

European Economic Forecast Highlights

European Economic Forecast Highlights, September 2014

- This companion to the September issue of *Global Economic Outlook and Strategy* gives more detailed forecasts for the main European countries to 1Q16. Figures 20-21 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt. Figure 22 shows the change in forecasts from last month, and Figures 23-25 show our forecasts in comparison with those of other institutions.
- Sizeable economic divergence among advanced economies is likely to be reflected in major monetary policy divergence in the next few quarters. Both the BoE and Fed are likely to hike rates in the next 12 months. By contrast, we still expect both the ECB and BoJ will ease further in the next couple of quarters. Having cut rates again, the ECB has now made balance-sheet expansion its main focus for further stimulus. However, its measures (TLTRO and ABS purchases) are unlikely to be enough – both in terms of substantially reversing the shrinkage in its balance sheet and in terms of lifting the economy out of persistent “low-flation”. Hence, we expect the ECB will soon launch a major fully-fledged asset purchase programme, including government bonds. We forecast both the euro and yen to weaken markedly further against the US dollar and sterling in coming months.

Figure 1. Europe – Policy Rates (Percent), 2013-18F

	History	Forecast				
	2013	2014F	2015F	2016F	2017F	2018F
Euro Area	0.50	0.16	0.05	0.07	0.42	0.92
Denmark	0.20	0.20	0.20	0.30	0.60	1.10
Norway	1.50	1.50	1.50	1.64	1.83	2.38
Sweden	0.99	0.52	0.25	0.46	0.96	1.55
Switzerland	0.00	0.00	0.00	0.00	0.13	0.63
United Kingdom	0.50	0.50	1.08	2.46	3.21	3.50

Sources: National central banks and Citi Research

Figure 2. Euro Area – Economic Forecasts Compared (Percent), 2014-16F

	Date of Forecast	GDP Growth (YY %)			HICP Inflation (YY %)		
		2014F	2015F	2016F	2014F	2015F	2016F
Euro Area - Citi Forecast	24-Sep 14	0.8	1.4	1.8	0.6	1.1	1.3
IMF WEO Forecast	24-Jul-14	1.1	1.5	1.5	0.9	1.2	1.3
ECB Forecast - mid-point	04-Sep-14	0.9	1.6	1.9	0.6	1.1	1.4
OECD Economic Outlook	06-May-14	1.2	1.7	NA	0.7	1.1	NA
EU Commission Forecast	05-May-14	1.2	1.7	NA	0.8	1.2	NA
Consensus Economics	08-Sep-14	0.9	1.4	NA	0.6	1.1	NA

Source: Citi Research

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

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Contents

Euro Area	3
Germany	4
France	5
Italy	6
Spain	7
Greece	8
Ireland	9
Portugal	10
Netherlands	11
Belgium	12
Slovakia	13
Slovenia	14
United Kingdom	15
Switzerland	16
Sweden	17
Denmark	18
Norway	19
Appendix A-1	25

Euro Area

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We shave 0.1pp from each of our 2015-17 GDP forecasts to 1.4% in 2015, and to 1.8% in 2016 and 2017. The weak Q2 GDP figure and [weakening business surveys](#) are partly to blame for this near-term adjustment. But early evidence of slow activity in Q3 also suggests that various downside risks are materialising. Our biggest downgrades this month come from Italy (domestic demand) and Germany (where [prospects for exports and export-sensitive investment have deteriorated](#)). With these two economies accounting for 45% of the euro area's nominal GDP and France (21% of EA-18 GDP) essentially flat-lining, prospects for faster growth will be limited despite better growth in the periphery.

The ECB surprised in September, cutting all its key interest rates by 10bp, lowering the refi rate to 0.05%. In our view, the Governing Council's (GC) decision to include a third programme of covered bonds purchases in parallel to an ABS purchase programme highlights growing concern about excessive euro strength needing to be addressed through expansion of the Eurosystem's balance sheet. We still expect the ECB to launch a QE programme including public sector assets soon. We are lifting our 2015-17 inflation profile by 0.2pp to 1.1% in 2015 and by 0.1pp in both 2016-17 to 1.3% and 1.6%, respectively, on our forecast of a significantly weaker euro. But even with further euro weakness and QE, our Q4-17 estimate of 1.7% YY is very much at the low end of the ECB's inflation target ("below but close to 2%") three years out.

Figure 3. Euro Area – Economic Forecasts, 2013-1Q16F

		History			Forecast			History					Forecast				
		2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	
Real GDP	YY	-0.4	0.8	1.4	-0.6	-0.3	0.5	1.0	0.7	0.8	0.8	1.0	1.3	1.5	1.7	1.8	
	QQ SAAR				1.2	0.5	1.2	0.9	0.1	1.0	1.1	1.7	1.5	1.7	1.9	2.0	
Final Domestic Demand	YY	-0.9	0.8	1.2	-1.1	-0.6	0.1	0.8	0.8	0.8	0.8	0.9	1.2	1.3	1.5	1.5	
Private Consumption	YY	-0.6	0.8	1.3	-0.7	-0.4	0.2	0.6	0.7	0.8	1.0	1.2	1.3	1.3	1.4	1.5	
Public Consumption	YY	0.2	0.6	0.6	0.0	0.6	0.2	0.7	0.8	0.3	0.5	0.1	0.3	0.7	1.2	0.9	
Fixed Investment	YY	-2.8	1.2	1.8	-3.4	-2.4	-0.1	1.8	1.3	1.2	0.6	1.0	1.9	2.1	2.3	2.3	
-- Business Equipment	YY	-1.6	2.9	1.8	-2.0	-1.4	1.6	2.6	3.7	3.6	1.6	2.3	0.8	1.6	2.5	2.8	
-- Construction	YY	-3.8	-0.3	0.5	-4.5	-3.2	-1.5	1.1	-0.8	0.0	-1.7	-1.5	1.0	0.1	2.3	2.3	
Stocks (Contrib. to YY GDP Growth)		0.0	0.0	-0.1	-0.3	0.2	0.1	0.1	0.1	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	
Exports of Goods and Services	YY	1.5	2.6	3.4	1.6	1.0	3.0	3.9	2.0	2.6	1.9	2.8	3.3	3.6	3.9	4.0	
Imports of Goods and Services	YY	0.4	2.8	3.2	0.0	0.9	2.6	4.1	2.8	2.2	2.2	2.4	3.1	3.5	3.6	3.5	
Consumer Prices	YY	1.4	0.6	1.1	1.4	1.3	0.8	0.7	0.6	0.4	0.7	0.9	1.1	1.2	1.2	1.2	
Core CPI (ex Food, Energy, Tobacco)	YY	1.1	0.8	0.7	1.1	1.1	0.8	0.8	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7	
CPI Ex Energy and Unprocessed Food	YY	1.3	0.9	0.9	1.3	1.3	1.0	1.0	0.9	0.9	0.9	0.8	0.9	0.8	0.9	1.0	
Unemployment Rate	YY	11.9	11.4	10.9	11.8	11.4	11.8	12.2	11.4	11.0	11.2	11.6	10.9	10.5	10.5	10.9	
Industrial Production	YY	-0.7	1.2	3.3	-1.0	-1.1	1.5	1.5	0.7	1.3	1.3	2.0	3.1	3.6	4.3	NA	
Current Account Balance	€ bn	230.7	276.1	302.0													
	% GDP	2.4	2.8	3.0													
General Government Balance	€ bn	-290.3	-261.3	-225.6													
	% GDP	-3.0	-2.7	-2.3													
Primary Balance	% GDP	-0.1	0.3	0.7													
General Government Debt	€ bn	9,121.3	9,480.2	9,685.9													
	% GDP	95.0	97.2	97.3													
Gross Operating Surplus	YY	1.4	1.5	1.7													
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.50	0.16	0.05	0.75	0.50	0.25	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.05	
Ten-year Bund yield (Period Avg.)	%	1.69	1.28	1.31	1.40	1.78	1.80	1.68	1.45	1.25	0.75	1.00	1.25	1.50	1.50	1.75	
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.32	1.30	1.17	1.30	1.35	1.38	1.38	1.36	1.27	1.21	1.18	1.15	1.16	1.17	1.18	

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

Germany

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This month we cut our growth forecasts again, to 1.5% for 2014 and 1.8% for 2015 (from 1.6% and 2.0% in August). German sentiment indicators have continued to weaken and consumer confidence is now also weakening (from a very high level) in response to a string of weak data and external risks. We currently expect 0.5% QQ Q3 growth, but acknowledge that the strong rebounds in industrial production and exports in July point to the possibility of a higher figure.

Figure 4. Germany – Economic Forecasts, 2013-1Q16F

		History			Forecast			History					Forecast				
		2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	
Real GDP	YY	0.2	1.5	1.8	0.1	0.3	1.1	2.2	1.3	1.4	1.3	1.2	1.8	1.9	2.0	2.0	
	QQ SAAR				3.2	1.2	1.8	2.7	-0.6	1.9	1.3	2.4	1.8	2.2	1.9	2.4	
Real GDP, Non Work-Day Adjusted	YY	0.1	1.6	2.0													
Final Domestic Demand	YY	0.6	1.5	1.9	0.5	1.1	0.9	2.4	1.2	1.0	1.7	1.2	2.1	2.2	2.3	2.3	
	QQ SAAR				3.3	2.7	-1.0	4.6	-1.5	1.9	1.7	2.6	2.3	2.3	2.2	2.4	
Private Consumption	YY	1.0	1.1	1.9	1.0	1.5	0.7	1.3	0.8	0.5	1.7	1.5	1.9	2.1	2.1	2.1	
	QQ SAAR				2.6	2.7	-3.1	3.1	0.4	1.4	1.9	2.4	2.0	2.1	2.0	2.4	
Public Consumption	YY	0.7	0.9	1.4	0.3	1.0	0.5	0.8	1.0	0.7	1.1	1.1	1.4	1.5	1.6	1.6	
	QQ SAAR				-0.2	2.4	-0.4	1.6	0.6	1.2	1.2	1.6	1.6	1.6	1.6	1.6	
Fixed Investment	YY	-0.6	3.6	2.5	-0.7	0.3	1.6	7.1	2.5	2.7	2.0	0.1	3.3	3.2	3.5	3.3	
	QQ SAAR				9.2	3.1	4.4	12.1	-8.6	3.9	1.7	3.9	3.6	3.5	3.2	3.1	
-- Business Equipment	YY	-2.5	4.0	3.0	-1.7	-1.3	0.2	6.1	3.3	4.4	2.2	1.4	2.8	3.3	4.4	4.2	
	QQ SAAR				9.6	-1.9	8.8	8.5	-1.6	2.2	0.0	5.0	4.2	4.0	4.6	4.0	
-- Construction	YY	0.1	3.9	2.5	-0.7	1.3	2.7	9.9	2.2	1.8	2.0	-1.1	4.2	3.5	3.3	3.3	
	QQ SAAR				12.4	7.4	3.0	17.3	-15.8	5.6	3.8	3.7	3.5	3.2	2.9	3.5	
Stocks (Contrib. to YY GDP Growth)		0.2	0.1	0.0	0.2	0.7	0.3	-0.1	0.4	0.2	0.0	0.2	-0.3	0.0	-0.1	-0.2	
Exports of Goods and Services	YY	1.7	3.5	3.6	1.0	0.6	4.5	3.8	3.3	4.0	2.7	3.6	3.8	3.3	3.7	4.0	
	QQ SAAR				5.8	2.7	6.9	0.1	3.8	5.5	1.5	3.6	4.6	3.5	3.0	4.9	
Imports of Goods and Services	YY	3.2	4.1	4.3	2.6	4.5	5.0	4.2	4.5	3.8	3.8	4.4	4.0	4.2	4.4	4.5	
	QQ SAAR				5.1	6.9	2.9	1.8	6.6	3.8	3.2	4.2	4.9	4.6	4.0	4.6	
Net Exports (Contrib. to YY GDP Growth)		-0.5	0.0	-0.1	0.1	-0.4	0.5	-0.2	-0.2	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	
Consumer Prices	YY	1.5	1.0	1.7	1.5	1.6	1.3	1.2	1.1	0.8	0.9	1.3	1.6	1.9	2.0	1.8	
Compensation per Employee	YY	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	
Employment Growth	YY	0.6	0.7	0.5	0.6	0.6	0.5	0.7	0.8	0.6	0.6	0.4	0.4	0.6	0.7	0.7	
ILO Unemployment Rate	%	5.3	5.0	5.1	5.3	5.3	5.2	5.2	5.0	4.9	5.0	5.1	5.1	5.1	5.1	5.1	
Registered Unemployment Rate	%	6.9	6.7	6.7													
Industrial Production (incl Construction)	YY	0.1	0.7	0.9	-0.4	-0.1	3.1	4.0	0.8	-0.5	-1.6	-1.5	0.4	1.6	3.1	1.8	
Current Account Balance	€ bn	193.5	206.3	215.4													
	% GDP	7.1	7.3	7.4													
General Government Balance	€ bn	0.3	5.5	6.6													
	% GDP	0.0	0.2	0.2													
Primary Balance	% GDP	2.2	2.2	2.1													
General Government Debt	€ bn	2,147.0	2,151.2	2,130.1													
	% GDP	78.4	75.7	73.5													
Gross Trading Profits	YY	-0.6	2.4	3.6	-0.1	-0.8	5.4	4.0	1.1	3.6	1.1	1.3	4.0	4.1	5.0	5.0	

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

France

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President Hollande's popularity fell to a record low in September, with only 15.5% of people having a positive opinion of him. News of more tax cuts for low-income households in 2015-16, and our forecast of a lower euro add 0.1pp to our GDP growth forecast in both 2015 and 2016. A confidence motion on PM Valls' second government with a renewed focus on supply-side reforms was approved by parliament, albeit by a small majority. The new Economy minister Emmanuel Macron noted that France is "*paying the price of a lost decade*" and vowed to continue his predecessor's efforts on trimming regulation and reforming closed professions. Moody's maintained France's Aa1 rating with a negative outlook, suggesting that a reassessment would take place within 12 months.

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

		History			Forecast															
		2013	2014	2015	History								Forecast							
					1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15				
Real GDP	YY	0.4	0.4	1.0	-0.2	0.7	0.3	0.8	0.8	0.1	0.3	0.3	0.5	0.8	1.2	1.5				
	QQ SAAR				0.1	2.7	-0.3	0.7	0.1	-0.1	0.4	0.6	1.0	1.3	1.7	1.9				
Final Domestic Demand	YY	0.5	0.0	0.7	0.0	0.6	0.5	0.8	0.2	0.0	0.0	-0.2	0.4	0.4	0.8	1.2				
	QQ SAAR				0.7	1.6	-0.1	1.0	-1.6	0.6	-0.1	0.1	0.8	1.0	1.4	1.5				
Private Consumption	YY	0.3	0.2	1.0	-0.3	0.6	0.3	0.7	-0.1	0.1	0.4	0.4	1.1	0.8	0.9	1.0				
	QQ SAAR				1.1	1.1	-0.5	1.0	-2.0	2.1	0.8	0.8	0.8	0.8	1.2	1.2				
Public Consumption	YY	2.0	1.5	0.9	1.7	2.1	2.0	2.2	2.1	1.8	1.4	0.7	0.6	0.5	1.0	1.5				
	QQ SAAR				2.0	3.1	1.3	2.3	1.8	1.9	-0.4	-0.4	1.2	1.6	1.6	1.6				
Fixed Investment	YY	-0.8	-2.3	-0.2	-1.2	-0.7	-0.9	-0.4	-1.1	-2.5	-2.8	-2.9	-1.9	-0.5	0.4	1.1				
	QQ SAAR				-1.4	1.3	-0.9	-0.5	-4.1	-4.3	-2.2	-1.0	0.2	0.9	1.5	2.0				
-- Businesses	YY	-0.6	-0.8	0.0	-1.6	-0.9	-0.7	0.9	0.7	-0.6	-1.3	-2.2	-1.5	-0.4	0.6	1.5				
	QQ SAAR				-2.3	1.8	1.0	3.1	-2.9	-3.2	-2.0	-0.8	0.0	1.2	2.0	2.8				
-- Households	YY	-3.1	-7.6	-1.3	-2.8	-2.2	-3.2	-4.1	-6.8	-8.9	-8.2	-6.6	-3.9	-1.4	-0.2	0.6				
	QQ SAAR				-0.5	-0.8	-6.8	-8.2	-10.9	-9.4	-3.9	-2.0	0.0	0.4	0.8	1.2				
Stocks (Contrib. to YY GDP Growth)		-0.2	0.4	0.1	-0.1	0.0	0.4	-0.4	0.5	-0.1	0.1	0.0	0.0	0.0	0.0	0.0				
Exports of Goods and Services	YY	2.4	2.5	2.4	0.3	2.9	2.1	4.1	4.4	1.5	2.4	1.6	1.7	2.4	2.7	2.9				
	QQ SAAR				0.8	12.3	-2.0	5.8	2.1	0.2	1.7	2.6	2.5	2.6	3.0	3.3				
Imports of Goods and Services	YY	1.9	2.4	1.5	-0.4	1.6	2.6	3.7	4.0	2.3	1.7	1.6	1.4	1.4	1.5	1.6				
	QQ SAAR				1.7	8.4	3.7	1.3	2.6	1.5	1.2	1.2	1.6	1.6	1.6	1.6				
Net Exports (Contrib. to YY GDP Growth)		0.1	0.0	0.2	-0.1	0.2	-0.4	0.3	0.0	-0.1	0.0	0.1	0.1	0.1	0.1	0.1				
Consumer Prices	YY	1.0	0.8	1.3	1.2	0.9	1.1	0.8	0.9	0.8	0.6	1.0	1.2	1.4	1.5	1.3				
Average Monthly Wages & Salaries	YY	1.7	1.1	1.2																
Hourly Wages	YY	1.8	1.9	1.5																
Employment Growth (Private-Sector)	YY	-0.7	0.0	0.6																
Unemployment Rate	%	9.9	9.8	9.7	9.9	9.9	9.9	9.7	9.7	9.7	9.8	9.9	9.8	9.7	9.7	9.6				
Manufacturing Production	YY	-1.9	0.1	1.1																
Current Account Balance	€ bn	-28.4	-14.6	-1.4																
	% GDP	-1.4	-0.7	-0.1																
General Government Balance	€ bn	-88.2	-94.4	-89.8																
	% GDP	-4.3	-4.5	-4.2																
Primary Balance	% GDP	-2.0	-2.3	-2.0																
General Government Debt	€ bn	1,925.3	2,026.9	2,116.7																
	% GDP	93.5	97.4	99.5																
Gross Trading Profits	YY	-0.2	3.1	3.7																

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

Italy

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After surprisingly weak Q2 GDP data (-0.2% QQ), preliminary Q3 data suggest GDP growth may have remained negative, against our prior expectations of a small rebound. Hence, we are cutting our 2014 growth forecast to -0.4% YY (from -0.1% last month). Poor business competitiveness is at the roots of Italy's growth underperformance relative to peers, while recent fiscal stimulus measures have failed to lift domestic demand. Despite the weaker euro, we expect tight credit conditions and poor export growth to continue weighing on recovery prospects, unless rapid implementation of reforms surprisingly gives a major confidence boost to domestic demand. Hence, we are also cutting our 2015 growth expectations, to +0.3% YY (from +0.8% YY previously). The weaker outlook for real and nominal GDP growth has increased risks of rating downgrades, in our view.

Figure 6. Italy – Economic Forecasts, 2013-1Q16F

		History			Forecast			History										Forecast				
		2013	2014	2015	2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16			
Real GDP	YY	-1.8	-0.4	0.3				-2.2	-1.9	-0.9	-0.4	-0.2	-0.4	-0.5	-0.2	0.1	0.6	0.8	0.8			
	QQ SAAR							-1.2	-0.4	0.6	-0.3	-0.7	-0.9	0.1	0.6	0.6	0.9	1.1	0.6			
Final Domestic Demand	YY	-2.6	-0.3	0.2				-3.2	-2.2	-1.4	-0.4	-0.2	-0.1	-0.3	-0.1	0.2	0.4	0.5	0.5			
	QQ SAAR							-1.5	-0.8	0.8	-0.2	-0.5	-0.6	0.0	0.7	0.6	0.5	0.4	0.6			
Private Consumption	YY	-2.6	0.1	0.4				-3.6	-2.1	-1.4	-0.5	0.2	0.3	0.4	0.4	0.5	0.5	0.5	0.5			
	QQ SAAR							-2.3	0.0	0.2	0.4	0.3	0.4	0.4	0.6	0.6	0.4	0.4	0.4			
Public Consumption	YY	-0.8	0.2	-0.5				-1.0	-0.7	-0.1	0.3	0.3	0.4	0.0	-0.5	-0.5	-0.5	-0.4	-0.3			
	QQ SAAR							0.0	-0.8	0.6	1.6	-0.3	-0.4	-0.8	-0.4	-0.4	-0.4	-0.4	-0.2			
Fixed Investment	YY	-4.6	-2.0	0.5				-4.8	-4.6	-2.8	-1.2	-2.1	-2.2	-3.0	-1.5	-0.2	1.3	1.8	1.8			
	QQ SAAR							-0.2	-3.4	3.0	-4.1	-3.5	-4.2	-0.3	2.3	1.6	1.7	1.5	2.5			
-- Business Equipment	YY	-2.5	-1.3	1.8				-2.0	-2.9	0.1	-0.3	-1.8	-1.1	-2.7	-0.6	1.1	2.7	3.1	2.7			
	QQ SAAR							2.5	-7.0	8.1	-4.2	-3.5	-4.4	1.3	4.7	3.1	1.8	2.6	3.3			
-- Construction	YY	-6.6	-2.8	-0.9				-7.5	-6.2	-5.7	-2.1	-2.3	-3.3	-3.4	-2.4	-1.5	-0.1	0.5	0.9			
	QQ SAAR							-2.9	0.2	-1.9	-3.9	-3.6	-3.9	-2.0	0.0	0.0	1.6	0.4	1.6			
Exports of Goods and Services	YY	0.0	1.2	2.1				0.1	-0.4	1.0	2.5	1.9	0.6	-0.1	0.6	1.3	3.0	3.4	3.5			
	QQ SAAR							3.0	1.8	4.9	0.3	0.5	-3.0	1.9	3.2	3.4	3.5	3.6	3.3			
Imports of Goods and Services	YY	-2.9	1.0	2.2				-4.4	-2.0	-0.1	0.9	2.0	0.5	0.7	1.8	1.7	2.8	2.8	2.9			
	QQ SAAR							-0.5	3.9	0.8	-0.4	4.0	-2.2	1.7	3.7	3.6	2.4	1.7	3.8			
Net Exports (Contrib. to YY GDP Growth)		-1.2	-0.4	1.4				1.2	0.4	0.3	0.0	0.0	0.1	-0.2	-0.3	0.0	0.2	0.0	0.3			
Consumer Prices	YY	1.3	0.2	0.1				1.3	1.1	0.7	0.5	0.4	-0.1	0.0	0.1	0.2	0.3	0.1	0.0			
Compensation per Employee		NA	NA	NA																		
Employment Growth	YY	-2.0	-0.4	0.1																		
Unemployment Rate	%	12.2	12.5	12.4																		
Current Account Balance	€ bn	15.5	25.6	27.6																		
	% GDP	1.0	1.6	1.7																		
General Government Balance	€ bn	-45.4	-49.5	-45.5																		
	% GDP	-2.8	-3.0	-2.8																		
Primary Balance	% GDP	2.1	1.6	1.6																		
General Government Debt	€ bn	2,070	2,128	2,165																		
	% GDP	127.9	130.8	132.8																		

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

Spain

[Giada Giani](#)

[Antonio Montilla](#)

We are trimming our 2014 real GDP growth by 0.1pp to 1.3%, based on indications that growth slowed in Q3. Industrial production remained feeble in July, while July-August data on registered unemployment point to a slower pace of job creation. However, survey data remain buoyant, export growth is picking up, and the slump in housing seems to be ending. We expect more supportive financial conditions and reduced fiscal drag to further support domestic demand in coming quarters. The 2014 budget deficit is likely to be close to the government target (of 5.5% of GDP).

Figure 7. Spain – Economic Forecasts, 2013-1Q16F

		History			Forecast			History										Forecast				
		2013	2014	2015	2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16			
Real GDP	YY	-1.2	1.3	2.0				-1.6	-1.1	-0.2	0.5	1.2	1.6	1.9	2.2	2.0	1.8	2.0	1.9			
	QQ SAAR							-0.6	0.3	0.7	1.5	2.3	2.1	1.9	2.6	1.4	1.4	2.4	2.5			
Final Domestic Demand	YY	-2.7	1.6	2.0				-3.7	-2.1	-0.7	0.7	1.8	1.7	2.2	1.9	1.8	1.9	2.4	2.2			
	QQ SAAR							-2.3	2.3	-1.5	4.3	2.3	1.7	0.7	3.0	2.0	2.0	2.5	2.3			
Private Consumption	YY	-2.0	2.2	2.2				-3.0	-1.7	0.8	1.7	2.3	2.4	2.5	2.5	2.3	2.0	1.9	2.1			
	QQ SAAR							0.4	2.1	2.1	2.0	3.0	2.6	2.3	2.2	2.2	1.4	1.7	3.1			
Government Consumption	YY	-2.3	0.5	0.4				-3.4	0.2	-3.4	-0.2	1.1	-0.6	1.7	-1.4	-0.9	0.9	3.2	1.7			
	QQ SAAR							-4.5	2.3	-14.6	18.8	0.6	-4.3	-6.2	4.9	2.4	2.8	2.8	-1.2			
Fixed Investment	YY	-5.0	1.0	3.1				-5.8	-5.3	-1.7	-1.2	1.2	1.9	2.0	3.6	3.3	2.6	2.9	3.0			
	QQ SAAR							-7.3	2.8	2.8	-2.8	2.3	5.5	3.2	3.2	1.1	2.9	4.5	3.5			
-- Business Equipment	YY	2.6	9.0	6.5				1.4	1.8	9.9	10.6	9.3	8.1	7.9	6.9	6.6	6.2	6.1	5.8			
	QQ SAAR							10.3	12.9	7.3	11.8	5.4	7.9	6.4	7.7	4.6	6.1	6.2	6.3			
-- Construction	YY	-9.6	-4.1	0.2				-10.1	-9.8	-8.6	-8.6	-3.4	-2.5	-2.2	1.1	-0.3	-0.2	0.4	0.7			
	QQ SAAR							-17.1	-3.6	-0.4	-12.3	3.7	0.0	0.8	-0.2	-1.6	0.3	3.0	1.2			
Exports of Goods and Services	YY	4.9	4.1	6.2				9.5	3.5	3.7	7.4	1.7	3.1	4.1	6.9	6.9	5.8	5.2	4.9			
	QQ SAAR							31.2	2.5	3.3	-4.1	5.3	8.3	7.6	6.5	5.2	4.0	5.2	4.9			
Imports of Goods and Services	YY	0.4	5.7	7.1				3.2	0.6	2.7	8.6	3.9	4.0	6.4	7.8	8.0	6.7	6.0	4.8			
	QQ SAAR							26.7	8.5	-2.2	3.7	5.9	9.0	6.9	9.5	6.5	4.1	4.2	4.3			
Net Exports (Contrib. to YY GDP Growth)		0.8	-0.4	0.0				2.0	0.9	0.4	-0.1	-0.6	-0.2	-0.5	-0.1	-0.1	-0.1	-0.1	0.2			
Consumer Prices	YY	1.5	0.0	0.5				1.8	1.3	0.2	0.0	0.2	-0.3	0.2	0.4	0.5	0.7	0.5	0.5			
Compensation per Employee	YY	0.0	0.0	0.6				-0.6	-0.2	2.5	-0.2	0.0	-0.1	0.2	0.3	0.5	0.8	0.9	NA			
Employment Growth	YY	-2.8	1.1	1.8				-3.4	-2.5	-1.2	-0.5	1.1	1.7	1.9	2.5	1.7	1.5	1.6	1.6			
Unemployment Rate	%	26.1	24.4	22.9				26.1	25.7	25.7	25.9	24.5	23.7	23.7	24.0	22.9	22.4	22.3	22.7			
Current Account Balance	€ bn	8.0	3.7	4.0																		
	% GDP	0.8	0.4	0.4																		
General Government Balance	€ bn	-72.4	-57.9	-49.6																		
	% GDP	-7.1	-5.6	-4.7																		
Primary Balance	% GDP	-3.7	-2.3	-1.5																		
General Government Debt	€ bn	960.7	1,022.9	1,072.4																		
	% GDP	93.9	99.1	101.5																		

Fiscal deficits include the effect of financial support for banks. Percentage changes unless indicated. Annual data are period averages.

Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Greece

[Giada Giani](#)

The strong tourism season has been the main driver behind the pick-up in GDP growth in Q2 and probably in Q3 – we estimate YY growth turned positive in Q3 for the first time since Q2-08. Nevertheless, 2014 growth will probably be around 0.1%, somewhat below the official forecast (+0.6%). We expect the 2015 recovery also to be shallower, although supported by reduced fiscal tightening and further export competitiveness gains.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-3.9	0.1	1.3	1.6	1.7	1.8
Final Domestic Demand	YY	-6.4	0.0	0.5	1.0	1.2	1.4
Private Consumption	YY	-5.8	0.4	0.6	0.9	1.1	1.3
Public Consumption	YY	-3.9	-1.6	-0.5	0.2	0.2	0.2
Fixed Investment	YY	-12.8	0.7	1.8	2.8	3.3	3.1
Exports of Goods and Services	YY	1.3	6.3	4.0	5.0	5.2	4.7
Imports of Goods and Services	YY	-5.3	2.6	1.1	3.1	3.8	3.2
HICP	YY	-0.9	-1.1	-0.6	-0.6	0.0	0.8
Unemployment Rate	%	27.5	26.7	25.5	24.7	23.9	23.0
Current Account Balance	€ bn	1.4	2.9	3.5	3.5	3.5	3.5
	% GDP	0.8	1.6	2.0	1.9	1.9	1.9
General Government Balance	€ bn	-23.1	-3.9	-4.4	-3.4	-3.1	-2.5
	% GDP	-12.7	-2.2	-2.5	-1.9	-1.7	-1.3
Primary Balance	% GDP	-8.7	2.3	2.1	2.7	2.9	3.1
General Government Debt	€ bn	318.7	321.5	324.4	326.4	328.0	330.5
	% GDP	175.1	180.1	181.1	180.8	179.0	176.0

Note: We assume further reductions in the cost of official loans. Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Greece, ECB, Eurostat and Citi Research forecasts

Ireland

[Michael Saunders](#)

Consensus forecasts for Ireland's real GDP growth in 2014 have risen sharply in recent months, reaching 3.2% YY in September, but in our view remain far too low. We continue to expect real GDP growth of 5-6% YY in 2014, and our bullish growth outlook has been reinforced by the strong Q2 GDP growth data (1.5% QQ). The Q2 surge in GDP (and IP) was probably partly erratic, and recent data suggest that Q3 GDP growth is around zero. Even so, the economy's momentum remains strong, and GDP growth will probably stay far above the euro area average in 2015.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	5.5	4.2	4.8	4.5	4.1
Real GNP	YY	3.3	4.4	3.4	4.2	3.8	3.5
Final Domestic Demand	YY	-0.6	2.5	1.8	2.3	1.7	1.7
Private Consumption	YY	-0.8	1.1	1.5	1.9	2.0	2.1
Public Consumption	YY	1.3	1.3	-2.5	0.3	0.0	0.5
Fixed Investment	YY	-1.8	8.4	6.9	5.1	2.5	1.6
Exports of Goods and Services	YY	1.1	10.0	5.4	7.2	7.4	7.3
Imports of Goods and Services	YY	0.6	8.1	3.8	5.7	6.0	6.4
Net Trade		0.4	3.0	2.8	2.5	2.7	2.4
GDP Deflator	YY	1.0	0.4	1.0	1.1	1.6	1.7
Nominal GDP	YY	1.2	5.9	5.2	5.9	6.1	5.9
House Prices	YY	1.4	10.1	10.1	5.6	4.1	4.1
Unemployment Rate	%	13.1	11.4	10.2	9.3	8.4	7.5
Employment	YY	2.4	1.5	1.8	2.3	2.5	2.6
Current Account Balance	€ bn	7.6	7.3	7.6	9.5	11.2	12.0
	% GDP	4.4	3.9	3.9	4.6	5.1	5.2
General Government Balance	€ bn	-11.8	-3.7	1.4	4.5	7.3	10.5
	% GDP	-6.7	-2.0	0.7	2.2	3.3	4.5
Primary Balance	% GDP	-2.6	2.7	5.4	6.6	7.6	8.4
General Government Debt	€ bn	215.5	212.7	211.6	209.3	201.8	191.0
	% GDP	123.3	114.9	108.6	101.4	92.2	82.4

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

Portugal

[Giada Giani](#)

We are slightly cutting our GDP growth forecasts for 2014 (by 0.1pp) and 2015 (by 0.3pp) amid signs of weaker external demand and some softening in Q3 data. Nevertheless, we think the recovery will remain supported by strong gains in competitiveness and faster-than-expected job creation. The pace of reduction in the budget deficit is likely to be smaller than the government's official targets, but with the debt-to-GDP ratio probably peaking in 2014, this should not create too many concerns among investors and European official creditors.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.4	1.0	1.8	2.1	1.7	1.8
Final Domestic Demand	YY	-2.3	1.3	1.2	1.4	1.3	1.3
Private Consumption	YY	-1.4	1.6	1.1	1.5	1.4	1.2
Public Consumption	YY	-2.0	-0.1	-0.4	0.2	0.4	0.7
Fixed Investment	YY	-6.1	1.6	3.2	2.4	2.1	2.7
Exports	YY	6.4	2.4	4.7	6.0	4.6	4.2
Imports	YY	3.7	5.1	2.5	4.3	3.6	3.3
Consumer Prices	YY	0.4	-0.1	0.3	0.1	0.7	1.0
Unemployment Rate	%	16.2	13.8	12.0	11.0	10.2	9.8
Current Account Balance	€ bn	0.9	0.9	1.3	1.6	2.4	2.9
	% GDP	0.5	0.5	0.7	0.9	1.4	1.6
General Government Balance	€ bn	-8.2	-7.0	-5.6	-4.6	-4.0	-3.4
	% GDP	-5.0	-4.2	-3.3	-2.6	-2.2	-1.9
Primary Balance	% GDP	-0.6	0.3	1.4	1.9	2.1	2.4
General Government Debt	€ bn	213.6	228.0	228.5	229.6	231.8	235.2
	% GDP	128.9	135.5	133.7	131.6	130.0	128.8

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

Netherlands

[Guillaume Menuet](#)

With the prospect of further euro weakness, we are adding 0.2pp to our GDP forecasts for both 2015 and 2016. In all, we now look for GDP growth to roughly double, from about 0.7% in 2014 to 1.5% in 2015 and 1.8% in 2016. With exports plus imports at about 150% of GDP, external developments remain the key risk to our baseline. The government's focus on budgetary consolidation, aiming for a 0.7pp fall in the 2015 deficit to 2.2% of GDP will still act as a headwind to growth.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-0.7	0.7	1.5	1.8	2.0	2.1
Final Domestic Demand	YY	-1.7	0.0	0.4	0.9	1.3	1.6
Private Consumption	YY	-1.6	-0.3	0.5	0.8	1.1	1.2
Public Consumption	YY	-0.2	0.2	-0.1	0.3	0.7	0.8
Fixed Investment (ex Stocks)	YY	-3.9	0.3	0.8	2.1	2.6	3.3
Stocks (Contrib. to YY GDP Growth)		-0.2	-0.2	0.0	0.1	0.0	0.1
Exports of Goods and Services	YY	2.2	2.6	2.7	3.5	3.6	3.9
Imports of Goods and Services	YY	1.0	1.8	1.6	2.8	3.2	3.8
Net Exports (Contrib. to YY GDP Growth)		1.0	0.8	1.1	0.9	0.8	0.7
Consumer Prices	YY	2.6	0.6	1.6	1.6	1.8	1.9
Unemployment Rate	%	8.3	8.5	8.1	7.3	6.2	5.1
Current Account Balance	€ bn	65.6	69.5	62.2	61.6	60.5	59.1
	% GDP	10.9	11.4	9.9	9.5	8.9	8.4
General Government Balance	€ bn	-14.8	-16.8	-13.0	-9.0	-6.5	-4.4
	% GDP	-2.4	-2.7	-2.1	-1.4	-1.0	-0.6
Primary Balance	% GDP	-0.7	-1.0	-0.4	0.3	0.7	1.0
General Government Debt	€ bn	443.0	456.7	466.6	475.6	482.1	486.5
	% GDP	73.5	74.8	74.1	73.0	71.3	69.2

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

Belgium

[Guillaume Menuet](#)

We add a few decimal points to our 2015-16 GDP forecasts to 1.5% and 1.9%, respectively, to reflect the lower projected path of the euro in coming quarters. Although business confidence has been treading water in Q3, we estimate that export prospects will improve in 2015-16, alongside expected gains in business investment (driven by cuts in employers' social security contributions as part of the federal government coalition negotiations). The government's budget deficit reduction targets in 2015-16 are likely to be broadly met.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	1.1	1.5	1.9	1.8	2.0
Final Domestic Demand	YY	0.3	1.4	1.2	1.4	1.6	1.6
Private Consumption	YY	0.8	1.1	0.9	1.1	1.3	1.3
Public Consumption	YY	0.6	0.1	0.7	0.9	1.1	1.1
Fixed Investment (ex Stocks)	YY	-1.4	3.8	2.5	2.7	3.0	2.9
Exports of Goods and Services	YY	1.9	3.5	4.6	4.1	4.4	5.6
Imports of Goods and Services	YY	1.4	3.2	4.6	3.8	4.1	5.3
Consumer Prices	YY	1.2	0.6	1.3	1.7	1.8	1.9
Unemployment Rate	%	8.4	8.5	8.3	8.0	7.7	7.6
Current Account Balance	€ bn	-7.3	0.4	2.9	3.9	3.3	2.2
	% GDP	-1.9	0.1	0.7	0.9	0.8	0.5
General Government Balance	€ bn	-10.2	-10.3	-9.3	-6.8	-4.5	-1.7
	% GDP	-2.7	-2.6	-2.3	-1.6	-1.0	-0.4
Primary Balance	% GDP	0.6	0.6	0.8	1.5	2.0	2.5
General Government Debt	€ bn	387.2	398.7	408.1	414.9	419.3	421.1
	% GDP	101.2	102.4	101.8	99.9	97.4	94.1

Note: Percentage changes unless indicated. Annual data are period average. Sources: BNB, Belgostat and Citi Research forecasts

Slovakia

[Jaromir Sindel](#)

We keep our 2014 GDP growth forecast unchanged at 2.3%, and marginally cut that for 2015 to 2.6% (from 2.7%). We believe the structure of growth is likely to shift more in favour of domestic demand. These changes reflect the mix of weaker foreign demand, softer currency and robust domestic demand. We think that risks to our forecast are balanced and our forecast is close to the Ministry of Finance's forecast (which for 2015 was recently downgraded from 3% to 2.6%). The activation of the trigger in the debt-brake rule is likely to force the Ministry of Finance to use more cash from its treasury account to help to lower the debt-to-GDP ratio.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.9	2.3	2.6	3.1	3.1	3.0
Final Domestic Demand	YY	-0.8	4.3	2.5	2.2	2.4	NA
Private Consumption	YY	-0.1	2.9	2.0	2.4	2.5	2.5
Public Consumption		1.4	3.8	2.1	1.7	1.8	2.1
Fixed Investment	YY	-4.3	8.0	4.1	2.0	2.8	2.3
Exports	YY	4.5	5.7	6.5	8.8	8.5	8.1
Imports	YY	2.9	7.8	7.3	8.9	8.7	8.2
Consumer Prices	YY	1.4	-0.1	1.2	1.9	2.2	2.5
Unemployment Rate	%	14.1	12.9	12.3	11.6	10.9	10.3
Current Account Balance	% GDP	2.1	0.3	-0.3	-0.3	-0.5	-0.8
General Government Balance	% GDP	-2.8	-3.0	-2.8	-2.2	-1.8	-1.3
Government Primary Balance	% GDP	-1.5	-1.7	-1.5	-0.9	-0.5	NA
General Government Debt	% GDP	55.4	55.5	55.6	53.4	51.8	50.7

Sources: National sources and Citi Research forecasts

Slovenia

[Jaromir Sindel](#)

Both economic and political developments remain supportive for the Slovene economy. We expect a mild QQ fall in 3Q14 GDP, after growth of 1% QQ in 2Q. However, trends in surveys, industrial production, retail sales and labour market data suggest the economy's underlying momentum is solid. Hence, we are raising our GDP growth forecast to 1.9% in 2014 from 1%. We expect the new centre-left wing government can survive its four-year term, but that the way to fiscal consolidation and privatisation – though both are likely to continue – will be bumpy.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-0.9	1.9	1.6	2.3	2.9	3.2
Final Domestic Demand	YY	-2.2	0.1	0.5	1.6	2.3	NA
Private Consumption	YY	-2.8	-0.2	-0.4	1.1	1.4	1.2
Public Consumption		-2.0	-0.9	-0.3	-0.8	0.4	1.2
Fixed Investment	YY	-0.3	1.2	1.0	2.6	3.8	3.7
Exports	YY	2.7	4.5	6.7	7.6	6.8	5.0
Imports	YY	1.3	3.8	5.7	7.0	6.3	4.4
Consumer Prices	YY	1.8	0.4	0.9	0.8	0.7	0.8
Unemployment Rate	%	10.1	10.0	10.2	10.1	9.7	NA
Current Account Balance	% GDP	6.0	3.4	4.0	4.7	5.3	5.8
General Government Balance	% GDP	-14.7	-4.5	-2.1	-3.3	-1.7	-1.4
Government Primary Balance	% GDP	-12.1	-1.6	0.7	-0.3	1.2	1.4
General Government Debt	% GDP	71.7	81.2	81.1	81.6	79.9	77.8

Sources: National sources and Citi Research forecasts

United Kingdom

[Michael Saunders](#)

Uncertainties over the possible implications of Scottish independence are likely to recede given the fairly clear-cut 55:45% vote against independence in the Scottish referendum. We continue to look for real GDP growth of about 3½% in both 2014 and 2015, led by strong gains in consumer spending and investment. Major revisions to the national accounts data are due on 30 September, which may well alter our forecast. The ONS has already said that the YY gain in real GDP over 2008-12 will be revised up by an average of 0.5% per year. We would not be surprised if revisions eventually show that real GDP growth currently is around 4% YY. The jobless rate is likely to continue to fall rapidly, and although pay growth is subdued, vacancies and surveys of labour shortages suggest that labour market slack is shrinking fast. We expect the MPC to hike rates either in Q4-14 or Q1-15.

Figure 15. UK – Economic Forecasts, 2013-1Q16F

		History			Forecast			History					Forecast					
		2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16		
Real GDP	YY	1.7	3.3	3.5	1.7	1.9	2.8	2.9	3.2	3.4	3.7	3.8	3.8	3.5	3.1	3.1		
	QQ SAAR				2.4	3.6	2.7	3.1	3.5	4.1	4.2	3.4	3.3	3.1	2.5	3.2		
Final Domestic Demand	YY	1.4	3.6	4.2	1.0	2.1	2.9	3.1	3.4	3.6	4.2	4.5	4.3	4.2	4.0	3.8		
	QQ SAAR				3.7	3.7	1.5	3.3	5.3	4.2	4.0	4.5	4.5	3.8	3.3	3.7		
Private Consumption	YY	2.2	2.9	3.2	2.0	2.5	2.2	2.2	3.1	3.0	3.3	3.2	3.2	3.3	3.2	3.2		
	QQ SAAR				0.7	3.4	1.3	3.4	4.1	3.2	2.7	3.0	3.9	3.4	2.5	3.1		
Public Consumption	YY	0.7	0.4	-0.1	1.3	1.7	1.3	1.8	0.1	-0.3	-0.1	0.0	0.2	-0.2	-0.5	-0.8		
	QQ SAAR				5.6	2.3	-0.4	-0.2	-1.3	0.9	0.4	-0.1	-0.5	-0.5	-1.0	-1.0		
Fixed Investment	YY	-0.8	12.3	14.8	-3.7	1.4	8.2	9.7	11.6	12.6	15.0	16.8	14.8	14.2	13.5	12.2		
	QQ SAAR				13.6	9.9	5.5	9.8	22.0	13.6	14.8	17.2	13.9	11.0	12.0	12.1		
-- Business Investment	YY	-1.0	13.7	15.6	-3.6	-1.2	8.3	10.6	13.5	14.1	16.3	15.9	16.2	15.5	15.0	13.2		
	QQ SAAR				3.1	12.6	6.2	21.4	14.4	15.0	14.5	19.8	15.5	12.4	12.4	12.5		
-- Construction of Private Dwellings	YY	4.5	12.1	17.9	5.7	9.4	10.4	13.2	8.4	11.4	15.4	17.9	19.1	17.8	16.8	15.2		
	QQ SAAR				35.0	3.6	5.4	11.3	13.5	15.8	21.4	21.3	17.9	11.1	17.3	14.8		
Stocks (Contrib. to YY GDP Growth)		0.2	-0.3	0.2	-0.1	0.8	-0.3	0.1	0.1	-0.9	-0.6	-0.1	0.1	0.0	0.1	-0.1		
Exports of Goods and Services	YY	0.5	0.5	4.2	4.0	-2.0	0.0	0.5	-2.8	1.4	2.9	3.4	5.4	4.8	3.4	4.7		
	QQ SAAR				9.9	-9.9	3.5	-0.3	-4.1	7.0	9.5	1.8	3.3	4.8	3.7	7.1		
Imports of Goods and Services	YY	0.2	0.5	7.0	0.5	1.2	-0.2	0.9	-1.2	-0.4	2.9	5.9	7.7	7.4	7.1	7.1		
	QQ SAAR				9.7	4.6	-5.2	-4.6	0.6	8.2	7.8	7.2	7.4	7.2	6.5	7.4		
Net Exports (Contrib. to YY GDP Growth)		0.1	0.0	-0.9	0.8	-1.0	0.1	-0.2	-0.3	0.7	0.1	-0.6	-0.6	-0.7	-1.0	-0.7		
Consumer Prices	YY	2.6	1.6	1.8	2.7	2.7	2.1	1.7	1.7	1.5	1.5	1.6	1.7	1.9	2.0	2.0		
Retail Prices	YY	3.0	2.5	3.2	3.1	3.2	2.6	2.6	2.5	2.4	2.6	2.4	3.0	3.5	3.9	4.3		
RPIX - Ex Mortgages	YY	3.1	2.6	3.0	3.1	3.2	2.7	2.7	2.6	2.5	2.7	2.4	2.9	3.2	3.5	3.6		
Average Earnings YY	YY	1.2	1.3	3.2	2.4	0.8	1.3	1.9	-0.2	1.6	1.9	3.1	3.1	3.3	3.5	3.7		
Employment Growth	YY	1.3	2.5	2.1	1.0	1.3	1.3	2.4	2.8	2.4	2.3	1.9	1.9	2.3	2.3	2.0		
Unemployment Rate	%	7.6	6.3	5.2	7.8	7.6	7.2	6.8	6.4	6.1	5.8	5.6	5.3	5.0	4.7	4.7		
Claimant Count Unemployment Rate	%	4.2	3.1	2.6														
Industrial Production	YY	-0.4	2.1	2.0	-0.8	-0.4	2.2	2.4	2.1	2.0	1.9	1.8	2.0	2.0	2.0	2.0		
Manufacturing Output	YY	-0.7	3.1	1.9	-1.1	-0.8	1.8	3.6	3.2	2.9	2.7	1.7	2.0	2.0	2.0	2.0		
Current Account Balance	£ bn	-72.8	-81.3	-101.9	-7.7	-23.9	-23.5	-18.5	-19.4	-21.9	-21.6	-23.7	-25.1	-26.0	-27.2	-27.7		
	% GDP	-4.5	-4.8	-5.7	-1.9	-5.9	-5.7	-4.4	-4.6	-5.1	-5.0	-5.4	-5.7	-5.8	-6.0	-6.0		
Public Sector Net Borrowing	£ bn FY	106.8	92.9	66.0														
	% GDP	-6.5	-5.4	-3.6														
General Government Balance	% GDP	-7.1	-5.9	-4.1														
Government Primary Balance	% GDP	-3.5	-2.3	-0.4														
General Government Debt	£ bn	1,529.0	1,663.0	1,749.2														
	% GDP	94.5	96.5	96.5														
Gross Non Oil Trading Profits	YY	4.6	12.2	4.5	4.2	2.5	3.5	2.2	18.3	15.0	12.3	5.1	5.7	4.9	2.4	2.7		
Base Rate (Period Average)	%	0.50	0.50	1.08	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.67	0.92	1.17	1.58	1.92		
Ten-year Gilt Yield (Period Averages)	%	2.34	2.64	3.06	1.92	2.73	2.79	2.78	2.67	2.70	2.50	2.80	3.00	3.20	3.25	3.30		
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.85	0.79	0.74	0.86	0.84	0.83	0.83	0.80	0.78	0.76	0.74	0.73	0.73	0.74	0.74		
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.56	1.65	1.58	1.52	1.62	1.66	1.67	1.70	1.62	1.59	1.58	1.58	1.58	1.59	1.59		

Fiscal deficits exclude financial intervention, RM and APF transfers. Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS and Citi Research forecasts

Switzerland

[Michael Saunders](#)

With the sharp loss of momentum in Q2 GDP and recent business surveys, we are cutting our 2014 GDP growth forecast to 1.1% from 2.0% last month, and cutting our 2015 forecast to 1.3% from 2.6%. Export volumes have stalled in recent months, the manufacturing PMI has dived by 5 points in the last two months, while the Kof activity guide in July-August was at its weakest since mid-2012. With inflation still close to zero, the SNB is likely to keep rates on hold for an extended period. If needed, we believe the SNB would be prepared to resume major FX intervention to prevent CHF appreciation.

Figure 16. Switzerland – Economic Forecasts, 2013-1Q16F

		History			Forecast			History				Forecast			
		2013	2014	2015	2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Real GDP	YY	1.9	1.1	1.3				2.3	2.1	1.8	1.7	1.1	0.8	0.9	0.8
Final Domestic Demand	YY	2.2	1.5	2.5				2.4	2.3	2.5	2.0	1.2	1.5	1.3	2.0
Private Consumption	YY	2.3	1.3	2.1				2.7	2.2	2.0	1.4	1.1	1.5	1.4	1.9
Public Consumption	YY	2.4	0.0	0.6				2.2	2.2	2.0	0.7	0.3	-0.4	-0.6	0.3
Fixed Investment	YY	1.8	2.8	4.4				1.7	2.7	4.4	4.7	2.1	2.6	2.0	3.1
Exports of Goods and Services	YY	1.9	4.2	2.6				2.8	2.0	1.2	4.4	3.8	4.4	4.1	2.3
Imports of Goods and Services	YY	1.8	3.1	3.9				2.4	0.2	3.5	2.9	2.5	4.5	2.4	3.4
Consumer Prices	YY	-0.2	0.1	1.1				-0.4	0.0	0.0	0.0	0.1	-0.1	0.5	0.7
Unemployment Rate	%	3.2	3.5	4.1				3.2	3.2	3.2	3.2	3.2	4.0	3.7	3.7
Current Account Balance	Sfr bn	96.3	80.0	73.1				30.8	26.2	22.0	17.9	22.7	22.3	17.1	19.6
	% GDP	16.0	13.1	11.9				20.5	17.3	14.5	11.8	14.9	14.6	11.2	12.8
General Government Balance	% GDP	0.0	-0.6	-0.4											
General Government Debt	% GDP	49.4	48.5	48.5											
SNB Rate (Annual Avge, then qtr-end)	%	0.00	0.00	0.00				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	0.82	0.68	0.70				0.65	1.07	1.00	0.98	0.80	0.54	0.31	0.49
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.23	1.21	1.22				1.23	1.22	1.23	1.22	1.22	1.21	1.21	1.21
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.93	0.93	1.04				0.94	0.90	0.89	0.89	0.89	0.95	1.00	1.03

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

Sweden

[Tina Mortensen](#)

Revised national accounts data show that the Swedish economy performed better during 1H than suggested by preliminary data; GDP expanded by 0.7% QQ in 2Q (0.5pp above initial estimates) and growth in 1Q was revised 0.2pp higher to show a minor 0.1% QQ gain. The revision was due to stronger investments, inventories and to some extent private consumption. With a full-year growth forecast of 1.7% for this year, we reckon the Riksbank will have to revise its growth forecast higher, as we have done (lifting our forecast by 0.2pp to 2.2% YY). In addition, Swedish GDP now will be measured according to the new EU standard (ESA2010), meaning that the growth levels will be about 4% higher. The crucial difference between the old and the new methodology is that R&D and military weapon systems will now be counted as investments (not as expenditure).

At the 4 September monetary policy meeting, a unanimous Riksbank left the key policy rate unchanged at 0.25% and lowered its conditional interest rate path from mid-2016 and onwards (by 5-10bp). In other words, the Riksbank maintained its 3bp short-term easing bias and continues to signal a first rate hike late next year. The Riksbank reiterated that extraordinary policy measures will be considered if cutting the repo rate further and lowering the conditional interest rate path does not prove sufficient to bring inflation back to target. Core inflation has now been in line with or above consensus expectations for five consecutive months, confirming that Sweden is past the period of ultra-low inflation readings. According to our model, near-term inflation will likely be well in line with the Riksbank's forecast, while inflation in 4Q is expected to be slightly below. Hence, prospects for a rate hike look remote.

The general election ended without a majority for either side. The Social Democrat-led bloc, which won the most votes, [is now trying to form a government that can pass a budget this autumn](#). However, with the nationalist Sweden Democrats holding the balance of power, this will likely prove a complex task. Our main scenario remains a SocDem/Green minority coalition government with support from the Left Party and/or some of the smaller Alliance parties. However, this implies that the SocDem-led coalition should be prepared for major concessions.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	1.5	2.2	2.6	2.7	2.7	2.5
Final Domestic Demand	YY	1.4	2.4	2.2			
Private Consumption	YY	2.1	2.7	2.7			
Public Consumption	YY	1.9	1.1	0.9			
Fixed Investment	YY	-1.0	3.5	3.1			
Exports of Goods & Services	YY	-0.3	2.5	4.2			
Imports of Goods & Services	YY	-0.7	4.1	3.9			
Consumer Prices	YY	0.0	0.0	1.1	2.4	2.3	2.2
Unemployment Rate	%	8.0	8.0	7.5	7.0	6.6	6.4
Current Account Balance	SEK bn	251.3	239.8	241.8	243.7	260.5	271.8
	% GDP	6.7	6.2	6.0	5.8	5.9	5.9
General Government Balance	SEK bn	-44.5	-79.3	-48.1	-11.4	21.3	54.4
	% GDP	-1.2	-2.1	-1.2	-0.3	0.5	1.2
General Government Debt	% GDP	37.5	38.8	38.6	36.9	34.7	31.9
Riksbank Rate (Annual Average)	%	0.99	0.52	0.25	0.46	0.96	1.55
Ten-year Yield (Period Average)	%	2.10	1.82	1.89	2.16	2.31	2.56
EUR-SEK FX Rate (Annual Average)		8.65	9.16	9.40	9.06	8.85	8.68
USD-SEK FX Rate (Annual Average)		6.51	7.05	8.07	7.58	7.19	6.87

Note: Percentage changes unless indicated. Annual data are period averages. Sources: Riksbank, Statistics Sweden and Citi Research forecasts

Denmark

[Tina Mortensen](#)

The Danish economy returned to negative growth in 2Q; GDP fell 0.3% QQ and growth in the first quarter was also revised lower (by 0.2pp to 0.6% QQ). The decline mainly reflected a large drop in exports (1.6% QQ). With rising geopolitical unrest combined with weaker momentum for a majority of Denmark's key trading partners, the near-term outlook does not look too bright. In other words, this points to low growth also in 3Q, and we have, in turn, lowered our full-year 2014 GDP growth forecast. Further out, we continue to expect the Danish economy to gain further, albeit only modest, momentum. Key drivers will likely be stronger private spending growth, in step with rising employment and positive real wage growth boosting households' disposable income.

With the adoption of the ESA2010 standard, Danish GDP has been revised up (by 1.8% for 2013), which in effect now makes it easier for the government to stay within the 3% of GDP budget act limits next year. We have previously warned that with the lapse of the temporary tax receipts (from the capital pension tax reform), the public budget deficit could come close to the budget act limits at a time that coincides with a general election (must be held in autumn-2015 at the latest). In other words, should economic growth fail to rebound or the notoriously volatile revenues from the pension tax yield turn out much lower than expected, the government now has slightly more leeway before being forced to impose tightening measures.

Following the ECB's rate cut in September, the Danish National Bank cut the CD-rate by 10bp to -0.05%. Meanwhile, the Bank left the lending rate, the current account rate and the discount rate unchanged at 0.2%, 0.0% and 0.0%, respectively. Although the CD-rate went back into negative territory, the DNB did not make any changes to the ceiling for current account deposits (stays unchanged at DKK37.5bn). In other words, the Bank decided against limiting the extent to which the negative CD-rate (which applies to deposits above the ceiling) bites, and the interest rate cut will feed directly through to the Danish banks and mortgage lenders, which as of late August had bought certificates of deposits at DNB for DKK96.8bn. Ahead, the DNB may well be forced to cut the CD-rate even deeper into negative territory to keep pace with ECB's extraordinary measures to defend its currency peg.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.4	0.6	1.3	1.7	1.9	2.0
Final Domestic Demand	YY	0.4	1.3	1.6			
Private Consumption	YY	0.1	1.2	1.7			
Public Consumption	YY	0.7	1.0	1.0			
Fixed Investment	YY	0.5	2.2	2.3			
Exports of Goods & Services	YY	1.0	2.4	3.3			
Imports of Goods & Services	YY	1.4	5.1	4.2			
Consumer Prices	YY	0.8	0.7	1.2	1.6	1.9	2.0
Unemployment Rate	%	7.0	6.6	6.5	6.2	6.0	5.8
Current Account Balance	DKK bn	134.0	126.6	110.3	108.6	115.3	118.9
	% GDP	7.2	6.7	5.7	5.4	5.6	5.5
General Government Balance	% GDP	-0.9	-1.0	-2.3	-1.7	-1.0	-0.9
General Government Debt	% GDP	44.5	44.9	46.1	46.2	45.5	44.6
DNB Bank Rate (Annual Average)	%	0.20	0.20	0.20	0.30	0.60	1.10
Ten-year Yield (Period Average)	%	1.73	1.44	1.47	1.71	2.06	2.31

Note: Percentage changes unless indicated. Annual data are period average. Sources: DNB, national statistical office and Citi Research forecasts

Norway

[Tina Mortensen](#)

Economic activity rebounded strongly in 2Q; mainland GDP expanded by a stronger-than-expected 0.9% QQ after correcting for temporary factors (electricity production added 0.3pp). In turn, the report suggests that while the economy has so far weathered sharply downshifting investment growth in the petroleum sector, declining oil-related investment and the ongoing erosion in competitiveness will keep mainland GDP growth at a below-trend pace ahead. Both fiscal and monetary policy should remain expansive to support economic recovery; according to the spring budget, fiscal easing will amount to 0.7% of mainland trend-GDP this year.

The capital spending cycle within the oil and gas sector is downshifting sharply. Such investments gained an average of 14.3% in volume terms between 2011 and 2013, providing the rest of the economy with important demand impulses. Statistics Norway's oil-sector investment survey in September confirmed that oil investment has peaked and will decline sharply next year; the second estimate for 2015 was fully 18% below the current estimate for 2014 (in nominal terms). With more investment projects in the pipeline, there will probably be upward revisions to the estimates further ahead. But even including this, the survey points to a real drop in oil investment of more than 10% between 2014 and 2015.

At the September meeting, Norges Bank left the key policy rate unchanged at 1.50%, and raised the conditional interest rate path in the short term, closing the door for a near-term rate cut. While the press release stressed that *"the analyses... presented today imply that the key policy rate will remain at the present level to the end of 2015, rising gradually thereafter"* (basically unchanged from the wording in June), a first rate hike is not fully priced in until 1Q-17 according to the September conditional interest rate path (one quarter later than in the June path). The upward revision of the rate path in the short term was explained by a combination of higher capacity utilisation, higher inflation and a weaker-than-expected krone exchange rate, whereas the downward revision to the rate path in 2016-17 largely reflected lower interest rates abroad. The revisions to the rate path support our view that Norges Bank will stay on hold until higher key rates abroad ease the otherwise large appreciation pressure on the NOK. Hence, we maintain that initial tightening is unlikely to commence until 2016.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP - Mainland	YY	2.0	2.3	2.2	2.6	2.8	2.6
Final Domestic Demand	YY	2.5	1.9	2.3			
Private Consumption	YY	2.2	2.2	2.5			
Public Consumption	YY	1.9	2.1	2.3			
Fixed Investment	YY	4.5	0.7	1.8			
Exports of Goods & Services	YY	0.8	2.4	3.3			
Imports of Goods & Services	YY	2.9	1.4	2.3			
Consumer Prices	YY	2.1	2.0	2.1	2.1	2.2	2.4
Unemployment Rate	%	3.5	3.4	3.6	3.6	3.5	3.4
Current Account Balance	NOK bn	333.6	346.3	382.6	416.7	449.0	468.3
	% GDP	11.1	11.0	11.7	12.2	12.5	12.4
General Government Balance	% GDP	10.9	11.0	11.0	10.0	10.0	9.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.50	1.50	1.50	1.64	1.83	2.38
Ten-year Yield (Period Average)	%	2.57	2.51	2.31	2.51	2.66	2.91
EUR-NOK FX Rate (Annual Average)		7.81	8.26	8.20	7.81	7.52	7.27
USD-NOK FX Rate (Annual Average)		5.88	6.35	7.04	6.53	6.12	5.76

Note: Percentage changes unless indicated. Annual data are period averages. Sources: Norges Bank, Statistics Norway and Citi Research forecasts

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

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-0.4	0.8	1.4	1.8	1.8	1.8	1.4	0.6	1.1	1.3	1.6	1.7	2.4	2.8	3.0	3.0	2.9	2.8
Germany	0.2	1.5	1.8	2.1	1.9	1.8	1.5	1.0	1.7	2.1	2.4	2.4	7.1	7.3	7.4	6.9	6.7	6.5
France	0.4	0.4	1.0	1.8	1.9	2.0	1.0	0.8	1.3	1.5	1.6	1.7	-1.4	-0.7	-0.1	0.4	0.1	-0.1
Italy	-1.8	-0.4	0.3	0.8	0.8	0.9	1.3	0.2	0.1	0.4	0.9	1.1	1.0	1.6	1.7	1.7	1.6	1.6
Spain	-1.2	1.3	2.0	2.2	1.9	1.7	1.5	0.0	0.5	0.6	0.7	0.9	0.8	0.4	0.4	0.4	0.6	0.9
Greece	-3.9	0.1	1.3	1.6	1.7	1.8	-0.9	-1.1	-0.6	-0.6	0.0	0.8	0.8	1.6	2.0	1.9	1.9	1.9
Ireland	0.2	5.5	4.2	4.8	4.5	4.1	1.0	0.4	1.0	1.1	1.6	1.7	4.4	3.9	3.9	4.6	5.1	5.2
Portugal	-1.4	1.0	1.8	2.1	1.7	1.8	0.4	-0.1	0.3	0.1	0.7	1.0	0.5	0.5	0.7	0.9	1.4	1.6
Netherlands	-0.7	0.7	1.5	1.8	2.0	2.1	2.6	0.6	1.6	1.6	1.8	1.9	10.9	11.4	9.9	9.5	8.9	8.4
Belgium	0.2	1.1	1.5	1.9	1.8	2.0	1.2	0.6	1.3	1.7	1.8	1.9	-1.9	0.1	0.7	0.9	0.8	0.5
Slovakia	0.9	2.3	2.6	3.1	3.1	3.0	1.4	-0.1	1.2	1.9	2.2	2.5	2.1	0.3	-0.3	-0.3	-0.5	-0.8
Slovenia	-0.9	1.9	1.6	2.3	2.9	3.2	1.8	0.4	0.9	0.8	0.7	0.8	6.0	3.4	4.0	4.7	5.3	5.8
Austria*	0.4	1.7	1.7	1.6	1.4	1.4	2.1	1.8	1.7	1.7	1.7	1.7	3.0	3.5	3.5	3.5	3.6	3.7
Cyprus*	-6.0	-4.8	0.9	1.9	2.3	2.2	0.4	0.4	1.4	1.7	1.7	1.8	-1.5	0.1	0.3	0.6	0.5	0.0
Estonia*	0.8	2.4	3.2	3.5	3.6	3.7	3.5	3.2	2.8	2.5	2.4	2.3	-1.0	-1.3	-1.5	-1.4	-0.8	-0.4
Finland*	-1.4	0.4	1.1	1.5	1.6	1.8	2.2	1.7	1.5	1.7	1.9	2.0	-0.8	-0.3	0.2	0.4	0.6	0.5
Latvia*	4.1	3.8	4.4	4.2	4.1	4.0	0.0	1.5	2.5	2.3	2.3	2.3	-0.8	-1.6	-1.9	-2.0	-2.0	-2.0
Luxembourg*	2.0	2.1	1.9	2.0	2.2	2.2	1.7	1.6	1.8	1.8	1.8	1.9	6.7	6.7	5.5	5.5	5.2	5.1
Malta*	2.4	1.8	1.8	1.7	1.6	1.6	1.0	1.2	2.6	2.0	1.8	1.8	0.9	1.4	1.4	1.3	1.4	1.2
Denmark	0.4	0.6	1.3	1.7	1.9	2.0	0.8	0.7	1.2	1.6	1.9	2.0	7.2	6.7	5.7	5.4	5.6	5.5
Norway	2.0	2.3	2.2	2.6	2.8	2.6	2.1	2.0	2.1	2.1	2.2	2.4	11.1	11.0	11.7	12.2	12.5	12.4
Sweden	1.5	2.2	2.6	2.7	2.7	2.5	0.0	0.0	1.1	2.4	2.3	2.2	6.7	6.2	6.0	5.8	5.9	5.9
Switzerland	1.9	1.1	1.3	1.7	1.7	1.7	-0.2	0.1	1.1	1.1	0.9	1.0	16.0	13.1	11.9	11.3	10.8	10.0
United Kingdom	1.7	3.3	3.5	2.9	2.0	2.0	2.6	1.6	1.8	2.0	1.9	2.0	-4.5	-4.8	-5.7	-6.0	-5.7	-5.4

Note: All forecasts are Citi forecasts except for those marked with an asterisk. *IMF WEO, 8 April 2014. Sources: IMF and Citi Research forecasts

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

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-3.0	-2.7	-2.3	-1.7	-1.3	-0.9	-0.1	0.3	0.7	1.3	1.7	2.0	95.0	97.2	97.3	96.4	94.8	93.2
Germany	0.0	0.2	0.2	0.1	0.2	0.0	2.2	2.2	2.1	1.8	1.8	1.6	78.4	75.7	73.5	69.8	66.9	65.2
France	-4.3	-4.5	-4.2	-3.3	-2.4	-1.6	-2.0	-2.3	-2.0	-1.1	-0.2	0.6	93.5	97.4	99.5	99.7	98.7	96.7
Italy	-2.8	-3.0	-2.8	-2.1	-1.6	-1.1	2.1	1.6	1.6	2.1	2.4	2.7	127.9	130.8	132.8	133.1	132.9	131.4
Spain	-7.1	-5.6	-4.7	-3.6	-2.9	-2.4	-3.7	-2.3	-1.5	-0.6	0.0	0.4	93.9	99.1	101.5	101.9	101.7	101.2
Greece	-12.7	-2.2	-2.5	-1.9	-1.7	-1.3	-8.7	2.3	2.1	2.7	2.9	3.1	175.1	180.1	181.1	180.8	179.0	176.0
Ireland	-6.7	-2.0	0.7	2.2	3.3	4.5	-2.6	2.7	5.4	6.6	7.6	8.4	123.3	114.9	108.6	101.4	92.2	82.4
Portugal	-5.0	-4.2	-3.3	-2.6	-2.2	-1.9	-0.6	0.3	1.4	1.9	2.1	2.4	128.9	135.5	133.7	131.6	130.0	128.8
Netherlands	-2.4	-2.7	-2.1	-1.4	-1.0	-0.6	-0.7	-1.0	-0.4	0.3	0.7	1.0	73.5	74.8	74.1	73.0	71.3	69.2
Belgium	-2.7	-2.6	-2.3	-1.6	-1.0	-0.4	0.6	0.6	0.8	1.5	2.0	2.5	101.2	102.4	101.8	99.9	97.4	94.1
Slovakia	-2.8	-3.0	-2.8	-2.2	-1.8	-1.3	-1.5	-1.7	-1.5	-0.9	-0.5		55.4	55.5	55.6	53.4	51.8	50.7
Slovenia	-14.7	-4.5	-2.1	-3.3	-1.7	-1.4	-12.1	-1.6	0.7	-0.3	1.2	1.4	71.7	81.2	81.1	81.6	79.9	77.8
Austria*	-1.8	-3.0	-1.5	-1.3	-1.1	-1.0	0.2	-1.0	0.6	0.8	1.0	1.0	74.2	79.1	78.2	77.5	76.1	74.8
Cyprus*	-4.7	-5.2	-5.2	-2.0	-1.0	-0.2	-1.8	-1.8	-2.1	NA	NA	NA	112.0	121.5	125.8	122.5	116.1	111.6
Estonia*	-0.4	-0.4	0.2	0.6	0.8	1.1	-0.4	-0.4	0.2	0.6	0.9	1.2	11.3	10.9	10.3	9.6	8.9	8.2
Finland*	-2.6	-2.6	-1.9	-1.7	-1.6	-1.6	-2.6	-2.7	-2.1	-2.0	-1.9	-1.7	57.0	60.2	62.1	62.0	61.9	62.1
Latvia*	-1.3	-1.1	1.3	-1.6	-0.3	-0.5	-0.1	0.4	2.2	-0.6	0.7	0.5	32.1	32.7	29.3	31.3	30.5	28.4
Luxembourg*	0.0	0.1	-2.4	-2.4	-2.8	-3.0	0.4	0.5	-2.0	-2.2	-2.8	-3.2	22.9	24.1	27.0	29.8	32.9	35.8
Malta*	-2.9	-3.1	-3.3	-2.9	-2.9	-2.9	0.1	0.3	0.2	NA	NA	NA	71.7	72.5	72.6	72.6	72.9	73.1
Denmark	-0.9	-1.0	-2.3	-1.7	-1.0	-0.9							44.5	44.9	46.1	46.2	45.5	44.6
Norway	10.9	11.0	11.0	10.0	10.0	9.0							NA	NA	NA	NA	NA	NA
Sweden	-1.2	-2.1	-1.2	-0.3	0.5	1.2							37.5	38.8	38.6	36.9	34.7	31.9
Switzerland	0.0	-0.6	-0.4	-0.2	-0.1	-0.2							49.4	48.5	48.5	47.5	47.4	46.4
United Kingdom	-7.1	-5.9	-4.1	-1.9	-1.2	-0.4	-3.5	-2.3	-0.4	1.9	2.9	3.7	94.5	96.5	96.5	94.8	93.1	90.7

Note: All forecasts are Citi forecasts except those marked with an asterisk. For Spain, fiscal deficits include the effect of financial support for banks. For Greece, we assume further reductions in the cost of official loans. *IMF WEO, 8 Apr 2014. Sources: IMF and Citi Research forecasts

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

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Euro Area			-0.1		0.1	0.2		-0.1	0.2		0.1	0.1
Germany		-0.1	-0.2					0.3	1.1		0.1	0.1
France			0.1		0.1	0.1					-0.4	
Italy		-0.3	-0.5		0.1	0.3					0.3	-0.1
Spain		-0.1				0.2		-0.2	-0.1		-0.4	-0.9
Greece			-0.2			0.4		0.4	0.9		-0.7	-1.2
Ireland		-0.3	0.6		0.1			-0.2	-0.8		-0.1	0.1
Portugal		-0.1	-0.3		0.2	0.7						-0.2
Netherlands			0.2		-0.1	0.1			0.1			0.1
Belgium			0.2		-0.2	0.1					0.1	0.2
Slovakia			-0.1		-0.1	0.2		-1.1	-2.5			
Slovenia		0.9	0.2					0.1	0.5		-0.5	1.4
Denmark		-0.8	-0.4					0.1	0.1	0.1		0.3
Norway		0.3						-0.4				
Sweden	-0.1	0.2			0.1			0.3	-0.1		-0.2	-0.3
Switzerland	-0.1	-0.9	-1.3					-0.4	-0.9		-0.4	-0.9
United Kingdom		-0.1	-0.2			0.1		-0.7	-1.2		-0.3	-0.5

Source: Citi Research

Figure 23. Euro Area Countries – Economic Forecasts Compared, 2014-16F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Euro Area - Citi Forecast	24-Sep-14	0.8	1.4	1.8	-2.7	-2.3	-1.7	97.2	97.3	96.4
OECD Economic Outlook	06-May-14	1.2	1.7	NA	-2.5	-1.8	NA	96.0	95.2	NA
EU Commission Forecast	05-May-14	1.2	1.7	NA	-2.5	-2.3	NA	96.0	95.4	NA
IMF WEO Forecast	08-Apr-14	1.1	1.5*	1.5	-2.6	-2.0	-1.4	95.6	94.5	92.6
ECB Forecast - mid-point	04-Sep-14	0.6	1.6	1.9	-2.6	-2.4	-1.9	93.9	93.1	91.5
Germany - Citi Forecast	24-Sep-14	1.5	1.8	2.1	0.0	0.2	0.2	75.7	73.5	69.8
OECD Economic Outlook	06-May-14	1.9	2.1	NA	-0.2	0.2	NA	76.3	72.3	NA
EU Commission Forecast	05-May-14	1.8	2.0	NA	0.0	-0.1	NA	76.0	73.6	NA
IMF WEO Forecast	08-Apr-14	1.9*	1.7*	1.4	0.0	-0.1	0.2	74.6	67.0	70.8
France - Citi Forecast	24-Sep-14	0.4	1.0	1.8	-4.5	-4.2	-3.3	97.4	99.5	99.7
OECD Economic Outlook	06-May-14	0.9	1.5	NA	-3.8	-3.1	NA	95.9	96.9	NA
EU Commission Forecast	05-May-14	1.0	1.5	NA	-3.9	-3.4	NA	95.6	96.6	NA
IMF WEO Forecast	08-Apr-14	0.7*	1.4*	1.7	-3.7	-3.0	-2.1	95.8	96.1	95.3
Italy - Citi Forecast	24-Sep-14	-0.4	0.3	0.8	-3.0	-2.8	-2.1	130.8	132.8	133.1
OECD Economic Outlook	06-May-14	0.6	1.2	NA	-2.7	-2.1	NA	134.3	134.5	NA
EU Commission Forecast	05-May-14	0.6	1.2	NA	-2.6	-2.2	NA	135.2	133.9	NA
IMF WEO Forecast	08-Apr-14	0.3*	1.1	1.3	-2.7	-1.8	-0.8	134.5	133.1	130.5
Spain - Citi Forecast	24-Sep-14	1.3	2.0	2.2	-5.6	-4.7	-3.6	99.1	101.5	101.9
OECD Economic Outlook	06-May-14	1.0	1.5	NA	-5.5	-4.5	NA	98.3	101.4	NA
EU Commission Forecast	05-May-14	1.1	2.1	NA	-5.6	-6.1	NA	100.2	103.8	NA
IMF WEO Forecast	08-Apr-14	1.2*	1.6*	1.1	-5.9	-4.9	-3.9	98.8	102.0	103.7
Greece - Citi Forecast	24-Sep-14	0.1	1.3	1.6	-2.2	-2.5	-1.9	180.1	181.1	180.8
OECD Economic Outlook	06-May-14	-0.3	1.9	NA	-2.5	-1.4	NA	177.7	177.2	NA
EU Commission Forecast	05-May-14	0.6	2.9	NA	-1.6	-1.0	NA	177.2	172.4	NA
IMF WEO Forecast	08-Apr-14	0.6	2.9	3.7	-2.7	-1.9	-0.7	174.7	171.3	162.5
Ireland - Citi Forecast	24-Sep-14	5.5	4.2	4.8	-2.0	0.7	2.2	114.9	108.6	101.4
OECD Economic Outlook	06-May-14	1.9	2.2	NA	-4.7	-3.1	NA	121.9	121.1	NA
EU Commission Forecast	05-May-14	1.7	3.0	NA	-4.8	-4.2	NA	121.0	120.4	NA
IMF WEO Forecast	08-Apr-14	1.7	2.5	2.5	-5.1	-3.0	-2.4	123.7	122.7	119.6
Portugal - Citi Forecast	24-Sep-14	1.0	1.8	2.1	-4.2	-3.3	-2.6	135.5	133.7	131.6
OECD Economic Outlook	06-May-14	1.1	1.4	NA	-4.0	-2.4	NA	130.8	131.8	NA
EU Commission Forecast	05-May-14	1.2	1.5	NA	-4.0	-2.5	NA	126.7	124.8	NA
IMF WEO Forecast	08-Apr-14	1.2	1.5	1.7	-4.0	-2.5	-2.0	126.7	124.8	122.6
Netherlands - Citi Forecast	24-Sep-14	0.7	1.5	1.8	-2.7	-2.1	-1.4	74.8	74.1	73.0
OECD Economic Outlook	06-May-14	1.0	1.3	NA	-2.7	-2.0	NA	74.7	74.9	NA
EU Commission Forecast	05-May-14	1.2	1.4	NA	-2.8	-1.8	NA	73.8	73.4	NA
IMF WEO Forecast	08-Apr-14	0.8	1.6	1.7	-3.0	-2.0	-1.7	75.0	74.4	74.1
Belgium - Citi Forecast	24-Sep-14	1.1	1.5	1.9	-2.6	-2.3	-1.6	102.4	101.8	99.9
OECD Economic Outlook	06-May-14	1.5	1.9	NA	-2.1	-1.2	NA	101.7	100.3	NA
EU Commission Forecast	05-May-14	1.4	1.6	NA	-2.6	-2.8	NA	101.7	101.5	NA
IMF WEO Forecast	08-Apr-14	1.2	1.2	1.3	-2.5	-2.1	-1.5	99.8	99.6	98.6
Slovakia - Citi Forecast	24-Sep-14	2.3	2.6	3.1	-3.0	-2.8	-2.2	55.4	55.6	53.4
OECD Economic Outlook	06-May-14	2.0	2.9	NA	-2.7	-2.6	NA	55.2	56.2	NA
EU Commission Forecast	05-May-14	2.2	3.1	NA	-2.9	-2.8	NA	56.3	57.8	NA
IMF WEO Forecast	08-Apr-14	2.3	3.0	3.5	-3.8	-3.8	-3.8	58.6	59.8	60.4
Slovenia - Citi Forecast	24-Sep-14	1.9	1.6	2.3	-4.5	-2.1	-3.3	81.2	81.1	81.6
OECD Economic Outlook	06-May-14	0.3	1.2	NA	-4.1	-2.6	NA	77.2	80.9	NA
EU Commission Forecast	05-May-14	0.8	1.4	NA	-4.3	-3.1	NA	80.4	81.3	NA
IMF WEO Forecast	08-Apr-14	0.3	0.9	1.5	-5.5	-4.1	-4.0	74.9	77.9	80.0

*IMF WEO update, 24 July 2014. 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, 2014-16F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	1.5	2.1	NA	-2.8	-1.3	NA	81.2	80.7	NA
EU Commission Forecast	05-May-14	1.6	1.8	NA	-2.8	-1.5	NA	80.3	79.2	NA
IMF WEO Forecast	08-Apr-14	1.7	1.7	1.6	-3.0	-1.5	-1.3	79.1	78.2	77.5
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-May-14	-4.8	0.9	NA	-5.8	-6.1	NA	122.2	126.4	NA
IMF WEO Forecast	08-Apr-14	-4.8	0.9	1.9	-5.2	-5.2	-2.0	121.5	125.8	122.5
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	1.2	3.1	NA	-0.2	-0.1	NA	9.9	9.7	NA
EU Commission Forecast	05-May-14	1.9	3.0	NA	-0.5	-0.6	NA	9.8	9.6	NA
IMF WEO Forecast	08-Apr-14	2.4	3.2	3.5	-0.4	0.2	0.6	10.9	10.3	9.6
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	0.2	1.1	NA	-2.2	-0.9	NA	59.9	60.7	NA
EU Commission Forecast	05-May-14	0.2	1.0	NA	-2.3	-1.3	NA	59.9	61.2	NA
IMF WEO Forecast	08-Apr-14	0.4	1.1	1.5	-2.6	-1.9	-1.7	60.2	62.1	62.0
Latvia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EC Commission Forecast	05-May-14	3.8	4.1	NA	-1.0	-1.1	NA	39.5	33.4	NA
IMF WEO Forecast	08-Apr-14	3.8	4.4	4.2	-1.1	1.3	-1.6	32.7	29.3	31.3
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	2.8	2.5	NA	0.3	-0.9	NA	24.4	26.3	NA
EU Commission Forecast	05-May-14	2.6	2.7	NA	-0.2	-1.4	NA	23.4	25.5	NA
IMF WEO Forecast	08-Apr-14	2.1	1.9	2.0	0.1	-2.4	-2.4	24.1	27.0	29.8
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-May-14	2.3	2.3	NA	-2.5	-2.5	NA	72.5	71.1	NA
IMF WEO Forecast	08-Apr-14	1.8	1.8	1.7	-3.1	-3.3	-2.9	72.5	72.6	72.6

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

Figure 25. Selected European Countries – Economic Forecasts Compared, 2014-16F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Denmark - Citi Forecast	24-Sep-14	0.6	1.3	1.7	-1.0	-2.3	-1.7	44.9	46.1	46.2
OECD Economic Outlook	06-May-14	1.4	1.8	NA	-1.5	-3.0	NA	45.8	48.6	NA
EU Commission Forecast	05-May-14	1.5	1.9	NA	-1.2	-2.7	NA	43.5	44.9	NA
IMF WEO Forecast	08-Apr-14	1.5	1.7	1.7	-1.4	-2.7	-2.2	45.6	46.9	47.5
Norway - Citi Forecast	24-Sep-14	2.3	2.2	1.6	11.0	11.0	10.0	NA	NA	NA
OECD Economic Outlook	06-May-14	2.0	2.4	NA	10.7	10.2	NA	36.7	39.6	NA
IMF WEO Forecast	05-May-14	1.8	1.9	2.0	11.2	9.9	8.9	29.5	29.5	29.5
Sweden - Citi Forecast	24-Sep-14	2.2	2.6	2.7	-2.1	-1.2	-0.3	38.8	38.6	36.9
OECD Economic Outlook	06-May-14	2.8	3.1	NA	-1.5	-0.8	NA	42.0	41.7	NA
EU Commission Forecast	05-May-14	2.8	3.0	NA	-1.8	-0.8	NA	41.6	40.4	NA
IMF WEO Forecast	08-Apr-14	2.8	2.6	2.5	-1.3	-0.5	0.0	41.5	40.0	38.0
Switzerland - Citi Forecast	24-Sep-14	1.1	1.3	1.7	-0.6	-0.4	-0.2	48.5	48.5	17.5
OECD Economic Outlook	06-May-14	2.0	2.5	NA	0.1	0.3	NA	45.9	45.3	NA
IMF WEO Forecast	08-Apr-14	2.1	2.2	2.0	-0.2	0.4	0.7	48.1	47.3	45.4
UK - Citi Forecast	24-Sep-14	3.3	3.5	2.9	-5.9	-4.1	-1.9	96.5	96.5	94.8
OECD Economic Outlook	06-May-14	3.2	2.7	NA	-5.3	-4.1	NA	91.5	93.1	NA
EU Commission Forecast	05-May-14	2.7	2.5	NA	-5.1	-4.1	NA	91.8	92.7	NA
IMF WEO Forecast	08-Apr-14	3.2*	2.7*	2.5	-5.3	-4.1	-2.9	91.5	92.7	92.5
OBR	19-Mar-14	2.7	2.3	2.3	-5.5	-4.2	-4.2	91.9	85.8	85.8

*IMF WEO update, 24 July 2014. Note: Values for UK fiscal balance and debt exclude Royal Mail and APF transfers. Negative fiscal balances imply deficit. WEO *World Economic Outlook*. Sources: EU Commission, IMF, OBR, OECD and Citi Research forecasts

Appendix A-1

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