

European Economic Forecast Highlights

February 2014

- This companion to *Global Economic Outlook and Strategy - February 2014* gives detailed quarterly forecasts for the main European countries to end 2015. Figures 20-21 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt. Figure 22 shows the change in our forecasts from last month. Figures 23-25 show how our forecasts compare with those from the EU Commission, IMF and OECD.
- **Euro Area** — We leave our 2014-15 GDP forecasts unchanged, expecting the modest recovery to continue. Financial market fragmentation is receding and investors are showing steady appetite for periphery government debt, ignoring the German constitutional court's decision to refer the OMT to the European Court of Justice. We believe that the ECB will cut its refi rate to 0.1% in March to counteract risks of a very subdued inflation trajectory extending into 2016.
- **UK** — The unusually heavy rainfall of recent weeks does not seem to be seriously denting growth. With solid growth and rising capacity use, we expect the MPC will start to hike rates around Q4 this year.

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

	History	Forecast				
	2013	2014	2015	2016	2017	2018
Euro Area	0.50	0.13	0.10	0.11	0.42	0.92
Denmark	0.20	0.20	0.25	0.47	0.78	1.00
Norway	1.50	1.50	1.71	2.08	2.74	3.33
Sweden	0.99	0.75	0.98	1.42	2.18	2.80
Switzerland	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	0.50	0.54	1.58	2.00	2.21	2.71

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2014F	2015F	2014F	2015F
Euro Area - Citi Forecast	26-Feb-14	1.1	1.3	0.7	0.7
EU Commission Forecast	25-Feb-14	1.2	1.8	1.0	1.3
IMF WEO Forecast	21-Jan-14	1.0	1.4	1.5	1.4
ECB Forecast - mid-point	05-Dec-13	1.1	1.5	1.1	1.3
OECD <i>Economic Outlook</i>	19-Nov-13	1.0	1.6	1.2	1.2
Consensus Economics	10-Feb-14	1.0	1.4	1.0	1.4

Source: Citi Research

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At 0.3% QQ, euro area 4Q GDP growth was slightly stronger than consensus expectations, but in line with our forecast. With survey evidence pointing to a largely similar performance in Jan/Feb, we are comfortable with our baseline scenario of another 0.3% QQ gain in 1Q-14. With little evidence of much improvement in credit dynamics, we doubt that the overall picture has changed sufficiently for the ECB to alter its assessment that the balance of risks to economic activity continues to lie to the downside.

Yet financial fragmentation is declining as indicated by further compression in various corporate spreads, and investors' risk appetite is increasing — illustrated by further compression in periphery sovereign bond spreads. So far, investors appear to have digested the [German Constitutional Court's decision](#) to refer to the ECJ three aspects of the OMT (pari passu status, 'unlimitedness' and its potential of affecting market price) as probably in violation of the ECB's mandate. With the OMT under threat, a mechanism to support spread compression could prove valuable if the risk-free rate begins to increase. In this context, the [European Reward System](#) seems to have significant support.

Looking ahead to the March 7 ECB meeting, if (as we think likely) headline inflation in February drops to around 0.7% YY, and the ECB's 2016 mid-point inflation forecast (to be released for the first time) is around 1.5% — ie well below the ECB's "less but close to 2%" target — we think that the ECB will cut its main refinancing rate by 15bp to 0.1%, but leave the deposit rate at 0%. This, and a probable decision in March to publish ECB meeting Minutes, should help buy the ECB more time until the June meeting, when we expect the deposit rate to be cut to -10bp.

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

		History			Forecast				History				Forecast							
		2013	2014	2015	2013	2014	2015		1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-0.4	1.1	1.3					-1.2	-0.6	-0.3	0.5	1.0	1.0	1.2	1.3	1.3	1.3	1.3	1.3
	QQ SAAR								-0.9	1.3	0.5	1.1	1.2	1.2	1.3	1.4	1.2	1.2	1.4	1.3
Final Domestic Demand	YY	-0.8	1.0	1.2					-1.8	-1.0	-0.6	0.2	0.9	1.0	1.1	1.1	1.1	1.2	1.2	1.2
Private Consumption	YY	-0.5	0.8	1.2					-1.2	-0.6	-0.4	0.3	0.6	0.7	0.9	1.0	1.1	1.2	1.2	1.3
Public Consumption	YY	0.3	0.3	0.2					-0.1	0.1	0.5	0.5	0.3	0.4	0.3	0.4	0.3	0.2	0.1	0.1
Fixed Investment	YY	-2.9	2.6	2.4					-5.5	-3.5	-2.4	-0.2	2.4	2.7	2.7	2.4	2.3	2.4	2.5	2.5
-- Business Equipment	YY	-2.0	3.5	3.5					-5.1	-2.2	-1.4	0.8	3.1	3.3	3.9	3.6	3.8	3.5	3.4	3.3
-- Construction	YY	-3.8	1.5	1.9					-5.9	-4.5	-3.2	-1.4	1.3	1.8	1.3	1.4	1.4	1.9	2.1	2.2
Stocks (Contrib. to YY GDP Growth)		-0.2	0.0	0.0					-0.3	-0.4	0.1	-0.2	-0.2	0.0	-0.2	0.3	0.2	0.1	-0.1	-0.2
Exports of Goods and Services	YY	1.3	2.9	3.4					0.1	1.3	0.9	2.7	4.2	2.6	2.7	2.0	2.5	3.0	3.7	4.4
Imports of Goods and Services	YY	0.1	2.9	3.4					-1.9	-0.3	0.6	1.9	3.7	2.8	2.3	2.6	2.8	3.2	3.6	4.1
Consumer Prices	YY	1.4	0.7	0.7					1.9	1.4	1.3	0.8	0.6	0.8	0.5	0.7	0.9	0.8	0.7	0.6
Core CPI (ex Food, Energy, Tobacco)	YY	1.1	0.7	0.3					1.4	1.1	1.1	0.8	0.7	0.8	0.6	0.6	0.5	0.3	0.3	0.2
CPI Ex Energy and Unprocessed Food	YY	1.3	0.8	0.4					1.5	1.3	1.3	1.0	0.9	1.0	0.7	0.7	0.6	0.4	0.4	0.3
Unemployment Rate	YY	12.1	11.9	11.6					12.0	12.1	12.1	12.0	12.0	12.0	11.8	11.8	11.8	11.7	11.5	11.4
Current Account Balance	€ bn	212.7	247.5	261.1																
	% GDP	2.2	2.5	2.6																
General Government Balance	€ bn	-275.2	-238.2	-205.4																
	% GDP	-2.9	-2.4	-2.1																
Primary Balance	% GDP	0.1	0.5	1.0																
General Government Debt	€ bn	9160.5	9447.4	9632.9																
	% GDP	95.7	97.1	97.2																
Gross Operating Surplus	YY	1.3	2.5	2.3																
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.50	0.13	0.10					1.00	0.75	0.50	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Ten-year Bund yield (Period Avg.)	%	1.60	1.71	1.90					1.51	1.40	1.78	1.80	1.70	1.65	1.70	1.80	1.90	1.90	NA	NA
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.23	1.39	1.41					1.28	1.30	1.35	1.38	1.37	1.38	1.39	1.40	1.40	1.40	1.41	1.41

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

Germany

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Our forecasts remain mostly unchanged this month and we expect the German economy to grow by around 2% YY in 2014-5, driven by rising house prices, receding uncertainties and a pickup in household income growth. On the other hand, inflation remains low for now, as Germany continues to import disinflationary pressure due to the strong euro, plus low energy and other import prices. Towards H2 this year, higher domestic wage growth (partly due to the national minimum wage to be introduced in 2015) and slightly moderating external disinflation should raise inflation, leading us to expect 1.5% inflation in 2014 as a whole, and 1.9% in 2015, from 1.3% YY in January 2014.

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

		History			Forecast				History								Forecast							
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15								
Real GDP	YY	0.5	2.0	2.1	-0.3	0.5	0.6	1.4	1.9	1.8	2.1	2.3	2.3	2.2	2.1	1.9								
	QQ SAAR				0.0	2.9	1.3	1.5	1.9	2.4	2.4	2.6	1.8	2.0	2.1	1.8								
Final Domestic Demand	YY	0.7	2.2	2.6	-0.3	0.7	1.0	1.2	1.9	2.0	2.2	2.6	2.7	2.6	2.7	2.6								
	QQ SAAR				-0.2	2.1	2.3	0.8	2.4	2.6	2.9	2.6	2.5	2.6	2.9	2.3								
Private Consumption	YY	1.0	1.5	2.4	0.6	1.2	1.1	1.0	1.2	1.1	1.6	2.2	2.3	2.3	2.4	2.4								
	QQ SAAR				1.1	2.5	0.8	-0.3	1.8	2.2	2.6	2.2	2.1	2.3	3.0	2.2								
Public Consumption	YY	0.7	1.2	1.2	0.4	0.5	1.0	1.0	1.0	1.8	0.9	1.2	1.2	1.2	1.2	1.2								
	QQ SAAR				0.8	-1.6	4.8	-0.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2								
Fixed Investment	YY	-0.6	5.5	5.0	-3.8	-0.9	0.3	2.3	5.2	5.5	5.6	5.6	5.4	5.2	4.9	4.6								
	QQ SAAR				-5.5	4.8	4.8	5.6	5.7	5.8	5.5	5.3	5.1	4.8	4.5	4.1								
-- Business Equipment	YY	-2.2	4.5	4.4	-6.0	-1.9	-1.2	0.5	3.2	4.2	5.5	5.2	5.1	4.5	4.2	4.0								
	QQ SAAR				-5.7	2.0	0.3	5.6	5.0	5.9	5.3	4.6	4.5	3.6	4.1	3.7								
-- Construction	YY	0.2	5.9	5.1	-3.0	-0.8	1.1	3.7	6.7	6.1	5.3	5.3	5.2	5.3	5.1	4.7								
	QQ SAAR				-5.7	6.9	8.5	5.8	5.8	4.6	5.2	5.7	5.3	5.2	4.4	3.9								
Stocks (Contrib. to YY GDP Growth)		0.2	0.0	0.0	0.1	-0.1	0.4	0.3	-0.2	0.1	0.1	0.0	0.0	0.0	-0.1	-0.1								
Exports of Goods and Services	YY	1.0	3.3	3.7	-0.7	0.2	0.0	4.3	5.5	3.6	3.4	1.0	2.0	2.8	4.3	5.7								
	QQ SAAR				-4.0	10.1	0.9	11.0	0.3	2.3	0.2	1.1	4.4	5.7	6.1	6.7								
Imports of Goods and Services	YY	1.0	3.6	4.9	-0.6	0.6	1.3	2.9	4.1	3.4	3.5	3.5	4.0	4.3	5.0	6.1								
	QQ SAAR				-2.1	8.0	3.4	2.6	2.7	4.9	4.0	2.6	4.6	6.0	7.0	7.1								
Net Exports (Contrib. to YY GDP Growth)		0.0	0.1	-0.3	-0.3	0.4	-0.3	1.1	-0.3	-0.2	-0.4	-0.1	0.1	0.1	0.1	0.1								
Consumer Prices	YY	1.5	1.5	1.9	1.5	1.5	1.6	1.3	1.3	1.4	1.5	1.7	1.9	1.9	1.8	1.8								
Compensation per Employee	YY	2.4	2.3	2.4	2.6	2.4	2.4	2.3	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4								
Employment Growth	YY	0.6	0.6	0.7	0.6	0.5	0.5	0.6	0.4	0.4	0.8	0.8	0.9	0.8	0.5	0.5								
Unemployment Rate (ILO)	%	5.3	5.1	4.8	5.4	5.3	5.3	5.1	5.3	5.3	4.7	4.9	5.0	4.9	4.6	4.8								
Current Account Balance	€ bn	201.7	176.9	159.0																				
	% GDP	7.3	6.3	5.5																				
General Government Balance	€ bn	0.3	-0.8	-0.3																				
	% GDP	0.0	0.0	0.0																				
Primary Balance	% GDP	2.4	2.2	2.1																				
General Government Debt	€ bn	2176.1	2162.7	2148.4																				
	% GDP	78.6	76.6	73.8																				
Gross Trading Profits	YY	2.3	4.8	4.7	-4.7	2.2	3.3	8.8	4.9	5.5	4.5	4.4	4.7	4.4	5.2	4.6								

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.

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French 4Q GDP rose by 0.3% QQ, beating the 0.2% consensus, but undershooting our 0.4% QQ forecast. The split showed a solid gain in final domestic demand (0.5% QQ, 0.8% YY), thanks to a positive contribution from investment for the first time in eight quarters and a solid performance in household spending. In addition, the 4Q employment report showed that 14.7k private sector jobs had been created (+0.1% QQ, -0.4% YY), the first gain since 2Q-11, thanks to better dynamism in services. That both investment and employment are rebounding a little earlier than we had anticipated highlights a slight upside risk to our 0.9% 2014 GDP baseline. But it is clear that President Hollande must deliver quickly on his 'Responsibility Pact' to cement the improvement in business sentiment visible in 4Q-13.

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

		History			Forecast		History				Forecast							
		2013	2014	2015			1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.3	0.9	1.1			-0.4	0.5	0.3	0.8	1.1	0.7	0.9	0.8	0.9	1.0	1.1	1.2
	QQ SAAR						-0.2	2.3	-0.2	1.2	0.9	0.8	0.7	1.0	1.2	1.2	1.2	1.3
Final Domestic Demand	YY	0.3	0.7	0.7			-0.3	0.3	0.3	0.8	0.9	0.6	0.7	0.4	0.6	0.6	0.8	0.9
	QQ SAAR						-0.2	1.4	0.2	1.9	0.2	0.3	0.6	0.6	0.7	0.7	1.0	1.0
Private Consumption	YY	0.4	0.7	0.8			-0.4	0.6	0.5	0.9	1.0	0.7	0.7	0.4	0.6	0.7	0.9	1.0
	QQ SAAR						0.0	1.7	0.3	1.8	0.2	0.4	0.6	0.6	0.8	0.8	1.2	1.2
Public Consumption	YY	1.7	0.8	0.1			1.6	1.9	1.7	1.7	1.4	0.8	0.7	0.4	0.3	0.2	0.1	0.0
	QQ SAAR						1.5	2.9	0.9	1.4	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Fixed Investment	YY	-2.1	0.4	1.2			-2.7	-2.7	-2.3	-0.8	0.0	0.3	0.8	0.4	0.8	1.1	1.3	1.6
	QQ SAAR						-3.0	-1.3	-1.3	2.5	0.0	0.0	0.8	0.8	1.5	1.5	1.6	1.6
-- Businesses	YY	-2.3	0.7	1.6			-3.4	-2.9	-2.4	-0.5	0.4	0.5	1.2	0.6	1.1	1.6	1.8	2.0
	QQ SAAR						-3.6	-0.4	-1.4	3.6	0.0	0.0	1.2	1.2	2.0	2.0	2.0	2.0
-- Households	YY	-3.8	-0.7	0.7			-2.8	-4.4	-4.5	-3.6	-2.3	-0.7	0.0	0.2	0.4	0.6	0.8	1.0
	QQ SAAR						-5.0	-6.3	-2.4	-0.5	0.0	0.0	0.4	0.4	0.8	0.8	1.2	1.2
Stocks (Contrib. to YY GDP Growth)		0.1	0.1	0.1			0.2	0.0	0.6	-0.3	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	0.6	2.0	2.6			-0.4	1.5	-0.4	1.5	2.4	0.7	2.7	2.2	2.3	2.4	2.7	2.9
	QQ SAAR						-1.8	10.0	-6.1	4.7	1.8	2.6	1.7	2.6	2.5	2.6	3.0	3.3
Imports of Goods and Services	YY	0.8	1.7	1.5			-1.0	0.2	1.1	2.8	3.0	1.7	1.2	1.0	1.2	1.4	1.6	1.8
	QQ SAAR						0.2	5.9	3.1	2.1	0.8	0.8	1.2	1.2	1.6	1.6	2.0	2.0
Net Exports (Contrib. to YY GDP Growth)		-0.1	0.0	0.3			-0.1	0.2	-0.7	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	1.0	1.0	1.2			1.2	0.9	1.1	0.8	0.8	1.1	0.9	1.2	1.2	1.2	1.2	1.2
Average Monthly Wages	YY	1.9	2.0	2.0														
Employment Growth (Private-Sector)	YY	-0.8	0.3	1.5														
Unemployment Rate	%	10.5	10.6	10.3			10.4	10.4	10.5	10.6	10.6	10.7	10.6	10.6	10.5	10.3	10.3	10.1
Current Account Balance	€ bn	-31.6	-16.0	-2.8														
	% GDP	-1.5	-0.8	-0.1														
General Government Balance	€ bn	-84.3	-75.3	-66.3														
	% GDP	-4.1	-3.6	-3.1														
Primary Balance	% GDP	-1.5	-1.0	-0.4														
General Government Debt	€ bn	1930.2	2012.8	2079.1														
	% GDP	93.9	96.3	97.4														
Gross Trading Profits	YY	0.9	2.5	2.7														

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

Italy

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Q4 GDP posted the first QQ gain in 10 quarters, although at a still meagre 0.1% QQ pace. The recovery is lagging behind the euro area average, as the relative smaller adjustment in corporate balance sheets and poor competitiveness are preventing a more widespread improvement in the domestic economy. The decline in private consumption is likely to ease further, thanks to the broadly neutral fiscal stance and lower inflation. Payments of government debt arrears are boosting corporate liquidity, which should lift investment in H1 14, despite still-tight credit conditions. We expect inflation to weaken further amid ample spare capacity and the strong euro. Political instability is likely to persist even after the new Renzi-led government takes office, with some material risks of early elections later on this year. This will leave little scope for any progress on reforms beyond a new electoral law.

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

		History			Forecast			History				Forecast							
		2013	2014	2015				1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-1.9	0.3	0.3				-2.6	-2.3	-1.9	-0.8	0.0	0.4	0.5	0.5	0.3	0.3	0.4	0.4
	QQ SAAR							-2.5	-1.2	-0.1	0.5	0.6	0.4	0.4	0.4	0.1	0.4	0.5	0.6
Final Domestic Demand	YY	-2.5	0.3	0.4				-3.4	-3.0	-2.1	-1.2	-0.3	0.2	0.6	0.6	0.5	0.3	0.3	0.3
	QQ SAAR							-3.2	-1.2	-0.9	0.4	0.8	0.8	0.3	0.5	0.3	0.3	0.3	0.3
Private Consumption	YY	-2.4	0.0	0.3				-3.2	-3.2	-2.0	-1.2	-0.6	0.0	0.3	0.3	0.3	0.3	0.3	0.3
	QQ SAAR							-2.0	-2.1	-0.9	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Public Consumption	YY	-0.1	0.1	-0.5				-0.7	-0.2	0.1	0.2	0.1	0.1	0.1	0.0	-0.2	-0.4	-0.6	-0.8
	QQ SAAR							0.4	0.1	0.1	0.4	0.0	0.0	0.0	0.0	-0.8	-0.8	-0.8	-0.8
Fixed Investment	YY	-5.4	1.4	1.6				-7.3	-5.8	-5.1	-3.4	0.3	1.1	1.9	2.2	1.8	1.4	1.6	1.6
	QQ SAAR							-11.2	0.0	-2.2	0.4	3.2	3.2	0.8	1.6	1.6	1.6	1.6	1.6
-- Business Equipment	YY	-4.1	4.2	3.4				-7.4	-3.9	-4.1	-0.8	2.6	3.5	5.5	5.4	4.5	3.3	3.1	2.6
	QQ SAAR							-7.0	3.8	-4.5	5.0	6.5	7.3	3.1	4.7	2.7	2.7	2.4	2.4
-- Construction	YY	-6.6	-1.4	-0.2				-7.2	-7.5	-6.0	-5.8	-1.9	-1.2	-1.6	-1.0	-0.9	-0.6	0.0	0.6
	QQ SAAR							-15.1	-3.6	0.1	-3.9	0.0	-0.8	-1.6	-1.6	0.4	0.4	0.8	0.8
Exports of Goods and Services	YY	0.1	1.8	2.4				-0.6	0.2	0.0	0.9	2.4	1.8	1.5	1.6	1.8	2.4	2.8	2.6
	QQ SAAR							-4.7	2.7	2.7	3.2	0.8	0.4	1.5	3.7	1.7	2.6	3.2	3.0
Imports of Goods and Services	YY	-2.5	1.7	2.5				-4.8	-4.7	-1.2	0.6	1.4	2.6	1.0	1.9	2.2	2.4	2.7	2.6
	QQ SAAR							-1.9	-2.9	8.3	-0.8	1.3	1.8	1.5	2.8	2.7	2.6	2.7	2.4
Net Exports (Contrib. to YY GDP Growth)		0.7	0.1	0.1				1.1	1.3	0.3	0.1	0.3	-0.1	0.2	0.0	0.0	0.1	0.1	0.1
Consumer Prices	YY	1.3	0.3	-0.3				2.1	1.3	1.1	0.7	0.5	0.5	0.2	0.1	0.0	-0.1	-0.4	-0.6
Compensation per Employee	NA	NA	NA	NA															
Employment Growth		-1.9	-0.8	0.0															
Unemployment Rate	%	12.2	12.7	12.6															
Current Account Balance	€ bn	13.6	21.0	25.6															
	% GDP	0.9	1.3	1.6															
General Government Balance	€ bn	-48.7	-43.3	-38.1															
	% GDP	-3.1	-2.8	-2.4															
Primary Balance	% GDP	2.4	2.5	2.8															
General Government Debt	€ bn	2068	2137	2176															
	% GDP	132.7	136.6	138.9															

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 keep our forecast for real GDP in 2014 at 0.9% and 2015 at 1.1%, based on supportive signs that the economic recovery is maintaining momentum in Q1 14. Survey data remains strong (PMIs back to pre-crisis levels), while employment has shown first signs of expansion. Competitiveness gains and a strengthened balance sheet position of firms should allow for a pick-up in investment, while improvements in real disposable income (thanks to falling inflation) should boost private consumption, despite ongoing deleveraging pressures and a record-low saving rate.

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

		History			Forecast			History				Forecast							
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-1.2	0.9	1.1				-2.0	-1.6	-1.1	-0.1	0.6	1.0	1.0	0.9	0.9	0.9	1.1	1.3
	QQ SAAR							-1.5	-0.4	0.5	1.2	1.3	0.8	0.9	0.7	1.2	1.0	1.7	1.3
Final Domestic Demand	YY	-2.8	0.5	0.6				-4.5	-3.8	-2.5	-0.4	0.2	0.7	0.6	0.5	0.3	0.6	0.6	0.7
	QQ SAAR							-1.5	-2.5	1.2	1.1	0.9	-0.3	0.6	0.9	0.0	0.8	0.6	1.5
Private Consumption	YY	-2.4	1.1	1.0				-4.3	-3.3	-2.2	0.1	1.0	1.2	1.1	1.0	0.8	1.0	1.0	1.2
	QQ SAAR							-2.3	-0.1	1.6	1.5	1.0	0.6	1.3	1.1	0.3	1.4	1.1	1.8
Government Consumption	YY	-1.0	-0.3	-0.9				-2.0	-2.8	0.3	0.5	-0.9	0.0	-0.2	-0.1	-0.4	-0.8	-1.0	-1.1
	QQ SAAR							5.5	-3.5	0.5	-0.3	0.0	0.0	-0.4	0.0	-1.4	-1.4	-1.4	-0.4
Fixed Investment	YY	-5.8	-0.2	0.8				-7.5	-6.3	-6.2	-2.9	-1.0	0.3	0.0	-0.1	-0.3	0.8	1.2	1.5
	QQ SAAR							-6.1	-7.8	0.9	1.6	1.6	-2.9	-0.3	1.3	0.8	1.4	1.2	2.5
-- Business Equipment	YY	1.7	5.9	4.9				-3.0	1.0	0.4	8.5	8.1	6.3	5.0	4.3	4.1	4.9	5.3	5.5
	QQ SAAR							8.1	9.6	8.1	8.1	6.8	2.3	2.9	5.2	6.1	5.2	4.9	5.8
-- Construction	YY	-10.2	-4.3	-2.3				-10.2	-10.6	-10.3	-9.7	-6.7	-3.8	-3.5	-3.2	-3.5	-2.2	-1.9	-1.6
	QQ SAAR							-13.9	-17.6	-3.8	-2.7	-2.0	-6.6	-2.6	-1.5	-3.1	-1.5	-1.6	-0.1
Exports of Goods and Services	YY	5.0	5.4	4.9				3.1	9.1	4.7	3.4	10.3	4.1	2.6	4.4	3.9	4.7	5.5	5.6
	QQ SAAR							-16.2	28.3	9.0	-2.6	8.6	2.0	2.7	4.5	6.3	5.5	5.6	5.1
Imports of Goods and Services	YY	0.3	4.9	3.8				-4.7	2.5	0.7	2.7	9.7	4.1	1.9	3.9	2.5	4.0	4.2	4.4
	QQ SAAR							-16.7	22.5	11.5	-2.4	8.7	-0.8	2.3	5.7	2.8	5.4	2.9	6.5
Net Exports (Contrib. to YY GDP Growth)		1.5	0.3	0.5				2.3	2.0	1.3	0.3	0.5	0.2	0.3	0.3	0.6	0.4	0.6	0.6
Consumer Prices	YY	1.5	-0.1	0.0				2.8	1.8	1.3	0.2	0.0	-0.2	-0.2	-0.1	0.1	0.1	0.0	-0.1
Compensation per Employee	YY	-0.7	0.2	1.4				-1.8	-0.6	-0.2	-0.4	-0.1	0.3	0.2	0.3	0.8	1.4	1.6	1.8
Employment Growth	YY	-3.1	0.4	0.5				-4.6	-3.7	-2.9	-1.2	-0.1	0.4	0.7	0.5	0.5	0.5	0.5	0.6
Unemployment Rate	%	26.4	25.5	24.7				27.2	26.3	26.0	26.0	26.5	25.6	24.9	25.1	25.7	24.8	24.1	24.2
Current Account Balance	€ bn	6.4	7.2	7.4															
	% GDP	0.6	0.7	0.7															
General Government Balance	€ bn	-70.6	-59.6	-48.2															
	% GDP	-6.9	-5.8	-4.6															
Primary Balance	% GDP	-3.4	-2.3	-1.2															
General Government Debt	€ bn	963.4	1027.3	1075.5															
	% GDP	93.9	99.1	102.6															

Note: For Spain, fiscal deficits include the effect of financial support for banks in 2013 (€2.8bn). 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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We are lifting our 2014-15 GDP growth forecasts, although we still expect the recession to last until 2015. These revisions reflect improvements in business surveys and smaller cuts in government spending. However, private sector liquidity remains poor, the household saving rate is still negative and exports are lagging periphery peers. Deflation is likely to persist. The better-than-expected 2013 primary surplus may lead to further debt relief in 2014, but probably not a debt write-off – which in our view would be needed to restore fiscal sustainability

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-3.7	-1.0	0.4	0.9	1.4	1.4
Final Domestic Demand	YY	-7.0	-1.1	-0.1	0.3	0.6	0.6
Private Consumption	YY	-6.6	-1.3	-0.1	0.3	0.4	0.4
Public Consumption	YY	-4.8	0.1	-0.7	-0.1	0.1	0.1
Fixed Investment	YY	-11.9	-1.7	0.8	1.3	2.5	2.3
Exports of Goods and Services	YY	2.0	2.7	2.8	2.8	3.3	3.6
Imports of Goods and Services	YY	-4.6	0.9	1.0	0.7	0.6	0.9
Consumer Prices	YY	-0.9	-2.3	-2.1	-1.3	-0.3	0.9
Unemployment Rate	%	27.5	28.0	26.9	25.1	23.1	20.8
Current Account Balance	€ bn	1.2	3.2	4.0	4.8	5.6	5.6
	% GDP	0.7	1.9	2.4	2.8	3.2	3.1
General Government Balance	€ bn	-6.7	-6.4	-4.6	-4.3	-3.7	-3.5
	% GDP	-3.7	-3.7	-2.7	-2.5	-2.1	-1.9
Primary Balance	% GDP	0.4	0.4	0.7	1.0	1.3	1.5
General Government Debt	€ bn	320.9	328.1	334.7	341.0	346.7	353.7
	% GDP	176.6	188.3	195.3	198.2	196.9	194.1

Percentage changes unless indicated. Annual data are period averages.

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

Ireland

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After strong gains in GDP in 2Q and 3Q 2013, recent data suggest growth was modest in 4Q (we expect 0.4% QQ). Indeed, there is a risk that a pullback in investment (which jumped 10.9% QQ in 3Q) could pull 4Q growth into negative territory. Nevertheless, abstracting from the near-run volatility and “patent cliff”, the economy does seem to be picking up. Faster growth is likely to bring the public debt/GDP ratio slightly lower this year, although Ireland’s path back to fiscal sustainability remains vulnerable to external shocks and currency swings

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.1	2.2	2.3	2.6	2.7	2.9
Real GNP	YY	2.9	1.5	1.7	2.0	2.1	2.3
Final Domestic Demand	YY	-0.9	1.7	1.4	1.7	1.4	1.4
Private Consumption	YY	-1.0	2.0	1.8	1.5	1.5	1.5
Public Consumption	YY	-1.0	-2.8	-2.5	0.3	0.0	0.5
Fixed Investment	YY	-0.6	6.5	5.1	4.2	2.5	1.6
Exports of Goods and Services	YY	-0.1	5.1	4.9	6.0	5.9	5.9
Imports of Goods and Services	YY	-0.3	4.7	4.9	6.1	5.6	5.4
Net Trade		0.5	1.0	0.9	1.0	1.4	1.6
GDP Deflator	YY	0.7	0.8	1.0	1.1	1.6	1.7
Nominal GDP	YY	0.7	3.0	3.3	3.7	4.3	4.7
House Prices	YY	1.4	10.0	8.2	5.6	4.1	4.1
Unemployment Rate	%	13.1	11.1	10.0	9.3	8.6	7.9
Employment	YY	2.4	3.6	2.7	2.3	2.2	2.2
Current Account Balance	€ bn	13.9	14.8	13.7	12.6	11.6	10.7
	% GDP	8.4	8.7	7.8	6.9	6.1	5.4
General Government Balance	€ bn	-11.8	-8.6	-5.1	-4.1	-3.0	-1.7
	% GDP	-7.1	-5.0	-2.9	-2.2	-1.6	-0.9
Primary Balance	% GDP	-2.8	-0.1	2.1	2.8	3.4	4.0
General Government Debt	€ bn	204.9	206.1	213.4	215.2	218.0	219.4
	% GDP	124.4	121.4	121.7	118.3	114.9	110.5

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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We have raised significantly our GDP growth forecasts for 2014 from 0.2% to 1.5% and from 0.8% to 1.2% in 2015, on higher Q4 13 GDP data, the earlier-than-expected recovery in consumer spending and reduced fiscal drag. The government beat its 2013 fiscal targets, and hence some of the planned spending cuts for 2014 probably will not be adopted. Better domestic demand will still likely keep the 2014 fiscal deficit close to target. Inflation will likely continue falling, keeping nominal GDP growth subdued, hence keeping the public debt-to-GDP ratio rising in the next couple of years. We now expect a “*clean exit*” from the bailout programme in May, as political costs of a precautionary credit line likely outweigh its potential benefits.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.4	1.5	1.2	1.1	1.2	1.3
Final Domestic Demand	YY	-2.5	1.4	1.0	1.0	1.2	1.4
Private Consumption	YY	-1.5	1.6	1.0	1.2	1.2	1.2
Public Consumption	YY	-2.1	-1.1	0.4	0.1	0.4	1.0
Fixed Investment	YY	-6.8	4.0	1.5	1.6	2.0	2.7
Exports	YY	6.0	4.6	4.0	3.6	4.0	4.0
Imports	YY	2.8	4.7	3.5	3.4	3.9	4.3
Consumer Prices	YY	0.4	-0.8	-0.8	-0.1	0.4	0.8
Unemployment Rate	%	16.3	14.7	13.9	13.4	13.1	12.7
Current Account Balance	€ bn	0.7	3.7	4.2	4.4	4.7	4.7
	% GDP	0.4	2.2	2.5	2.6	2.7	2.7
General Government Balance	€ bn	-9.1	-7.6	-5.8	-4.3	-3.2	-3.0
	% GDP	-5.5	-4.5	-3.4	-2.5	-1.9	-1.7
Primary Balance	% GDP	-1.2	0.0	1.0	2.1	2.8	3.0
General Government Debt	€ bn	213.6	228.6	234.4	238.7	241.9	244.9
	% GDP	129.2	136.3	139.3	140.8	140.4	139.6

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

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Netherlands

Economic activity accelerated noticeably in Q4, up 0.7% QQ after an upwardly revised 0.3% QQ gain in Q3. In particular, we are intrigued by the acceleration in private sector investment for the third successive quarter (5.8% QQ, 6.0% YY in 4Q). This hints at a boom in corporate capex, as we suspect household investment remained muted in light of challenging house price dynamics. We raise our 2014 GDP forecast to 1.0% from 0.5% in January, but still think that deleveraging pressures will limit the Netherlands's ability to grow much faster in 2014-15

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-0.8	1.0	0.9	1.2	1.6	1.9
Final Domestic Demand	YY	-2.2	0.9	0.3	0.4	0.8	1.1
Private Consumption	YY	-2.1	-0.1	0.4	0.5	0.8	1.1
Public Consumption	YY	-0.7	-0.2	0.0	0.3	0.7	0.8
Fixed Investment (ex Stocks)	YY	-4.9	4.9	0.4	0.7	1.1	1.7
Stocks (Contrib. to YY GDP Growth)		-0.4	0.1	0.1	0.1	0.1	0.1
Exports of Goods and Services	YY	1.3	1.0	2.4	3.1	3.5	3.9
Imports of Goods and Services	YY	-0.5	1.5	2.0	2.7	3.1	3.5
Net Exports (Contrib. to YY GDP Growth)		1.5	-0.3	0.6	0.7	0.7	0.8
Consumer Prices	YY	2.6	0.8	1.3	1.4	1.5	1.8
Unemployment Rate	%	8.3	8.6	8.5	7.6	6.5	5.3
Current Account Balance	€ bn	62.1	60.9	56.0	54.5	52.4	51.5
	% GDP	10.2	9.9	8.9	8.4	7.9	7.5
General Government Balance	€ bn	-23.0	-21.1	-17.5	-14.0	-8.1	0.2
	% GDP	-3.8	-3.4	-2.8	-2.2	-1.2	0.0
Primary Balance	% GDP	-1.9	-1.4	-0.8	-0.2	0.8	2.0
General Government Debt	€ bn	453.5	471.5	485.8	499.8	507.9	507.7
	% GDP	74.8	76.4	77.1	77.3	76.2	73.5

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

Sources: DNB, CBS and Citi Research forecasts

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Belgium

GDP growth accelerated in 4Q 2013, with a 0.4% QQ (0.9% YY) outcome beating the 0.3% consensus forecast. While we will have to wait until March for a breakdown of GDP, we estimate that most of the rebound came from a sizeable net export contribution, while the contribution of domestic demand likely turned negative after unusual strength in the prior couple of quarters. Since the flash estimate matched our expectations, we reiterate our call that Belgium GDP will increase by 1.2% in 2014, likely outperforming the euro area average slightly

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	1.2	1.3	1.4	1.9	2.1
Final Domestic Demand	YY	-0.1	0.6	1.0	1.3	1.5	1.5
Private Consumption	YY	0.5	0.5	0.7	0.9	1.1	1.2
Public Consumption	YY	0.7	0.3	0.7	0.9	1.1	1.1
Fixed Investment (ex Stocks)	YY	-2.6	1.1	2.2	2.6	2.9	2.8
Exports of Goods and Services	YY	2.0	3.7	3.5	3.9	4.7	5.7
Imports of Goods and Services	YY	1.1	2.8	3.8	3.8	4.2	5.3
Consumer Prices	YY	1.1	0.9	1.0	1.1	1.6	2.0
Unemployment Rate	%	8.4	8.3	8.1	7.8	7.5	7.3
Current Account Balance	€ bn	-6.6	-0.3	2.2	3.3	2.7	1.7
	% GDP	-1.7	-0.1	0.6	0.8	0.6	0.4
General Government Balance	€ bn	-11.7	-10.4	-6.3	-4.1	-2.2	0.6
	% GDP	-3.1	-2.7	-1.6	-1.0	-0.5	0.1
Primary Balance	% GDP	0.4	0.9	1.9	2.5	2.9	3.4
General Government Debt	€ bn	388.9	400.5	406.8	410.9	413.1	412.5
	% GDP	102.0	102.8	102.0	99.9	97.1	93.2

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

Sources: BNB, Belgostat and Citi Research forecasts

Slovakia

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GDP rose by 0.4% QQ in 4Q13, which lifted YY growth to 1.3%, accompanied by a 0.3% QQ gain in employment. However, while GDP is 3.8% above its pre-crisis peak, employment remains 2.7% below the 3Q08 level. The 4Q figure slightly increases our 2014 GDP growth forecast to 2.0% YY from 1.8% previously, but this remains a little below the MinFin's 2.3% forecast. The risks look balanced — with a surprise gain in construction activity on one side versus a potential downward GDP revision due to large errors in the BoP data. While there was a return of better industrial confidence in January, the details were mixed as order-books worsened, but production expectations surged. Having said this, we do not change our view of a mild acceleration of industrial production growth to 7.3%wda in 2014 and 6.2% in 2015 from a likely 6.1% in 2013.

Consumer price growth decelerated to zero in January this year from 0.4% YY a month ago and 2.4% a year ago. We expect food prices to ease their YY growth to zero during 1H14, followed by a modest increase afterwards. We expect fuel prices to remain slightly contractionary in YY terms in the forecast period due to a stronger euro and lower oil prices in our forecasts. This should also keep energy price growth modest in coming years. We expect core CPI to somewhat accelerate in mid-2014 due to base effects, which should be supported by stronger domestic demand ahead. This, together with rising food and energy prices, should accelerate CPI growth to 2%-3% in 2016-18 after being below 1% in 2014E and below 2% in 2015E. The slowdown in CPI growth to an average of 1.4% YY in 2013 after 3.6% in 2012 more than offset the 50bp cut in ECB's policy rate during 2013. Residential credit remained stable at 4.6% YY growth, supported by stable growth in credit to households of 9.4%, but credit to non-financial companies fell by 4% YY.

January's central government cash budget showed a deficit of €123mn, wider than €-63mn a year ago, reflecting larger expenditure offsetting solid revenue dynamics. We estimate the 12m cumulative deficit reached 2.9% of GDP, slightly wider than 2.8% a month ago, but narrower than 5.6% a year ago (the primary deficit likely reached 1.2% of GDP, compared to -3.8% a year ago). The fiscal risk is somewhat limited by the debt-brake rule (there is still a risk in our view that government debt will breach the 57% ratio due to the ESA2010 methodology). Given recent polls, it is unlikely in our view that PM Fico will become President in first round on 15 March.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	1.0	2.0	2.5	2.9	3.1	3.0
Final Domestic Demand	YY	-1.3	1.6	2.1	3.0	3.4	-
Private Consumption	YY	-0.1	0.9	1.8	2.7	3.0	3.0
Public Consumption		1.0	0.2	1.1	1.7	2.0	2.0
Fixed Investment	YY	-5.9	4.3	3.9	4.8	5.2	4.0
Exports	YY	4.0	6.1	6.5	6.0	6.5	6.0
Imports	YY	2.3	5.6	6.5	6.5	7.1	6.5
Consumer Prices	YY	1.4	0.3	1.5	2.3	2.8	3.0
Unemployment Rate	%	14.1	13.3	12.7	12.0	11.3	10.6
Current Account Balance	% GDP	4.2	4.4	3.7	3.1	2.5	0.8
General Government Balance	% GDP	-2.7	-3.3	-2.6	-2.1	-1.8	-1.7
Government Primary Balance	% GDP	-1.2	-1.8	-1.2	-0.7	-0.3	-
General Government Debt	% GDP	54.4	56.9	56.4	55.7	54.7	53.8

Sources: National sources and Citi Research forecasts

Slovenia

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Our base case remains for an export-driven recovery, despite adverse weather effects in Q1-14. Business confidence continued to improve in February, with a further improvement in export orders. Moreover, capacity use increased as well, which should help support fixed investment activity, although the ongoing credit crunch remains an obstacle.

The European Commission raised Slovenia's GDP growth outlook to -1.6% YY in 2013 (from -2.7% in the autumn forecast) and to -0.1% in 2014 (from -1.0%) and to +1.3% in 2015 (from +0.7%). This is somewhat better than our forecasts of -1.8%, -0.9% and +0.8% for the respective years. We estimate the main difference between our forecasts and the EC's lies in the contribution of net exports to GDP growth, as we assume that the export-driven recovery and a milder fall in domestic demand ahead should lead to a somewhat stronger acceleration in imports. Moreover, we expect weaker GDP performance in 4Q13 and 1Q14 owing to weaker value-added in the banking sector and an adverse weather impact.

The EC also slightly improved its projection of potential GDP growth to +0.1% YY in 2015 from -0.5% previously, which helped to narrow the outlook on the structural government deficit to -2.5% of GDP in 2015 from -2.8% initially, although this is still wider than -2.2% in 2013. According to the EC's computation, the general government deficit reached -14.9% of GDP in 2013 due to banking sector recapitalization. Our forecast for the general government deficit differs in 2013-14, mostly reflecting different timing for the recapitalization of state-owned banks. More importantly our assessment of the fiscal debt level for 2015 is not too different – we expect it at 76% of GDP in 2015 vs. the EC's 78% – which mostly reflects our assumptions for privatization revenues.

The government has fully recapitalized the two largest banks (with €2.4bn of which €1.8bn in cash) and started the transfer of bad loans from them into the BAMC (transfer value of €1.1bn), and partly recapitalized the third-largest bank (€348mn cash). The government is awaiting EC approval to finalize the recapitalization (€243mn in bonds) in this third bank and to realize the transfer of bad loans (of €543mn) from this bank, which is likely to happen by the end of 2014 at the latest, according to the government's plan. Moreover, the government is awaiting the outcome of the recapitalization round in smaller private banks, which should recapitalize themselves by €1.1bn until end of 1H14.

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

		History	Forecast				
		2013E	2014	2015	2016	2017	2018
Real GDP	YY	-1.8	-0.9	0.8	2.1	2.9	3.2
Final Domestic Demand	YY	-3.6	-1.4	1.5	2.6	2.9	-
Private Consumption	YY	-3.4	-2.1	-0.1	1.1	1.4	1.2
Public Consumption		-2.9	-2.0	0.4	0.9	1.2	1.2
Fixed Investment	YY	-3.5	-0.1	1.6	2.8	3.2	3.2
Exports	YY	3.0	4.3	5.5	6.1	6.3	5.0
Imports	YY	-0.4	2.7	5.1	6.6	7.0	5.9
Consumer Prices	YY	1.8	1.1	1.3	1.1	1.1	1.2
Unemployment Rate	%	10.2	11.0	11.8	12.3	11.9	-
Current Account Balance	% GDP	4.1	4.6	4.4	4.5	4.4	4.2
General Government Balance	% GDP	-4.9	-13.4	-4.4	-3.8	-1.7	-1.5
Government Primary Balance	% GDP	-2.2	-10.5	-1.6	-0.8	1.2	1.3
General Government Debt	% GDP	59.7	72.8	75.6	76.6	74.9	72.8

Sources: National sources and Citi Research estimates and forecasts

UK

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We continue to expect above-trend (and above-consensus) GDP growth with below-target (and below-consensus) CPI inflation. We keep our growth forecasts at 3.3% for 2014 and 3.2% for 2015, while slightly cutting our CPI inflation forecast to 1.6% for 2014 (from 1.8% last month). With the recent *Inflation Report*, the MPC acknowledged that the forward guidance framework of 7% jobless threshold and three knockouts is now dead. It announced [the next phase of forward guidance](#) with three elements: (1) in deciding to hike rates, the MPC will steer by a range of capacity use guides, not just the jobless rate; (2) at present, these guides do not point to an immediate hike; (3) rates are likely to start to rise over the next year or two, but the MPC's current expectation is that tightening will be "gradual" and "limited" — without defining these terms. We call this "fuzzy guidance", because it is highly flexible and imprecise. There is nothing wrong with such a flexible approach, given uncertainties over the strength of the growth outlook (it could exceed even our forecast). But many investors seem to interpret the MPC's comments as a firm commitment to not hike rates until a certain date, or to hike at a specified pace — we regard such interpretations as misplaced. If growth is as strong as we expect, the MPC would likely start to withdraw stimulus — with the first hike most likely in 4Q.

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

		History			Forecast											
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	1.9	3.3	3.2	0.8	2.0	2.0	2.8	3.2	3.3	3.3	3.6	3.5	3.3	3.2	2.8
	QQ SAAR				2.0	3.2	3.1	2.7	3.7	3.6	3.3	3.8	3.2	2.9	2.8	2.5
Final Domestic Demand	YY	1.3	3.6	3.4	-0.4	0.7	1.9	2.9	3.4	3.7	3.6	3.6	3.6	3.6	3.4	3.2
	QQ SAAR				1.8	2.6	3.8	3.5	3.8	3.7	3.4	3.7	3.6	3.6	3.0	2.6
Private Consumption	YY	2.2	3.1	3.3	2.0	2.0	2.5	2.3	2.5	3.2	3.2	3.5	3.3	3.2	3.3	3.2
	QQ SAAR				3.0	1.0	3.2	2.1	3.7	3.8	3.2	3.1	3.0	3.7	3.4	2.8
Public Consumption	YY	0.7	2.1	-0.2	-1.8	0.8	1.4	2.4	3.5	2.6	2.0	0.6	0.2	-0.1	-0.5	-0.6
	QQ SAAR				-3.2	4.5	2.8	5.6	0.9	0.9	0.5	0.0	-0.5	-0.5	-0.9	-0.5
Fixed Investment	YY	-2.2	8.0	9.9	-8.6	-4.3	-0.7	5.7	7.1	7.2	8.0	9.4	10.3	10.7	10.1	8.6
	QQ SAAR				2.9	7.2	6.0	6.6	8.8	7.6	9.1	12.1	12.7	9.0	6.7	6.1
-- Business Investment	YY	-3.9	6.1	10.3	-6.3	-6.9	-5.3	3.7	2.6	6.5	6.6	8.6	10.2	10.7	10.5	9.8
	QQ SAAR				13.0	-9.0	8.3	3.7	8.3	5.8	8.7	11.6	14.8	8.0	7.6	8.9
-- Construction of Private Dwellings	YY	4.9	10.7	13.6	-3.1	5.0	8.3	9.8	8.6	8.5	11.6	13.8	14.7	15.4	13.6	10.9
	QQ SAAR				17.5	13.0	3.0	6.3	12.4	12.9	15.2	14.6	15.9	15.8	8.3	4.1
Stocks (Contrib. to YY GDP Growth)	YY	0.5	-0.8	0.0	1.3	0.4	1.0	-0.5	-0.6	-0.4	-1.4	-0.5	0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	0.5	4.2	5.1	-0.2	4.1	-1.8	-0.1	3.4	1.0	5.3	7.3	5.1	5.3	5.3	4.8
	QQ SAAR				-0.7	13.7	-11.3	-0.4	14.0	3.2	5.1	7.2	4.9	3.8	5.3	5.0
Imports of Goods and Services	YY	0.6	3.3	5.9	0.0	1.1	1.2	0.2	3.2	1.9	2.5	5.5	5.8	6.0	6.1	5.7
	QQ SAAR				-6.7	10.4	2.9	-5.0	5.1	4.9	5.5	6.7	6.0	5.8	5.7	5.4
Net Exports (Contrib. to YY GDP Growth)	YY	0.0	0.5	-0.3	-0.2	0.9	-0.9	0.3	0.4	0.0	1.2	0.5	-0.2	-0.3	-0.3	-0.3
Consumer Prices	YY	2.6	1.6	1.9	2.8	2.7	2.7	2.1	1.7	1.7	1.5	1.6	1.8	1.8	1.9	1.9
Average Earnings YY	YY	1.2	1.8	3.1	0.6	2.1	0.8	1.1	1.8	0.9	2.1	2.4	2.8	3.0	3.2	3.4
Employment Growth	YY	1.3	1.9	2.3	1.5	1.0	1.3	1.3	1.9	2.1	1.9	1.8	2.0	2.2	2.4	2.5
Unemployment Rate	%	7.6	6.7	5.5	7.8	7.8	7.6	7.2	7.0	6.8	6.6	6.3	6.0	5.7	5.3	5.0
Current Account Balance	£ bn	-60.1	-55.4	-61.7	-18.8	-6.2	-20.7	-14.4	-13.1	-14.0	-14.1	-14.2	-14.8	-15.5	-15.6	-15.8
	% GDP	-3.7	-3.2	-3.4	-4.7	-1.5	-5.1	-3.5	-3.1	-3.3	-3.3	-3.2	-3.4	-3.5	-3.5	-3.5
Public Sector Net Borrowing	£ bn FY	108.2	89.9	67.9												
	% GDP	-6.6	-5.2	-3.7												
General Government Balance	% GDP	-6.8	-5.5	-4.2												
Government Primary Balance	% GDP	-3.5	-2.0	-0.4												
General Government Debt	£ bn	1520.4	1640.5	1725.4												
	% GDP	94.1	96.9	97.3												
Gross Non Oil Trading Profits	YY	5.4	5.9	2.8	16.3	7.5	1.1	-2.4	-4.5	10.0	9.4	10.8	5.2	3.6	2.2	0.5
Base Rate (Period Average)	%	0.50	0.54	1.58	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.67	1.08	1.42	1.83	2.00
Ten-year Gilt Yield (Period Averages)	%	2.34	3.13	3.60	2.02	1.92	2.73	2.79	2.85	3.00	3.25	3.40	3.50	3.60	NA	NA
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.85	0.79	0.80	0.84	0.86	0.84	0.83	0.80	0.80	0.79	0.79	0.80	0.80	0.80	0.81
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.56	1.75	1.75	1.52	1.52	1.62	1.66	1.71	1.74	1.76	1.77	1.76	1.76	1.75	1.74

Note: GDP forecasts not updated for data published 26 Feb 2014. Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS, Citi Research forecasts

Switzerland

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The Swiss economy continues to perform remarkably well in the face of potential headwinds from the strong CHF and sluggish EMU growth. Business surveys remain buoyant, while house prices (using the IAZI index) are up 3-4% YY. The period of currency-induced deflation seems to be ending, with CPI inflation around zero, although recent declines in commodity prices may yet produce a few more negative CPI readings in coming months. Against this backdrop, the SNB is unlikely to change policy anytime soon. So far, mild measures to rein in the housing market have proved fairly ineffective in the face of ongoing stimulus from low interest rates.

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

		History			Forecast			History				Forecast							
		2013	2014	2015				1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	2.0	2.0	2.0				1.5	2.1	1.9	2.3	2.1	2.0	1.9	1.8	1.8	1.9	2.0	2.1
Final Domestic Demand	YY	1.9	1.3	2.1				1.5	2.3	2.2	1.6	1.5	1.0	1.2	1.5	1.9	2.2	2.2	2.3
Private Consumption	YY	2.1	1.2	1.7				2.2	2.6	2.1	1.4	1.1	0.9	1.2	1.6	1.7	1.9	1.7	1.5
Public Consumption	YY	2.2	1.2	0.7				2.7	2.0	2.3	1.8	1.6	1.7	0.7	0.7	0.7	0.7	0.7	0.7
Fixed Investment	YY	1.1	1.7	4.2				-1.3	1.4	2.1	2.2	2.7	0.9	1.5	1.9	3.0	4.0	4.4	5.4
Exports of Goods and Services	YY	2.2	3.4	4.0				2.0	2.7	2.1	2.0	3.3	3.2	3.9	3.4	3.6	3.8	4.1	4.4
Imports of Goods and Services	YY	0.4	2.3	5.0				0.9	1.6	-0.3	-0.4	1.6	1.3	2.9	3.5	4.2	5.0	5.2	5.6
Consumer Prices	YY	-0.2	-0.2	0.9				-0.4	-0.4	0.0	0.0	-0.2	0.0	-0.5	0.0	0.5	0.6	1.3	1.3
Unemployment Rate	%	3.1	2.7	2.3				3.1	3.2	3.2	2.9	2.6	2.6	2.9	2.5	2.3	2.3	2.5	2.1
Current Account Balance	Sfr bn	73.8	80.7	81.8				19.2	20.5	15.7	18.4	19.5	23.7	18.5	19.0	19.1	24.0	18.7	20.1
	% GDP	12.2	12.9	12.7				12.8	13.6	10.4	11.9	12.5	15.2	11.8	12.0	12.0	15.0	11.6	12.4
General Government Balance	% GDP	0.2	0.6	0.8															
General Government Debt	% GDP	48.2	46.3	45.1															
SNB Rate (Annual Avge, then qtr-end)	%	0.00	0.00	0.00				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	0.82	1.01	1.00				0.64	0.65	1.07	1.00	1.00	0.98	1.00	1.05	1.09	1.09	NA	NA
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.23	1.24	1.27				1.22	1.23	1.22	1.23	1.23	1.24	1.25	1.25	1.26	1.27	1.28	1.29
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.93	0.90	0.91				0.95	0.94	0.90	0.89	0.90	0.90	0.89	0.89	0.90	0.90	0.91	0.91

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

Sweden

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Hard data remain sluggish but, with indications of recovery in consumer and business surveys and a rise in capacity use in 4Q, we suspect the economy is past the worst. We suspect that GDP growth picked up already in 4Q-13 (data due 28 February) and forecast growth of 2.3% YY this year and 2.7% YY in 2015, a bit below the consensus (2.5% and 2.8% YY, respectively). However, recovery continues to face sizeable headwinds. Sweden has relatively high export exposure to emerging markets, and hence is vulnerable to the trend of EM growth downgrades, while recoveries in key euro area export markets are modest. At the same time, fiscal policy will have to be tightened over time to meet the government's fiscal target (general government fiscal balance should average 1% over the business cycle).

Inflation remains well below the Riksbank's 2% inflation target, and has fluctuated around 1% YY for the past two years. We expect core inflation CPIF to continue to remain below target (which is framed for CPI inflation) in 2014-2015. Pay growth remains low amidst ample slack and, while the disinflationary effects of krona appreciation should fade somewhat, weakness in global commodity prices adds a fresh external disinflationary headwind. We note, though, that there is an upside inflation risk if rising unit labour costs, driven by low productivity growth, turn out to have a greater impact than expected.

Sweden stands out among advanced economies in having an exceptionally high household debt/income ratio without, so far, any deleveraging. Similarly, house prices remain around their historical peaks in real terms, in contrast to marked declines seen in a range of other advanced economies, and household lending growth has accelerated over the last year, albeit moderately. The Riksbank is clearly alarmed at the risk that further monetary easing to close the output gap could send the housing market into bubble territory if it is not there already – especially given households' increasingly positive view of economic prospects. Although we reckon the FSA may well tighten macroprudential policy further, we still believe that the Riksbank's dilemma between hitting the inflation target and longer-term instability worries is unlikely to fade any time soon. We expect the Central Bank will keep rates low, but not cut further, leaving the repo rate at the current level of 0.75% until mid-2015, when we see the first rate hike.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.9	2.3	2.7	2.8	2.9	2.7
Final Domestic Demand	YY	1.1	2.1	2.2			
Private Consumption	YY	1.8	2.3	2.5			
Public Consumption	YY	1.1	1.2	0.8			
Fixed Investment	YY	-0.9	3.0	3.5			
Exports of Goods & Services	YY	-1.5	2.4	4.6			
Imports of Goods & Services	YY	-2.2	2.2	4.2			
Consumer Prices	YY	0.0	0.5	1.8	2.4	2.3	2.0
Unemployment Rate	%	8.0	7.8	7.5			
Current Account Balance	% GDP	6.2	5.9	5.6	5.6	5.4	5.3
General Government Balance	% GDP	-1.4	-1.6	-1.0	-0.3	0.5	1.2
General Government Debt	% GDP	39.5	39.9	39.2	37.6	35.2	32.4
Riksbank Rate (Annual Average)	%	0.99	0.75	0.98	1.42	2.18	2.80
Ten-year Yield (Period Average)	%	2.10	2.42	2.63	2.75	2.90	3.15
EUR-SEK FX Rate (Annual Average)		8.65	8.89	8.77	8.65	8.43	8.22
USD-SEK FX Rate (Annual Average)		6.51	6.41	6.24	6.13	5.98	5.83

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

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Denmark

Given improving economic conditions abroad and gradually rising domestic demand, we confirm our GDP growth forecasts of 1.2% YY and 1.5% YY for this and next year, respectively. With economic growth set to outpace potential in 2014-15 (the OECD estimates potential GDP at 0.9%-1.0% YY for this and next year), unemployment should begin to edge lower as other spare capacity in the economy is brought into use. Meanwhile, with an estimated negative output gap of around 2.5% of potential GDP, it will take a long time before the economy is operating at full capacity. Our forecast assumes moderately accelerating growth (up from an expected 0.4% YY gain in 2013), driven by rising domestic demand, and supported by growing exports. Restraint among households and firms means that the private sector has consolidated in recent years, suggesting some potential for stronger growth in private spending and investment, supported by higher real wage growth and the incipient recovery in the housing market. The government's investment window (which raises deductions for investments in machinery and transport equipment) should continue to make its impact felt in 4Q.

Fiscal policy is as expansionary as the Budget Act and the Fiscal Compact permit and its impact on GDP growth is expected to be more or less neutral this year. In 2013, public finances will likely show only a minor deficit, reflecting early tax revenue from an option to pay tax on existing capital pension schemes at a reduced rate, estimated at a larger-than-expected DKK 30bn.

With our ECB forecast assuming a 15bp refi rate cut to 0.10% (March) and a 10bp cut in the deposit rate to -0.1% (June), we expect the Danish National Bank (DNB) will lower the CD-rate by 10bp to -0.20% around mid-2014, hence only partly shadowing ECB action. The DNB's inaction in November suggests that the current level for the lending rate (0.20%) marks the immediate lower bound. However, given the 'excess liquidity' in the economy, the important policy rate at present is the CD-rate. Were the ECB to use quantitative tools (most likely leading to further krone strength), we find it unlikely that the DNB would replicate this, continuing at least initially to use the lending rate and/or the CD-rate to stabilize DKK vs. EUR. The DNB could also counteract appreciation pressures via the currency reserve, which would then grow further from an already high level. Although EUR/DKK has traded above central parity in recent weeks, DNB did not intervene in January. We expect it will take around DKK10-20bn of intervention before the DNB raises interest rates independently. An independent Danish rate hike is not imminent, in our view.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.4	1.2	1.5	1.8	1.7	1.9
Final Domestic Demand	YY	0.6	1.2	1.5			
Private Consumption	YY	0.3	1.1	1.7			
Public Consumption	YY	0.3	0.6	0.7			
Fixed Investment	YY	1.9	2.4	2.2			
Exports of Goods & Services	YY	1.1	2.7	3.1			
Imports of Goods & Services	YY	2.7	3.2	3.3			
Consumer Prices	YY	0.8	1.5	1.7	1.8	1.9	2.0
Unemployment Rate	%	7.0	6.9	6.7			
Current Account Balance	% GDP	7.2	6.7	5.7	5.4	5.6	5.6
General Government Balance	% GDP	-0.7	-1.5	-2.4	-1.0	-1.0	-0.9
General Government Debt	% GDP	45.6	45.9	46.9	46.2	45.6	44.8
DNB Bank Rate (Annual Average)	%	0.20	0.20	0.25	0.47	0.78	1.00
Ten-year Yield (Period Average)	%	1.73	1.80	2.00	2.30	2.65	2.90

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

Sources: DNB, national statistical office and Citi Research forecasts

Norway

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Momentum has peaked and the Norwegian economy is heading towards a more moderate growth phase with below-trend mainland GDP growth in coming years. The growth pace slackened in 2013, the labour market weakened and the housing market cooled. With weaker oil investment trends, the business sector will be unable to lean on impulses from the oil (and housing) sector to the same extent as previously. In addition, ongoing erosion in competitiveness suggests that Norway will not be able to benefit fully from global recovery. Meanwhile, an expansionary fiscal policy stance and ongoing low policy rates should ensure a soft landing rather than an abrupt halt to economic activity. The result is likely to be sub-consensus growth of around 2%-2.5% YY in coming years. Full-year GDP growth downshifted quite sharply in 2013 (to 2.1% YY from 3.4% YY in 2012), but underlying momentum picked up in 2H and growth in the non-oil economy surprised to the upside in 4Q. Mainland GDP – i.e. excluding oil/gas and shipping – expanded 0.6% from 3Q to 4Q (0.5% QQ in 3Q), ahead of the 0.4% rate Norges Bank was looking for. The firmer momentum was driven by improving final domestic demand, while non-petroleum exports stabilised, and manufacturers reported a clear improvement in foreign orders.

Core inflation was up by a stronger-than-expected 2.4% YY in January, narrowing the gap vs. target to 0.1pp, due largely to the weaker krone exchange rate, which likely will continue to lift imported inflation throughout the year. Although Norges Bank has said that it will look through monthly volatility, we reckon that, with inflation close to target, it has become more difficult for Norges Bank to ease monetary policy further. At the December meeting, Norges Bank left the key policy rate unchanged at 1.50%, and lowered its conditional interest rate path in the new MPR, implying no probability of a rate hike this year. The path now indicates initial tightening around summer 2015, a year later than suggested in September. In the February Annual Address, Governor Olsen gave no new signals on monetary policy, merely reiterating that the low international interest rate environment limits Norges Bank's room to manoeuvre: hence, it *"will likely take a number of years"* for interest rates in Norway to approach a more normal level (as also suggested by the Dec conditional interest rate path). However, with both growth and CPI slightly to the upside vs. the CB's forecasts and a substantially weaker NOK, this points to an upward revision of the March conditional interest rate path.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	2.1	2.2	2.4	2.7	2.9	2.8
Final Domestic Demand	YY	2.5	2.0	2.6			
Private Consumption	YY	2.1	1.9	2.8			
Public Consumption	YY	1.6	2.6	3.0			
Fixed Investment	YY	4.8	1.9	1.7			
Exports of Goods & Services	YY	-0.5	0.8	2.3			
Imports of Goods & Services	YY	2.2	1.2	2.3			
Consumer Prices	YY	2.1	2.0	2.1	2.1	2.3	2.5
Unemployment Rate	%	3.5	3.7	3.8			
Current Account Balance	% GDP	11.9	12.2	12.5	12.8	13.0	13.2
General Government Balance	% GDP	11.3	11.8	11.0	10.0	10.0	9.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.50	1.50	1.71	2.08	2.74	3.33
Ten-year Yield (Period Average)	%	2.57	2.82	2.75	2.90	3.15	3.40
EUR-NOK FX Rate (Annual Average)		7.81	8.13	7.82	7.59	7.35	7.12
USD-NOK FX Rate (Annual Average)		5.88	5.86	5.57	5.38	5.21	5.05

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	1.1	1.3	1.5	1.6	1.6	1.4	0.7	0.7	1.0	1.2	1.5	2.2	2.5	2.6	2.6	2.5	2.3
Germany	0.5	2.0	2.1	2.0	1.8	1.6	1.5	1.5	1.9	1.9	1.8	1.9	7.3	6.3	5.5	5.1	4.7	4.4
France	0.3	0.9	1.1	1.5	1.7	1.8	1.0	1.0	1.2	1.4	1.3	1.5	-1.5	-0.8	-0.1	0.4	0.1	-0.2
Italy	-1.9	0.3	0.3	0.6	0.6	0.7	1.3	0.3	-0.3	0.4	1.1	1.4	0.9	1.3	1.6	1.9	2.2	2.4
Spain	-1.2	0.9	1.1	1.5	1.4	1.5	1.5	-0.1	0.0	0.1	0.5	0.9	0.6	0.7	0.7	0.5	0.5	0.6
Greece	-3.7	-1.0	0.4	0.9	1.4	1.4	-0.9	-2.3	-2.1	-1.3	-0.3	0.9	0.7	1.9	2.4	2.8	3.2	3.1
Ireland	0.1	2.2	2.3	2.6	2.7	2.9	0.7	0.8	1.0	1.1	1.6	1.7	8.4	8.7	7.8	6.9	6.1	5.4
Portugal	-1.4	1.5	1.2	1.1	1.2	1.3	0.4	-0.6	-0.9	-0.1	0.7	1.0	0.4	2.2	2.5	2.6	2.7	2.7
Netherlands	-0.8	1.0	0.9	1.2	1.6	1.9	2.6	0.8	1.3	1.4	1.5	1.8	10.2	9.9	8.9	8.4	7.9	7.5
Belgium	0.2	1.2	1.3	1.4	1.9	2.1	1.1	0.9	1.0	1.1	1.6	2.0	-1.7	-0.1	0.6	0.8	0.6	0.4
Slovakia	1.0	2.0	2.5	2.9	3.1	3.0	1.4	0.3	1.5	2.3	2.8	3.0	4.2	4.4	3.7	3.1	2.5	0.8
Slovenia	-1.8	-0.9	0.8	2.1	2.9	3.2	1.8	1.1	1.3	1.1	1.1	1.2	4.1	4.6	4.4	4.5	4.4	4.2
Austria*	0.3	1.5	1.8				2.1	1.8	1.8				2.9	3.4	3.8			
Cyprus*	-6.0	-4.8	0.9				0.4	0.4	1.4				-1.7	0.0	0.4			
Estonia*	0.7	2.3	3.6				3.2	1.8	2.8				-2.1	-2.4	-2.3			
Finland*	-1.5	0.2	1.3				2.2	1.7	1.6				-0.2	0.5	0.4			
Luxembourg*	2.1	2.2	2.5				1.7	1.5	1.7				6.4	6.7	7.0			
Latvia*	4.0	4.2	4.3				0.0	1.9	2.1				-1.6	-1.9	-2.5			
Malta*	2.0	2.1	2.1				1.0	1.2	1.9				1.7	0.9	0.5			
Denmark	0.4	1.2	1.5	1.8	1.7	1.9	0.8	1.5	1.7	1.8	1.9	2.0	7.2	6.7	5.7	5.4	5.6	5.6
Norway	2.1	2.2	2.4	2.7	2.9	2.8	2.1	2.0	2.1	2.1	2.3	2.5	11.9	12.2	12.5	12.8	13.0	13.2
Sweden	0.9	2.3	2.7	2.8	2.9	2.7	0.0	0.5	1.8	2.4	2.3	2.0	6.2	5.9	5.6	5.6	5.4	5.3
Switzerland	2.0	2.0	2.0	2.2	2.0	2.0	-0.2	-0.2	0.9	1.1	1.2	1.2	12.2	12.9	12.7	13.7	14.0	14.0
United Kingdom	1.9	3.3	3.2	2.7	2.2	2.3	2.6	1.6	1.9	2.1	2.1	2.0	-3.7	-3.2	-3.4	-3.4	-3.2	-2.9

Note: All forecasts are Citi forecasts except those marked with an asterisk. *EU Commission Forecasts, 25 Feb 2014. Sources: EU Commission 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
Euro Area	-2.9	-2.4	-2.1	-1.7	-1.5	-1.1	0.1	0.5	1.0	1.3	1.5	1.8	95.7	97.1	97.2	96.6	95.6	94.5
Germany	0.0	0.0	0.0	-0.1	-0.4	-0.5	2.4	2.2	2.1	1.9	1.5	1.4	78.6	76.6	73.8	71.1	69.3	67.6
France	-4.1	-3.6	-3.1	-2.8	-2.3	-1.8	-1.5	-1.0	-0.4	-0.1	0.4	0.9	93.9	96.3	97.4	97.5	97.0	95.7
Italy	-3.1	-2.8	-2.4	-2.0	-1.8	-1.4	2.4	2.5	2.8	3.1	3.2	3.5	132.7	136.6	138.9	140.0	140.1	138.9
Spain	-6.9	-5.8	-4.6	-3.5	-2.9	-2.4	-3.4	-2.3	-1.2	-0.1	0.6	1.2	93.9	99.1	102.6	104.3	105.2	105.1
Greece	-3.7	-3.7	-2.7	-2.5	-2.1	-1.9	0.4	0.4	0.7	1.0	1.3	1.5	176.6	188.3	195.3	198.2	196.9	194.1
Ireland	-7.1	-5.0	-2.9	-2.2	-1.6	-0.9	-2.8	-0.1	2.1	2.8	3.4	4.0	124.4	121.4	121.7	118.3	114.9	110.5
Portugal	-5.5	-4.5	-3.4	-2.5	-1.9	-1.7	-1.2	0.0	1.0	2.1	2.8	3.0	129.2	136.3	139.3	140.8	140.4	139.6
Netherlands	-3.8	-3.4	-2.8	-2.2	-1.2	0.0	-1.9	-1.4	-0.8	-0.2	0.8	2.0	74.8	76.4	77.1	77.3	76.2	73.5
Belgium	-3.1	-2.7	-1.6	-1.0	-0.5	0.1	0.4	0.9	1.9	2.5	2.9	3.4	102.0	102.8	102.0	99.9	97.1	93.2
Slovakia	-2.7	-3.3	-2.6	-2.1	-1.8	-1.7	-1.2	-1.8	-1.2	-0.7	-0.3		54.4	56.9	56.4	55.7	54.7	53.8
Slovenia	-4.9	-13.4	-4.4	-3.8	-1.7	-1.5	-2.2	-10.5	-1.6	-0.8	1.2	1.3	59.7	72.8	75.6	76.6	74.9	72.8
Austria*	-1.7	-2.1	-1.8				0.9	0.6	0.8				74.6	74.3	73.7			
Cyprus*	-5.5	-5.8	-6.1				-1.8	-1.8	-2.1				112.0	121.5	125.8			
Estonia*	-0.4	-0.4	-0.4				-0.2	-0.2	-0.3				10.0	10.1	9.8			
Finland*	-2.4	-2.5	-2.3				-1.3	-1.4	-1.2				57.2	60.4	62.0			
Latvia*	-1.3	-1.0	-1.0				0.1	0.4	0.3				38.4	38.7	32.7			
Luxembourg*	-0.2	-0.5	-2.4				0.4	0.0	-1.7				24.3	25.5	28.1			
Malta*	-3.0	-2.7	-2.7				0.1	0.3	0.2				72.0	72.4	71.5			
Denmark	-0.7	-1.5	-2.4	-1.0	-1.0	-0.9							45.6	45.9	46.9	46.2	45.6	44.8
Norway	11.3	11.8	11.0	10.0	10.0	9.0							NA	NA	NA	NA	NA	NA
Sweden	-1.4	-1.6	-1.0	-0.3	0.5	1.2							39.5	39.9	39.2	37.6	35.2	32.4
Switzerland	0.2	0.6	0.8	1.2	1.2	0.9							48.2	46.3	45.1	44.5	43.8	44.5
United Kingdom	-6.8	-5.5	-4.2	-2.6	-1.4	-0.2	-3.5	-2.0	-0.4	1.4	3.1	4.3	94.1	96.9	97.3	96.5	94.6	91.7

Note: All forecasts are Citi forecasts except those marked with an asterisk. *EU Commission Forecasts, 25 Feb 2014. Sources: EU Commission 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				-0.2	-0.1					0.1	-0.1	
Germany					0.1		0.5	-0.2	-0.5	-0.2		
France	0.1			-0.2	-0.1		0.1					
Italy	-0.1			-0.2								0.3
Spain				0.1	0.1		-0.4	-0.3	-0.7			0.2
Greece	-0.3	0.9	0.8	0.4	0.3					-0.1	-0.2	-0.3
Ireland	0.1	0.1	0.1	0.5	0.1		0.1			-0.1	-0.3	0.1
Portugal	0.2	1.3	0.4	-0.2						0.5	0.1	0.4
Netherlands	0.2	0.5		0.1	-0.4		-0.5	-0.5		-0.3	-0.8	-0.9
Belgium				-0.1						-0.1	-0.1	
Slovakia	0.2	0.1		-0.5	-0.1							
Slovenia				-0.5	-0.2							
Denmark							0.9	0.9	0.7	0.5	0.3	-0.9
Norway	0.3	0.2										
Sweden												
Switzerland												
United Kingdom				-0.2			-0.1	-0.3	-0.3	-0.1	-0.2	-0.2

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Euro Area - Citi Forecast	26-Feb-14	-0.4	1.1	1.3	-2.9	-2.4	-2.1	95.7	97.1	97.2
OECD Economic Outlook	19-Nov-13	-0.4	1.0	1.6	-2.9	-2.5	-1.8	95.2	95.9	95.6
EU Commission Forecast	25-Feb-14	-0.4	1.2	1.8	-3.1	-2.6	-2.5	95.5	95.9	95.4
IMF WEO Forecast	21-Jan-14	-0.4	1.0	1.4	-3.1	-2.5	-2.1	95.7	96.1	95.3
ECB Forecast - mid-point	05-Dec-13	-0.4	1.1	1.5	-3.2	-2.6	-2.4	93.2	93.6	93.1
Germany - Citi Forecast	26-Feb-14	0.5	2.0	2.1	0.0	0.0	0.0	78.6	76.6	73.8
OECD Economic Outlook	19-Nov-13	0.5	1.7	2.0	0.1	0.2	0.6	78.8	76.1	73.6
EU Commission Forecast	25-Feb-14	0.4	1.8	2.0	-0.1	0.0	0.0	79.6	77.3	74.5
IMF WEO Forecast	21-Jan-14	0.5	1.6	1.4	-0.4	-0.1	0.0	80.4	78.1	75.2
France - Citi Forecast	26-Feb-14	0.3	0.9	1.1	-4.1	-3.6	-3.1	93.9	96.3	97.4
OECD Economic Outlook	19-Nov-13	0.2	1.0	1.6	-4.2	-3.7	-3.0	94.0	96.7	97.8
EU Commission Forecast	25-Feb-14	0.3	1.0	1.7	-4.2	-4.0	-3.9	93.9	96.1	97.3
IMF WEO Forecast	21-Jan-14	0.2	0.9	1.5	-4.0	-3.5	-2.8	93.5	94.8	94.8
Italy - Citi Forecast	26-Feb-14	-1.9	0.3	0.3	-3.1	-2.8	-2.4	132.7	136.6	138.9
OECD Economic Outlook	19-Nov-13	-1.9	0.6	1.4	-3.0	-2.8	-2.0	132.7	133.2	132.6
EU Commission Forecast	25-Feb-14	-1.9	0.6	1.2	-3.0	-2.6	-2.2	132.7	133.7	132.4
IMF WEO Forecast	21-Jan-14	-1.8	0.6	1.1	-3.2	-2.1	-1.8	132.3	133.1	131.8
Spain - Citi Forecast	26-Feb-14	-1.2	0.9	1.1	-6.9	-5.8	-4.6	93.9	99.1	102.6
OECD Economic Outlook	19-Nov-13	-1.3	0.5	1.0	-6.7	-6.1	-5.1	92.8	98.0	101.8
EU Commission Forecast	25-Feb-14	-1.2	1.0	1.7	-7.2	-5.8	-6.5	94.3	98.9	103.3
IMF WEO Forecast	21-Jan-14	-1.2	0.6	0.8	-6.7	-5.8	-5.0	93.7	99.1	102.5
Greece - Citi Forecast	26-Feb-14	-3.7	-1.0	0.4	-3.7	-3.7	-2.7	176.6	188.3	195.3
OECD Economic Outlook	19-Nov-13	-3.5	-0.4	1.8	-2.4	-2.2	-1.4	176.6	181.2	183.0
EU Commission Forecast	25-Feb-14	-3.7	0.6	2.9	-2.1	-2.2	-1.0	177.3	177.0	171.9
IMF WEO Forecast	08-Oct-13	-4.2	0.6	2.9	-4.1	-3.3	-2.1	175.7	174.0	168.6
Ireland - Citi Forecast	26-Feb-14	0.1	2.2	2.3	-7.1	-5.0	-2.9	124.4	121.4	121.7
OECD Economic Outlook	19-Nov-13	0.1	1.9	2.2	-7.4	-5.0	-3.1	122.2	120.7	118.5
EU Commission Forecast	25-Feb-14	0.3	1.8	2.9	-7.2	-4.8	-4.3	122.3	120.3	119.7
IMF WEO Forecast	08-Oct-13	0.6	1.8	2.5	-7.6	-5.0	-2.9	123.3	121.0	118.3
Portugal - Citi Forecast	26-Feb-14	-1.4	1.5	1.2	-5.5	-4.5	-3.4	129.2	136.3	139.3
OECD Economic Outlook	19-Nov-13	-1.7	0.4	1.1	-5.7	-4.6	-3.6	124.9	127.4	129.5
EU Commission Forecast	25-Feb-14	-1.6	0.8	1.5	-5.9	-4.0	-2.5	129.4	126.6	125.8
IMF WEO Forecast	08-Oct-13	-1.8	0.8	1.5	-5.5	-4.0	-2.5	123.6	125.3	124.2
Netherlands - Citi Forecast	26-Feb-14	-0.8	1.0	0.9	-3.8	-3.4	-2.8	74.8	76.4	77.1
OECD Economic Outlook	19-Nov-13	-1.1	-0.1	0.9	-3.0	-3.0	-2.3	75.4	77.0	77.5
EU Commission Forecast	25-Feb-14	-0.8	1.0	1.3	-3.1	-3.2	-2.9	74.3	75.3	75.6
IMF WEO Forecast	08-Oct-13	-1.3	0.3	1.6	-3.0	-3.2	-4.8	74.4	75.6	76.7
Belgium - Citi Forecast	26-Feb-14	0.2	1.2	1.3	-3.1	-2.7	-1.6	102.0	102.8	102.0
OECD Economic Outlook	19-Nov-13	0.1	1.1	1.5	-2.7	-2.4	-1.1	100.2	100.4	98.5
EU Commission Forecast	25-Feb-14	0.2	1.4	1.7	-2.7	-2.6	-2.7	99.8	100.5	100.0
IMF WEO Forecast	08-Oct-13	0.1	1.0	1.3	-2.8	-2.5	-1.5	100.9	101.2	100.2
Slovakia - Citi Forecast	26-Feb-14	1.0	2.0	2.5	-2.7	-3.3	-2.6	54.4	56.9	56.4
OECD Economic Outlook	19-Nov-13	0.8	1.9	2.9	-3.0	-2.8	-2.6	54.6	56.9	56.4
EU Commission Forecast	25-Feb-14	0.8	2.3	3.2	-2.5	-3.3	3.4	54.3	57.8	58.4
IMF WEO Forecast	08-Oct-13	0.8	2.3	2.8	-3.0	-3.8	-3.2	55.3	57.5	58.2
Slovenia - Citi Forecast	26-Feb-14	-1.8	-0.9	0.8	-4.9	-13.4*	-4.4	59.7	72.8	75.6
OECD Economic Outlook	19-Nov-13	-2.3	-0.9	0.6	-7.1	-5.9	-2.9	63.1	70.5	74.7
EU Commission Forecast	25-Feb-14	-1.6	-0.1	1.3	-14.9*	-3.9	-3.3	71.9	75.4	78.0
IMF WEO Forecast	08-Oct-13	-2.6	-1.4	0.9	-7.0	-3.8	-3.9	71.5	75.3	77.6

*Includes bank recapitalization costs.

Source: Citi Research 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 Compared, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	0.4	1.7	2.2	-2.3	-1.9	-1.2	75.7	76.1	75.5
EU Commission Forecast	25-Feb-14	0.3	1.5	1.8	-1.7	-2.1	-1.8	74.6	74.3	73.7
IMF WEO Forecast	08-Oct-13	0.4	1.6	1.8	-2.6	-2.4	-1.9	74.4	74.8	74.2
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	25-Feb-14	-6.0	-4.8	0.9	-5.5	-5.8	-6.1	112.0	121.5	125.8
IMF WEO Forecast	08-Oct-13	-8.7	-3.9	1.1	-6.7	-7.5	-5.3	114.1	123.0	125.7
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.0	2.4	4.0	-0.1	-0.1	0.0	9.5	9.3	9.0
EU Commission Forecast	25-Feb-14	0.7	2.3	3.6	-0.4	-0.4	-0.4	10.0	10.1	9.8
IMF WEO Forecast	08-Oct-13	1.5	2.5	3.5	0.3	0.2	0.1	11.0	10.4	9.8
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	-1.0	1.3	1.9	-2.5	-2.3	-1.8	56.4	60.0	62.7
EU Commission Forecast	25-Feb-14	-1.5	0.2	1.3	-2.4	-2.5	-2.3	57.2	60.4	62.0
IMF WEO Forecast	08-Oct-13	-0.6	1.1	1.4	-2.8	-2.1	-1.6	58.0	59.8	60.5
Latvia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook		NA	NA	NA	NA	NA	NA	NA	NA	NA
EC Commission Forecast	25-Feb-14	4.0	4.2	4.3	-1.3	-1.0	-1.0	38.4	38.7	32.7
IMF WEO Forecast	08-Oct-13	4.0	4.2	4.2	-1.4	-0.5	-0.7	38.4	34.6	28.0
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.8	2.3	2.3	-0.3	-0.3	-1.1	24.4	26.1	28.2
EU Commission Forecast	25-Feb-14	2.1	2.2	2.5	-0.2	-0.5	-2.4	24.3	25.5	28.1
IMF WEO Forecast	08-Oct-13	0.5	1.3	1.6	-0.7	-0.9	-1.6	22.9	24.6	26.6
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	25-Feb-14	2.0	2.1	2.1	-3.0	-2.7	-2.7	72.0	72.4	71.5
IMF WEO Forecast	08-Oct-13	1.1	1.8	2.0	-3.5	-3.6	-3.6	73.4	74.0	74.4

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

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Denmark - Citi Forecast	26-Feb-14	0.4	1.2	1.5	-0.7	-1.5	-2.4	45.6	45.9	46.9
OECD Economic Outlook	19-Nov-13	0.3	1.6	1.9	-4.1	-1.8	-1.8	44.8	46.0	47.5
EU Commission Forecast	25-Feb-14	0.3	1.7	1.8	-0.3	-1.3	-2.7	42.4	41.6	43.1
IMF WEO Forecast	08-Oct-13	0.1	1.2	1.5	-1.7	-2.0	-2.9	47.1	47.8	49.2
Norway - Citi Forecast	26-Feb-14	2.1	2.2	2.4	11.3	11.8	11.0	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.2	2.8	3.1	13.9	12.3	11.8	34.2	35.5	37.9
IMF WEO Forecast	08-Oct-13	1.6	2.3	2.3	12.4	11.6	10.2	34.1	34.1	34.1
Sweden - Citi Forecast	26-Feb-14	0.9	2.3	2.7	-1.4	-1.6	-1.0	39.5	39.9	39.2
OECD Economic Outlook	19-Nov-13	0.7	2.3	3.0	-0.7	-1.6	-1.1	41.4	42.9	42.8
EU Commission Forecast	25-Feb-14	0.9	2.5	3.3	-1.1	-1.5	-0.8	41.5	41.8	40.8
IMF WEO Forecast	08-Oct-13	0.9	2.3	2.3	-1.4	-1.5	-0.5	42.2	42.2	40.5
Switzerland - Citi Forecast	26-Feb-14	2.0	2.0	2.0	0.2	0.6	0.8	48.2	46.3	45.1
OECD Economic Outlook	19-Nov-13	1.9	2.2	2.7	0.7	0.7	0.6	42.3	42.1	41.9
IMF WEO Forecast	08-Oct-13	1.7	1.8	1.9	0.2	0.5	0.7	48.2	46.6	45.6
UK - Citi Forecast	26-Feb-14	1.9	3.3	3.2	-6.8	-5.5	-4.2	94.1	96.9	97.3
OECD Economic Outlook	19-Nov-13	1.4	2.4	2.5	-6.5	-7.1	-6.5	91.8	95.2	98.5
EU Commission Forecast	25-Feb-14	1.9	2.5	2.4	-6.3	-5.2	-4.2	91.4	93.4	94.5
IMF WEO Forecast	21-Jan-14	1.7	2.4	2.2	-6.1	-5.8	-4.9	92.1	95.3	97.9
OBR	05-Dec-13	1.4	2.4	2.2	-6.0	-4.9	-4.0	75.5	78.3	80.0

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

Notes

Notes

Appendix A-1

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