	1.3	1.5	1.6
	QQ SAAR							0.8	1.3	-0.2	-0.7	-2.3	1.8	0.8	1.5	1.4	1.6	1.6	1.7
Public Consumption	YY	1.0	0.8	0.2				0.8	1.1	1.3	0.9	1.1	0.6	0.7	0.6	0.2	0.2	0.2	0.1
	QQ SAAR							1.4	2.0	-0.1	0.5	2.0	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Fixed Investment	YY	3.7	-1.1	-2.4				-0.8	2.4	6.4	7.2	-0.2	1.8	-1.9	-4.1	-0.9	-1.5	-3.9	-3.5
	QQ SAAR							23.1	-5.3	16.7	-2.9	-7.7	2.6	0.9	-11.4	5.2	0.2	-8.7	-9.9
-- Business Investment	YY	4.4	1.5	-1.5				-10.6	0.5	11.5	20.0	0.6	5.2	2.4	-2.0	3.6	-0.6	-4.6	-4.0
	QQ SAAR							59.9	-2.3	23.1	7.7	-20.9	16.8	10.7	-9.8	-1.0	-1.1	-6.3	-7.3
-- Construction of Private Dwellings	YY	6.9	-1.6	2.6				-4.1	8.8	12.0	11.7	3.7	-2.5	-5.5	-1.4	2.2	3.1	2.6	2.6
	QQ SAAR							15.8	29.3	21.9	-14.6	-3.7	1.1	7.5	1.1	-0.7	4.7	5.3	1.2
Stocks (Contrib. to YY GDP Growth)		1.5	0.1	-0.3				0.9	1.5	1.9	1.7	0.7	0.2	-0.1	-0.2	0.1	-0.4	-0.5	-0.3
Exports of Goods and Services	YY	5.2	4.8	5.4				1.6	6.5	7.2	5.6	9.3	3.3	3.3	3.6	2.2	6.7	6.8	6.1
	QQ SAAR							-4.4	12.7	6.0	8.9	9.8	-10.0	5.9	9.9	4.2	6.8	6.2	7.2
Imports of Goods and Services	YY	8.8	1.3	3.6				5.3	10.0	10.6	9.2	4.2	1.4	0.9	-1.1	2.4	4.3	3.7	3.9
	QQ SAAR							9.5	8.6	7.1	11.7	-9.1	-2.9	5.4	2.9	4.6	4.4	3.1	3.6
Net Exports (Contrib. to YY GDP Growth)		-1.3	0.9	0.4				-1.3	-1.3	-1.4	-1.4	1.1	0.5	0.7	1.4	-0.1	0.6	0.8	0.5
Consumer Prices	YY	3.3	4.4	2.9				3.3	3.4	3.1	3.4	4.1	4.4	4.6	4.6	3.4	2.9	2.7	2.4
Average Earnings YY	YY	2.2	2.7	2.5				3.7	1.4	2.0	1.8	2.5	2.2	3.1	3.0	2.6	2.5	2.5	2.4
Employment Growth	YY	0.3	0.8	-0.4				-1.2	0.4	1.1	0.8	1.4	0.9	0.3	0.5	-0.2	-0.4	-0.5	-0.6
Unemployment Rate	%	7.9	7.9	8.6				8.0	7.8	7.7	7.9	7.7	7.9	8.0	8.1	8.4	8.6	8.7	8.8
Current Account Balance	£ bn	-46.3	-33.0	-9.1				-10.3	-10.9	-12.0	-13.0	-9.4	-10.8	-8.1	-4.7	-3.9	-3.0	-1.8	-0.4
	% GDP	-3.2	-2.2	-0.6				-2.9	-3.0	-3.3	-3.5	-2.5	-2.9	-2.1	-1.2	-1.0	-0.8	-0.5	-0.1
Public Sector Net Borrowing	£ bn FY	142.1	127.3	117.5															
	% GDP	-9.7	-8.3	-7.4															
General Government Balance	% GDP	-10.2	-8.8	-7.9															
General Government Debt	£ bn	1105.8	1240.0	1364.4															
	% GDP	76.0	81.7	86.5															
Gross Non Oil Trading Profits	YY	4.5	10.5	8.3				-2.5	4.3	5.1	11.7	13.0	12.0	8.2	6.6	8.0	9.9	8.3	6.9
Base Rate (Period Average)	%	0.50	0.50	0.50				0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Ten-year Gilt Yield (Period Averages)	%	3.58	1.78	1.75				4.06	3.69	3.10	3.34	3.73	3.42	2.60	2.00	1.65	1.65	1.80	1.80
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.86	0.87	0.83				0.89	0.82	0.87	0.86	0.89	0.90	0.86	0.85	0.84	0.83	0.83	0.82
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.54	1.57	1.52				1.52	1.50	1.58	1.57	1.60	1.61	1.57	1.52	1.51	1.51	1.51	1.54

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

## Switzerland

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The Swiss economy is likely to slow sharply in coming quarters, probably already in Q3, as the super-strong CHF hits exports and investment. Signs of a sharp slowdown already are evident in recent business surveys, and these are likely to weaken markedly further in coming months. CPI inflation is likely to turn negative as import prices fall, staying well below the SNB's 2% target ceiling throughout the next few years. We expect the SNB to keep the policy rate at zero for several years and to strongly resist FX appreciation.

Figure 9. Switzerland – Economic Forecasts, 2010-12F

		History			Forecast			History								Forecast			
		2010	2011	2012				1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	2.7	2.1	1.2				2.1	3.2	2.8	2.9	2.6	2.3	1.9	1.7	1.4	1.2	1.2	1.1
Final Domestic Demand	YY	2.2	1.5	2.6				2.1	1.8	2.4	2.4	2.3	1.7	0.8	1.5	2.0	3.4	2.6	2.3
Public Consumption	YY	1.9	1.6	2.2				4.2	3.1	0.4	0.1	-0.7	2.3	2.2	2.3	4.0	1.6	1.6	1.6
Private Consumption	YY	2.0	1.2	1.4				2.4	2.1	1.7	1.7	1.1	1.3	1.4	0.9	1.1	1.4	1.2	1.8
Fixed Investment	YY	7.2	4.7	5.1				7.0	7.4	6.2	8.1	8.2	4.3	3.7	2.7	3.1	7.0	6.5	4.0
Exports of Goods and Services	YY	8.8	5.2	2.6				8.8	15.6	4.0	7.4	8.5	2.6	6.3	3.7	1.3	2.9	3.3	2.9
Imports of Goods and Services	YY	7.4	4.0	6.4				3.1	11.4	7.3	8.1	5.8	1.1	4.0	5.3	5.3	8.6	6.4	5.6
Consumer Prices	YY	0.7	0.3	-0.2				1.1	1.0	0.3	0.3	0.6	0.4	0.3	0.1	-0.5	-0.2	0.1	-0.2
Unemployment Rate	%	3.9	3.1	3.1				4.1	3.9	3.8	3.6	3.4	2.9	3.0	3.0	3.1	2.8	3.2	3.2
Current Account Balance	Sfr bn	79.6	83.1	75.4				19.3	19.0	21.9	19.4	21.6	20.0	21.4	20.1	19.7	18.1	19.5	18.1
	% GDP	14.5	14.7	13.0				14.2	13.8	15.9	14.0	15.3	14.1	15.1	14.0	13.7	12.5	13.4	12.4
General Government Balance	% GDP	0.2	0.3	0.6															
General Government Debt	% GDP	55.0	52.7	51.2															
SNB Rate (Annual Avge, then qtr-end)	%	0.25	0.13	0.00				0.25	0.25	0.25	0.25	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	1.57	1.28	0.67				1.84	1.59	1.34	1.50	1.78	1.82	0.80	0.73	0.53	0.66	0.68	0.68
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.33	1.24	1.21				1.42	1.32		1.25	1.30	1.22	1.22	1.23	1.22	1.20	1.19	1.23
USD-CHF FX Rate (Annual Avge, then qtr-end)		1.01	0.90	0.96				1.05	1.08	0.98	0.93	0.92	0.84	0.90	0.95	0.95	0.95	0.95	0.98

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

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with thanks to Frida Sellberg

## Sweden

We expect the slowdown in Swedish growth to be more pronounced than we thought previously, and now forecast GDP growth of 4.3% this year and 2.1% in 2012 (compared to 4.7% and 2.8% respectively). Moreover, we now expect the Riksbank to keep their key policy rate unchanged at 2.0% for the rest of this and next year, before slowly continuing their hiking cycle again in 2013. As a result of a postponement in the projected rate hikes, our forecast for headline CPI is lowered to 2.0% next year and 2.2% in 2013 (from 2.3% and 2.4% respectively).

Figure 10. Sweden – Economic Forecasts, 2010-12F

		History	Forecast				
		2010	2011	2012	2013	2014	2015
Real GDP	YY	5.4	4.3	2.1	2.6	2.7	2.6
Final Domestic Demand	YY	3.8	3.4	2.2			
Public Consumption	YY	1.8	1.1	0.1			
Private Consumption	YY	3.6	2.5	1.9			
Fixed Investment	YY	5.7	9.5	6.1			
Exports of Goods & Services	YY	10.0	8.0	4.4			
Imports of Goods & Services	YY	12.1	7.6	4.6			
Consumer Prices	YY	1.2	3.0	2.0	2.2	2.3	2.1
Unemployment Rate	%	8.4	7.5	7.4			
Current Account Balance	% GDP	6.6	6.4	6.5	6.6	6.7	6.9
General Government Balance	% GDP	-0.2	0.2	0.4	1.1	2.0	3.1
General Government Debt	% GDP	39.3	36.3	34.2	31.4	28.0	27.0
Riksbank Rate (Annual Average)	%	0.50	1.76	2.00	2.30	3.25	4.00
Ten-year Yield (Period Average)	%	2.89	2.51	1.54	2.05	2.50	3.05
EUR-SEK FX Rate (Annual Average)		9.36	9.19	9.07	8.84	8.80	8.80
USD-SEK FX Rate (Annual Average)		7.09	6.68	7.18	6.84	6.68	6.58

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

Sources: Riksbank, Statistics Sweden and Citi Investment Research and Analysis

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with thanks to Frida Sellberg

## Norway

We have revised down our growth forecast for Norway slightly for this and next year mainly based on downward revisions of mainland exports. Given a large downside surprise in inflation in August, we have also revised down our forecasts for CPI this year to 1.4% YY (from 1.6%). Headline inflation is likely to stay below Norges Bank's 2.5% target in the coming years. Following a dovish tone at the September meeting, we now expect the Norges Bank to stay on hold until the end of 2012.

Figure 11. Norway – Economic Forecasts, 2010-12F

		History	Forecast				
		2010	2011	2012	2013	2014	2015
Real GDP	YY	2.1	2.7	2.9	3.0	2.7	2.7
Final Domestic Demand	YY	1.9	3.3	3.4			
Public Consumption	YY	2.2	1.8	2.3			
Private Consumption	YY	3.6	2.7	3.2			
Fixed Investment	YY	-3.1	7.6	5.1			
Exports of Goods & Services	YY	2.8	2.8	4.5			
Imports of Goods & Services	YY	8.1	5.1	4.2			
Consumer Prices	YY	2.4	1.4	1.8	2.2	2.3	2.5
Unemployment Rate	%	3.6	3.3	3.2			
Current Account Balance	% GDP	12.4	14.0	14.3	14.9	15.2	15.8
General Government Balance	% GDP	10.6	12.0	12.5	13.5	15.0	19.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Avg)	%	1.91	2.18	2.30	2.82	3.53	4.25
Ten-year Yield (Period Average)	%	3.41	2.83	1.91	2.40	2.90	3.35
EUR-NOK FX Rate (Annual Average)		7.95	7.86	7.78	7.71	7.70	7.69
USD-NOK FX Rate (Annual Average)		6.02	5.71	6.16	5.96	5.84	5.75

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

Sources: Norges Bank, Statistics Norway and Citi Investment Research and Analysis

## Denmark

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Following softer-than-expected private consumption and investment in 2Q, we have trimmed our 2011 growth forecast to 1.5% (from 1.6% last month). We have also cut our forecasts for 2012-13, and expect GDP growth of 1.6% in 2012 and 1.7% in 2013 (versus 1.9% and 2.0% previously), mainly reflecting weaker investment. The central bank will probably keep a stable spread (5bp) between their lending rate and the ECB policy rate in the coming years, and hence match expected ECB easing. In addition, the Central Bank is likely to take any chance of currency strength to further cut the current account rate (which is the anchor for money market rates) in the near term.

Figure 12. Denmark – Economic Forecasts, 2010-12F

		History	Forecast				
		2010	2011	2012	2013	2014	2015
0							
Real GDP	YY	1.8	1.5	1.6	1.7	1.8	1.7
Final Domestic Demand	YY	0.7	-0.4	1.5			
Public Consumption	YY	0.7	0.4	0.8			
Private Consumption	YY	2.3	-0.4	1.6			
Fixed Investment	YY	-2.7	-1.2	2.5			
Exports of Goods & Services	YY	3.9	7.5	3.2			
Imports of Goods & Services	YY	3.9	5.9	2.9			
Consumer Prices	YY	2.3	2.7	2.0	1.9	2.1	2.0
Unemployment Rate	%	7.4	7.2	7.1			
Current Account Balance	% GDP	5.3	5.6	5.0	4.3	3.5	3.1
General Government Balance	% GDP	-2.8	-3.8	-4.6	-3.9	-2.6	-2.1
General Government Debt	% GDP	43.6	45.7	48.7	50.8	51.5	51.8
DNB Bank Rate (Annual Avg)	%	1.05	1.24	1.05	1.13	1.68	1.99
Ten-year Yield (Period Avg)	%	2.95	2.60	1.56	1.99	2.43	2.95

Note: Percentage changes unless indicated. Annual data are period averages.  
Sources: DNB, Statistics Denmark and Citi Investment Research and Analysis

Figure 13. Longterm Forecasts: GDP, CPI and Interest Rates, 2010-15F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Short-Term Interest Rates, %					
	History	Forecast					History	Forecast					History	Forecast				
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Euro Area	1.7	1.6	-0.2	0.6	1.2	1.2	1.6	2.7	1.9	1.8	1.9	1.9	1	1.19	1	1.06	1.57	1.81
Germany	3.6	3	1	1.3	1.7	1.8	1.1	2.3	2	2.2	2.1	2.3						
France	1.4	1.6	0.2	1.2	1.7	1.5	1.7	2.2	1.8	2.3	1.5	1.5						
Italy	1.2	0.5	-1	0	0.8	0.9	1.6	3	2.7	1.9	1.9	1.9						
Spain	-0.1	0.6	-0.7	0	0.8	0.9	2	2.9	0.7	1.5	1.7	1.7						
Greece	-4.4	-5.6	-4.9	-2	-1	-0.5	4.7	3.2	1.2	1.3	1.4	1.5						
Portugal	1.3	-2	-5.7	-3.8	-0.4	1.2	1.4	3.4	0.7	0.5	1	0.8						
Netherlands	1.6	1.3	0.4	1	1.7	1.8	1.3	2.3	1.8	1.9	1.8	2						
Austria*	2.1	3.3	1.6				1.7	3.2	2.2									
Belgium*	2.1	2.4	1.5				2.3	3.2	2.0									
Cyprus*	1.0	0.0	1.0				2.6	4.0	2.4									
Estonia*	3.1	6.5	4.0				2.9	5.1	3.5									
Finland*	3.6	3.5	2.2				1.7	3.1	2.0									
Ireland*	-0.4	0.4	1.5				-1.6	1.1	0.6									
Luxembourg*	3.5	3.6	2.7				2.3	3.6	1.4									
Malta*	3.1	2.5	2.2				2.0	2.6	2.3									
Slovakia*	4.0	3.3	3.3				0.7	3.6	1.8									
Slovenia*	1.2	1.9	2.0				1.8	1.8	2.1									
Denmark	1.8	1.5	1.6	1.7	1.8	1.7	2.3	2.7	2	1.9	2.1	2	1.05	1.24	1.05	1.13	1.68	1.99
Norway	2.1	2.7	2.9	3	2.7	2.7	2.4	1.4	1.8	2.2	2.3	2.4	1.91	2.18	2.3	2.82	3.53	4.25
Sweden	5.4	4.3	2.1	2.6	2.7	2.6	1.2	3	2	2.2	2.3	2.1	0.5	1.76	2	2.3	3.25	4
Switzerland	2.7	2.1	1.2	1.2	1.2	1.2	0.7	0.3	-0.2	-0.6	-0.2	0.1	0.22	0.44	0.0	0.0	0.0	0.0
United Kingdom	1.4	1	0.7	1.4	1.8	2.7	3.3	4.4	2.9	2.5	2.4	2.2	0.5	0.5	0.5	0.5	1.06	2.04

Note: All forecasts are Citi forecasts except those marked with an asterisk. \*IMF World Economic Outlook, Sep 2011.

Sources: EU Commission and Citi Investment Research and Analysis

Figure 14. Longterm Forecasts: Current Balance, Fiscal Balance and Government Debt, 2010-15F

	Current Balance, Percent of GDP						Fiscal Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Euro Area	-0.5	-0.7	-1.1	-1.1	-1.1	-1	-6	-4.3	-3.5	-2.4	-2	-1.6	85	89	91	91	90	89
Germany	5.7	4.9	3.8	3.8	4.1	4.2	-3.3	-1.7	-1.5	-0.9	-0.5	-0.3	83	84	85	89	87	85
France	-1.7	-2.7	-2.3	-1.5	-0.7	0	-7.1	-5.6	-4.7	-4	-3	-2	82	85	93	96	96	95
Italy	-3.5	-3.8	-3.3	-3	-2.9	-2.8	-4.6	-4	-2.8	-1.5	-1.2	-0.7	119	121	123	123	121	120
Spain	-4.6	-3.8	-3	-2.7	-2.4	-2.2	-9.2	-6.8	-6.2	-5.8	-5.6	-5.6	60	68	76	83	89	93
Greece	-10.4	-9.2	-4.5	-2.9	-2.9	-1.9	-10.5	-10.4	-6.8	-2.3	0.6	1.5	143	165	91	92	90	88
Portugal	-10.5	-8.7	-6.3	-3.4	-2	-1.9	-9.1	-6	-4.7	-2.5	-2.7	-2.3	93	108	87	94	99	102
Netherlands	7.2	8	7.1	7	6.9	7	-5.4	-3	-2.4	-2	-1.2	0	63	65	68	69	69	66
Austria	2.7	2.8	2.7				-4.6	-3.5	-3.2				72	72	74			
Belgium	1.0	0.6	0.9				-4.1	-3.5	-3.4				97	95	94			
Cyprus	-7.7	-7.2	-7.6				-5.3	-6.6	-4.5				61	64	66			
Estonia	3.6	2.4	2.3				0.2	-0.1	-2.3				7	6	6			
Finland	3.1	2.5	2.5				-2.8	-1.0	0.3				48	50	50			
Ireland	0.5	1.8	1.9				-32.0	-10.3	-8.6				95	109	115			
Luxembourg	7.8	9.8	10.3				-1.7	-0.7	-1.2				18	20	22			
Malta	-4.8	-3.8	-4.8				-3.8	-2.9	-2.9				67	66	66			
Slovakia	-3.5	-1.3	-1.1				-7.9	-4.9	-3.8				42	45	47			
Slovenia	-0.8	-1.7	-2.1				-5.3	-6.2	-4.7				37	44	47			
Denmark	5.3	5.6	5	4.3	3.5	3.1	-2.8	-3.8	-4.6	-3.9	-2.6	-2.1	44	46	49	51	52	52
Norway	12.4	14	14.3	14.9	15.2	15.8	10.6	12	12.5	13.5	15	19	NA	NA	NA	NA	NA	NA
Sweden	6.6	6.4	6.5	6.6	6.7	6.9	-0.2	0.2	0.4	1.1	2	3.1	39	36	34	31	28	27
Switzerland	14.5	14.7	13	13.2	14.3	15.4	0.2	0.3	0.6	0.6	0.9	0.9	55	53	51	50	48	47
United Kingdom	-3.2	-2.2	-0.6	0.5	1.2	1.7	-9.7	-8.3	-7.4	-6.5	-5.5	-4.6	76	82	87	90	93	94

Note: All forecasts are Citi forecasts except those marked with an asterisk. \*IMF World Economic Outlook, Sep 2011.

Sources: EU Commission and Citi Investment Research and Analysis

## Appendix A-1

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