

# European Economic Forecast Highlights

September 2013

- This companion to *Global Economic Outlook and Strategy - September 2013* contains detailed quarterly forecasts for the main European countries to end 2014. **Tables 20-21 give annual forecasts to 2017** for growth, inflation, short-term interest rates, current balance, fiscal balance and government debt. Table 22 shows the change in our forecasts from last month. **Figures 23-25** compare current forecasts for each country.
- The euro area as a whole exited recession in Q2, and recent surveys point to further modest expansion in coming quarters. We are edging up our forecasts by 0.2% for 2013 and 0.1% for 2014 (to -0.3% and 0.7% respectively), reflecting a slight upward revision to earlier data, slightly less gloomy trends in some peripheral countries and reduced fiscal headwinds for 2014. However, the upturn is unlikely to restore a range of fiscally-fragile countries to a sustainable fiscal path – in the nearterm, we expect that further external support will be available for Greece, Portugal and Ireland. The ECB is unlikely to cut rates again unless the economy weakens sharply, and we continue to expect that the refi rate will not rise until 2016 or so. The ECB also remains reluctant to convert its commitment to keep rates on hold for an “*extended period*” into more formal time-based or state-contingent forward guidance. If market rate expectations rise in a way that damages the growth outlook, the ECB’s response is likely to be to restart the LTRO program along with enhanced communication (eg release of minutes, an extended forecast horizon)

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**Figure 1. Short-Term Interest Rates (percent), 2012-17F**

	History	Forecast				
	2012	2013	2014	2015	2016	2017
<b>Euro Area</b>	<b>0.88</b>	<b>0.56</b>	<b>0.50</b>	<b>0.50</b>	<b>0.56</b>	<b>0.81</b>
Denmark	0.43	0.21	0.25	0.40	0.60	1.00
Norway	1.55	1.50	1.64	2.00	2.51	3.08
Sweden	1.45	1.00	1.00	1.31	1.73	2.29
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.54	1.29	2.29

Source: Citi Research

**Figure 2. Euro Area – Economic Forecasts Compared (Percent), 2013-14F**

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2013F	2014F	2013F	2014F
<b>Euro Area - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-0.3</b>	<b>0.7</b>	<b>1.5</b>	<b>1.5</b>
OECD Economic Outlook	29-May-13	-0.6	1.1	1.5	1.2
EU Commission Forecast	03-May-13	-0.4	1.2	1.6	1.5
IMF WEO Forecast	25-Jul-13	-0.6	0.9	1.5	1.4
ECB Forecast - mid-point	06-Jun-13	-0.6	1.1	1.4	1.3
Consensus Economics	09-Sep-13	-0.4	0.9	1.5	1.5

Source: OECD, IMF, ECB, EU, Citi Research

**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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The euro area economy is growing again, albeit modestly. We are revising up 2013 and 2014 GDP growth forecasts by 0.2ppt and 0.1ppt to minus 0.3% and +0.7% respectively. We are revising up the 2014 GDP numbers in Greece, Italy, Belgium and Portugal, because of the reduction in the amount of budgetary tightening that member states are delivering. Although the European Commission's (EC) focus remains on delivering lower structural deficits, the amount of fiscal tightening has declined. We expect confirmation of this trend through the adoption of a new methodology for structural budget deficit calculations in the next few months, if rubber-stamped by the Ecofin. The EC is expected to publish its Autumn Forecast using this new framework in November, showing smaller structural deficits – and hence reduced need for fiscal consolidation in both the nearterm and further ahead.

Banking union is the euro area's biggest challenge for the next 3-6 months, requiring that governments reach an agreement about the exact modalities of ESM bank recaps by year-end, ahead of the ECB's Asset Quality Review and stress tests in H1-2014. We continue to believe that official rates will be unchanged until late-2016, given the limited inflation risks. We do not believe that the ECB is about to adopt quantitative references or thresholds to beef up its forward guidance. Instead, we expect the ECB to agree to the release of minutes plus an extended forecast horizon. The ECB probably will offer another LTRO in the next quarter or two, most likely by yearend, and view this partly as a tool to help support periphery banks and partly as a tool to reinforce the "extended period" commitment on policy rates.

Figure 3. Euro Area – Economic Forecasts, 2012-14F

		History			Forecast			History					Forecast				
		2012	2013	2014	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	
Real GDP	YY	-0.6	-0.3	0.7	-0.5	-0.7	-1.0	-1.0	-0.5	-0.2	0.5	0.8	0.7	0.7	0.7	0.8	
	QQ SAAR				-1.1	-0.4	-1.9	-0.6	1.2	0.6	0.9	0.7	0.6	0.8	0.7	1.1	
Final Domestic Demand	YY	-1.7	-0.9	0.4	-1.7	-1.9	-1.9	-1.9	-0.9	-0.7	-0.2	0.5	0.3	0.4	0.4	0.5	
Private Consumption	YY	-1.4	-0.5	0.4	-1.3	-1.7	-1.5	-1.3	-0.6	-0.4	0.2	0.5	0.4	0.5	0.4	0.6	
Public Consumption	YY	-0.6	0.1	-0.2	-0.7	-0.6	-0.7	-0.4	0.3	0.4	0.2	0.1	-0.4	-0.4	-0.3	-0.2	
Fixed Investment	YY	-3.7	-3.5	0.9	-3.7	-3.9	-4.5	-5.6	-3.5	-3.1	-1.7	0.8	0.7	0.9	1.0	1.0	
Stocks (Contrib. to YY GDP Growth)		-0.5	0.1	0.0	-0.7	-0.6	-0.4	0.0	-0.1	0.1	0.3	0.0	0.1	0.0	0.0	0.0	
Exports of Goods and Services	YY	2.7	0.8	2.6	3.4	2.8	2.0	0.1	0.7	0.6	1.6	3.3	2.2	2.4	2.5	2.5	
Imports of Goods and Services	YY	-1.0	-0.4	2.0	-0.8	-1.2	-0.9	-1.9	-0.4	-0.2	1.1	2.6	1.7	1.8	1.9	2.0	
Consumer Prices	YY	2.5	1.5	1.5	2.5	2.5	2.3	1.9	1.4	1.4	1.5	1.4	1.7	1.5	1.5	1.4	
Core CPI	YY	1.5	1.2	1.1	1.6	1.5	1.5	1.5	1.2	1.2	1.1	1.0	1.1	1.0	1.1	1.1	
CPI Ex Energy and Unprocessed Food	YY	1.8	1.4	1.3	1.8	1.7	1.6	1.5	1.3	1.3	1.4	1.3	1.4	1.3	1.3	1.3	
Unemployment Rate	YY	11.4	12.2	12.3	11.3	11.5	11.8	12.0	12.1	12.3	12.3	12.2	12.3	12.3	12.3	12.3	
Current Account Balance	€ bn	118.3	242.2	224.2													
	% GDP	1.2	2.5	2.3													
General Government Balance	€ bn	-352.7	-281.9	-237.5													
	% GDP	-3.7	-2.9	-2.4													
Primary Balance	% GDP	-0.6	0.1	0.6													
General Government Debt	€ bn	8794.6	9220.7	9546.7													
	% GDP	92.7	96.0	97.0													
Gross Operating Surplus	YY	-0.4	1.7	1.0													
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.88	0.56	0.50	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
Ten-year Bund yield (Period Avg.)	%	1.57	1.62	1.83	1.49	1.41	1.43	1.51	1.73	1.88	1.80	1.80	1.80	1.80	1.90	2.00	
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.28	1.33	1.37	1.26	1.29	1.32	1.28	1.30	1.36	1.37	1.36	1.36	1.37	1.38	1.38	

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

## Germany

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Our forecasts are mostly unchanged this month and we still expect GDP growth to be 0.6% and 1.8% for 2013 and 2014. The limited data for Q3 so far (retail sales, orders and industrial production) have been weak. But PMIs and sentiment measures for both consumers and businesses remain strong and business investment rose for the first time in seven quarters in Q2, suggesting that the July data do not reflect the underlying positive trend. The German election is unlikely to affect the nearterm outlook much, with little prospect of major change in economic or Eurozone support policies. It could, however, take a few weeks for a new German government to be agreed, most likely a Grand Coalition of CDU/CSU and SPD, led by Chancellor Merkel.

Figure 4. Germany – Economic Forecasts, 2012-14F

		History			Forecast			History								Forecast				
		2012	2013	2014	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15				
Real GDP	YY	0.9	0.6	1.8	1.1	0.9	0.3	-0.3	0.5	0.6	1.5	2.0	1.7	1.7	1.7	1.8				
	QQ SAAR				-0.3	0.8	-1.8	0.0	2.9	1.4	1.7	2.0	1.6	1.6	1.8	0.0				
Final Domestic Demand	YY	0.4	0.7	2.1	0.7	0.1	-0.2	-0.5	0.8	0.9	1.5	2.2	2.0	2.0	2.0	2.1				
	QQ SAAR				-1.9	1.2	-0.2	-0.9	3.0	2.0	1.9	2.2	1.9	2.2	1.6	0.0				
Private Consumption	YY	0.7	1.1	1.9	1.5	0.4	0.3	0.6	1.1	1.3	1.7	1.9	1.9	2.0	1.9	1.9				
	QQ SAAR				0.0	1.1	0.2	0.9	1.9	2.0	1.8	2.0	1.8	2.3	1.4	0.0				
Public Consumption	YY	1.0	0.9	0.9	0.5	1.1	0.5	0.2	1.3	0.9	1.0	1.2	0.8	0.8	0.8	0.9				
	QQ SAAR				-2.0	2.4	0.3	0.3	2.3	0.8	0.8	0.8	0.8	0.8	0.8	0.0				
Fixed Investment	YY	-1.4	-1.1	3.8	-1.3	-1.9	-2.9	-4.5	-0.8	-0.1	1.3	4.5	3.5	3.6	3.6	3.8				
	QQ SAAR				-7.8	0.3	-2.2	-8.1	7.4	3.2	3.3	4.0	3.5	3.5	3.3	0.0				
-- Business Equipment	YY	-3.3	-2.4	3.1	-3.0	-5.7	-4.9	-6.6	-2.2	-0.8	0.2	3.2	3.0	3.1	3.1	3.1				
	QQ SAAR				-14.0	-2.6	-1.1	-8.3	3.7	2.8	2.9	3.3	3.1	3.0	3.1	0.0				
-- Construction	YY	-0.5	-0.5	3.6	-0.6	0.6	-2.1	-3.8	-0.3	0.2	1.9	5.2	3.2	3.0	3.0	3.6				
	QQ SAAR				-4.0	1.9	-4.0	-8.7	10.7	3.9	2.9	3.7	2.6	3.0	2.9	0.0				
Stocks (Contrib. to YY GDP Growth)		-0.5	0.3	0.2	-0.1	-0.3	0.1	0.4	-0.1	0.2	0.1	0.1	0.0	-0.1	0.0	0.2				
Exports of Goods and Services	YY	3.8	0.5	2.0	5.4	4.0	2.0	-0.4	0.3	0.1	2.1	3.2	1.5	1.6	1.9	2.0				
	QQ SAAR				5.9	2.0	-6.3	-2.9	9.0	1.3	1.3	1.6	1.7	1.7	2.6	0.0				
Imports of Goods and Services	YY	1.8	1.2	2.8	2.6	1.1	0.0	-0.5	0.8	1.6	3.0	4.0	2.6	2.3	2.3	2.8				
	QQ SAAR				2.9	0.2	-3.4	-1.6	8.4	3.4	2.2	2.2	2.4	2.3	2.4	0.0				
Net Exports (Contrib. to YY GDP Growth)		1.1	-0.3	-0.2	0.4	0.2	-0.5	-0.2	0.2	-0.2	-0.1	0.0	-0.1	0.0	0.1	-0.2				
Consumer Prices	YY	2.0	1.6	2.0	1.9	2.0	2.0	1.5	1.5	1.7	1.7	1.8	2.0	1.9	2.1	1.7				
Compensation per Employee	YY	3.0	2.4	2.3	3.0	3.1	3.2	2.6	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3				
Employment Growth	YY	1.1	0.4	0.6	1.2	1.1	0.9	0.6	0.6	-0.1	0.3	0.4	0.5	0.9	0.7	0.7				
Unemployment Rate (ILO)	%	5.5	5.6	5.5	5.5	5.4	5.4	5.4	5.4	6.0	5.6	5.6	5.5	5.7	5.5	5.3				
Current Account Balance	€ bn	187.7	187.6	166.8																
	% GDP	7.0	6.8	5.9																
General Government Balance	€ bn	4.1	-1.3	1.7																
	% GDP	0.2	0.0	0.1																
Primary Balance	% GDP	2.6	2.4	2.3																
General Government Debt	€ bn	2166.3	2183.7	2167.8																
	% GDP	81.2	79.5	76.0																
Gross Trading Profits	YY	-1.4	3.0	4.5	-1.1	-2.5	-3.2	-4.7	2.6	5.6	9.2	5.5	5.7	2.6	4.4	5.0				

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

## France

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We maintain our 2013 and 2014 GDP forecasts at 0.2% and 0.8%, respectively, expecting a very gradual recovery. FinMin Pierre Moscovici presented the key aspects of the 2014 Budget to be put before the cabinet on September 25. The baseline uses a 0.9% GDP growth forecast for 2014 (lowered from 1.2% in the spring), while the 2013 GDP estimate was confirmed at 0.1%. These more realistic assumptions could give the government some room for manoeuvre to undershoot the 4.1% and 3.6% budget deficit targets for 2013 and 20-14, respectively, in the event of a slightly higher growth trajectory. Targeted savings of €18bn or 0.9% of GDP in 2014, with an 80%-20% split between expenditure cuts and tax increases, are designed to limit the drag on activity.

Figure 5. France – Economic Forecasts, 2012-14F

		History	Forecast		History								Forecast				
		2012	2013	2014	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	
Real GDP	YY	0.0	0.2	0.8	0.1	0.0	-0.3	-0.5	0.3	0.2	0.6	1.0	0.7	0.8	0.8	0.8	
Final Domestic Demand	QQ SAAR				-1.3	0.6	-0.7	-0.6	1.9	0.3	1.0	0.9	0.6	0.8	0.9	0.8	
	YY	-0.1	0.0	0.4	0.1	-0.1	-0.2	-0.3	0.2	0.1	0.2	0.4	0.2	0.4	0.5	0.5	
Private Consumption	QQ SAAR				-1.0	0.3	0.0	-0.5	1.1	-0.2	0.4	0.3	0.4	0.5	0.7	0.6	
	YY	-0.3	0.3	0.5	-0.2	-0.4	0.0	-0.4	0.5	0.4	0.5	0.6	0.4	0.5	0.4	0.5	
Public Consumption	QQ SAAR				-2.0	0.6	0.3	-0.2	1.6	0.0	0.8	0.2	0.4	0.4	0.6	0.6	
	YY	1.4	1.3	0.5	1.4	1.6	1.8	1.5	1.7	1.3	0.9	0.7	0.3	0.5	0.6	0.5	
	QQ SAAR				1.7	1.5	1.6	1.4	2.2	0.0	0.0	0.6	0.6	0.6	0.6	0.0	
	YY	-1.2	-2.4	-0.1	-0.5	-1.1	-3.0	-2.7	-2.8	-2.4	-1.7	-0.7	-0.2	0.2	0.5	0.8	
-- Businesses	QQ SAAR				-1.5	-2.2	-3.2	-3.8	-1.9	-0.9	-0.2	0.0	0.1	0.9	0.9	1.2	
	YY	-1.9	-2.2	0.1	-1.1	-1.2	-3.7	-2.9	-2.5	-2.0	-1.2	-0.3	-0.2	0.3	0.6	1.0	
-- Households	QQ SAAR				-2.2	-2.5	-3.1	-3.7	-0.4	-0.8	0.0	0.0	0.0	1.2	1.2	1.6	
	YY	-0.4	-3.7	-0.4	0.2	-0.9	-2.1	-2.8	-4.4	-4.3	-3.5	-2.1	-0.3	0.2	0.5	0.7	
Stocks (Contrib. to YY GDP Growth)	QQ SAAR				-0.2	-1.4	-3.7	-5.6	-6.6	-1.2	-0.4	0.0	0.4	0.8	0.8	0.8	
		-0.8	0.1	0.2	-0.1	0.0	-0.3	0.1	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0	
Exports of Goods and Services	YY	2.5	0.9	2.2	3.2	3.1	0.3	-0.6	0.9	1.1	2.2	3.2	1.7	1.9	2.1	2.4	
	QQ SAAR				1.6	0.9	-2.7	-2.1	8.1	1.6	1.6	1.6	2.0	2.4	2.4	2.8	
Imports of Goods and Services	YY	-0.9	0.6	1.4	-0.3	-0.7	-0.3	-1.0	0.6	0.8	2.3	2.4	0.8	1.1	1.3	1.6	
	QQ SAAR				1.0	-0.5	-4.8	0.3	7.7	0.4	0.8	0.8	1.2	1.6	1.6	2.0	
Net Exports (Contrib. to YY GDP Growth)		1.0	0.1	0.2	0.0	0.1	0.2	-0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Consumer Prices	YY	2.2	1.1	1.7	2.3	2.3	1.7	1.2	0.9	1.1	1.2	1.7	1.8	1.7	1.7	1.4	
Average Monthly Wages	YY	2.1	1.9	2.0													
Employment Growth (Private-Sector)	YY	-0.3	-0.6	0.6													
Unemployment Rate	%	9.8	10.6	10.7	9.8	9.9	10.1	10.4	10.5	10.7	10.7	10.7	10.8	10.7	10.7	10.5	
Current Account Balance	€ bn	-45.0	-31.5	-15.9													
	% GDP	-2.2	-1.5	-0.8													
General Government Balance	€ bn	-98.2	-84.3	-72.9													
	% GDP	-4.8	-4.1	-3.5													
Primary Balance	% GDP	-2.3	-1.5	-0.8													
General Government Debt	€ bn	1833.8	1930.2	2010.4													
	% GDP	90.2	93.9	95.5													
Gross Trading Profits	YY	-1.5	0.0	2.5													

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

## Italy

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Recent activity data for July point to still flat/slightly negative growth in Q3 GDP, despite further improvements in confidence indicators. We think a significantly less-tight fiscal stance and repayments of government arrears may lead to positive GDP growth in Q4, but this upturn is likely to be short-lived. We expect fiscal policy to turn a bit tighter in 2014 (after a deficit overshoot in 2013), leaving GDP roughly flat. Exports are not showing signs of gaining much strength. With the fiscal deficit re-widening and political instability still high, risks for further rating actions and renewed market tensions remain high. The political backdrop hinders scope for structural reforms and public spending cuts. We do not see the debt ratio stabilising in the next few years, therefore we suspect that some form of debt restructuring (maturity lengthening and/or coupon reductions) may be likely eventually

Figure 6. Italy – Economic Forecasts, 2012-14F

		History			Forecast		History								Forecast				
		2012	2013	2014			2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	
Real GDP	YY	-2.4	-1.7	0.1			-2.4	-2.6	-2.8	-2.4	-2.1	-1.8	-0.6	-0.1	0.2	0.3	-0.1	0.0	
Final Domestic Demand	QQ SAAR				-2.2	-1.2	-3.7	-2.4	-1.2	0.1	1.0	-0.3	0.1	0.4	-0.4	0.0			
	YY	-4.7	-2.4	-0.4	-4.6	-5.0	-4.9	-3.5	-3.0	-2.0	-0.9	-0.3	-0.2	-0.3	-0.7	-0.6			
Private Consumption	QQ SAAR				-3.1	-4.5	-3.5	-3.1	-1.2	-0.4	0.9	-0.4	-0.9	-0.9	-0.7	0.1			
	YY	-4.3	-2.5	-0.7	-4.0	-4.8	-4.8	-3.4	-3.3	-2.1	-1.2	-0.9	-0.6	-0.5	-0.6	-0.5			
Public Consumption	QQ SAAR				-2.5	-5.5	-3.9	-1.9	-1.8	-0.8	-0.4	-0.6	-0.6	-0.6	-0.6	-0.4			
	YY	-2.9	-0.1	-1.1	-3.0	-2.8	-2.9	-0.7	0.0	0.3	0.2	-0.4	-0.9	-1.2	-1.7	-1.3			
Fixed Investment	QQ SAAR				-2.3	-1.6	0.5	0.5	0.5	-0.4	0.2	-1.7	-1.7	-1.7	-1.7	-0.1			
	YY	-8.0	-4.7	1.5	-8.3	-8.1	-7.9	-7.1	-5.9	-4.5	-1.4	2.0	2.1	1.6	0.1	0.1			
-- Business Equipment	QQ SAAR				-6.0	-4.4	-6.9	-11.0	-1.1	1.2	6.1	2.0	-0.8	-0.8	0.0	2.0			
	YY	-9.6	-2.5	4.9	-10.7	-10.3	-8.9	-6.9	-4.2	-2.2	3.3	6.6	6.2	5.2	1.5	0.9			
-- Construction	QQ SAAR				-8.9	-4.3	-7.8	-6.5	2.0	4.1	14.8	6.0	0.3	0.3	-0.4	3.5			
	YY	-6.4	-6.8	-1.9	-5.9	-6.0	-6.8	-7.3	-7.5	-6.8	-5.8	-2.4	-1.9	-2.0	-1.4	-0.8			
Exports of Goods and Services	QQ SAAR				-3.2	-4.4	-6.0	-15.0	-4.0	-1.6	-2.0	-2.0	-2.0	-2.0	0.4	0.4			
	YY	2.2	0.0	3.8	2.5	2.5	1.7	-0.4	0.2	0.1	0.2	3.3	3.7	4.1	4.0	3.0			
Imports of Goods and Services	QQ SAAR				2.0	4.5	0.4	-8.2	4.8	4.0	0.6	3.9	6.5	5.5	0.3	0.1			
	YY	-7.8	-3.1	2.7	-7.5	-8.1	-6.8	-5.0	-4.6	-2.1	-0.6	2.1	3.3	3.0	2.4	1.2			
Net Exports (Contrib. to YY GDP Growth)	QQ SAAR				-2.4	-7.3	-4.4	-5.6	-1.0	2.9	1.7	5.0	3.8	1.7	-0.9	0.4			
		2.8	0.8	0.4	2.8	3.0	2.4	1.2	1.3	0.6	0.2	0.4	0.2	0.4	0.6	0.6			
Consumer Prices	YY	3.3	1.6	1.3	3.6	3.4	2.6	2.1	1.3	1.2	1.7	1.4	1.7	1.3	0.8	0.8			
Compensation per Employee		NA	NA	NA															
Employment Growth		-0.4	-1.7	-0.5															
Unemployment Rate	%	10.7	12.2	12.4															
Current Account Balance	€ bn	-8.4	17.4	21.8															
	% GDP	-0.5	1.1	1.4															
General Government Balance	€ bn	-47.6	-56.2	-43.8															
	% GDP	-3.0	-3.6	-2.8															
Primary Balance	% GDP	2.5	1.8	2.6															
General Government Debt	€ bn	1989	2076	2146															
	% GDP	127.0	133.0	136.4															

Note: We assume sovereign debt restructuring in 2017. 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 are lifting our growth forecasts for 2013 by 0.1pp to -1.3%, reflecting reduced fiscal drag, lower inflation and better exports. The pace of fiscal tightening has slowed down significantly relative to 2012: real public consumption rose by 0.9% QQ in Q2 (largest rise since Q1-11) and YTD government deficit (ex. local governments) stood already at 5.3% of GDP in July (including 0.3% of GDP of financial sector support), posing some upside risks for the 2013 target (6.5%). Private deleveraging, the ongoing adjustment in the housing sector and still tight financial conditions will likely continue to cap economic growth until early 2015.

Figure 7. Spain – Economic Forecasts, 2012-14F

		History			Forecast			History				History			
		2012	2013	2014	2012	2013	2014	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Real GDP	YY	-1.6	-1.3	-0.2				-1.6	-1.7	-2.1	-2.0	-1.6	-1.2	-0.4	-0.1
	QQ SAAR							-2.0	-1.5	-3.1	-1.5	-0.4	0.4	-0.1	-0.3
Final Domestic Demand	YY	-4.2	-3.3	-1.1				-4.2	-4.3	-4.7	-4.7	-3.7	-3.2	-1.7	-1.4
	QQ SAAR							-5.3	-4.0	-7.1	-2.4	-1.1	-2.2	-1.3	-1.2
Private Consumption	YY	-2.8	-2.5	-0.1				-3.1	-2.8	-3.5	-4.2	-3.1	-2.4	-0.3	0.0
	QQ SAAR							-4.4	-2.8	-7.6	-1.8	-0.1	0.2	0.5	-0.8
Government Consumption	YY	-4.8	-1.9	-2.2				-4.4	-4.9	-5.0	-3.3	-2.4	-0.4	-1.4	-1.7
	QQ SAAR							-0.1	-11.5	-1.1	-0.2	3.6	-3.8	-4.8	-1.6
Fixed Investment	YY	-7.0	-7.0	-2.7				-6.9	-7.5	-7.7	-7.5	-6.4	-8.2	-6.0	-5.0
	QQ SAAR							-12.6	0.6	-11.5	-6.0	-8.3	-7.1	-2.6	-1.9
-- Business Equipment	YY	-2.2	-0.5	2.3				-2.6	-1.5	-3.4	-2.8	0.5	-3.0	3.4	2.0
	QQ SAAR							-6.8	10.8	-20.8	9.0	6.6	-3.5	2.0	3.3
-- Construction	YY	-9.7	-10.9	-6.1				-9.3	-10.9	-10.0	-10.2	-10.5	-11.5	-11.6	-9.4
	QQ SAAR							-15.8	-5.1	-5.3	-14.1	-16.8	-9.4	-5.7	-5.3
Exports of Goods and Services	YY	2.1	5.2	4.5				0.5	3.3	4.4	3.6	9.2	3.6	4.3	9.3
	QQ SAAR							2.2	28.5	2.5	-14.5	26.3	4.0	5.4	2.9
Imports of Goods and Services	YY	-5.7	-0.8	2.0				-7.7	-4.6	-3.5	-4.8	3.1	-2.3	0.7	5.6
	QQ SAAR							-8.4	19.8	-9.8	-16.9	25.8	-3.1	1.5	0.4
Net Exports (Contrib. to YY GDP Growth)		2.4	1.8	0.9				2.5	2.4	2.4	2.5	1.9	1.8	1.2	1.3
Consumer Prices	YY	2.4	1.8	0.9				1.9	2.8	3.2	2.8	1.8	1.5	0.9	0.8
Compensation per Employee	YY	0.3	-0.4	NA											
Employment Growth	YY	-4.5	-3.5	-2.3				-4.9	-4.6	-4.8	-4.6	-3.7	-3.2	-2.5	-2.2
Unemployment Rate	%	25.0	26.5	27.4				24.6	25.0	26.0	27.2	26.3	25.9	26.6	27.6
Current Account Balance	€ bn	-11.5	13.3	19.2											
	% GDP	-1.1	1.3	1.9											
General Government Balance	€ bn	-111.6	-69.7	-61.5											
	% GDP	-10.8	-6.8	-6.0											
Primary Balance	% GDP	-7.8	-3.4	-2.2											
General Government Debt	€ bn	883.9	962.5	1068.2											
	% GDP	84.2	94.0	104.0											

Note: We assume sovereign debt restructuring in 2017. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€33.5bn). 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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Recent data imply the recession is less deep than we expected, and hence we have again revised up our GDP forecasts in 2013 (by 0.6pp to -3.8) and in 2014 (by 1.0pp). Nevertheless, a financing gap is likely in 2014 due to poor tax collection and shortfalls in privatisation revenues, requiring further external help (either loans or debt relieving measures). Key discussions on further public debt restructuring are likely before year-end. A large debt relief from official lenders would probably be the only viable (but politically difficult) option to restore fiscal sustainability. We think risks of Greece leaving the euro remain, but this is not our base case.

Figure 8. Greece – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-3.8	-2.9	-1.4	0.9	1.3
Final Domestic Demand	YY	-9.7	-6.6	-4.2	-3.0	-0.1	0.5
Private Consumption	YY	-9.1	-6.2	-3.6	-2.7	-0.2	0.6
Public Consumption	YY	-4.0	-5.2	-4.6	-3.8	-0.2	0.1
Fixed Investment	YY	-19.0	-10.9	-6.3	-3.1	0.5	1.3
Exports of Goods and Services	YY	-2.0	1.8	2.3	2.0	2.9	3.0
Imports of Goods and Services	YY	-9.3	-8.5	-4.0	-3.6	-0.8	0.4
Consumer Prices	YY	1.0	-0.5	-1.1	-0.7	0.1	0.2
Unemployment Rate	%	24.1	28.0	30.5	32.4	32.8	32.5
Current Account Balance	€ bn	-6.5	-0.7	1.3	2.3	6.3	8.3
	% GDP	-3.4	-0.4	0.8	1.4	3.7	4.9
General Government Balance	€ bn	-19.4	-8.5	-6.9	-4.8	-2.7	-2.1
	% GDP	-10.0	-4.7	-4.0	-2.8	-1.6	-1.2
Primary Balance	% GDP	-5.0	-0.5	0.1	0.5	1.9	2.3
General Government Debt	€ bn	303.9	322.7	330.4	337.2	341.9	346.0
	% GDP	156.9	177.6	191.5	201.0	203.1	203.8

Note: We assume some government debt restructuring each year to 2017.

Percentage changes unless indicated. Annual data are period averages.

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

## Ireland

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We are pulling our 2013 growth forecast lower again, to -0.5% from 0.2% last month, following the disappointingly mild Q2 GDP rebound (0.4% QoQ) and slippage in industrial production in July. The public debt profile also looks a bit worse, reflecting continued weakness in nominal GDP. We do still expect the debt/GDP ratio will start to edge down in 2014, but this relies on a much greater pick-up in nominal GDP growth than seen so far.

Figure 9. Ireland – Economic Forecasts, 2012-17F

		History		Forecast				
		2012	2013	2014	2015	2016	2017	
Real GDP	YY	0.1	-0.5	2.7	2.4	2.8	3.1	
Real GNP	YY	1.8	2.5	2.0	1.8	2.2	2.5	
Final Domestic Demand	YY	-1.1	-2.6	-0.3	-0.6	-0.5	-0.5	
Private Consumption	YY	-0.3	-1.3	0.7	0.0	-0.1	-0.2	
Public Consumption	YY	-3.8	-1.9	-1.6	-0.7	0.0	0.0	
Fixed Investment	YY	-0.7	-9.9	-3.2	-3.3	-3.5	-3.3	
Exports of Goods and Services	YY	1.6	0.9	7.4	5.3	5.6	5.9	
Imports of Goods and Services	YY	0.0	0.9	4.9	3.6	3.7	3.9	
Net Trade		1.7	1.7	3.5	3.0	3.3	3.6	
GDP Deflator	YY	0.7	-0.6	1.4	1.6	1.6	1.6	
Nominal GDP	YY	0.8	-1.0	4.2	4.1	4.4	4.8	
House Prices	YY	-12.8	-0.5	1.5	1.0	1.0	2.1	
Unemployment Rate	%	14.7	13.6	13.2	13.0	12.7	12.8	
Employment	YY	-0.6	1.6	0.5	0.0	-0.1	0.0	
Current Account Balance	€ bn	7.3	14.2	19.0	20.8	23.0	25.6	
	% GDP	4.4	8.8	11.2	11.8	12.5	13.3	
General Government Balance	€ bn	-12.5	-13.9	-9.5	-6.4	-5.3	-4.9	
	% GDP	-7.6	-8.6	-5.6	-3.6	-2.9	-2.6	
Primary Balance	% GDP	-3.9	-3.5	-0.5	1.5	2.2	2.7	
General Government Debt	€ bn	192.8	202.6	206.9	210.6	215.7	219.7	
	% GDP	118.6	126.0	123.5	120.8	118.4	115.1	

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

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



## Portugal

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Despite the strong Q2 GDP print (+1.1% QQ), we think the underlying growth trend remains negative. The reduced pace of fiscal tightening will likely cause some budget overshooting and a smaller likelihood of a smooth exit from the bailout programme in mid-14. More fiscal austerity will occur over the next couple of years, especially if (as we expect) a second bailout programme is agreed. With about half of the debt in official hands, we think some further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may eventually occur to restore debt sustainability.

Figure 10. Portugal – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-1.9	-0.8	0.1	1.0	1.1
Final Domestic Demand	YY	-6.8	-3.1	-1.8	-0.9	0.6	0.8
Private Consumption	YY	-5.4	-2.2	-0.9	-0.2	0.7	0.8
Public Consumption	YY	-4.8	-1.7	-2.3	-1.1	0.6	0.4
Fixed Investment	YY	-14.3	-8.6	-5.2	-3.6	0.0	1.2
Exports	YY	3.2	4.8	2.6	3.1	3.6	3.6
Imports	YY	-6.5	1.9	0.3	0.8	2.8	3.1
Consumer Prices	YY	2.8	0.5	-0.1	-0.2	0.4	0.7
Unemployment Rate	%	15.7	16.9	17.6	18.6	18.6	18.6
Current Account Balance	€ bn	-2.6	1.9	5.1	5.8	5.8	6.4
	% GDP	-1.5	1.2	3.2	3.6	3.6	3.9
General Government Balance	€ bn	-10.6	-9.8	-8.7	-6.6	-5.5	-4.5
	% GDP	-6.4	-6.0	-5.4	-4.1	-3.3	-2.7
Primary Balance	% GDP	-2.0	-1.5	-1.0	0.2	1.0	1.7
General Government Debt	€ bn	204.5	218.1	243.3	249.9	255.4	260.0
	% GDP	123.8	133.4	150.4	154.1	155.4	155.8

Note: We assume sovereign debt restructuring in 2017.

Percentage changes unless indicated. Annual data are period averages.

Sources: BdP, INE and Citi Research forecasts

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## Netherlands

The Dutch economy is struggling, underperforming its closest neighbours and main trading partners. With business confidence rebounding to its long-term average in August, we expect that GDP growth will likely turn positive towards year-end. However, the significant amount of structural fiscal tightening (austerity measures of €6bn or 1% of GDP) to be delivered through the 2014 budget, together with rising joblessness, will likely constrain the recovery in the foreseeable future. Austerity fatigue suggests that there is a clear risk that the Senate will reject the budget as the government coalition does not have a majority.

Figure 11. Netherlands – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-1.3	-1.3	0.3	0.9	1.2	1.6
Final Domestic Demand	YY	-1.8	-2.9	-0.2	0.3	0.4	0.8
Private Consumption	YY	-1.6	-1.9	-0.3	0.4	0.5	0.8
Public Consumption	YY	-0.7	-0.9	-0.6	0.0	0.3	0.7
Fixed Investment (ex Stocks)	YY	-4.0	-8.2	0.4	0.4	0.7	1.1
Stocks (Contrib. to YY GDP Growth)		0.2	-0.3	0.0	0.1	0.1	0.1
Exports of Goods and Services	YY	3.2	1.2	1.4	2.4	3.1	3.5
Imports of Goods and Services	YY	3.3	-1.4	0.8	2.0	2.7	3.1
Net Exports (Contrib. to YY GDP Growth)		0.2	2.1	0.7	0.6	0.7	0.8
Consumer Prices	YY	2.8	2.9	1.7	1.5	1.8	1.6
Unemployment Rate	%	6.4	8.4	9.0	9.1	8.5	7.4
Current Account Balance	€ bn	56.5	57.0	55.0	60.0	62.0	65.0
	% GDP	9.4	9.4	8.9	9.5	9.5	9.7
General Government Balance	€ bn	-24.4	-23.7	-21.1	-18.1	-15.1	-9.8
	% GDP	-4.1	-3.9	-3.4	-2.9	-2.3	-1.5
Primary Balance	% GDP	-2.2	-2.0	-1.4	-0.8	-0.3	0.6
General Government Debt	€ bn	427.5	454.6	472.6	487.6	502.7	512.5
	% GDP	71.3	75.1	76.6	77.1	77.2	76.2

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

Sources: DNB, CBS and Citi Research forecasts

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## Belgium

Belgium's 2Q GDP was revised up to 0.2% QQ (from an initial estimate of 0.1%) confirming that economic activity had expanded for the first time in five quarters. In light of more constructive business survey signals from Germany and France, we are revising up our 2013 and 2014 GDP forecasts by 0.2ppt and 0.1ppt to 0.0% and 0.5%, respectively. The government is focusing its attention on budget consolidation, aiming to end the Excessive Deficit Procedure in 2013. The arduous task of delivering on a tricky structural reform agenda will fall on the next administration (elections are due on 25 May, 2014).

Figure 12. Belgium – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.3	0.0	0.5	1.0	1.5	1.6
Final Domestic Demand	YY	-0.5	-0.4	0.2	0.9	1.3	1.6
Private Consumption	YY	-0.3	0.3	0.0	0.5	0.9	1.1
Public Consumption	YY	0.4	0.3	0.3	0.7	1.1	1.5
Fixed Investment (ex Stocks)	YY	-0.6	-2.9	0.4	2.0	2.6	3.0
Exports of Goods and Services	YY	0.7	-0.3	2.4	3.5	3.9	4.3
Imports of Goods and Services	YY	0.5	-0.9	2.5	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.2	1.8	1.8	1.9	1.9
Unemployment Rate	%	7.6	8.8	9.5	9.8	9.6	9.1
Current Account Balance	€ bn	-6.0	-7.7	-6.3	-3.9	-0.9	2.2
	% GDP	-1.6	-2.0	-1.6	-1.0	-0.2	0.5
General Government Balance	€ bn	-14.9	-11.6	-10.2	-7.3	-5.0	-4.5
	% GDP	-3.9	-3.0	-2.6	-1.8	-1.2	-1.0
Primary Balance	% GDP	-0.5	0.5	1.0	1.7	2.3	2.4
General Government Debt	€ bn	375.4	389.0	400.5	407.9	412.9	417.3
	% GDP	99.8	102.0	102.6	101.6	99.2	96.8

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

Sources: BNB, Belgostat and Citi Research forecasts

## Slovakia

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We keep our GDP growth forecast at 0.8% this year, followed by 1.8% next year and then averaging 2.6% in 2015-16. We expect Slovak GDP to increase by 0.3% cumulatively in 2H13 after 0.3% QQ in 2Q13, which is likely to keep GDP growth at 0.8% YY in 2H13 as in 1H13 from 2% in 2012 (we assume weaker exports and industrial activity owing to strong base effects and weaker fixed investment owing to lower utilization of production capacities reported in July) before its recovery to 1.8% growth next year, reflecting a better outlook for foreign demand. Our monthly index of real economy activity suggests an acceleration of YY GDP growth. In its new forecast MinFin expects GDP growth will accelerate to 2.2% YY in 2014 after 0.8% this year and further to 2.9% and 3.1% in 2015 and 2016, which is below our forecast of 0.8% and 1.8% in 2013-14, followed by 2.4% and 2.9% in 2015-16.

**Economic sentiment indicator improved for second month in a row in August, but industry disappointed.** Given that recent production expectations decreased back to the level seen in April this year, we keep our forecast of further deceleration in industrial production to 0%-1% YY in 3Q13 after a probable deceleration to 2.3% YY in 2Q13 from 6% in 1Q13. Industrial production decelerated to 2% YY in July from 12% a year ago after a flat monthly outturn. The trade surplus (12months cumulative) has slightly decreased to 6.2% of GDP in July from 6.5% a month ago, but remains well above 4.2% a year ago. By contrast, combined trade and consumer confidence improved in August, which eased our concerns about the recovery in retail sales (ex. cars), which we have seen during 1H13 to 0.7% YY in 2Q13 from -1.1% in 2012.

**The 12m cumulative central government cash deficit narrowed to 4.2% of GDP** in August, the lowest ratio since November 2009. The year-to-date deficit reached €1.9bn in August 2013, narrower by €0.8bn compared to the same period in 2012 – suggesting ongoing improvement given that the May deficit was narrower by €0.6bn and April only by €100mn. A recent narrowing of deficits eased concerns of a larger deficit this year owing to underperformance on the revenue side that was initially expected to increase by 4% this year. However, there is still some risk of a wider deficit, though quite mild at 0.3pp of GDP, if government is able to keep the expenditure side under control as it has done so far. The government plan envisages the deficit at €-2.8bn (-3.7% of GDP) in 2014 and €-2.7bn (-3.4%) in 2015. ARDAL returned to the market after a two-month pause and the auction was well received. The MinFin's financing needs for the full year are 90% covered and ARDAL will probably continue with buybacks

Figure 13. Slovakia – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	2.0	0.8	1.8	2.4	2.9	3.4
Final Domestic Demand	YY	-1.4	-1.4	1.3	2.4	3.3	3.4
Private Consumption	YY	-0.6	0.1	0.9	1.7	2.7	3.0
Public Consumption		-0.6	-0.1	0.1	1.6	2.0	2.0
Fixed Investment	YY	-3.7	-5.9	3.3	4.6	5.5	5.5
Exports	YY	8.6	4.5	5.8	6.2	6.0	6.5
Imports	YY	2.8	2.3	5.6	5.6	6.4	7.5
Consumer Prices	YY	3.6	1.7	1.9	2.7	2.7	2.7
Unemployment Rate	%	13.6	14.3	14.3	13.7	12.9	12.9
Current Account Balance	% GDP	2.2	4.0	3.5	3.2	2.2	0.7
General Government Balance	% GDP	-4.3	-3.5	-3.2	-2.6	-2.1	-1.8
Government Primary Balance	% GDP	-2.9	-2.1	-1.7	-1.1	-0.6	-0.3
General Government Debt	% GDP	52.1	56.8	57.4	57.5	56.9	56.4

Sources: National sources and Citi Research forecasts

## Slovenia

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We have cut our 2014 GDP forecast by 0.2%pt to -0.5% due to ongoing fiscal consolidation and the repeated delays in measures for banking sector resolution, where the risk is that it will be applied in early 2014 rather than by end-2013. Both factors are likely to negatively influence domestic activity. We remain constructive on export activity due to the recovery in foreign demand, and this is supported by recent local and foreign confidence surveys. However, the overall sentiment indicator was unchanged in September. We find stable industrial confidence disappointing, particularly if we look at the assessment of export orders which slightly decreased, having stabilized after solid improvement around 2Q13. It now suggests a deceleration of export growth from 5%-7% YY to around 5%.

**Politics are likely to remain noisy in the month ahead**, reflecting approval of the budget proposal, election of PS leader and of course banking sector resolution. Our general feeling is that the Slovene Government has done much preparation and approved many important things (such as no further referenda on fiscal issues, the fiscal rule, partial labour and pension reforms) that have kept our view on Slovenia constructive. However, we think the main obstacles to economic recovery – a resolution of the impaired banking sector and fiscal consolidation – are lagging and recurring delays (not in days, but in months and quarters), caused by both local and external (EC) factors, have impeded our constructive view.

**The Slovene banking sector remains the main source of uncertainty**, given the unclear schedule on recapitalization, which we believe could be undermined further by the political situation. General expectations that the transfer of bad loans from the country's largest bank to the state-owned 'bad bank' (BAMC) would start in October are no longer valid and policymakers say they now hope this will take place by year end. Moreover, the BAMC's bonds will likely not be eligible collateral for the ECB, at least initially until their secondary market develops. Recapitalizing the banking sector is likely to take more funds than initially expected, and the impact on MinFin's financing requirements could be quite large and more severe given its immediate cash impact. For more see [Slovenia Macro View - Trip Notes: Slovenian Hopes Lag](#).

Figure 14. Slovenia – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-2.2	-2.2	-0.5	1.1	2.1	2.9
Final Domestic Demand	YY	-3.8	-2.7	-0.2	1.2	1.8	2.1
Private Consumption	YY	-2.8	-2.9	-0.2	1.0	1.7	2.0
Public Consumption		-1.6	-2.4	-1.4	0.8	1.1	1.2
Fixed Investment	YY	-9.1	-2.5	1.2	2.5	2.8	3.2
Exports	YY	1.3	1.9	3.5	5.5	6.1	6.7
Imports	YY	-4.3	1.3	3.9	5.9	6.4	6.7
Consumer Prices	YY	2.6	2.3	2.8	1.8	1.7	1.7
Unemployment Rate	%	8.9	10.5	11.4	12.2	12.7	12.3
Current Account Balance	% GDP	2.3	2.8	3.9	3.6	4.0	4.6
General Government Balance	% GDP	-4.0	-9.1	-6.6	-3.2	-2.4	-1.5
Government Primary Balance	% GDP	-1.9	-6.4	-3.7	-0.4	0.6	1.4
General Government Debt	% GDP	54.1	63.4	68.8	69.6	68.9	66.9

Sources: National sources and Citi Research forecasts

## UK

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**We are significantly changing our UK interest rate forecasts, advancing the first rate hike from 2017 to 2015.** We expect that the tightening cycle will be relatively shallow, but now look for Bank Rate to be 0.75% at end-2015 and 1.75% at end-2016 (both 0.5% before), with the 2017 average revised up to 2¼% from 1.0% previously, and Bank Rate leveling off at about 3-3.5% in 2018. These revisions reflect two main factors: **First**, with a broad-based upturn, we now expect growth of 1.4% this year, 3.0% in 2014 and 3.1% in 2015 (versus 1.1%, 2.1% and 2.7% respectively last month). Our growth forecasts have swung from below consensus earlier this year to above consensus now, the first time since 2011 that our forecasts have been above consensus. **Second**, we now believe that productivity will rebound more slowly than we previously expected, partly because of continued declines in the cost of labour. With the higher GDP growth outlook, this implies a much faster decline in unemployment than our prior forecast, so that the jobless rate falls to the 7% threshold around end-2014 or early 2015 — hence ending the MPC's guidance framework. For details, see [UK Economics Weekly - Change to Rate View](#).

Figure 15. UK – Economic Forecasts, 2012-17F

		History			Forecast			History				Forecast			
		2012	2013	2014	2012	2013	2014	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Real GDP	YY	0.1	1.4	3.0	-0.1	0.1	0.0	0.2	1.6	1.5	2.4	3.0	3.0	3.0	3.0
	QQ SAAR				-2.3	3.2	-0.8	0.8	3.2	3.0	2.8	3.0	3.2	3.1	2.8
Final Domestic Demand	YY	1.4	1.1	2.8	1.0	1.5	0.9	0.0	0.8	1.3	2.4	2.6	2.9	3.0	2.8
	QQ SAAR				-0.7	0.1	-1.2	1.8	2.3	2.3	3.2	2.5	3.8	2.6	2.3
Private Consumption	YY	1.2	1.8	2.6	1.1	1.5	1.5	1.5	1.6	2.0	2.1	2.3	2.7	2.7	2.7
	QQ SAAR				1.2	1.3	2.2	1.2	1.5	3.1	2.6	2.0	3.2	2.9	2.8
Public Consumption	YY	2.8	1.6	-0.5	1.8	3.1	3.4	0.8	2.7	1.9	1.1	0.8	-0.5	-1.1	-1.2
	QQ SAAR				-3.6	3.5	3.2	0.4	3.7	0.5	0.0	-0.9	-1.4	-1.9	-0.5
Fixed Investment	YY	0.5	-2.9	9.5	-0.4	-0.9	-4.7	-8.3	-4.8	-2.9	5.0	7.5	9.5	11.3	9.5
	QQ SAAR				-8.2	-6.4	-18.4	0.6	6.8	1.5	11.5	10.6	15.0	8.3	4.5
-- Business Investment	YY	1.8	-3.5	4.9	-3.3	3.3	-1.8	-5.5	-3.5	-5.8	1.2	3.3	4.6	5.6	6.2
	QQ SAAR				-4.8	13.2	-22.5	-4.7	3.8	2.9	3.2	3.3	9.2	6.9	5.6
-- Construction of Private Dwellings	YY	-3.4	3.8	25.1	3.2	-12.5	-19.7	-14.8	-4.3	11.2	29.0	26.1	30.5	26.5	18.3
	QQ SAAR				-28.0	-30.2	-25.9	41.4	14.8	27.2	34.1	29.0	31.7	12.5	2.4
Stocks (Contrib. to YY GDP Growth)		-0.4	-0.1	0.0	-0.5	-1.1	0.7	0.4	-0.3	0.4	-0.6	0.2	0.4	-0.7	0.0
Exports of Goods and Services	YY	0.9	1.4	6.0	3.4	4.2	-2.4	-0.8	3.4	-0.9	4.1	6.0	3.5	7.9	6.5
	QQ SAAR				-2.3	7.8	-7.6	-0.5	15.2	-8.8	12.3	7.1	4.6	7.6	6.9
Imports of Goods and Services	YY	2.8	0.3	5.4	4.1	3.7	1.5	-0.9	0.1	0.0	2.1	5.6	4.6	5.6	5.7
	QQ SAAR				6.4	2.5	-4.1	-7.7	10.5	2.1	4.5	5.3	6.4	5.9	5.2
Net Exports (Contrib. to YY GDP Growth)		-0.9	0.4	0.2	-0.6	-0.3	-1.6	-0.2	1.2	-0.1	0.7	0.3	-0.4	0.6	0.2
Consumer Prices	YY	2.8	2.6	2.0	2.7	2.4	2.7	2.8	2.7	2.7	2.3	2.0	2.0	2.0	2.1
Average Earnings YY	YY	1.4	1.2	1.4	1.3	1.9	1.3	0.6	2.4	0.6	1.4	1.8	0.5	1.7	1.8
Employment Growth	YY	1.2	1.0	1.2	0.9	1.8	2.1	1.5	1.0	0.9	0.6	1.0	1.0	1.2	1.5
Unemployment Rate	%	7.9	7.8	7.3	8.0	7.8	7.8	7.8	7.8	7.7	7.7	7.6	7.5	7.3	7.0
Current Account Balance	£ bn	-57.7	-51.5	-47.6	-16.7	-15.1	-14.0	-14.5	-10.8	-14.8	-11.3	-11.5	-12.3	-12.0	-11.7
	% GDP	-3.7	-3.2	-2.8	-4.3	-3.9	-3.6	-3.6	-2.7	-3.7	-2.8	-2.8	-2.9	-2.8	-2.7
Public Sector Net Borrowing	£ bn FY	89.4	95.6	78.3											
	% GDP	-5.7	-5.9	-4.6											
General Government Balance	% GDP	-6.3	-6.4	-5.1											
Government Primary Balance	% GDP	-2.7	-2.8	-1.5											
General Government Debt	£ bn	1387.4	1494.4	1602.5											
	% GDP	89.5	93.1	95.3											
Gross Non Oil Trading Profits	YY	4.5	8.1	10.2	0.5	4.9	10.3	11.4	9.1	3.8	6.8	7.7	14.6	11.2	7.6
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
Ten-year Gilt Yield (Period Averages)	%	1.85	2.34	3.08	1.80	1.65	1.82	2.02	2.40	2.87	2.80	2.85	3.05	3.15	3.25
EUR-GBP FX Rate (Annual Avg, then qtr-End)		0.81	0.84	0.82	0.81	0.80	0.81	0.85	0.86	0.84	0.83	0.82	0.82	0.82	0.81
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.58	1.58	1.67	1.57	1.61	1.63	1.52	1.52	1.62	1.65	1.66	1.66	1.68	1.70

Note: Forecasts do not include GDP data released 27 Feb 2013. Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS, Citi Research forecasts

## Switzerland

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We are leaving our forecasts unchanged this month. The economy is growing at a modest pace, supported by loose domestic monetary conditions, but may face some headwinds if EM tensions hit exports. With inflation close to zero and subdued inflation prospects, the SNB is likely to keep policy on hold for some time.

Figure 16. Switzerland – Economic Forecasts, 2012-14F

		History			Forecast												
		2012	2013	2014	History						Forecast						
					1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	
Real GDP	YY	1.0	1.7	1.5	1.0	0.4	1.3	1.2	1.4	1.8	1.9	1.8	1.6	1.7	1.4	1.5	
Final Domestic Demand	YY	1.7	1.7	1.2	1.5	1.8	1.7	1.7	1.6	1.9	2.2	1.2	1.3	0.9	1.0	1.5	
Private Consumption	YY	2.5	2.4	1.6	2.4	2.4	2.5	2.8	2.5	2.5	2.9	1.9	1.6	1.5	1.4	1.9	
Public Consumption	YY	0.5	1.0	1.4	1.5	0.0	0.3	0.4	1.6	1.5	0.7	0.1	1.4	1.4	1.4	1.4	
Fixed Investment	YY	-0.2	0.0	-0.1	-1.0	1.0	0.1	-0.7	-0.9	0.2	0.8	-0.1	0.3	-1.1	-0.3	0.6	
Exports of Goods and Services	YY	1.1	1.1	3.7	-0.6	0.0	1.7	3.4	1.6	1.0	1.5	0.4	2.6	4.1	3.8	4.2	
Imports of Goods and Services	YY	2.1	-0.1	3.4	2.5	2.0	1.3	2.6	0.0	-0.1	0.1	-0.6	2.1	3.1	3.6	4.9	
Consumer Prices	YY	-0.7	-0.2	0.3	-0.9	-1.0	-0.5	-0.3	-0.4	-0.4	-0.3	0.3	0.1	0.4	0.2	0.3	
Unemployment Rate	%	2.6	1.8	1.7	3.1	3.2	2.3	1.8	1.9	1.9	2.0	1.6	1.6	1.7	1.8	1.5	
Current Account Balance	Sfr bn	75.9	78.8	81.6	17.6	21.7	19.1	17.5	17.4	21.8	19.8	19.8	19.8	22.1	19.4	20.3	
% GDP		12.8	12.9	13.0	12.0	14.7	12.8	11.8	11.6	14.3	12.9	12.8	12.8	14.1	12.4	12.8	
General Government Balance	% GDP	0.5	0.7	0.9													
General Government Debt	% GDP	46.7	45.3	43.3													
SNB Rate (Annual Avg, 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)	%	0.64	0.82	1.00	0.71	0.59	0.53	0.47	0.64	0.65	1.03	0.95	1.03	1.03	1.03	1.10	
EUR-CHF FX Rate (Annual Avg, then qtr-end)		1.20	1.24	1.26	1.20	1.20	1.21	1.21	1.22	1.23	1.25	1.25	1.25	1.25	1.26	1.27	
USD-CHF FX Rate (Annual Avg, then qtr-end)		0.94	0.94	0.96	0.90	0.95	0.94	0.91	0.95	0.94	0.93	0.94	0.95	0.96	0.96	0.95	
Note: Percentage changes unless indicated. Annual data are period averages. Sources: SNB, BFS and Citi Research forecasts																	

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

## Sweden

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Economic performance in Sweden has been weaker than indicated in previous years: according to revised national accounts data, GDP growth has stagnated over the past year, up to and including 2Q 2013. In addition, GDP for 2011 was revised down by a full 0.8pp to 2.9% YY, partly balanced by a 0.3pp upward revision to 2012 GDP growth (1.3% YY). With the historical revisions, the GDP level in 2Q 2013 is now around 0.8% lower than previously reported. Reflecting the downward revisions to 1H 2013 growth (largely reflecting weaker-than-indicated foreign trade), **we have cut our full-year 2013 GDP forecast by 0.4pp to 0.6% YY**. Although there are clearer signs of impending recovery – with lead indicators pointing to a turnaround toward yearend – economic recovery will likely be weak in a historical perspective; exports will stay weak, household deleveraging risks remain and ongoing fiscal erosion limits the size of fiscal easing. 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 rests on our view that governments tend to be very focused on pushing through their tough stance at the beginning of a new term in office, implying that a larger part of the reforms will be financed via cost cutting. With the planned fiscal measures, this is likely to generate a budget deficit of around 1.5% of GDP next year. This is small – roughly in line with those that arose during the 2001-04 slowdown – in an international comparison, and Sweden should continue to outperform. Hence, the announced measures are not aggressive enough to seriously threaten public finances; public debt is likely to stay around 40% of GDP. **Inflation pressure continues to be very low**, with CPI inflation around zero and underlying CPIF inflation (CPI excluding interest rates) at 1.2% 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 the view. The Riksbank is weighing low inflation and capacity utilization against financial stability consideration. Although the Central Bank remains concerned about high household debt and accelerating credit growth, we reckon that once the new macro prudential measures are operational, this should leave room for the bank to use the repo rate more actively to get inflation back up to target. Weak growth and a lower output gap also support keeping interest rates low for longer.

Figure 17. Sweden – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	1.3	0.6	2.2	2.5	2.5	2.9
Final Domestic Demand	YY	1.9	0.5	2.0			
Private Consumption	YY	1.7	1.7	2.1			
Public Consumption	YY	1.1	1.0	1.2			
Fixed Investment	YY	3.7	-3.2	3.0			
Exports of Goods & Services	YY	1.1	-1.5	2.7			
Imports of Goods & Services	YY	0.0	-1.1	2.3			
Consumer Prices	YY	0.9	0.2	1.1	1.9	2.2	2.3
Unemployment Rate	%	8.0	8.0	7.9			
Current Account Balance	% GDP	6.0	5.9	5.6	5.3	5.3	5.0
General Government Balance	% GDP	-0.6	-1.4	-1.5	-0.4	0.7	1.5
General Government Debt	% GDP	38.4	39.3	39.6	38.3	35.9	32.6
Riksbank Rate (Annual Avg)	%	1.45	1.00	1.00	1.31	1.73	2.29
Ten-year Yield (Period Avg)	%	1.59	2.07	2.27	2.40	2.55	2.80
EUR-SEK FX Rate (Annual Avg)		8.63	8.59	8.80	8.66	8.49	8.30
USD-SEK FX Rate (Annual Avg)		6.77	6.47	6.43	6.21	6.06	5.93

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

Sources: Riksbank, Statistics Sweden and Citi Research forecasts



## Denmark

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The Danish economy has balanced on the edge of recession since mid-2010, and GDP growth contracted 0.4% YY last year, by far the weakest outcome since 2009. Combined with weaker-than-expected growth in 1H 2013, we have cut our full-year 2014 GDP forecast by 0.4pp to 0.2% YY. Our forecast for 2014-15 assumes that economic activity gradually will improve, driven by stronger domestic demand. However, recovery will likely be weak as households continue to deleverage/save on the back of the housing bust. **The government has implemented a string of economic reforms** to boost domestic demand (increased government investment and lower income taxes) and to improve the supply side of the economy (labour market reforms, changes to the unemployment and social security benefit system, lower corporate tax and indirect company tax cuts). So far, neither appear to have had any material effect; however, we reckon the reforms should bolster the fundamental structure of the economy, thus making it better positioned to benefit from economic recovery once the cycle in earnest turns. The fiscal measures led to a substantial weakening of public finances in 2012 (4.1% of GDP general government budget deficit); however, already **this year the deficit should shrink markedly**, as temporary stimuli cease while bringing forward the tax on capital pension schemes should boost fiscal revenues. In addition, the government expects the pension yield tax to produce higher revenues than the normal 1% of GDP also this year. **The Danish National Bank only partly shadowed ECB action in May**, cutting the lending rate by 10bp to 0.20%, while keeping its other interest rates unchanged. This reflected a reasonably stable development in EUR/DKK with DKK trading only marginally stronger than the central parity, at the same time as the lending rate already was close to zero prior to the rate announcement. The DNB has not intervened in the foreign-exchange market since January this year, suggesting that the currency is trading around satisfactory levels versus the euro, and that the next independent interest rate move is unlikely in the very short term. Ahead, we expect the lending rate to stay at 0.2% and then to rise very gradually from 2H14. The government has proposed making the Minister of Business and Growth responsible for macro-prudential policy, and, in turn, the countercyclical capital buffer. The DNB finds it more appropriate to assign this responsibility to the FSA or the Systemic Risk Council as it otherwise sees a risk that such measures will be taken too late or be inadequate, as the measures often will need to be implemented at a time where it may be difficult for the public to see the need for it.

Figure 18. Denmark – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.4	0.2	0.9	1.4	1.5	1.5
Final Domestic Demand	YY	0.4	0.2	0.9	1.1		
Private Consumption	YY	0.5	0.3	0.7	1.1		
Public Consumption	YY	0.7	-0.1	0.6	0.5		
Fixed Investment	YY	-0.1	0.3	1.6	1.8		
Exports of Goods & Services	YY	0.3	0.5	2.0	2.0		
Imports of Goods & Services	YY	1.0	1.5	1.6	1.5		
Consumer Prices	YY	2.4	0.7	1.5	1.7	1.8	1.9
Unemployment Rate	%	7.5	7.1	6.9			
Current Account Balance	% GDP	5.9	5.6	4.9	4.2	4.0	3.8
General Government Balance	% GDP	-4.3	-2.0	-1.5	-1.0	0.5	1.0
General Government Debt	% GDP	45.8	47.4	47.8	47.4	45.4	42.9
DNB Bank Rate (Annual Avg)	%	0.43	0.20	0.25	0.40	0.60	1.00
Ten-year Yield (Period Avg)	%	1.51	1.76	1.93	2.15	2.50	2.75

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

Sources: DNB, national statistical office and Citi Research forecasts

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**We have cut our 2013-14 growth forecasts by 0.2-0.3pp.** The spring downturn, though, should prove transitory: apart from near-stalling private consumption, other demand components were relatively healthy and fundamentals also remain in place for a near-term recovery in private consumption. In August, underlying inflation again surprised on the high side, gaining 2.5% YY, the strongest outcome since July 2009. Part of the upturn in prices, though, will likely prove temporary, as also noted by Norges Bank at the September policy meeting. As expected, the reacceleration in core inflation combined with a weaker-than-expected NOK and higher interest rates abroad fuelled an upward revision of the conditional interest rate path in the September MPR; the near-term easing bias from June was fully removed and the Bank indicated earlier tightening. The statement said that the Board's analyses *"imply a key policy rate at today's level to summer 2014, followed by a gradual increase to a more normal level"*. The rate path indicates that rates will be hiked very cautiously, with only a 25bp increase indicated for next year (and a full rate hike is not indicated until 4Q 2014). We were surprised at Norges Bank's more pessimistic view on growth/capacity utilisation and the outlook for the domestic economy, which leads us to the conclusion that recent signs of weakness have had a somewhat stronger impact on the bank's view on economic prospects than we had anticipated. Should the recent slowing in the Norwegian economy prove transitory, as is our base case, and the global outlook continues to improve, Norges Bank is likely to gradually start normalizing rates next summer. Moreover, rate hikes in the following years should be somewhat more frequent than the bank currently expects. **Fiscal policy looks set to become somewhat more expansionary in the years ahead with a non-socialist government in office.** However, we see no risk of a breach of the 4% fiscal spending rule; 1) the conservatives will be the dominant partner in the new government and have made it clear that the fiscal policy rule will remain in place, 2) this year, spending of petroleum revenues is nearly NOK 30bn below what the rule allows, providing leeway for the new government, and 3) the value of GPFG will likely overshoot current estimates by end-2013, allowing for "extra" spending next year. The current government will present the budget proposal on 14 October, and the new government will then have a month to prepare a supplementary budget. In other words, the non-socialist government is unlikely to be able to make its impact felt in earnest until the spring budget next May.

Figure 19. Norway – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	1.9	2.4	2.6	2.7	2.7
Final Domestic Demand	YY	2.8	2.5	2.7			
Private Consumption	YY	3.1	2.5	2.4			
Public Consumption	YY	1.7	2.3	2.5			
Fixed Investment	YY	3.8	2.7	4.1			
Exports of Goods & Services	YY	3.4	1.2	3.1			
Imports of Goods & Services	YY	4.2	1.3	3.6			
Consumer Prices	YY	0.7	2.1	1.6	2.0	1.9	2.3
Unemployment Rate	%	3.2	3.6	3.7			
Current Account Balance	% GDP	14.2	12.8	13.2	13.5	13.8	14.0
General Government Balance	% GDP	13.8	13.1	13.0	14.0	15.5	15.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Avg)	%	1.55	1.50	1.64	2.02	2.51	3.08
Ten-year Yield (Period Average)	%	2.15	2.58	2.95	2.90	3.00	3.25
EUR-NOK FX Rate (Annual Avg)		7.48	7.75	7.67	7.51	7.35	7.18
USD-NOK FX Rate (Annual Ave)		5.82	5.84	5.61	5.39	5.25	5.13

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, 2012-14F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Euro Area	-0.6	-0.3	0.7	1.0	1.3	1.5	2.5	1.5	1.5	1.4	1.4	1.4	1.2	2.5	2.3	2.3	2.3	2.3
Germany	0.9	0.6	1.8	1.8	1.7	1.5	2.0	1.6	2.0	1.8	2.0	1.9	7.0	6.8	5.9	5.3	4.9	4.6
France	0.0	0.2	0.8	0.9	1.4	1.9	2.2	1.1	1.7	1.4	1.7	1.2	-2.2	-1.5	-0.8	-0.1	0.4	0.1
Italy	-2.4	-1.7	0.1	0.0	0.2	0.6	3.3	1.6	1.3	0.6	0.2	0.4	-0.5	1.1	1.4	1.4	1.4	1.4
Spain	-1.6	-1.3	-0.2	0.4	1.1	1.6	2.4	1.8	0.9	0.7	0.6	0.7	-1.1	1.3	1.9	2.6	3.6	4.2
Greece	-6.4	-3.8	-2.9	-1.4	0.9	1.3	1.0	-0.5	-1.1	-0.7	0.1	0.2	-3.4	-0.4	0.8	1.4	3.7	4.9
Ireland	0.1	-0.5	2.7	2.4	2.8	3.1	0.7	-0.6	1.4	1.6	1.6	1.6	4.4	8.8	11.2	11.8	12.5	13.3
Portugal	-3.2	-1.9	-0.8	0.1	1.0	1.1	2.8	0.5	-0.1	-0.2	0.4	0.7	-1.5	1.2	3.2	3.6	3.6	3.9
Netherlands	-1.3	-1.3	0.3	0.9	1.2	1.6	2.8	2.9	1.7	1.5	1.8	1.6	9.4	9.4	8.9	9.5	9.5	9.7
Belgium	-0.3	0.0	0.5	1.0	1.5	1.6	2.8	1.2	1.8	1.8	1.9	1.9	-1.6	-2.0	-1.6	-1.0	-0.2	0.5
Slovakia	2.0	0.8	1.8	2.4	2.9	3.4	3.6	1.7	1.9	2.7	2.7	2.7	2.2	4.0	3.5	3.2	2.2	0.7
Slovenia	-2.2	-2.2	-0.5	1.1	2.1	2.9	2.6	2.3	2.8	1.8	1.7	1.7	2.3	2.8	3.9	3.6	4.0	4.6
Austria*	0.8	0.5	1.7				2.6	2.0	1.5				1.8	2.4	2.9			
Cyprus*	-2.4	NA	NA				3.1	NA	NA				-4.9	NA	NA			
Estonia*	3.2	1.5	3.6				4.2	3.4	2.9				-1.2	-3.0	-2.6			
Finland*	-0.2	0.0	1.7				3.2	2.6	2.4				-1.9	-1.6	-0.9			
Luxembourg*	0.3	0.8	1.7				2.9	1.8	1.7				5.6	4.1	5.5			
Denmark	-0.4	0.2	0.9	1.4	1.5	1.5	2.4	0.7	1.5	1.7	1.8	1.9	5.9	5.6	4.9	4.2	4.0	3.8
Norway	3.3	1.9	2.4	2.6	2.7	2.7	0.7	2.1	1.6	2.0	1.9	2.3	14.2	12.8	13.2	13.5	13.8	14.0
Sweden	1.3	0.6	2.2	2.5	2.5	2.9	0.9	0.2	1.1	1.9	2.2	2.3	6.0	5.9	5.6	5.3	5.3	5.0
Switzerland	1.0	1.7	1.5	1.7	1.8	1.5	-0.7	-0.2	0.3	1.2	1.2	1.0	12.8	12.9	13	12.9	14.0	14.0
United Kingdom	0.1	1.4	3.0	3.1	2.7	2.3	2.8	2.6	2.0	2.2	2.1	1.9	-3.7	-3.2	-2.8	-2.8	-2.6	-2.2

Note: All forecasts are Citi forecasts except those marked with an asterisk. \*OECD *Economic Outlook*, 29 May 2013. \*\*IMF WEO 16 April 2013.

Sources: OECD and Citi Research forecasts

Figure 21. Long-Term Forecasts – Fiscal Balance, Primary Balance, and Government Debt,, 2012-17F

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Euro Area	-3.7	-2.9	-2.5	-2.0	-1.7	-1.2	-0.6	0.1	0.6	1.1	1.5	1.9	92.7	96.0	97.0	96.9	96.5	94.8
Germany	0.2	0.0	0.1	0.1	0.1	0.4	2.6	2.4	2.3	2.3	2.2	2.3	81.2	79.5	76.0	72.9	70.7	68.5
France	-4.8	-4.1	-3.5	-3.1	-2.7	-2.1	-2.3	-1.5	-0.8	-0.4	0.0	0.6	90.2	93.9	95.5	96.6	96.4	95.7
Italy	-3.0	-3.6	-2.8	-2.6	-2.7	-2.5	2.5	1.8	2.6	3.1	3.2	3.4	127.0	133.0	136.4	138.5	140.1	140.9
Spain	-10.8	-6.8	-6.0	-5.0	-4.4	-3.5	-7.8	-3.4	-2.2	-0.6	0.3	1.1	84.2	94.0	104.0	108.0	110.2	111.0
Greece	-10.0	-4.7	-4.0	-2.8	-1.6	-1.2	-5.0	-0.5	0.1	0.5	1.9	2.3	156.9	177.6	191.5	201.0	203.1	203.8
Ireland	-7.6	-8.6	-5.6	-3.6	-2.9	-2.6	-3.9	-3.5	-0.5	1.5	2.2	2.7	118.6	126.0	123.5	120.8	118.4	115.1
Portugal	-6.4	-6.0	-5.4	-4.1	-3.3	-2.7	-2.0	-1.6	-1.1	0.2	1.0	1.7	123.8	133.4	150.4	154.1	155.4	155.8
Netherlands	-4.1	-3.9	-3.4	-2.9	-2.3	-1.5	-2.2	-2.0	-1.4	-0.8	-0.3	0.6	71.3	75.1	76.6	77.1	77.2	76.2
Belgium	-3.9	-3.0	-2.6	-1.8	-1.2	-1.0	-0.5	0.5	1.0	1.7	2.3	2.4	99.8	102.0	102.6	101.6	99.2	96.8
Slovakia	-4.3	-3.4	-3.2	-2.6	-2.1	-1.8	-2.9	-2.1	-1.7	-1.1	-0.6	-0.3	52.1	56.8	57.4	57.5	56.9	56.4
Slovenia	-4.0	-9.1	-6.6	-3.2	-2.4	-1.5	-1.9	-6.4	-3.7	-0.4	0.6	1.4	54.1	63.4	68.8	69.6	68.9	66.9
Austria*	-2.5	-2.3	-1.7				-0.3	-0.2	0.3				73.5	75.3	75.5			
Cyprus*	-5.6	NA	NA				NA	NA	NA				86.2	NA	NA			
Estonia*	-0.3	0.0	0.3				1.2	0.9	1.0				10.1	11.4	10.8			
Finland*	-2.3	-2.3	-1.8				-2.5	-2.6	-2.1				53.1	56.0	59.7			
Luxembourg*	-0.8	-0.7	-0.6				-1.1	-1.0	-0.9				20.8	22.8	24.4			
Denmark	-4.3	-2.0	-1.5	-1.0	0.5	1.0							45.8	47.4	47.8	47.4	45.4	42.9
Norway	13.8	13.1	13.0	14.0	15.5	15.0							NA	NA	NA	NA	NA	NA
Sweden	-0.6	-1.4	-1.5	-0.4	0.7	1.5							38.4	39.3	39.6	38.3	35.9	32.6
Switzerland	0.5	0.7	0.9	0.8	0.8	-0.6							46.7	45.3	43.2	42.2	41.8	41.5
United Kingdom	-6.3	-6.4	-5.1	-4.1	-2.6	-1.7	-2.7	-2.8	-1.5	-0.4	1.3	2.3	89.5	93.1	95.3	96.1	95.6	94.4

Note: All forecasts are Citi forecasts except those marked with an asterisk. \*OECD *Economic Outlook*, 29 May 2013. \*\*IMF WEO 16 April 2013.

Sources: OECD and Citi Research forecasts

Figure 22. Selected Countries – Changes in Economic Forecasts from Prior Month (Percentage Points), 2012-14F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
<b>Euro Area</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.1</b>			<b>0.1</b>						<b>0.1</b>
Germany			0.1		-0.1	0.1		-0.1	-0.1		0.1	-0.2
France								0.1			-0.3	-0.3
Italy		-0.1	0.2		0.1			-0.3	-0.7		-0.1	0.2
Spain	-0.2	0.1						0.1	-0.1		-0.2	-0.3
Greece		0.6	1		-0.1	-0.2					0.6	0.9
Ireland		-0.7	0.2		-0.2			4.2	4.1		-0.4	-0.2
Portugal			0.1		-0.1	-0.2						0.3
Netherlands					-0.1	-0.2	-0.7					
Belgium		0.2	0.1		-0.1	-0.1					0.2	0.3
Slovakia								0.4	0.5		-0.1	
Slovenia			-0.2					0.6	0.7			
Denmark		0.1	0.2		-0.2		-0.8	0.3	0.2			
Norway		-0.3	-0.2		0.4	0.1		-1.7	-1.7			
Sweden	0.2	-0.4			0.1	0.1	-0.9	-1.2	-1.3		0.1	
Switzerland												
United Kingdom		0.3	0.9					0.1	0.1		0.5	0.7

Source: Citi Research

Figure 23. Euro Area Countries – Economic Forecasts Compared, 2012-14F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
<b>Euro Area - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-0.6</b>	<b>-0.3</b>	<b>0.7</b>	<b>-3.7</b>	<b>-2.9</b>	<b>-2.5</b>	<b>92.7</b>	<b>96.0</b>	<b>97.2</b>
OECD Economic Outlook	29-May-13	-0.5	-0.6	1.1	-3.7	-3.0	-2.5	92.8	95.4	96.3
EU Commission Forecast	03-May-13	-0.6	-0.4	1.2	-3.7	-2.9	-2.8	92.7	95.5	96.0
IMF Article IV consultation	25-Jul-13	-0.6	-0.6	0.9	-3.7	-3.1	-2.6	92.8	95.9	96.5
ECB Forecast - mid-point	06-Jun-13	-0.5	-0.6	1.1						
<b>Germany - Citi Forecast</b>	<b>25-Sep-13</b>	<b>0.9</b>	<b>0.6</b>	<b>1.8</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>81.2</b>	<b>79.5</b>	<b>76.0</b>
OECD	03-Sep-13	0.9	0.7	1.9	0.2	-0.2	0.0	81.9	80.6	77.8
EU Commission Forecast	03-May-13	0.7	0.4	1.8	0.2	-0.2	0.0	81.9	81.1	78.6
IMF Article IV consultation	07-Aug-13	0.9	0.3	1.3	0.1	-0.4	-0.1	81.9	81.3	79.3
<b>France - Citi Forecast</b>	<b>25-Sep-13</b>	<b>0.0</b>	<b>0.2</b>	<b>0.8</b>	<b>-4.8</b>	<b>-4.1</b>	<b>-3.5</b>	<b>90.2</b>	<b>93.9</b>	<b>95.5</b>
OECD Economic Survey	03-Sep-13	0.0	0.3	0.8	-4.9	-4.0	-3.5	90.7	94.5	97.2
EU Commission Forecast	03-May-13	0.0	-0.1	1.1	-4.8	-3.9	-4.2	90.2	94.0	96.2
IMF Article IV consultation	05-Aug-13	0.0	-0.2	0.8	-4.8	-3.9	-3.5	90.2	93.5	95.0
<b>Italy - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-2.4</b>	<b>-1.7</b>	<b>0.1</b>	<b>-3.0</b>	<b>-3.6</b>	<b>-2.8</b>	<b>127.0</b>	<b>133.0</b>	<b>136.4</b>
OECD	03-Sep-13	-2.4	-1.8	0.4	-2.9	-3.0	-2.3	127.0	131.7	134.3
EU Commission Forecast	03-May-13	-2.4	-1.3	0.7	-3.0	-2.9	-2.5	127.0	131.4	132.2
IMF WEO Forecast	09-Jul-13	-2.4	-1.8	0.7	-3.0	-2.6	-2.3	127.0	130.6	130.8
<b>Spain - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-1.6</b>	<b>-1.3</b>	<b>-0.2</b>	<b>-10.8</b>	<b>-6.8</b>	<b>-6.0</b>	<b>84.2</b>	<b>94.0</b>	<b>104.0</b>
OECD Economic Outlook	29-May-13	-1.4	-1.7	0.4	-10.6	-6.9	-6.4	84.1	91.4	97.0
EU Commission Forecast	03-May-13	-1.4	-1.5	0.9	-10.6	-6.5	-7.0	84.2	91.3	96.8
IMF Article IV consultation	02-Aug-13	-1.4	-1.6	0.0	-10.5	-6.7	-5.9	84.0	92.0	98.0
<b>Greece - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-6.4</b>	<b>-3.8</b>	<b>-2.9</b>	<b>-10.0</b>	<b>-4.7</b>	<b>-4.0</b>	<b>156.9</b>	<b>177.6</b>	<b>191.5</b>
OECD Economic Outlook	29-May-13	-6.4	-4.8	-1.2	-10.0	-4.1	-3.5	157.0	175.1	180.6
EU Commission Forecast	03-May-13	-6.4	-4.2	0.6	-10.0	-3.8	-2.6	156.9	175.2	175.0
IMF Article IV consultation	31-Jul-13	-6.4	-4.2	0.6	-6.3	4.1	-3.2	157.0	176.0	174.0
<b>Ireland - Citi Forecast</b>	<b>25-Sep-13</b>	<b>0.1</b>	<b>-0.5</b>	<b>2.7</b>	<b>-7.6</b>	<b>-8.6</b>	<b>-5.6</b>	<b>118.6</b>	<b>126.0</b>	<b>123.5</b>
OECD Country Survey	12-Sep-13	0.1	0.0	1.9	-7.5	-7.5	-4.6	117.4	122.4	120.0
EU Commission Forecast	03-May-13	0.9	1.1	2.2	-7.6	-7.5	-4.3	117.6	123.3	119.5
IMF WEO Forecast	16-Apr-13	0.9	1.1	2.2	-7.7	-7.5	-4.5	117.1	122.0	120.2
<b>Portugal - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-3.2</b>	<b>-1.9</b>	<b>-0.8</b>	<b>-6.4</b>	<b>-6.0</b>	<b>-5.4</b>	<b>123.8</b>	<b>133.4</b>	<b>150.4</b>
OECD Economic Outlook	29-May-13	-3.2	-2.7	0.2	-6.4	-6.4	-5.6	123.6	127.7	132.1
EU Commission Forecast	03-May-13	-3.2	-2.3	0.6	-6.4	-5.5	-4.0	123.6	123.0	124.3
IMF Seventh Review	13-Jun-13	-3.2	-2.3	0.6	-4.9	-5.5	-4.0	123.6	122.9	124.2
<b>Netherlands - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-1.3</b>	<b>-1.3</b>	<b>0.3</b>	<b>-4.1</b>	<b>-3.9</b>	<b>-3.4</b>	<b>71.3</b>	<b>75.1</b>	<b>76.6</b>
OECD Economic Outlook	29-May-13	-1.0	-0.9	0.7	-4.0	-3.7	-3.6	71.1	72.8	74.2
EU Commission Forecast	03-May-13	-1.0	-0.8	0.9	-4.1	-3.6	-3.6	71.2	74.6	75.8
IMF Article IV consultation	10-May-13	-1.0	-0.5	1.1	-4.1	-3.4	-3.7	71.7	74.5	75.8
<b>Belgium - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-0.3</b>	<b>0.0</b>	<b>0.5</b>	<b>-3.9</b>	<b>-3.0</b>	<b>-2.6</b>	<b>99.8</b>	<b>102.0</b>	<b>102.6</b>
OECD Economic Survey	29-May-13	-0.3	0.0	1.1	-4.0	-2.6	-2.3	99.8	100.4	100.2
EU Commission Forecast	03-May-13	-0.2	0.0	1.2	-3.9	-2.9	-3.1	99.6	101.4	102.1
IMF Article IV consultation	17-May-13	-0.2	0.2	1.2	-3.9	-2.5	-2.0	99.6	100.3	99.9
<b>Slovakia - Citi Forecast</b>	<b>25-Sep-13</b>	<b>2.0</b>	<b>0.8</b>	<b>1.8</b>	<b>-4.3</b>	<b>-3.5</b>	<b>-3.2</b>	<b>52.1</b>	<b>56.8</b>	<b>57.4</b>
OECD Economic Outlook	29-May-13	2.0	0.8	2.0	-4.3	-2.6	-2.2	52.1	54.4	55.8
EU Commission Forecast	03-May-13	2.0	1.0	2.8	-4.3	-3.0	-3.1	52.1	54.6	56.7
IMF Article IV consultation	15-Aug-13	2.0	0.6	2.3	-4.3	-2.9	-3.8	52.1	55.3	57.5
<b>Slovenia - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-2.2</b>	<b>-2.2</b>	<b>-0.5</b>	<b>-4.0</b>	<b>-9.1</b>	<b>-6.6</b>	<b>54.1</b>	<b>63.4</b>	<b>68.8</b>
OECD Economic Survey	29-May-13	-2.3	-2.3	0.1	-4.0	-7.8	-3.4	54.1	63.8	68.1
EU Commission Forecast	03-May-13	-2.3	-2.0	-0.1	4.0	-5.3	-4.9	54.1	61.0	66.5
IMF WEO Forecast	16-Apr-13	-2.3	-2.0	1.5	-3.2	-6.9	-4.3	52.6	68.8	71.7

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,, 2012-14F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
<b>Austria - Citi Forecast</b>		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	0.8	0.5	1.7	-2.5	-2.3	-1.7	73.5	75.3	75.5
EU Commission Forecast	03-May-13	0.8	0.6	1.8	-2.5	-2.2	-1.8	73.4	73.8	73.7
IMF WEO Forecast	16-Apr-13	0.8	0.8	1.6	-2.5	-2.2	-1.5	73.7	74.2	73.7
<b>Cyprus - Citi Forecast</b>		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	-2.4	-8.7	-3.9	-6.3	-6.5	-8.4	85.8	109.5	124.0
IMF WEO Forecast	16-Apr-13	-2.4	--	--	-5.6	--	--	86.2	--	--
<b>Estonia - Citi Forecast</b>		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	3.2	1.5	3.6	-0.3	0.0	0.3	10.1	11.4	10.8
EU Commission Forecast	03-May-13	3.2	3.0	4.0	-0.3	-0.3	0.2	10.1	10.2	9.6
IMF WEO Forecast	16-Apr-13	3.2	3.0	3.2	-0.2	0.4	0.4	8.5	9.7	9.1
<b>Finland - Citi Forecast</b>		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	-0.2	0.0	1.7	-2.3	-2.3	-1.8	53.1	56.0	59.7
EU Commission Forecast	03-May-13	-0.2	0.3	1.0	-1.9	-1.8	-1.5	53.0	56.2	57.7
IMF WEO Forecast	16-Apr-13	-0.2	0.5	1.2	-1.7	-2.0	-1.3	53.3	56.9	58.4
<b>Luxembourg - Citi Forecast</b>		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	0.3	0.8	1.7	-0.8	-0.7	-0.6	20.8	22.8	24.4
EU Commission Forecast	03-May-13	0.3	0.8	1.6	-0.8	-0.2	-0.4	20.8	23.4	25.2
IMF WEO Forecast	16-Apr-13	0.1	0.1	1.3	-1.9	-1.0	-1.3	21.1	23.3	25.7
<b>Malta - Citi Forecast</b>		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	0.8	1.4	1.8	-3.3	-3.7	-3.6	72.1	73.9	74.9
IMF Article IV Consultation	12-Jul-13	0.8	1.3	1.8	-3.3	-3.5	-3.5	72.1	73.7	74.2

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, 2012-14F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
<b>Denmark - Citi Forecast</b>	<b>25-Sep-13</b>	<b>-0.4</b>	<b>0.2</b>	<b>0.9</b>	<b>-4.3</b>	<b>-2.0</b>	<b>-1.5</b>	<b>45.8</b>	<b>47.4</b>	<b>47.8</b>
OECD Economic Outlook	29-May-13	-0.5	0.4	1.7	-4.1	-1.8	-1.8	45.7	45.5	45.2
EU Commission Forecast	03-May-13	-0.5	0.7	1.7	-4.0	-1.7	-2.7	45.8	45.0	46.4
IMF WEO Forecast	16-Apr-13	-0.6	0.8	1.3	-4.4	-2.8	-2.3	50.1	51.8	52.4
<b>Norway - Citi Forecast</b>	<b>25-Sep-13</b>	<b>3.3</b>	<b>1.9</b>	<b>2.4</b>	<b>13.8</b>	<b>13.1</b>	<b>13.0</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
OECD Economic Outlook	29-May-13	3.2	1.3	3.0	13.9	12.3	11.8	34.6	41.3	53.2
IMF WEO Forecast	16-Apr-13	3.0	2.5	2.2	13.8	12.3	11.1	34.1	34.1	34.1
<b>Sweden - Citi Forecast</b>	<b>25-Sep-13</b>	<b>1.3</b>	<b>0.6</b>	<b>2.2</b>	<b>-0.6</b>	<b>-1.4</b>	<b>-1.5</b>	<b>38.4</b>	<b>39.3</b>	<b>39.6</b>
OECD Economic Outlook	29-May-13	1.2	1.3	2.5	-0.7	-1.6	-1.1	38.2	42.1	42.1
EU Commission Forecast	03-May-13	0.8	1.5	2.5	-0.5	-1.1	-0.4	38.2	40.7	39.0
IMF WEO Forecast	16-Apr-13	1.2	1.0	2.2	-0.4	-0.8	-0.5	38.0	37.7	36.5
<b>Switzerland - Citi Forecast</b>	<b>25-Sep-13</b>	<b>1.0</b>	<b>1.7</b>	<b>1.5</b>	<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>46.7</b>	<b>45.3</b>	<b>43.3</b>
OECD Economic Outlook	29-May-13	1.0	1.4	2.0	0.7	0.7	0.6	43.8	43.1	42.3
IMF WEO Forecast	16-Apr-13	1.0	1.3	1.8	0.3	0.2	0.5	49.1	48.3	46.7
<b>UK - Citi Forecast</b>	<b>25-Sep-13</b>	<b>0.1</b>	<b>1.4</b>	<b>3.0</b>	<b>-6.3</b>	<b>-6.4</b>	<b>-5.1</b>	<b>89.5</b>	<b>93.1</b>	<b>95.3</b>
OECD	03-Sep-13	0.2	1.5	1.5	-6.5	-7.1	-6.5	90.0	93.9	97.9
EU Commission Forecast	03-May-13	0.3	0.6	1.7	-6.3	-6.8	-6.3	90.0	95.5	98.7
IMF Article IV Consultation	17-Jul-13	0.2	0.9	1.5	-7.5	-6.0	-6.4	88.2	91.7	97.1
OBR	20-Mar-13	0.2	0.6	1.8	-6.0	-5.2	-4.3	75.9	79.2	82.6

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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