

European Economic Forecast Highlights

European Economic Forecast Highlights, January 2015

- This companion to the January issue of *Global Economic Outlook and Strategy* gives more detailed forecasts for European countries.
- New: Economic profile for all countries showing full annual forecasts to 2019.
- Quarterly economic profile from 1Q14 to 4Q16 for the Euro Area, Germany, France, Italy, Spain, Switzerland and the UK.
- Figures 27-28 bring together our annual forecasts to 2019 for growth, inflation, current balance, fiscal balance, primary balance and government debt, while Figure 29 shows the change in forecasts from last month.
- Figure 30 shows forecast unemployment to 2019.
- Figures 31-33 compare our forecasts with those of other institutions.

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Figure 1. Europe – Short-Term Interest Rates (Percent), 2014-19F

	History	Forecast				
	2014	2015F	2016F	2017F	2018F	2019F
Euro Area	0.16	0.05	0.05	0.07	0.50	1.46
Denmark	0.20	0.00	0.10	0.15	0.60	1.56
Norway	1.49	0.90	0.76	1.08	1.67	2.23
Sweden	0.47	-0.22	-0.14	0.22	1.05	1.71
Switzerland	-0.06	-1.50	-0.75	-0.25	0.00	0.38
United Kingdom	0.50	0.54	1.04	2.04	3.00	3.25

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)			HICP Inflation (YY %)		
		2014E	2015F	2016F	2014F	2015F	2016F
Euro Area - Citi Forecast	21-Jan-15	0.8	1.3	1.9	0.4	-0.1	1.6
IMF WEO Forecast*	20-Jan-15	0.8	1.2	1.4	0.5	0.9	1.2
ECB Forecast - mid-point	04-Dec-14	0.8	1.0	1.5	0.5	0.7	1.3
OECD Economic Outlook	25-Nov-14	0.8	1.1	1.7	0.5	0.6	1.0
EU Commission Forecast	04-Nov-14	0.8	1.1	1.7	0.5	0.8	1.5
Consensus Economics	12-Jan-15	0.8	1.1	1.6	0.5	0.1	1.2

Sources Consensus Economics, ECB, EU Commission, IMF, OECD and Citi Research

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

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Euro Area

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We are adding 0.1pp to our 2015 real GDP estimates to 1.3% compared to our [2015 Year Ahead](#) forecasts (6 Jan), a 0.2pp cumulative adjustment versus the forecast in [Prospects for 2015](#) (Dec 1). Our 2016 growth forecast (1.9%) is unchanged versus the Jan 6 forecast (but up from 1.6% in *Prospects*), and this would be the fastest expansion since 2010. Lower oil prices will lift real incomes, while we also anticipate a significant weakening in the euro effective exchange rate (partly through a depreciation of EUR/USD to parity by mid-2016) — which should help to support exports and corporate investment. We would also note that in recent years, downside inflation surprises have tended to be followed by upward real GDP surprises in the next year. Hence our more constructive GDP trajectory in 2015-16 after negative inflation surprises in 2014, and very likely in 2015 too.

The rapid drop in oil prices will also weigh noticeably on euro area inflation throughout 2015, before base effects and currency-induced gains in import prices lead to a temporary rebound in headline HICP rates in 2016. **We now estimate that YY inflation will probably be slightly negative on average in 2015 at -0.1%**, compared to our forecast of a 0.8% gain two months ago, given that Brent is down from \$80 per barrel to less than \$50 since then. Turning to 2016, we envisage a temporary rebound in CPI inflation to 1.6% (versus 1.5% previously).

QE announced: On January 22, the ECB's Governing Council (GC) announced that it will buy euro-denominated investment-grade bonds issued by euro area governments, agencies and EU institutions in the secondary market from March. The GC indicated that the program (including ABS & covered bonds) will be €60bn per month, adding up to €1.1tn, which was on the high side of expectations. The GC currently intends to buy “*until at least end-Sep 2016*”, adding that purchases will “*in any case be conducted until we see a sustained adjustment in the path of inflation [...] consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term*” – see [ECB Launches QE, Removes Balance Sheet Constraint](#).

While the QE announcement is significant and larger-than-expected, **changes to the ECB's stance or additional measures may still be needed in the future**. We argue that substantial further ECB easing would likely take the form of additional purchases of government bonds and, to a lesser extent, private sector fixed-income assets. However, the next marginal easing step could be a further cut in the deposit rate or modifications to the TLTROs, in our view. Purchases of equity, loans or foreign exchange would only be considered — at least in size — once the scope for purchases of eligible fixed-income assets is exhausted, in our view. To ensure that monetary policy is effective in raising inflation, a combined monetary-fiscal stimulus (i.e. ‘helicopter money’) would be required, but we consider it as a last-resort measure and do not expect such a stimulus in the foreseeable future – see [Euro Economics Weekly - QE\(1\) Is Here — What Else Could The ECB Do?](#)

Figure 3. Euro Area: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	0.8	1.3	1.9	1.9	1.8	1.8
Final Domestic Demand	YY	0.9	1.4	1.6	1.7	1.7	1.7
Private Consumption	YY	0.9	1.6	1.6	1.6	1.6	1.6
Public Consumption	YY	0.9	0.9	0.6	0.7	1.0	1.0
Fixed Investment	YY	0.7	1.3	2.9	2.9	2.8	2.7
-- Business Equipment	YY	2.0	1.8	3.1	3.1	2.9	2.8
-- Construction	YY	-0.9	0.5	2.5	2.6	2.6	2.6
Stocks (Contrib. to YY GDP Growth)		-0.1	0.1	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	3.3	3.2	3.9	3.9	3.9	3.9
Imports of Goods and Services	YY	3.4	3.8	3.3	3.7	3.9	3.7
Consumer Prices	YY	0.4	-0.1	1.6	1.5	1.4	1.5
Core CPI (ex Food, Energy, Tobacco)	YY	0.8	0.7	0.8	1.0	1.2	1.4
CPI Ex Energy and Unprocessed Food	YY	0.9	0.8	1.0	1.1	1.4	1.5
Unemployment Rate	YY	11.3	10.8	10.1	9.3	8.6	8.1
Industrial Production	YY	0.6	1.2	3.4	NA	NA	NA
Current Account Balance	€ bn	252.7	272.4	253.1	237.2	222.2	216.6
	% GDP	2.5	2.6	2.4	2.2	2.0	1.9
General Government Balance	€ bn	-252.5	-225.3	-190.7	-154.4	-117.9	-81.0
	% GDP	-2.5	-2.2	-1.8	-1.4	-1.0	-0.7
Primary Balance	% GDP	0.3	0.7	1.1	1.4	1.7	2.0
General Government Debt	€ bn	9,591.8	9,796.6	9,987.4	10,141.8	10,304.7	10,408.9
	% GDP	95.3	95.3	94.4	93.1	91.7	89.6
Gross Operating Surplus	YY	1.9	3.8	2.6	2.8	3.1	3.4
ECB Refi Rate (Ann Avg)	%	0.16	0.05	0.05	0.07	0.50	1.46
Ten-year Bund yield (Period Avg.)	%	1.26	0.60	0.88	0.95	1.04	1.30
EUR-USD FX Rate (Ann Avg)		1.33	1.11	1.00	1.00	1.08	1.16

Note: Percentage changes unless indicated. Sources: ECB, Eurostat and Citi Research

Figure 4. Euro Area: Economic Forecasts – Quarterly, 1Q14-4Q16F

		History				Forecast							
		1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Real GDP	YY	1.1	0.8	0.8	0.7	0.8	1.1	1.4	1.8	1.8	1.9	2.0	2.0
	QQ SAAR	1.3	0.3	0.6	0.6	1.8	1.6	1.8	2.0	2.0	2.0	2.0	1.7
Final Domestic Demand	YY	0.9	0.8	0.9	0.8	1.0	1.4	1.5	1.6	1.7	1.6	1.6	1.6
Private Consumption	YY	0.5	0.7	1.1	1.2	1.5	1.7	1.5	1.6	1.6	1.5	1.5	1.6
Public Consumption	YY	0.8	0.9	1.1	0.7	0.8	0.8	0.8	1.1	1.0	0.7	0.5	0.3
Fixed Investment	YY	2.3	0.9	0.1	-0.3	-0.2	1.0	1.9	2.3	2.6	2.8	3.0	3.0
-- Business Equipment	YY	3.1	2.2	1.8	0.9	1.3	1.4	2.1	2.5	2.9	3.1	3.2	3.3
-- Construction	YY	1.1	-0.8	-2.0	-1.9	-2.0	0.6	1.6	2.0	2.3	2.4	2.6	2.7
Stocks (Contrib. to YY GDP Growth)		0.0	0.0	-0.3	0.0	-0.1	0.1	0.1	0.1	0.1	0.0	0.0	-0.1
Exports of Goods and Services	YY	3.6	3.2	3.3	3.1	3.6	3.0	3.1	3.3	3.4	3.8	4.0	4.1
Imports of Goods and Services	YY	3.6	3.5	3.1	3.7	4.2	3.8	3.5	3.5	3.4	3.3	3.3	3.4
Consumer Prices	YY	0.7	0.6	0.4	0.2	-0.5	-0.4	-0.2	0.5	1.5	1.7	1.7	1.6
Core CPI (ex Food, Energy, Tobacco)	YY	0.8	0.8	0.8	0.7	0.7	0.6	0.6	0.7	0.8	0.8	0.8	0.8
CPI Ex Energy and Unprocessed Food	YY	1.0	0.9	0.9	0.7	0.7	0.7	0.8	0.9	1.0	1.0	1.0	0.9
Unemployment Rate	YY	12.2	11.3	11.0	10.7	11.7	10.9	10.6	10.1	11.1	10.2	9.8	9.3
Industrial Production	YY	1.5	0.8	0.4	-0.3	-0.1	0.5	1.7	2.6	3.1	3.4	3.6	3.6
ECB Refi Rate (qtr-end)	%	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Ten-year Bund yield (Period Avg.)	%	1.68	1.43	1.05	0.75	0.55	0.55	0.65	0.65	0.75	0.75		
EUR-USD FX Rate (qtr-end)		1.38	1.37	1.26	1.21	1.14	1.12	1.10	1.08	1.05	1.02	0.99	0.96

Note: Percentage changes unless indicated. Sources: ECB, Eurostat and Citi Research

Germany

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The turnaround in sentiment and the fall in oil prices has led us to revise up our German growth forecasts and we now expect growth of 1.5% in 2015 and 2.0% in 2016 (from 1.1% and 1.6% previously). Recently, (modest) German growth has been mostly consumption-based and we continue to expect growth in coming years to be domestically-driven. Meanwhile, inflation is falling fast in Germany, too, and is likely to be negative soon, with inflation for 2015 as a whole likely to be around zero.

Figure 5. Germany: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	1.5	1.5	2.0	1.8	1.8	1.8
Real GDP, Non Work-Day Adjusted	YY	1.5	1.7	2.1	1.6	NA	NA
Final Domestic Demand	YY	1.5	1.8	2.1	1.9	1.9	1.8
Private Consumption	YY	1.2	2.1	1.9	1.8	1.7	1.7
Public Consumption	YY	1.2	1.6	1.5	1.5	1.6	1.6
Fixed Investment	YY	2.9	1.1	3.2	2.7	2.6	2.3
-- Business Equipment	YY	3.3	0.7	3.0	2.4	2.2	1.9
-- Construction	YY	3.3	1.1	3.4	2.9	2.6	2.2
Stocks (Contrib. to YY GDP Growth)		-0.2	0.1	0.1	0.1	0.1	0.0
Exports of Goods and Services	YY	3.8	2.8	2.8	3.1	3.1	3.3
Imports of Goods and Services	YY	3.6	4.2	3.5	4.0	3.7	3.4
Net Exports (Contrib. to YY GDP Growth)		0.3	0.3	-0.1	-0.2	-0.1	0.0
Consumer Prices	YY	0.9	0.0	1.7	1.8	1.8	1.8
Compensation per Employee	YY	2.2	2.2	2.2	2.3	2.3	2.4
Employment Growth	YY	0.7	0.3	0.9	0.7	0.6	0.2
ILO Unemployment Rate	%	5.0	5.0	4.8	4.7	4.5	4.7
Registered Unemployment Rate	%	6.7	6.7	6.5	6.3	6.2	6.3
Industrial Production (incl Construction)	YY	1.1	1.1	1.6	2.4	2.7	NA
Current Account Balance	€ bn	210.5	222.8	203.4	201.5	192.5	192.8
	% GDP	7.4	7.7	6.8	6.6	6.1	6.0
General Government Balance	€ bn	8.3	5.3	2.7	3.0	2.0	3.9
	% GDP	0.3	0.2	0.1	0.1	0.1	0.1
Primary Balance	% GDP	2.1	1.9	1.7	1.6	1.5	1.5
General Government Debt	€ bn	2,160.9	2,140.9	2,138.2	2,135.2	2,133.1	2,129.3
	% GDP	74.8	72.8	70.9	68.8	66.8	65.2
Gross Trading Profits	YY	1.2	0.4	2.0	3.6	3.9	2.5

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. Sources: Deutsche Bundesbank, Eurostat, Statistisches Bundesamt and Citi Research forecasts

Figure 6. Germany: Economic Forecasts – Quarterly, 1Q 2014-4Q 16F

		History				Forecast							
		1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Real GDP	YY	2.3	1.4	1.2	1.0	0.8	1.3	1.7	2.0	1.9	2.0	2.1	2.0
	QQ SAAR	3.1	-0.3	0.3	1.1	2.2	1.7	1.9	2.0	1.8	2.1	2.3	1.6
Final Domestic Demand	YY	2.3	1.2	1.1	1.5	1.1	1.8	2.1	2.2	2.2	2.2	2.0	2.0
	QQ SAAR	3.8	-0.9	1.5	1.7	2.1	2.1	2.4	2.1	2.2	2.0	1.9	2.0
Private Consumption	YY	1.1	0.6	1.1	1.9	1.9	2.3	2.1	2.1	2.0	2.0	1.9	1.9
	QQ SAAR	2.2	0.4	2.9	2.0	2.3	2.0	2.2	1.9	1.9	1.8	1.8	1.9
Public Consumption	YY	0.7	1.2	1.2	1.6	1.8	1.7	1.4	1.5	1.5	1.5	1.5	1.5
	QQ SAAR	0.9	1.8	2.6	1.2	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Fixed Investment	YY	7.3	2.9	1.3	0.4	-1.8	0.7	2.6	3.0	3.3	3.3	3.1	3.0
	QQ SAAR	11.4	-6.9	-3.6	1.4	2.3	2.8	3.9	3.0	3.5	3.0	2.7	2.7
-- Business Equipment	YY	6.7	4.2	2.5	-0.1	-1.2	-1.1	2.2	2.9	3.3	3.3	2.7	2.6
	QQ SAAR	7.1	1.8	-8.8	0.3	2.2	2.1	4.3	3.1	3.6	2.2	2.1	2.4
-- Construction	YY	10.0	2.7	0.5	0.3	-3.1	1.6	2.8	3.1	3.3	3.4	3.5	3.4
	QQ SAAR	17.7	-14.7	-1.4	2.1	2.6	3.1	3.4	3.4	3.5	3.2	3.7	3.2
Stocks (Contrib. to YY GDP Growth)		-0.1	0.2	-0.6	-0.4	-0.1	-0.1	0.4	0.4	0.2	0.1	0.1	0.0
Exports of Goods and Services	YY	3.7	3.4	4.7	3.3	4.1	3.3	1.9	2.0	2.0	2.6	3.1	3.5
	QQ SAAR	-0.6	4.7	8.0	1.4	2.3	1.7	2.1	1.8	2.4	4.1	3.9	3.4
Imports of Goods and Services	YY	3.6	3.5	3.5	3.9	4.9	4.6	3.8	3.5	3.3	3.4	3.5	3.7
	QQ SAAR	-0.2	4.6	6.9	4.4	3.8	3.4	3.5	3.1	3.1	3.7	3.8	4.3
Net Exports (Contrib. to YY GDP Growth)		-0.1	0.1	0.2	-0.3	-0.1	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
Consumer Prices	YY	1.2	1.1	0.8	0.5	-0.3	-0.2	-0.1	0.6	1.6	1.7	1.7	1.7
Compensation per Employee	YY	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.3
Employment Growth	YY	0.7	0.9	0.9	0.4	0.3	0.2	0.2	0.8	0.9	0.9	0.9	0.9
ILO Unemployment Rate	%	5.1	5.0	5.0	4.9	5.0	5.0	5.0	4.9	4.9	4.8	4.8	4.7
Industrial Production (incl Construction)	YY	4.0	1.1	0.2	-1.0	-0.9	0.6	1.6	3.3	2.0	1.7	1.4	1.1
Gross Trading Profits	YY	4.5	1.0	-0.7	0.1	-1.6	0.9	1.9	0.4	0.5	1.0	2.6	4.0

Note: Forecasts for GDP and its components are calendar adjusted. Percentage changes unless indicated. Sources: Deutsche Bundesbank, Eurostat, Statistisches Bundesamt and Citi Research forecasts

France

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We raise our 2015-16 real GDP forecasts to 0.9% and 1.8% respectively, versus 0.7% and 1.6% previously. The main developments in the last few months have been a modest pick-up in sentiment surveys, accompanied by some resurgence in the abysmal popularity ratings of the French President. The much lower euro and oil price plunge are likely to support consumer spending and lift corporate profits, albeit with a lag. Households' discretionary spending is also likely to increase, in our view, as lower inflation will boost real disposable incomes. Concerns about rising levels of taxes will likely be partially allayed by promises of a decrease in fiscal pressure for households, leading to a modest drop in the household saving ratio. The main uncertainty for the forecast is the impact of the terrorist attacks on confidence.

Figure 7. France: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	0.3	0.9	1.8	1.9	2.0	2.1
Final Domestic Demand	YY	0.4	0.9	1.4	1.9	2.2	2.1
Private Consumption	YY	0.6	1.2	1.5	1.9	2.0	2.0
Public Consumption	YY	1.9	1.7	0.3	0.7	1.3	1.0
Fixed Investment	YY	-1.7	-0.6	2.3	3.2	3.6	3.5
-- Businesses	YY	-0.3	0.4	3.0	3.8	4.2	3.7
-- Households	YY	-6.3	-2.4	1.3	1.9	2.3	2.9
Stocks (Contrib. to YY GDP Growth)		0.3	0.0	-0.1	-0.1	0.0	0.0
Exports of Goods and Services	YY	2.1	3.1	4.1	3.4	3.2	3.3
Imports of Goods and Services	YY	3.5	2.9	2.3	3.1	3.9	3.3
Net Exports (Contrib. to YY GDP Growth)		-0.4	0.0	0.5	0.0	-0.2	0.0
Consumer Prices	YY	0.6	0.2	1.7	1.5	1.5	1.5
Average Monthly Wages & Salaries	YY	1.1	1.2	1.8	NA	NA	NA
Hourly Wages	YY	1.9	1.5	NA	NA	NA	NA
Employment Growth (Private-Sector)	YY	-0.3	-0.4	0.8	1.5	1.6	1.6
Unemployment Rate	%	9.8	10.1	9.8	9.2	8.5	8.5
Manufacturing Production	YY	-0.3	-0.7	1.9	2.9	NA	NA
Current Account Balance	€ bn	-22.1	-8.9	1.9	-4.1	-10.1	-19.2
	% GDP	-1.0	-0.4	0.1	-0.2	-0.4	-0.8
General Government Balance	€ bn	-91.6	-85.1	-77.2	-68.5	-58.7	-47.7
	% GDP	-4.3	-4.0	-3.5	-3.0	-2.5	-1.9
Primary Balance	% GDP	-2.1	-1.8	-1.4	-1.0	-0.6	-0.1
General Government Debt	€ bn	2,048.4	2,133.5	2,210.6	2,279.2	2,337.8	2,385.5
	% GDP	96.1	99.1	99.3	99.1	98.2	96.8
Gross Trading Profits	YY	1.9	3.9	4.3	5.5	5.1	5.1

Note: Percentage changes unless indicated. Sources: ECB, Eurostat, INSEE and Citi Research forecasts

Figure 8. France: Economic Forecasts – Quarterly, 1Q 14-4Q 16F

		History				Forecast							
		1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Real GDP	YY	0.8	0.0	0.4	0.0	0.4	0.8	1.0	1.7	1.7	1.8	1.8	1.67
	QQ SAAR	0.0	-0.4	1.0	-0.6	1.4	1.3	1.9	2.1	1.7	1.8	1.7	1.5
Final Domestic Demand	YY	0.6	0.4	0.5	0.1	0.7	0.8	0.9	1.3	1.3	1.4	1.4	1.4
	QQ SAAR	-0.9	0.7	0.7	0.0	1.2	1.2	1.4	1.5	1.3	1.4	1.5	1.5
Private Consumption	YY	0.4	0.6	0.9	0.5	1.3	1.1	1.1	1.3	1.3	1.5	1.6	1.8
	QQ SAAR	-1.2	1.9	1.1	0.4	1.6	1.2	1.2	1.2	1.6	1.8	1.8	1.8
Public Consumption	YY	2.0	1.7	2.0	1.7	1.8	1.8	1.5	1.6	1.1	0.6	0.1	-0.4
	QQ SAAR	1.5	1.7	2.6	1.2	1.6	1.6	1.6	1.6	-0.4	-0.4	-0.4	-0.4
Fixed Investment	YY	-0.5	-1.6	-2.2	-2.7	-2.1	-1.1	-0.1	1.0	1.7	2.2	2.5	2.8
	QQ SAAR	-2.9	-3.2	-2.4	-2.3	-0.5	0.7	1.7	2.0	2.6	2.6	2.9	2.9
-- Businesses	YY	0.8	-0.1	-0.4	-1.6	-0.9	0.0	0.6	1.8	2.5	2.9	3.2	3.4
	QQ SAAR	-2.5	-1.9	0.1	-2.0	0.4	1.6	2.4	2.8	3.2	3.2	3.6	3.6
-- Households	YY	-5.1	-6.6	-7.2	-6.4	-5.0	-3.2	-1.3	0.0	0.9	1.3	1.5	1.6
	QQ SAAR	-7.5	-7.4	-6.6	-3.9	-2.0	0.0	0.8	1.2	1.6	1.6	1.6	1.6
Stocks (Contrib. to YY GDP Growth)		0.4	-0.1	0.3	-0.2	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Exports of Goods and Services	YY	3.7	0.7	2.0	1.8	2.1	3.1	3.5	3.8	4.0	4.1	4.2	4.0
	QQ SAAR	2.3	-0.1	2.2	2.8	3.7	3.8	3.7	4.2	4.4	4.3	3.9	3.2
Imports of Goods and Services	YY	4.3	2.8	3.2	3.5	3.1	3.3	2.5	2.5	2.4	2.2	2.3	2.4
	QQ SAAR	4.4	2.3	5.2	2.0	2.8	3.2	2.0	2.0	2.4	2.4	2.4	2.4
Net Exports (Contrib. to YY GDP Growth)		-0.2	-0.2	-0.2	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	0.9	0.8	0.5	0.3	-0.3	0.0	0.3	0.5	1.6	1.6	1.8	1.8
Unemployment Rate	%	9.7	9.7	9.9	10.1	10.1	10.1	10.1	10.1	10.0	9.9	9.7	9.7

Note: Percentage changes unless indicated. Sources: ECB, Eurostat, INSEE and Citi Research forecasts

Italy

[Guillaume Menuet](#)

[Antonio Montilla](#)

Short-term indicators suggest the Italian economy remained in recession in Q4 14, and **we expect real GDP QQ growth to be at best 0.1% in Q1 15**. Export growth remains subdued while the recent pick-up in real disposable income (due to “lowflation” and the personal income tax cut introduced in May 2014) has failed so far to cause a rebound in consumer spending. Yet, we expect that improved financial conditions (due to ECB QE) and a more supportive fiscal stance together with the decline in oil prices will support domestic demand in coming years. We have revised up our real GDP forecasts to 0.4% in 2015 and 1.1% in 2016 (from 0.3% and 1.0% respectively, previously). We expect the presidential elections starting on Jan 29 will not be destabilising in policy or market terms (unlike the Greek case, the government has a sufficient majority to elect a candidate), and that Italian politics will remain relatively stable in 2015.

Figure 9. Italy: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	-0.4	0.4	1.1	1.1	0.9	0.9
Final Domestic Demand	YY	-0.4	0.4	0.9	0.8	0.8	0.9
Private Consumption	YY	0.3	0.7	0.8	0.7	0.6	0.7
Public Consumption	YY	-0.3	-0.3	0.1	-0.1	0.3	0.5
Fixed Investment	YY	-2.5	0.0	2.2	2.1	2.0	2.0
-- Business Equipment	YY	-1.6	0.6	3.0	2.7	2.8	2.7
-- Construction	YY	-3.3	-0.5	1.5	1.5	1.3	1.2
Exports of Goods and Services	YY	1.8	2.6	3.6	3.7	3.4	3.5
Imports of Goods and Services	YY	0.3	2.4	3.1	2.9	3.3	3.9
Net Exports (Contrib. to YY GDP Growth)		0.4	0.1	0.3	0.3	0.2	0.0
Consumer Prices	YY	0.2	-0.2	1.2	1.1	0.9	1.0
Employment Growth	YY	-0.3	0.0	0.6	0.8	0.7	0.6
Unemployment Rate	%	12.8	13.2	12.8	12.2	11.7	11.3
Current Account Balance	€ bn	25.6	26.8	27.6	29.2	29.5	30.2
	% GDP	1.6	1.6	1.7	1.7	1.7	1.7
General Government Balance	€ bn	-47.8	-47.7	-35.4	-24.9	-14.2	-9.1
	% GDP	-3.0	-2.9	-2.1	-1.5	-0.8	-0.5
Primary Balance	% GDP	1.7	1.4	1.9	2.3	2.7	2.8
General Government Debt	€ bn	2,126	2,166	2,193	2,218	2,232	2,241
	% GDP	131.5	133.2	132.7	132.2	131.0	129.5

Percentage changes unless indicated. Sources: Bank of Italy, ECB, Eurostat, ISTAT and Citi Research

Figure 10. Italy: Economic Forecasts – Quarterly, 1Q 14-4Q 16F

		History				Forecast								
		1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	
Real GDP	YY	-0.3	-0.4	-0.5	-0.5	-0.3	0.2	0.6	1.0	1.2	1.2	1.1	1.1	
	QQ SAAR	-0.1	-0.9	-0.6	-0.2	0.4	1.0	1.2	1.4	1.1	1.1	1.0	1.1	
Final Domestic Demand	YY	-0.5	-0.2	-0.3	-0.4	-0.2	0.1	0.6	1.0	1.1	1.0	0.8	0.7	
	QQ SAAR	-0.7	-0.1	-0.8	-0.2	0.3	1.0	1.3	1.3	0.7	0.6	0.6	1.0	
Private Consumption	YY	-0.3	0.4	0.4	0.5	0.4	0.5	0.8	1.0	1.0	0.9	0.7	0.6	
	QQ SAAR	0.5	0.6	0.3	0.4	0.4	1.0	1.3	1.2	0.6	0.4	0.6	0.8	
Public Consumption	YY	-0.3	-0.4	0.2	-0.7	-0.5	-0.6	-0.2	0.2	0.3	0.2	0.0	-0.2	
	QQ SAAR	-1.0	0.5	-1.3	-0.8	-0.4	0.0	0.6	0.6	-0.2	-0.2	-0.2	-0.2	
Fixed Investment	YY	-1.4	-2.2	-3.1	-3.2	-2.0	-0.7	0.9	1.9	2.2	2.3	2.2	2.3	
	QQ SAAR	-4.2	-3.2	-3.9	-1.5	0.7	2.3	2.2	2.3	2.2	2.5	1.7	2.8	
-- Business Equipment	YY	-0.5	-1.2	-2.1	-2.7	-1.4	-0.2	1.6	2.5	3.0	3.1	2.8	3.0	
	QQ SAAR	-4.2	-2.0	-4.5	-0.2	1.0	3.0	2.8	3.4	2.8	3.4	1.7	4.1	
-- Construction	YY	-2.3	-3.1	-4.0	-3.6	-2.5	-1.1	0.2	1.2	1.5	1.5	1.5	1.6	
	QQ SAAR	-4.1	-4.2	-3.4	-2.8	0.4	1.6	1.6	1.2	1.6	1.6	1.6	1.6	
Exports of Goods and Services	YY	1.5	2.5	1.3	2.0	2.7	2.1	2.5	3.1	3.3	3.6	3.8	3.9	
	QQ SAAR	0.8	5.3	0.9	1.0	3.6	3.0	2.6	3.0	4.5	4.2	3.4	3.4	
Imports of Goods and Services	YY	-0.1	1.8	-0.7	0.2	1.8	1.7	2.8	3.2	3.2	3.1	3.0	3.0	
	QQ SAAR	-2.7	3.6	-1.2	1.3	3.4	3.4	3.2	2.9	3.4	3.1	2.5	3.1	
Net Exports (Contrib. to YY GDP Growth)		0.4	0.2	0.6	0.5	0.3	0.2	0.0	0.1	0.1	0.2	0.3	0.4	
Consumer Prices		YY	0.5	0.4	-0.1	0.1	-0.4	-0.4	-0.1	0.0	0.9	1.2	1.3	1.4

Percentage changes unless indicated. Sources: Bank of Italy, ECB, Eurostat, ISTAT and Citi Research

Spain

[Antonio Montilla](#)

We are revising up our real growth forecasts to 2.2% for both 2015 and 2016, from 2.0% and 2.1% respectively previously, mainly reflecting the impact of falling oil prices on domestic demand. The recovery continues to be driven by private consumption (supported by a record-low household saving rate) and business investment, despite ongoing private deleveraging pressures. We estimate Q1 real GDP growth to rise to 0.6% QQ (largest since Q4 2007), supported by the cuts in both personal and corporate income taxation as well as negative inflation. We expect the government to overshoot its fiscal deficit targets in coming years.

Figure 11. Spain: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	1.4	2.5	2.4	2.1	1.8	1.8
Final Domestic Demand	YY	2.0	3.2	2.3	1.8	1.5	1.6
Private Consumption	YY	2.3	3.6	2.2	2.0	1.7	1.7
Government Consumption	YY	0.5	0.5	0.5	-0.2	0.0	0.3
Fixed Investment	YY	2.8	4.6	4.1	2.8	2.4	2.6
-- Business Equipment	YY	9.9	8.4	6.7	3.9	2.6	2.5
-- Construction	YY	-2.8	1.2	1.4	1.6	2.1	2.6
Exports of Goods and Services	YY	4.8	5.9	5.0	4.9	4.1	3.8
Imports of Goods and Services	YY	8.2	8.9	4.7	4.2	3.3	3.5
Net Exports (Contrib. to YY GDP Growth)		-0.7	-0.6	0.2	0.4	0.4	0.3
Consumer Prices	YY	-0.2	-1.0	1.1	0.8	0.6	0.7
Compensation per Employee	YY	0.0	0.4	NA	NA	NA	NA
Employment Growth	YY	1.2	3.0	2.1	1.9	1.5	1.3
Unemployment Rate	%	24.5	22.4	20.8	19.5	18.5	17.7
Current Account Balance	€ bn	-2.1	5.1	5.1	7.8	11.6	13.0
	% GDP	-0.2	0.5	0.5	0.7	1.0	1.1
General Government Balance	€ bn	-58.9	-47.1	-34.2	-25.0	-18.8	-12.0
	% GDP	-5.6	-4.4	-3.1	-2.2	-1.6	-1.0
Primary Balance	% GDP	-2.3	-1.4	-0.3	0.4	0.8	1.3
General Government Debt	€ bn	1,029.3	1,076.4	1,110.6	1,135.6	1,154.4	1,166.3
	% GDP	97.3	99.4	99.8	99.0	98.0	96.4

Percentage changes unless indicated. Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Figure 12. Spain: Economic Forecasts – Quarterly, 1Q 14-4Q 16F

		History				Forecast							
		1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Real GDP	YY	0.7	1.3	1.6	1.8	2.4	2.5	2.5	2.6	2.4	2.3	2.4	2.3
	QQ SAAR	1.4	2.0	2.0	2.1	3.4	2.4	2.2	2.3	2.5	2.2	2.5	2.1
Final Domestic Demand	YY	1.0	2.1	2.4	2.7	3.1	3.2	3.1	3.2	2.8	2.2	2.1	2.0
	QQ SAAR	2.4	3.5	2.9	2.1	4.1	3.9	2.2	2.5	2.4	1.7	1.9	1.9
Private Consumption	YY	1.3	2.2	2.7	3.0	3.7	3.8	3.5	3.3	2.6	2.0	2.0	2.2
	QQ SAAR	2.4	3.7	3.3	2.8	5.2	4.0	1.9	1.9	2.5	1.8	1.9	2.7
Government Consumption	YY	0.5	0.7	0.9	0.0	-0.7	0.1	0.5	2.0	1.6	0.8	0.2	-0.5
	QQ SAAR	4.6	-0.6	0.2	-3.9	1.4	3.0	1.8	1.8	-0.2	-0.4	-0.4	-1.2
Fixed Investment	YY	0.5	3.2	3.1	4.5	5.3	4.7	4.5	4.1	4.4	4.1	4.3	3.7
	QQ SAAR	0.3	7.0	4.3	6.4	3.6	4.3	3.4	4.9	4.7	3.2	4.2	2.7
-- Business Equipment	YY	12.1	9.7	8.1	9.6	9.4	8.2	8.5	7.5	7.1	6.8	6.9	5.9
	QQ SAAR	8.8	11.4	6.3	11.9	8.0	6.5	7.7	7.9	6.5	5.3	7.8	4.2
-- Construction	YY	-8.1	-2.0	-1.2	0.1	1.7	1.5	0.7	0.8	1.1	1.4	1.7	1.5
	QQ SAAR	-6.6	3.2	2.4	1.5	-0.4	2.3	-0.6	2.0	3.0	1.2	0.6	1.2
Exports of Goods and Services	YY	6.3	1.4	4.6	6.8	7.9	7.0	4.7	4.0	4.2	5.3	5.4	5.2
	QQ SAAR	-0.1	5.1	14.9	7.7	4.4	1.5	5.4	4.9	4.9	5.9	5.8	4.4
Imports of Goods and Services	YY	8.8	4.8	8.2	10.8	12.3	10.9	7.0	5.6	4.8	4.6	4.8	4.7
	QQ SAAR	2.1	10.8	20.3	10.8	7.6	5.5	4.3	4.9	4.6	4.8	5.0	4.5
Net Exports (Contrib. to YY GDP Growth)		-0.3	-0.8	-0.8	-0.8	-0.8	-0.8	-0.5	-0.3	-0.1	0.3	0.3	0.3
Consumer Prices	YY	0.0	0.2	-0.4	-0.6	-1.6	-1.4	-1.0	0.0	1.3	1.3	1.1	0.9
Compensation per Employee	YY	-0.2	0.1	-0.1	0.2	0.3	0.5	0.5	0.2	NA	NA	NA	NA
Employment Growth	YY	-0.5	1.1	1.6	2.5	3.5	2.9	3.1	2.5	2.1	2.0	2.1	2.1
Unemployment Rate	%	25.9	24.5	23.7	23.7	23.6	22.4	21.7	21.7	22.0	20.9	20.1	20.2

Percentage changes unless indicated. Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Greece

[Ebrahim Rahbari](#)

The outlook for Greece continues to be dominated by political factors. The prospect of opposition far-left Syriza party winning the upcoming parliamentary election on January 25 has revived concerns about potential government default and Grexit. In our view, Grexit is not the most likely outcome, even if Syriza leads the next Greek government, as the mutual incentives of Eurozone creditors and the Greek government to keep Greece in the Eurozone are very high. Political uncertainty may be a drag on growth, but the fall in oil prices should still allow Greece to eke out positive growth (we continue to expect 1.5% growth in 2015 and 1.7% in 2016).

Figure 13. Greece: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	0.8	1.5	1.7	1.7	1.9	1.9
Final Domestic Demand	YY	-0.4	0.9	1.3	1.3	1.3	1.4
Private Consumption	YY	0.3	0.8	0.9	1.1	1.3	1.4
Public Consumption	YY	-0.7	0.2	0.3	0.3	0.3	0.3
Fixed Investment	YY	-4.3	3.5	5.4	4.2	3.2	3.2
Exports of Goods and Services	YY	10.2	5.6	4.4	4.5	4.5	4.5
Imports of Goods and Services	YY	7.4	2.9	3.1	3.2	3.0	3.1
HICP	YY	-1.4	-1.7	-0.3	-0.1	0.1	0.3
Unemployment Rate	%	26.5	25.2	24.4	23.6	22.7	21.8
Current Account Balance	€ bn	2.5	1.9	1.9	1.9	2.3	2.7
	% GDP	1.4	1.1	1.1	1.1	1.4	1.6
General Government Balance	€ bn	-3.1	-3.1	-2.2	-2.0	-1.6	-2.2
	% GDP	-1.7	-1.7	-1.2	-1.1	-0.8	-1.1
Primary Balance	% GDP	2.3	2.3	2.7	2.7	2.8	2.4
General Government Debt	€ bn	317.6	319.2	319.9	320.4	322.0	324.2
	% GDP	178.0	178.5	176.3	173.3	169.6	165.5

Percentage changes unless indicated. Sources: Bank of Greece, ECB, Eurostat and Citi Research forecasts

Ireland

[Michael Saunders](#)

The economy is booming, fuelled by a mix of strong job gains, supply-side flexibility and loose monetary policy. GDP growth in 2014 probably was about 5% YY, and – with house prices up 16% YY and the composite PMI more than one standard deviation above the average since 2000 -- we expect growth of 4%+ in 2015. Fiscal policy remains cautious, and is predicated on relatively pessimistic assumptions about potential growth. As a result, the public debt/GDP ratio is likely to continue to fall rapidly, dropping below 100% next year.

Figure 14. Ireland: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	5.0	4.4	7.8	6.4	4.6	4.3
Real GNP	YY	4.4	3.9	7.2	5.7	4.0	3.7
Final Domestic Demand	YY	2.4	2.4	3.4	3.2	2.6	1.9
Private Consumption	YY	0.6	1.9	2.4	2.8	2.9	2.4
Public Consumption	YY	1.2	-2.5	0.3	0.0	0.5	0.5
Fixed Investment	YY	9.0	8.6	8.7	6.9	3.4	1.6
Exports of Goods and Services	YY	12.4	7.9	8.0	7.5	7.3	7.3
Imports of Goods and Services	YY	11.3	7.2	4.4	5.3	6.6	6.6
Net Trade		2.9	2.2	4.5	3.1	2.1	2.4
GDP Deflator	YY	0.3	1.0	1.1	1.6	1.7	1.7
Nominal GDP	YY	5.3	5.4	9.0	8.0	6.4	6.1
House Prices	YY	11.6	14.8	12.6	7.1	4.1	4.1
Unemployment Rate	%	11.4	9.9	8.7	7.0	5.3	3.9
Employment	YY	1.8	2.5	2.6	3.3	3.4	2.9
Current Account Balance	€ bn	10.9	13.3	19.5	23.4	24.5	25.4
	% GDP	5.9	6.8	9.2	10.2	10.1	9.9
General Government Balance	€ bn	-7.0	-5.1	-1.3	3.0	6.8	9.9
	% GDP	-3.8	-2.6	-0.6	1.3	2.8	3.9
Primary Balance	% GDP	0.3	1.2	3.0	4.8	6.1	6.9
General Government Debt	€ bn	203.3	209.7	208.8	207.3	200.5	190.6
	% GDP	110.4	108.0	98.7	90.7	82.5	73.9

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

Portugal

[Antonio Montilla](#)

We are edging up our GDP growth forecasts by 0.2pp to 1.7% in 2015 and by 0.1pp to 2.1% in 2016. Private consumption and investment should continue to expand at a relatively steady pace, while we expect export growth to benefit from the weaker euro and some pick-up in growth of Portugal's main trading partners. The public debt-to-GDP ratio is likely to start falling in 2015 (after peaking at around 135% in 2014), although we expect the fiscal deficit to stay above the 2.7% of GDP target.

Figure 15. Portugal: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	0.9	1.7	2.1	2.1	2.0	1.8
Final Domestic Demand	YY	1.6	1.9	1.3	1.5	1.6	1.6
Private Consumption	YY	2.1	2.3	1.6	1.6	1.7	1.6
Public Consumption	YY	-0.6	-0.5	-0.2	0.4	0.5	0.6
Fixed Investment	YY	2.3	2.8	2.1	2.7	2.8	2.6
Exports	YY	2.7	5.4	6.1	5.7	4.8	4.6
Imports	YY	6.0	5.0	4.2	4.4	4.1	4.1
Consumer Prices	YY	-0.2	-0.4	1.1	0.8	0.8	0.9
Unemployment Rate	%	13.9	12.4	11.0	10.1	9.7	9.7
Current Account Balance	€ bn	0.2	0.5	0.9	1.3	1.5	1.5
	% GDP	0.1	0.3	0.5	0.7	0.8	0.8
General Government Balance	€ bn	-7.3	-5.8	-4.6	-3.5	-2.5	-1.6
	% GDP	-4.2	-3.3	-2.5	-1.9	-1.3	-0.8
Primary Balance	% GDP	0.8	1.9	2.5	2.9	3.3	3.7
General Government Debt	€ bn	234.0	234.5	235.4	237.1	239.6	241.2
	% GDP	134.9	133.2	130.9	128.6	126.6	124.2

Percentage changes unless indicated. Sources: BdP, INE and Citi Research forecasts

Netherlands

[Guillaume Menuet](#)

We are raising our Dutch GDP forecasts, pencilling in a stronger contribution from domestic demand as a result of the drop in oil prices. We also expect that the further loosening in financial conditions will contribute to a faster recovery, and anticipate that house prices will increase further in 2015 and 2016, alongside a drop in unemployment. The tight fiscal stance is likely to curb the recovery in demand, but ensure that the budget deficit continues to narrow steadily.

Figure 16. Netherlands: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	0.7	1.4	1.9	2.0	2.0	2.0
Final Domestic Demand	YY	0.3	0.8	1.1	1.3	1.5	1.7
Private Consumption	YY	-0.1	0.8	1.0	1.0	1.1	1.3
Public Consumption	YY	0.1	0.0	0.3	0.7	0.8	0.9
Fixed Investment (ex Stocks)	YY	1.4	1.9	2.3	2.7	3.1	3.3
Stocks (Contrib. to YY GDP Growth)		-0.1	0.0	0.1	0.0	0.1	8.9
Exports of Goods and Services	YY	3.9	3.2	3.4	3.8	4.0	3.8
Imports of Goods and Services	YY	3.9	2.8	2.8	3.3	3.8	3.8
Net Exports (Contrib. to YY GDP Growth)		0.4	0.6	0.8	0.8	0.6	3.8
Consumer Prices	YY	0.3	0.0	1.7	1.6	1.5	1.7
Unemployment Rate	%	8.3	7.7	7.2	6.3	5.4	4.5
Current Account Balance	€ bn	69.1	58.8	52.8	44.1	35.7	28.5
	% GDP	10.6	8.9	7.7	6.2	4.9	3.8
General Government Balance	€ bn	-12.1	-10.0	-9.1	-6.9	-6.1	-4.0
	% GDP	-1.9	-1.5	-1.3	-1.0	-0.8	-0.5
Primary Balance	% GDP	-0.3	0.0	0.1	0.5	0.6	0.8
General Government Debt	€ bn	449.8	456.5	465.6	472.6	478.6	482.6
	% GDP	69.2	69.3	68.2	66.8	65.4	63.6

Note: Percentage changes unless indicated. Sources: DNB, CBS and Citi Research forecasts

Belgium

[Guillaume Menuet](#)

The Belgian government has been facing a series of strikes throughout December, with widespread demonstrations against the new administration's austerity plans designed to raise competitiveness and reduce public sector debt. Business confidence has been treading water in the last couple of months. We suspect that the government is unlikely to back down, given the need for further budgetary adjustments as indicated by the European Commission in granting Brussels three more months to demonstrate its ability to "take the necessary measures".

Figure 17. Belgium: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	1.0	1.2	1.8	1.9	2.2	2.1
Final Domestic Demand	YY	1.4	1.3	1.5	1.7	1.6	1.5
Private Consumption	YY	0.9	1.0	1.3	1.3	1.2	1.3
Public Consumption	YY	0.1	0.4	0.9	1.1	1.1	1.0
Fixed Investment (ex Stocks)	YY	3.9	3.1	2.7	3.1	2.9	2.5
Exports of Goods and Services	YY	3.4	4.3	4.1	4.6	5.8	4.9
Imports of Goods and Services	YY	2.8	4.7	3.9	4.2	5.3	4.4
Consumer Prices	YY	0.5	-0.4	1.4	1.4	1.7	1.8
Unemployment Rate	%	8.5	8.4	8.2	7.9	7.6	7.4
Current Account Balance	€ bn	0.4	-1.0	0.6	0.5	-0.1	-0.3
	% GDP	0.1	-0.2	0.1	0.1	0.0	-0.1
General Government Balance	€ bn	-11.4	-10.8	-10.1	-8.1	-4.9	-2.4
	% GDP	-2.8	-2.7	-2.4	-1.9	-1.1	-0.5
Primary Balance	% GDP	0.3	0.5	0.7	1.1	1.8	2.3
General Government Debt	€ bn	425.8	436.7	446.8	454.9	459.8	462.2
	% GDP	106.1	107.9	106.9	105.3	102.5	99.1

Note: Percentage changes unless indicated. Sources: BNB, Belgostat and Citi Research forecasts

Slovakia

[Jaromir Sindel](#)

We maintain our 2014 GDP growth forecast at 2.4% YY due to deterioration in our momentum indicator on the back of weaker industrial production and retail sales. However **we have lifted both the 2015 and 2016 forecasts** by 0.1%pt to 2.6%YoY and 3.2% respectively on lower oil prices and the improved foreign demand outlook. We continue to expect domestic demand to support growth in 2015 due to the improving labour market and larger 2015 fiscal buffer. In more detail, oil prices will likely lead to stronger disinflation, which will probably result in milder inflation in 2015 of 0.6% YY (initially at 1.1% YY). Hence, private consumption is likely to be supportive. Second, mainly lower oil prices, but also weaker forecast for EUR and the prospect of ECB Quantitative Easing (QE) points to an improved foreign demand outlook despite a deeper recession in Russia. Hence, export demand will likely also be supportive for the recovery. However, downside risks still remain in our view. Risks mainly reflect external demand and the large errors in the balance of payments data that probably remained high even after the methodological changes to national accounts.

We do not see significant political risk this year. However, 2016 is a general election year (March) and thus government spending will likely support the economy somewhat as seen below in government plans for capital expenditures. In 2015 the government assumes an unchanged deficit after €2.9bn in 2014, but with a 16% increase in revenues (driven by EU funds inflow, but tax revenues also are expected to increase by 8% YY), that should be reflected in a 13% YY increase in expenditures (capital by 29% YY). Though the socialist SMER is likely to lose its majority one-party government after these elections, we do not think the opposition will be able to set up a functioning government as it is too heterogeneous.

ECB QE may indirectly cover 30%-65% of ARDAL's (state debt manager) issuance in 2015 and 2016. ARDAL has already covered 42% (incl. t-bills) of its planned gross borrowing requirement (GBR) of €5.1bn in 2015. The government planned in October to utilise €0.95bn of cash from the single treasury account (STA) to lower the GFN. Hence, ARDAL's GBR is planned at €5.1bn. The utilisation of cash from the STA should decrease the GBR by €1.3bn also in 2016. While the cumulative utilization of cash from the STA should increase to 67% of the STA level in 2016-17, the drop in the redemption profile to €2bn in 2018 from around €4.8bn in 2016-17 should enable borrowing from the STA to be decreased thereafter.

Figure 18. Slovakia: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	2.4	2.6	3.2	3.1	3.0	2.9
Final Domestic Demand	YY	3.3	2.5	2.8	3.1	2.8	1.7
Private Consumption	YY	2.3	2.0	2.4	2.5	2.5	2.5
Public Consumption		4.0	2.5	1.9	1.8	2.1	2.1
Fixed Investment	YY	5.6	3.8	4.6	5.5	4.2	-0.5
Exports	YY	5.3	4.9	7.3	7.6	7.9	7.9
Imports	YY	6.4	5.8	7.6	8.0	8.1	8.1
Consumer Prices	YY	-0.1	0.6	2.2	2.4	2.5	2.5
Unemployment Rate	%	12.8	11.8	11.1	10.5	9.9	9.3
Current Account Balance	% GDP	0.5	0.0	0.3	0.2	0.2	0.0
General Government Balance	% GDP	-2.9	-2.8	-2.2	-1.8	-1.3	-1.0
Government Primary Balance	% GDP	-2.1	-1.9	-1.3	-0.9	-0.4	-0.1
General Government Debt	% GDP	54.6	54.8	52.6	51.3	50.2	47.7

Sources: National sources and Citi Research forecasts

Slovenia

[Jaromir Sindel](#)

We slightly cut our 2014 GDP growth forecast by 0.1%pt to 2.4%YoY (after -1% in 2013) due to a weaker performance of the economy in 4Q14, but **we upgrade our forecast for GDP growth in 2015 by 0.2%pt to 1.8%**. Given the poor performance of our momentum guide in 4Q14 – industrial production fell in November after stronger growth in October, construction activity fell for the fifth months in a row in November and retail sales only partly offset the October fall – we keep our forecast of a mild quarterly GDP contraction of 0.2% in 4Q14 after a 0.7% QQ increase in 3Q14 and 1.2% cumulative increase in 1H14

However, we do not think the weaker growth momentum in 4Q14 signals continuous weakness in 2015. First, the total confidence indicator remained close to recent highs seen in late 2Q14 and in rest of 2H14, supported by better manufacturing confidence. Also other sectors' their confidence indicators are close to recent highs. Moreover, the assessment of export order-books in manufacturing improved and still suggests export growth of around 10% YY, though recent levels around 8% YY are more likely. However, the manufacturing business survey showed a further worsening in employment expectations that represents a risk to growth in manufacturing employment of 0.7% YY in Nov14. The major driver of employment growth of 1.1% YY in Nov14 was the administrative and support service sector with a contribution of 0.8%pt. We estimate the seasonally adjusted unemployment rate at 12.5% in November, a two-year low. And our estimate of total employment expectations remains supportive for a further fall in the unemployment rate. Nominal wage growth has kept solid growth above 1% YY in 4Q14, which means that it has accelerated in real terms due to stronger disinflation. This is likely to continue as we forecast the CPI to fall by 0.4% YY in 2015 due to lower oil prices. However, higher oil prices and a weaker EUR are likely to make deflation temporary. Overall, our better outlook on foreign demand, no greater austerity in fiscal policy and oil price trends should support GDP growth in 2015 at 1.8% YY.

Although the cash deficit is likely to be virtually unchanged and may reach -3.5% of GDP in 2015, the government is sticking to its goal of narrowing the general government deficit to 2.8% of GDP in 2015. We assume the privatisation process will continue, although it is likely to increase coalition tensions. For the time being, we estimate the privatisation revenues of these five companies (three already done and two in the pipeline) as almost €1bn. Hence, we assume the total privatisation revenues from this list of 15 companies will be around €1.5bn.

Figure 19. Slovenia: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	2.4	1.8	2.3	2.8	3.3	3.4
Final Domestic Demand	YY	1.4	1.1	1.4	2.6	3.1	3.0
Private Consumption	YY	0.6	1.3	1.3	2.1	2.8	2.8
Public Consumption		-0.6	-0.4	-0.8	0.4	1.2	1.2
Fixed Investment	YY	5.5	1.4	3.7	5.7	5.3	4.9
Exports	YY	5.4	7.9	7.6	6.8	6.1	6.1
Imports	YY	4.7	7.2	7.2	7.6	7.5	7.4
Consumer Prices	YY	0.2	-0.4	2.8	2.6	1.6	1.7
Unemployment Rate	%	9.6	9.2	8.8	8.5	8.2	7.9
Current Account Balance	% GDP	3.5	5.0	5.0	4.0	1.8	0.7
General Government Balance	% GDP	-4.2	-2.9	-2.5	-2.4	-1.7	-0.7
Government Primary Balance	% GDP	-1.3	-0.1	0.5	0.5	1.1	2.1
General Government Debt	% GDP	81.9	79.4	77.8	77.2	75.7	72.6

Sources: National sources and Citi Research forecasts

United Kingdom

[Michael Saunders](#)

The coming year is likely to mark a major transition for the UK. The initial stages of recovery, in 2010-12, were characterized by sluggish real growth, relatively high inflation, high unemployment (well above the 5.1% average of 2000-07), falling real wages, and rising public debt/GDP ratio. The last two years (2013-2014) have seen stronger real growth, with below-consensus inflation. But real wages have continued to fall (until late-2014), the public debt ratio is still rising, and unemployment remains relatively high. We expect strong (and above-consensus) real GDP growth of about 3.0% YY for 2015, with a similar pace in 2016. But, in other ways, 2015 is likely to differ significantly from recent years, with record lows in CPI inflation (and perhaps even a brief period of negative YY inflation), the jobless rate back to or below 5%, and a return to significant real wage gains. Moreover, the public debt/GDP ratio is likely to soon start to fall (probably in 2016). In addition, we expect 2015-16 will highlight improvements in some aspects of the economy's underlying performance, with faster productivity gains, a further rise in profits, and more evidence that the equilibrium jobless rate has fallen. With lower oil prices and the prospect of lower household gas prices, CPI inflation may well turn briefly negative in H1 and is likely to stay below 1% YY until yearend. As a result, we now expect the MPC will keep rates on hold all year (versus previous forecast of a Q4-15 hike), unless sterling weakens sharply or the domestic economy overheats markedly.

The ECB's QE program is likely to have significant implications for the UK economy and monetary policy, especially if (as seems likely) QE continues for a while. Key channels are somewhat less-weak euro area growth, weaker euro, lower long rates and – amidst a collapse of short-term rates across Europe – a sharp shift of interest differentials in the UK's favour. Overall, we believe this mix is positive for UK growth unless sterling soars. In particular, Euro weakness does not necessarily imply a stronger pound, while UK export volumes are relatively insensitive to FX changes – and more affected by external growth (for which QE should help). Lower long rates will help improve the UK fiscal position and underpin business investment (although aggregate defined benefit pension deficits are likely to rise further) – see [UK Economics Weekly - ECB QE — Implications for the UK](#).

Political worries are likely to rise as the election (May 7) approaches, and persist afterwards. At present, the most likely outcome is either a multi-party coalition or a minority government and both would be relatively weak. The main parties have broadly similar fiscal plans for the next 2-3 years, but a Conservative-led government would pose Brexit risks, while a Labour-led one would pose risks over business tax and regulation. Either scenario would create some uncertainties that may hit business investment, and we have tried to build this into our forecast.

Figure 20. UK: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	2.6	3.0	3.0	2.8	2.5	2.1
Final Domestic Demand	YY	2.9	3.6	3.2	2.8	2.3	1.9
Private Consumption	YY	2.4	3.5	3.3	3.3	2.8	2.7
Public Consumption	YY	1.3	0.2	-1.1	-1.1	0.1	-0.4
Fixed Investment	YY	7.3	7.7	7.5	5.3	2.9	1.6
-- Business Investment	YY	6.8	7.7	7.1	5.6	3.9	2.8
-- Construction of Private Dwellings	YY	12.3	10.7	11.3	5.8	1.1	-2.0
Stocks (Contrib. to YY GDP Growth)		0.1	-0.4	0.0	-0.1	0.0	0.0
Exports of Goods and Services	YY	-0.8	3.3	4.9	5.7	5.3	5.1
Imports of Goods and Services	YY	0.7	3.8	5.3	5.0	4.6	4.3
Net Exports (Contrib. to YY GDP Growth)		-0.4	-0.2	-0.1	0.1	0.2	0.2
Consumer Prices	YY	1.5	0.3	1.6	1.7	1.8	1.9
Retail Prices	YY	2.4	1.1	3.2	3.6	3.5	2.8
RPIX - Ex Mortgages	YY	2.4	1.1	3.0	3.0	2.9	2.6
Average Earnings YY	YY	1.2	2.7	3.4	4.2	4.2	4.0
Employment Growth	YY	2.3	1.5	1.7	1.8	1.6	1.1
Unemployment Rate	%	6.2	5.3	4.3	3.3	2.8	2.8
Claimant Count Unemployment Rate	%	3.0	2.4	1.9	1.5	1.3	1.3
Industrial Production	YY	1.7	1.8	2.0	2.0	2.0	2.0
Manufacturing Output	YY	2.6	1.9	2.0	2.0	2.0	2.0
Current Account Balance	£ bn	-96.8	-96.2	-103.5	-102.4	-98.4	-94.5
	% GDP	-5.4	-5.1	-5.3	-5.0	-4.6	-4.2
Public Sector Net Borrowing	£ bn FY	95.0	72.7	34.2	6.8	-15.4	-36.5
	% GDP	5.2	3.8	1.7	0.3	-0.7	-1.6
General Government Balance	% GDP	-5.4	-4.0	-1.9	-0.4	0.6	1.5
Government Primary Balance	% GDP	-3.2	-1.7	0.7	2.3	3.3	4.2
General Government Debt	£ bn	1,577.0	1,664.3	1,718.3	1,749.7	1,758.8	1,746.9
	% GDP	88.2	89.4	88.1	85.5	82.1	78.1
Gross Non Oil Trading Profits	YY	12.5	8.2	3.9	2.2	1.6	3.5
Base Rate (Period Average)	%	0.50	0.50	1.04	2.04	3.00	3.25
Ten-year Gilt Yield (Annual Averages)	%	2.52	1.96	2.75	3.00	3.50	3.75
EUR-GBP FX Rate (Annual Average)		0.81	0.75	0.74	0.75	0.77	0.79
GBP-USD FX Rate (Annual Average)		1.65	1.48	1.36	1.34	1.40	1.47

Percentage changes unless indicated. Sources: BoE, ONS and Citi Research

Figure 21. UK: Economic Forecasts – Quarterly, 1Q 14-4Q 16

		History				Forecast							
		2014:1	2014:2	2014:3	2014:4	2015:1	2015:2	2015:3	2015:4	2016:1	2016:2	2016:3	2016:4
Real GDP	YY	2.4	2.6	2.5	2.9	3.1	3.0	3.1	3.0	3.0	3.1	3.0	3.0
	QQ SAAR	2.3	3.5	2.7	2.9	3.1	3.4	2.8	2.6	3.3	3.5	2.7	2.7
Final Domestic Demand	YY	2.4	3.2	2.8	3.3	3.4	3.6	3.7	3.6	3.5	3.3	3.1	3.0
	QQ SAAR	3.3	3.7	2.9	3.2	4.0	4.4	3.0	3.0	3.5	3.7	2.4	2.3
Private Consumption	YY	1.9	2.1	2.5	3.1	3.4	3.9	3.6	3.3	3.4	3.2	3.4	3.4
	QQ SAAR	2.4	2.1	3.8	4.0	3.8	3.8	2.7	3.1	3.9	3.3	3.3	3.1
Public Consumption	YY	0.0	2.1	1.9	1.1	0.7	0.0	-0.3	0.2	-0.1	-0.5	-1.5	-2.1
	QQ SAAR	0.9	5.7	1.2	-3.2	-0.6	2.7	-0.1	-1.0	-2.1	1.3	-4.1	-3.7
Fixed Investment	YY	7.9	9.1	6.4	6.1	6.5	6.9	8.8	8.5	8.0	7.8	7.4	6.9
	QQ SAAR	8.9	6.7	0.6	8.3	10.8	8.2	7.8	7.4	8.5	7.4	6.1	5.7
-Business Investment	YY	6.8	10.7	5.2	4.6	6.8	5.7	9.4	9.0	7.9	7.4	6.7	6.5
	QQ SAAR	2.8	13.5	-5.5	8.5	11.6	8.8	8.8	7.0	7.0	6.7	6.1	6.2
-Construction of Private Dwellings	YY	14.7	12.3	10.1	12.4	10.1	9.3	11.8	11.6	12.0	11.4	11.9	10.1
	QQ SAAR	25.1	14.8	-1.8	13.4	15.1	11.4	7.6	12.3	17.0	8.9	9.4	5.5
Stocks (Contrib. to Y/Y GDP Growth)		1.4	0.6	-0.3	-0.9	-0.6	-0.2	-0.6	0.0	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	0.3	-4.9	-0.9	2.6	2.4	3.7	4.1	2.8	3.8	4.7	5.0	5.7
	QQ SAAR	2.4	-3.1	2.6	8.9	1.7	1.8	4.4	3.5	5.4	5.5	5.6	6.2
Imports of Goods and Services	YY	4.7	-0.9	-1.4	0.5	1.3	4.4	4.4	5.0	5.2	5.4	5.3	5.3
	QQ SAAR	1.7	-6.7	5.2	2.2	5.0	5.2	5.0	4.8	5.8	6.1	4.6	4.8
Net Exports (Contrib. to Y/Y GDP Growth)		-1.5	-1.2	0.1	0.5	0.2	-0.4	0.0	-0.6	-0.4	-0.2	-0.1	0.1
Consumer Prices	YY	1.7	1.7	1.5	0.9	0.2	0.0	0.2	0.8	1.6	1.7	1.6	1.6
Retail Prices	YY	2.6	2.5	2.4	2.0	0.7	0.8	1.1	1.8	2.8	3.3	3.4	3.5
RPIX - Ex Mortgages	YY	2.7	2.6	2.5	2.0	0.8	0.8	1.0	1.7	2.7	3.0	3.1	3.0
Average Earnings YY	YY	1.9	-0.2	1.1	2.1	2.5	2.2	3.2	3.1	3.2	3.3	3.4	3.5
Employment Growth	YY	2.3	2.5	2.3	2.0	1.5	1.4	1.5	1.6	1.7	1.7	1.8	1.8
Unemployment Rate	%	6.8	6.3	6.0	5.8	5.6	5.5	5.2	4.9	4.7	4.4	4.1	3.8
Industrial Production	YY	2.3	1.8	1.2	1.4	1.4	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Manufacturing Output	YY	2.7	2.8	2.5	2.5	1.9	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Current Account Balance	£ bn	-22.5	-24.3	-27.0	-23.0	-22.6	-24.0	-24.4	-25.2	-25.6	-26.3	-25.9	-25.6
	% of GDP	-5.1	-5.5	-6.0	-5.0	-4.9	-5.2	-5.2	-5.3	-5.3	-5.4	-5.3	-5.1
Gross Non Oil Trading Profits	YY	7.3	11.6	15.4	8.0	14.5	8.3	2.4	3.0	2.9	2.0	2.1	1.9
Base Rate (Period Average)	%	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.67	0.92	1.17	1.42
Ten-year Gilt Yield (Period Averages)	%	2.78	2.67	2.60	2.05	1.65	1.80	2.15	2.25	2.40	2.60		
EUR-GBP FX Rate (Quarter-end)		0.83	0.80	0.78	0.78	0.75	0.75	0.75	0.75	0.74	0.74	0.74	0.74
GBP-USD FX Rate (Quarter-end)		1.67	1.71	1.62	1.56	1.52	1.50	1.47	1.44	1.41	1.37	1.34	1.31

Percentage changes unless indicated. Sources: BoE, ONS and Citi Research

Switzerland

[Michael Saunders](#)

The SNB's [surprise decision to end its CHF 1.20/€ FX cap](#) — and the subsequent sharp appreciation of the CHF — has probably set the stage for severe deflation and recession in Switzerland. We expect real GDP to fall by about 1% this year and to again fall slightly in 2016, with CPI inflation of roughly minus 2.5% this year and continued (albeit milder) deflation in later years. This would represent the biggest YoY decline in prices for any advanced economy over the last 35 years, apart from the steep deflation in HK during 1999-2003. In response, we expect the SNB will move its policy rate into even more deeply negative territory, with the likelihood of some kind of additional policies to inhibit capital inflows (perhaps through taxation) if the currency stays around parity versus the euro.

Figure 22. Switzerland: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	1.9	-0.9	-0.3	0.8	1.5	1.5
Final Domestic Demand	YY	1.0	1.9	1.5	1.0	1.9	2.4
Private Consumption	YY	1.0	1.8	1.5	1.7	1.6	1.7
Public Consumption	YY	1.1	1.4	1.2	1.2	1.2	1.2
Fixed Investment	YY	1.1	2.3	1.5	-0.8	2.8	4.4
Exports of Goods and Services	YY	-9.5	-5.5	-2.2	1.3	3.8	3.8
Imports of Goods and Services	YY	-10.9	-4.3	0.5	1.6	4.8	5.7
Consumer Prices	YY	0.0	-2.5	-0.8	-0.9	-0.8	-0.2
Unemployment Rate	%	3.2	3.4	4.0	4.2	4.5	4.6
Current Account Balance	Sfr bn	72.6	54.4	48.8	49.3	47.4	44.8
	% GDP	11.2	8.5	7.6	7.7	7.3	6.8
General Government Balance	% GDP	0.7	-0.1	-0.7	-1.2	-1.3	-1.4
General Government Debt	% GDP	46.7	46.8	46.3	46.2	46.3	47.6
SNB Rate (Annual Ave, then qtr-end)	%	-0.06	-1.50	-0.75	-0.25	0.00	0.00
Ten-year Yield (Annual Average)	%	0.70	0.08	0.18	0.25	0.35	0.45
EUR-CHF FX Rate (Annual Average)		1.22	1.02	1.08	1.11	1.13	1.14
USD-CHF FX Rate (Annual Average)		0.92	0.92	1.08	1.11	1.04	0.98

Note: Percentage changes unless indicated. Sources: SNB, BFS and Citi Research forecasts

Figure 23. Switzerland: Economic Forecasts – Quarterly, 1Q 14-4Q 16

		History				Forecast							
		1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Real GDP	YY	2.4	1.6	1.9	1.7	-0.1	-0.5	-1.3	-1.8	-0.5	-0.5	-0.3	0.1
Final Domestic Demand	YY	1.2	0.9	1.1	1.0	1.5	2.0	2.0	1.9	1.7	1.8	1.3	1.1
Private Consumption	YY	1.0	0.7	1.2	1.0	2.0	1.9	1.7	1.7	1.1	1.7	1.7	1.7
Public Consumption	YY	1.4	1.5	1.0	0.3	1.4	1.8	1.2	1.2	1.2	1.2	1.2	1.2
Fixed Investment	YY	1.6	0.8	0.8	1.1	0.7	2.4	3.0	2.9	3.3	2.5	0.5	-0.2
Exports of Goods and Services	YY	6.4	-23.9	-10.0	-6.9	-9.3	-0.6	-5.1	-6.5	-2.7	-2.8	-2.3	-1.0
Imports of Goods and Services	YY	1.6	-22.0	-13.4	-7.9	-12.0	0.1	-1.8	-2.7	0.6	0.8	0.1	0.5
Consumer Prices	YY	0.0	0.1	0.0	-0.1	-1.7	-2.2	-3.0	-2.9	-1.6	-0.9	-0.3	-0.5
Unemployment Rate	%	3.2	3.2	3.2	3.3	3.3	3.1	3.2	3.9	3.8	3.4	4.0	4.7
Current Account Balance	Sfr bn	17.9	17.2	22.2	15.3	17.3	12.3	14.8	10.1	14.9	10.4	13.9	9.6
	% GDP	11.1	10.6	13.7	9.3	10.8	7.7	9.3	6.3	9.3	6.5	8.7	6.0
SNB Rate (Quarter end)	%	0.00	0.00	0.00	-0.25	-1.50	-1.50	-1.50	-1.50	-0.75	-0.75	-0.75	-0.75
Ten-year Yield (Quarter end)	%	0.98	0.80	0.52	0.43	0.05	0.05	0.10	0.10	0.15	0.15		
EUR-CHF FX Rate (Quarter end)		1.22	1.22	1.21	1.21	0.97	1.01	1.04	1.06	1.08	1.09	1.09	1.10
USD-CHF FX Rate (Quarter end)		0.88	0.89	0.96	1.00	0.85	0.90	0.95	0.99	1.03	1.07	1.11	1.15

Note: Percentage changes unless indicated. Sources: SNB, BFS and Citi Research forecasts

Sweden

[Tina Mortensen](#)

Economic activity slowed from a downwardly revised 0.5% QQ gain in 2Q to 0.3% QQ in 3Q. The main driver of the slowdown was a large negative drag from foreign trade, reflecting very strong import growth. Meanwhile, private consumption and investment activity rose solidly, supporting our base case of a domestically-led recovery. Recovery, meanwhile, continues to face sizable headwinds given Sweden's relatively high EM export exposure and only modest recoveries in key euro area export markets. Macro-prudential initiatives will act as a drag on economic activity. Employment is rising, but due to a rapidly increasing labour supply, the jobless rate is falling very slowly. **With low and undershooting inflation plus falling inflation expectations, we continue to believe that further monetary policy stimulus will be added,** likely already at the 11 February meeting. We expect the Riksbank to introduce forward guidance (with a 1.5% CPIF inflation threshold), coupled with a cut in the repo rate to -0.25%, at the same time as presenting plans for a QE program, to be launched in subsequent months, if deemed necessary – *QE is Now Our Main Scenario*. Evidence from other countries shows that, in order to work, a QE program needs to be large. We expect the Riksbank to set a monthly target for bond purchases, to be reviewed every 3-4 months at the Riksbank's MPR meetings. Our base case is that the Riksbank will announce QE of SEK 15-20bn per month (roughly 0.5% of annual GDP per month), which could be launched as early as March/April, with the first review at the July MPR meeting. In annual terms, such a program would correspond to QE of around SEK 200bn a year (5% of GDP), equivalent to a 40% expansion of the Riksbank's balance sheet. The program initially will probably be focused on government bonds, but the relatively small size of the Swedish local currency government bond market may create complications if the program is extended over time.

The early 22 March election was called off after the government and the Alliance parties' "December Agreement", making it possible for a minority government to get a budget through Parliament and, thus, implement its economic policies. The agreement will last until the general election in 2022, and will be used for the first time when the Social Democrat-led government presents its Spring Budget Bill in April this year. Clearly, the agreement is an important step to get rid of the deadlock in Parliament, and it has reduced political uncertainty accordingly.

Figure 24. Sweden: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	1.9	2.3	2.6	2.6	2.4	2.3
Final Domestic Demand	YY	2.7	2.9	2.5			
Private Consumption	YY	2.4	2.8	2.7			
Public Consumption	YY	1.5	1.8	0.9			
Fixed Investment	YY	4.7	4.2	4.0			
Exports of Goods & Services	YY	2.2	3.4	4.9			
Imports of Goods & Services	YY	5.0	4.5	4.6			
Consumer Prices	YY	-0.2	0.1	1.3	2.1	2.2	2.2
Unemployment Rate	%	8.0	7.6	7.3	7.0	6.6	6.4
Current Account Balance	SEK bn	228.4	229.0	229.2	240.4	249.1	258.1
	% GDP	5.9	5.8	5.6	5.6	5.6	5.5
General Government Balance	SEK bn	-86.6	-74.3	-42.0	-19.8	-1.4	7.2
	% GDP	-2.3	-1.9	-1.0	-0.5	0.0	0.2
General Government Debt	% GDP	42.2	43.1	42.5	41.0	39.3	37.4
Riksbank Rate (Annual Average)	%	0.47	-0.22	-0.14	0.22	1.05	1.71
Ten-year Yield (Period Average)	%	1.73	0.98	1.48	1.45	1.54	1.80
EUR-SEK FX Rate (Annual Average)		9.12	9.33	9.25	9.15	8.99	8.82
USD-SEK FX Rate (Annual Average)		6.87	8.40	9.25	9.17	8.31	7.57

Note: Percentage changes unless indicated. Sources: Riksbank, Statistics Sweden and Citi Research forecasts

Denmark

[Tina Mortensen](#)

The Danish economy appears to be slowly recovering; GDP has now expanded for five consecutive quarters, and growth looks set to be positive in 2014, the first year of expansion since 2011. We expect growth to pick up further in the coming year, supported, in particular, by low oil prices. Our estimations suggests that this factor will boost growth by around 0.2-0.3pp this and next year, and we have, in turn, raised our GDP growth forecast to 1.4% YY for this year, and expect an additional pick-up in growth next year. A key driver will likely be stronger private spending, in step with rising employment, positive real wage growth and the ongoing pick-up in the housing market.

Negotiations on the budget were finalised before the turn of the year. Denmark's fiscal stance this year is going to be looser than in recent years, and the government is using the flexibility in the Stability and Growth Pact to approach its limits. With the plunge in oil prices, this will weaken the general government balance by more than expected (Denmark is an oil producer, but has become a net oil importer of oil amid falling production in recent years), and in a countermove, the government has prolonged a temporary offer (into 2015) to reduce pension taxes if they are paid up front, thereby generating fiscal revenue. We note, though, that should economic growth fail to rebound or the notoriously volatile revenues from the pension yield tax turn out much lower than expected, the government has limited leeway before being forced to impose tightening measures. On top of that, an election is scheduled for this year (must be held in autumn at the latest), and the government parties have used their best efforts, so far, to persuade electorates to vote for their re-election.

In January, the Danish National Bank cut the lending rate by 15bp to 0.05% and cut the interest rate on certificates of deposit twice by 15bp both times to an all-time low of -0.35%. The DNB did not make any changes to the ceiling for current account deposits (stays unchanged at DKK 37.5bn). Hence, since the negative CD-rate applies to deposits above the ceiling, the interest rate cut will feed directly through to the Danish banks and mortgage credit institution. The rate cuts followed "*purchase of foreign exchange in the market*", and likely reflected a significant capital inflow after the SNB's decision to abandon its peg, and expectations of additional pressure on EUR/DKK following the ECB's announcement of a larger-than-expected government bond purchase program. As we expect demand for Danish kroner likely will remain high, we reckon the DNB will be forced to continue intervening in the FX market and likely be forced to cut the CD-rate deeper into negative territory.

Following the SNB move, there has been speculation in the market as to whether DNB could be the next to unpeg its DKK/EUR rate. We see this as very unlikely given that the Danish currency framework is of much longer standing than the Swiss and the DNB has not had the reserve accumulation that SNB had. The DNB has also emphasised that it is ready to step up currency interventions and cut rates further if needed.

Figure 25. Denmark: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP	YY	0.9	1.4	1.7	1.8	2.1	1.9
Final Domestic Demand	YY	0.9	1.6	1.7			
Private Consumption	YY	0.4	1.6	1.9			
Public Consumption	YY	0.9	0.9	0.6			
Fixed Investment	YY	2.2	2.4	2.9			
Exports of Goods & Services	YY	2.9	2.1	3.5			
Imports of Goods & Services	YY	3.9	2.9	3.6			
Consumer Prices	YY	0.6	0.6	1.5	1.8	1.9	1.9
Unemployment Rate	%	6.6	6.5	6.3	6.0	5.8	5.6
Current Account Balance	DKK bn	130.4	123.9	123.8	129.3	133.2	128.5
	% GDP	6.8	6.3	6.1	6.2	6.1	5.7
General Government Balance	% GDP	2.0	-2.5	-2.3	-1.5	-1.1	-0.9
General Government Debt	% GDP	42.3	44.0	44.9	44.9	44.3	43.5
DNB Bank Rate (Annual Average)	%	0.20	0.00	0.10	0.15	0.60	1.56
Ten-year Yield (Period Average)	%	1.40	0.76	1.03	1.20	1.29	1.55

Note: Percentage changes unless indicated. Sources: DNB, national statistical office and Citi Research forecasts

Norway

[Tina Mortensen](#)

Although the Norwegian economy is well prepared to handle lower oil prices amid the country's significant wealth fund and strong fiscal rules (fiscal policy can be loosened despite reduced revenues from oil production), the lower oil prices will inevitably weigh on growth for a period – in addition to the sharply downshifting investment growth in the petroleum this year. The markedly weaker NOK, meanwhile, should contribute to stabilize the economy via boosting non-oil exports, and both the government and the Norges Bank still have room to ease economic policy further. Both fiscal and monetary policy will remain expansive to support economic recovery; according to the autumn budget by the non-socialist government, fiscal easing will amount to 0.5% of mainland trend-GDP next year, and we forecast Norges Bank to cut both in March and May.

The capital spending cycle within the oil and gas sector is downshifting sharply. Investments gained an average of 14% in volume terms between 2011 and 2013, hence, providing the rest of the economy with important demand impulses. Statistics Norway's oil-sector investment survey in December confirmed that oil investment has peaked and will decline sharply this year; the third estimate for 2015 was 14% 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 these, the survey points to a real drop in oil investment of more than 10% next year. The oil investment cycle has already turned weaker; capital spending in oil and gas extraction was 2.5% lower in 2-3Q 2014 vs. 2-3Q 2013 (and down by 5.2% YY in 3Q-14).

The continued downtrend in oil prices means not only lower growth, but also increased risk of a more pronounced downturn in the Norwegian economy. If oil prices stay at current levels or drift even lower, this would probably prompt Norges Bank to cut interest rates further; our base case is for Norges Bank to cut its key policy rate by 25bp to 1.0% at the next monetary policy meeting in March and to cut by another 25bp at the May meeting. If risks of a severe downturn increase, the sight deposit rate could well bottom at a level below 0.75%.

Figure 26. Norway: Economic Forecasts – Annual, 2014-19F

		Estimate	Forecast				
		2014	2015	2016	2017	2018	2019
Real GDP - Mainland	YY	2.6	1.6	1.9	2.2	2.4	2.4
Final Domestic Demand	YY	2.1	1.5	1.8			
Private Consumption	YY	1.7	1.8	2.0			
Public Consumption	YY	3.1	2.4	2.4			
Fixed Investment	YY	1.8	-0.5	0.4			
Exports of Goods & Services	YY	2.6	3.5	4.1			
Imports of Goods & Services	YY	1.7	1.6	1.9			
Consumer Prices	YY	2.0	2.4	2.6	2.4	2.4	2.5
Unemployment Rate	%	3.5	4.0	4.2	3.9	3.5	3.3
Current Account Balance	NOK bn	296.9	327.1	351.5	375.3	390.9	406.7
	% GDP	9.3	9.8	10.1	10.3	10.2	10.1
General Government Balance	% GDP	9.7	9.0	9.3	9.2	9.0	9.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.49	0.90	0.76	1.08	1.67	2.23
Ten-year Yield (Period Average)	%	2.49	1.49	1.83	1.80	1.89	2.15
EUR-NOK FX Rate (Annual Average)		8.36	8.63	8.50	8.36	8.11	7.86
USD-NOK FX Rate (Annual Average)		6.29	7.77	8.50	9.37	7.49	6.74

Note: Percentage changes unless indicated. Sources: Norges Bank, Statistics Norway and Citi Research forecasts

Long-Term Forecasts to 2019

Figure 27. Long-Term Forecasts – GDP, CPI and Current Balance, 2014-19F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	Est.	Forecast					Est.	Forecast					Est.	Forecast				
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Euro Area	0.8	1.3	1.9	1.9	1.8	1.8	0.4	-0.1	1.6	1.5	1.4	1.5	2.5	2.7	2.4	2.2	2.0	1.9
Germany	1.5	1.5	2.0	1.8	1.8	1.8	0.9	0.0	1.7	1.8	1.8	1.8	7.3	7.6	6.7	6.5	6.0	5.9
France	0.3	0.9	1.8	1.9	2.0	2.1	0.6	0.1	1.7	1.5	1.5	1.5	-1.0	-0.4	0.1	-0.2	-0.4	-0.8
Italy	-0.4	0.4	1.1	1.1	0.9	0.9	0.2	-0.2	1.2	1.1	0.9	1.0	1.6	1.6	1.7	1.7	1.7	1.7
Spain	1.4	2.2	2.2	2.1	1.8	1.8	-0.2	-1.0	1.2	0.8	0.7	0.8	-0.2	0.5	0.5	0.7	1.0	1.1
Greece	0.8	1.5	1.7	1.7	1.9	1.9	-1.4	-1.7	-0.3	-0.1	0.1	0.3	1.4	1.1	1.1	1.0	1.2	1.4
Ireland	5.0	4.4	7.8	6.4	4.6	4.3	0.3	1.0	1.1	1.6	1.7	1.7	5.9	6.8	9.2	10.2	10.1	9.9
Portugal	0.9	1.7	2.1	2.1	2.0	1.8	-0.2	-0.4	1.1	0.8	0.8	0.9	0.1	0.3	0.5	0.7	0.8	0.8
Netherlands	0.7	1.4	1.9	2.0	2.0	2.0	0.3	0.0	1.7	1.6	1.5	1.7	10.6	8.9	7.7	6.2	4.9	3.8
Belgium	1.0	1.2	1.8	1.9	2.2	2.1	0.5	-0.4	1.4	1.4	1.7	1.8	0.1	-0.2	0.1	0.1	0.0	-0.1
Slovakia	2.4	2.6	3.2	3.1	3.0	2.9	-0.1	0.6	2.2	2.4	2.5	2.5	0.5	0.0	0.3	0.2	0.2	0.0
Slovenia	2.4	1.8	2.3	2.8	3.3	3.4	0.2	-0.4	2.8	2.6	1.6	1.7	3.5	5.0	5.0	4.0	1.8	0.7
Austria*	1.0	1.9	1.7	1.6	1.5	1.3	1.7	1.7	1.7	1.7	1.7	1.7	3.0	3.2	3.2	3.3	3.4	3.4
Cyprus*	-3.2	0.4	1.6	2.0	2.2	2.1	0.0	0.7	1.3	1.5	1.7	1.9	-1.1	-0.8	-0.3	-0.1	-0.2	-0.2
Estonia*	1.2	2.5	3.5	3.5	3.6	3.6	0.8	1.5	2.1	2.2	2.3	2.4	-2.2	-2.4	-2.5	-2.5	-2.6	-2.6
Finland*	-0.2	0.9	1.6	1.7	1.8	1.8	1.2	1.5	1.7	1.9	2.0	2.0	-0.6	-0.5	-0.4	-0.4	-0.3	-0.3
Latvia*	2.7	3.2	3.4	4.1	3.9	3.9	0.7	1.6	1.9	2.0	2.1	2.2	-0.1	-1.5	-1.8	-2.0	-2.0	-2.0
Luxembourg*	2.7	1.9	2.1	2.2	2.2	2.2	1.1	2.1	1.8	1.8	1.9	1.9	5.1	4.0	4.3	4.1	4.1	4.0
Malta*	2.2	2.2	2.0	1.9	1.8	1.7	1.0	1.2	1.4	1.6	1.7	1.7	0.3	0.3	0.4	0.5	0.4	0.4
Denmark	0.9	1.4	1.7	1.8	2.1	1.9	0.6	0.6	1.5	1.8	1.9	1.9	6.8	6.3	6.1	6.2	6.1	5.7
Norway	2.6	1.6	1.9	2.2	2.4	2.4	2.0	2.4	2.6	2.4	2.4	2.5	9.3	9.8	10.1	10.3	10.2	10.1
Sweden	1.9	2.3	2.6	2.6	2.4	2.3	-0.2	0.1	1.3	2.1	2.2	2.2	5.9	5.8	5.6	5.6	5.6	5.5
Switzerland	1.9	-0.9	-0.3	0.8	1.5	1.5	0.0	-2.5	-0.8	-0.9	-0.8	-0.2	11.2	8.5	7.6	7.7	7.3	6.8
United Kingdom	2.6	3.0	3.0	2.8	2.5	2.1	1.5	0.3	1.6	1.7	1.8	1.9	-5.4	-5.1	-5.3	-5.0	-4.6	-4.2

Note: All forecasts are Citi forecasts except for those marked with an asterisk. *IMF WEO, 7 October 2014. Sources: IMF and Citi Research forecasts

Figure 28. Long-Term Forecasts – Fiscal Balance, Primary Balance and Government Debt, 2014-19F

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	Est.	Forecast					Est.	Forecast					Est.	Forecast				
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Euro Area	-2.5	-2.2	-1.8	-1.4	-1.0	-0.7	0.3	0.7	1.1	1.4	1.7	2.0	95.3	95.3	94.4	93.1	91.7	89.6
Germany	0.3	0.2	0.1	0.1	0.1	0.1	2.1	1.9	1.7	1.6	1.5	1.5	74.8	72.8	70.9	68.8	66.8	65.2
France	-4.3	-4.0	-3.5	-3.0	-2.5	-1.9	-2.1	-1.8	-1.4	-1.0	-0.6	-0.1	96.1	99.1	99.3	99.1	98.2	96.8
Italy	-3.0	-2.9	-2.1	-1.5	-0.8	-0.5	1.7	1.4	1.9	2.3	2.7	2.8	131.5	133.2	132.7	132.2	131.0	129.5
Spain	-5.6	-4.5	-3.3	-2.4	-1.8	-1.2	-2.3	-1.5	-0.5	0.2	0.6	1.1	97.3	99.9	100.5	99.9	99.1	97.7
Greece	-1.7	-1.7	-1.2	-1.1	-0.8	-1.1	2.3	2.3	2.7	2.7	2.8	2.4	178.0	178.5	176.3	173.3	169.6	165.5
Ireland	-3.8	-2.6	-0.6	1.3	2.8	3.9	0.3	1.2	3.0	4.8	6.1	6.9	110.4	108.0	98.7	90.7	82.5	73.9
Portugal	-4.2	-3.3	-2.5	-1.8	-1.2	-0.7	0.8	1.9	2.5	2.9	3.3	3.7	134.9	133.2	130.9	128.5	126.4	124.0
Netherlands	-1.9	-1.5	-1.3	-1.0	-0.8	-0.5	-0.3	0.0	0.1	0.5	0.6	0.8	69.2	69.3	68.2	66.8	65.4	63.6
Belgium	-2.8	-2.7	-2.4	-1.9	-1.1	-0.5	0.3	0.5	0.7	1.1	1.8	2.3	106.1	107.9	106.9	105.3	102.5	99.1
Slovakia	-2.9	-2.8	-2.2	-1.8	-1.3	-1.0	-2.1	-1.9	-1.3	-0.9	-0.4	-0.1	54.6	54.8	52.6	51.3	50.2	47.7
Slovenia	-4.2	-2.9	-2.5	-2.4	-1.7	-0.7	-1.3	-0.1	0.5	0.5	1.1	2.1	81.9	79.4	77.8	77.2	75.7	72.6
Austria*	-3.0	-1.5	-0.8	-0.7	-0.6	-0.5	-0.9	0.6	1.3	1.5	1.6	1.7	80.1	78.6	76.9	75.0	73.3	71.8
Cyprus*	-4.4	-3.9	-1.3	-0.8	0.6	0.2	-1.0	-1.0	1.7	2.5	4.0	4.0	117.4	126.0	122.5	116.4	111.1	106.5
Estonia*	-0.3	-0.3	-0.1	0.3	0.4	0.6	-0.3	-0.3	-0.1	0.3	0.5	0.6	10.2	10.4	10.3	9.7	9.1	8.2
Finland*	-2.4	-1.4	-0.9	-0.4	-0.1	0.1	-2.5	-1.6	-1.2	-0.7	-0.6	-0.4	57.9	59.3	59.7	59.5	59.2	58.3
Latvia*	-0.8	-0.7	-1.2	-1.3	-0.7	-0.6	0.7	0.5	0.0	-0.2	0.4	0.7	36.0	35.3	34.1	33.6	31.9	30.8
Luxembourg*	0.4	-1.5	-1.3	-1.7	-1.7	-2.0	0.2	-1.5	-1.3	-1.6	-1.6	-1.8	24.2	26.5	28.4	30.7	32.9	35.2
Malta*	-2.7	-2.4	-1.8	-1.8	-1.8	-1.8	0.4	0.7	1.3	1.3	1.3	1.3	71.9	71.3	70.3	69.6	69.0	68.5
Denmark	2.0	-2.5	-2.3	-1.5	-1.1	-0.9							42.3	44.0	44.9	44.9	44.3	43.5
Norway	9.7	9.0	9.3	9.2	9.0	9.0							NA	NA	NA	NA	NA	NA
Sweden	-2.3	-1.9	-1.0	-0.5	0.0	0.2							42.2	43.1	42.5	41.0	39.3	37.4
Switzerland	0.7	-0.1	-0.7	-1.2	-1.3	-1.4							46.7	46.8	46.3	46.2	46.3	47.6
United Kingdom	-5.4	-4.0	-1.9	-0.4	0.6	1.5	-3.2	-1.7	0.7	2.3	3.3	4.2	88.2	89.4	88.1	85.5	82.1	78.1

Note: All forecasts are Citi forecasts except those marked with an asterisk. *IMF WEO, 7 October 2014. Sources: IMF and Citi Research forecasts

Change in Forecasts from Prior Month

Figure 29. Change in Forecasts from Prior Month (Percentage Points), 2014-16F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Euro Area		0.2	0.3	-0.1	-0.9	0.1	-0.2	-0.3	-0.4		0.1	0.1
Germany		0.4	0.4		-1.1	-0.1	-0.1	-0.1				0.1
France		0.2	0.2		-0.8		-0.4	-0.4	-0.4		0.2	0.2
Italy		0.1	0.1		-0.7	0.1					0.1	0.1
Spain	0.1	0.2	0.1	-0.1	-1.2	0.5	-0.1				0.2	0.4
Greece				-0.1	-0.4	-0.4				0.2	0.4	0.6
Ireland	-0.5		2.6	-0.1			1.9	3.0	5.0	-0.2	-0.2	0.7
Portugal	0.1	0.2	0.1	-0.1	-0.6	0.4	-0.4	-0.4	-0.4	0.1	0.1	0.2
Netherlands		0.1	0.2	-0.1	-0.9	0.2	-0.2	-0.7	-1.4	0.1	0.3	0.4
Belgium	0.1	0.2	0.2	-0.1	-1.5	-0.3	0.7	-0.1	-0.2	0.2	0.1	0.3
Slovakia		0.1	0.1		-0.5	-0.1	-1.0	-0.5	-0.2			-0.1
Slovenia	-0.1	0.2		0.1	-0.6	0.3	0.1	0.7	0.5			
Denmark	0.2	0.3			-0.5		0.7	0.7	0.7	2.8		
Norway		-0.3	-0.3		0.3	0.5	-1.5	-1.7	-1.9	-0.4	-0.7	-0.2
Sweden	-0.1	0.1	0.1		-0.4	-0.4			0.2	-0.2	-0.7	-0.7
Switzerland	0.6	-2.9	-2.7		-2.1	-0.9	-2.0	-4.0	-4.8	0.2	-1.0	-2.0
United Kingdom	-0.4				-1.0	-0.4	-0.7	-0.9	-1.0	0.2	0.8	1.3

Source: Citi Research

Unemployment Forecast, 2014-19F

Figure 30. Selected European Countries – Unemployment Rate Forecasts, 2014-19F

	2014E	2015F	2016F	2017F	2018F	2019F
Euro Area	11.3	10.8	10.1	9.3	8.6	8.1
Germany	5.0	5.0	4.8	4.7	4.5	4.7
France	9.8	10.1	9.8	9.2	8.5	8.5
Italy	12.8	13.2	12.8	12.2	11.7	11.3
Spain	24.4	22.6	21.1	19.7	18.6	17.8
Greece	26.5	25.2	24.4	23.6	22.7	21.8
Ireland	11.4	9.9	8.7	7.0	5.3	3.9
Portugal	13.9	12.4	11.0	10.1	9.7	9.7
Netherlands	8.3	7.7	7.2	6.3	5.4	4.5
Belgium	8.5	8.4	8.2	7.9	7.6	7.4
Slovakia	12.8	11.8	11.1	10.5	9.9	9.3
Slovenia	9.6	9.2	8.8	8.5	8.2	7.9
Denmark	6.6	6.5	6.3	6.0	5.8	5.6
Norway	3.5	4.0	4.2	3.9	3.5	3.3
Sweden	8.0	7.6	7.3	7.0	6.6	6.4
Switzerland	3.2	3.4	4.0	4.2	4.5	4.6
United Kingdom	6.2	5.3	4.3	3.3	2.8	2.8

Source: Citi Research

Economic Forecasts Compared

Figure 31. 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	21-Jan-15	0.8	1.3	1.9	-2.5	-2.2	-1.8	95.3	95.3	94.4
OECD Economic Outlook	25-Nov-14	0.8	1.1	1.7	-2.6	-2.3	-1.9	94.3	94.6	94.7
EU Commission Forecast	04-Nov-14	0.8	1.1	1.7	-2.6	-2.4	-2.1	94.5	94.8	93.8
IMF WEO Forecast*	20-Jan-15	0.8	1.2	1.4	-2.9	-2.5	-1.9	96.4	96.1	94.7
ECB Forecast - mid-point	04-Dec-14	0.8	1.0	1.5	-2.6	-2.5	-2.2	92.0	91.8	91.1
Germany - Citi Forecast	21-Jan-15	1.5	1.5	2.0	0.3	0.2	0.1	74.8	72.8	70.9
OECD Economic Outlook	25-Nov-14	1.5	1.1	1.8	0.2	0.0	0.2	74.3	71.1	69.5
EU Commission Forecast	04-Nov-14	1.3	1.1	1.8	0.2	0.0	0.2	74.5	72.4	69.6
IMF WEO Forecast*	07-Oct-14	1.4	1.3	1.5	0.3	0.2	0.3	75.5	72.5	69.3
France - Citi Forecast	21-Jan-15	0.3	0.9	1.8	-4.3	-4.0	-3.5	96.1	99.1	99.3
OECD Economic Outlook	25-Nov-14	0.4	0.8	1.5	-4.4	-4.3	-4.1	95.8	99.3	101.8
EU Commission Forecast	04-Nov-14	0.3	1.7	1.5	-4.4	-4.5	-4.7	95.5	98.1	99.8
IMF WEO Forecast*	20-Jan-15	0.4	0.9	1.3	-4.4	-4.3	-3.7	95.2	97.7	98.9
Italy - Citi Forecast	21-Jan-15	-0.4	0.4	1.1	-3.0	-2.9	-2.1	131.5	133.2	132.7
OECD Economic Outlook	25-Nov-14	-0.4	0.2	1.0	-3.0	-2.8	-2.1	130.6	132.8	133.5
EU Commission Forecast	04-Nov-14	-0.4	0.6	1.1	-3.0	-2.7	-2.2	132.2	133.8	132.7
IMF WEO Forecast*	20-Jan-15	-0.2	0.4	0.8	-3.0	-2.3	-1.2	136.7	136.4	134.1
Spain - Citi Forecast	21-Jan-15	1.4	2.2	2.2	-5.6	-4.5	-3.3	97.3	99.9	100.5
OECD Economic Outlook	25-Nov-14	1.3	1.7	1.9	-5.5	-4.4	-3.3	96.7	99.5	100.9
EU Commission Forecast	04-Nov-14	1.2	1.7	2.2	-5.6	-4.6	-3.9	98.1	101.2	102.1
IMF WEO Forecast*	20-Jan-15	1.3	2.0	1.8	-5.7	-4.7	-3.8	98.6	101.1	102.1
Greece - Citi Forecast	21-Jan-15	0.8	1.5	1.7	-1.7	1.7	-1.2	178.0	178.5	176.3
OECD Economic Outlook	25-Nov-14	0.8	2.3	3.3	-1.0	-0.5	0.2	176.1	174.3	171.4
EU Commission Forecast	04-Nov-14	0.6	2.9	3.7	-1.6	-0.1	1.3	175.5	168.8	157.8
IMF WEO Forecast	07-Oct-14	0.6	2.9	3.7	-2.7	-1.9	-0.6	174.2	171.0	160.5
Ireland - Citi Forecast	21-Jan-15	5.0	4.4	7.8	-3.8	-2.6	-0.6	110.4	108.0	98.7
OECD Economic Outlook	25-Nov-14	4.3	3.3	3.2	-3.7	-2.9	-2.7	111.0	109.4	106.7
EU Commission Forecast	04-Nov-14	4.6	3.6	3.7	-3.7	-2.9	-3.0	110.5	109.4	106.0
IMF WEO Forecast	07-Oct-14	3.6	3.0	2.5	-4.2	-2.8	-1.7	112.4	111.7	108.7
Portugal - Citi Forecast	21-Jan-15	0.9	1.7	2.1	-4.2	-3.3	-2.5	134.9	133.2	130.9
OECD Economic Outlook	25-Nov-14	0.8	1.3	1.5	-4.9	-2.9	-2.3	127.2	128.1	127.6
EU Commission Forecast	04-Nov-14	0.9	1.3	1.7	-4.9	-3.3	-2.8	127.7	125.1	123.7
IMF WEO Forecast	07-Oct-14	1.0	1.5	1.7	-4.0	-2.5	-2.3	131.3	128.7	126.5
Netherlands - Citi Forecast	21-Jan-15	0.7	1.4	1.9	-1.9	-1.5	-1.3	69.2	69.3	68.2
OECD Economic Outlook	25-Nov-14	0.8	1.4	1.6	-2.6	-2.3	-2.2	69.8	70.1	71.2
EU Commission Forecast	04-Nov-14	0.9	1.4	1.7	-2.5	-2.1	-1.8	69.7	70.3	69.9
IMF WEO Forecast	07-Oct-14	0.6	1.4	1.6	-2.5	-2.1	-1.8	69.4	69.6	68.8
Belgium - Citi Forecast	21-Jan-15	1.0	1.2	1.8	-2.8	-2.7	-2.4	106.1	107.9	106.9
OECD Economic Outlook	25-Nov-14	1.0	1.4	1.7	-2.9	-2.1	-1.3	106.1	106.4	105.0
EU Commission Forecast	04-Nov-14	0.9	0.9	1.1	-3.0	-2.8	-2.8	105.8	107.3	107.8
IMF WEO Forecast	07-Oct-14	1.0	1.4	1.5	-2.6	-2.2	-1.6	101.9	101.7	100.5
Slovakia - Citi Forecast	21-Jan-15	2.4	2.6	3.2	-2.9	-2.8	-2.2	54.6	54.8	52.6
OECD Economic Outlook	25-Nov-14	2.0	2.9		-2.9	-2.6	-2.2	54.4	54.6	54.8
EU Commission Forecast	04-Nov-14	2.4	2.5	3.3	-3.0	-2.6	-2.3	54.1	54.9	54.7
IMF WEO Forecast	07-Oct-14	2.6	2.8	3.4	-2.9	-2.3	-1.3	55.7	55.7	54.5
Slovenia - Citi Forecast	21-Jan-15	2.4	1.8	2.3	-4.2	-2.9	-2.5	81.9	79.4	77.8
OECD Economic Outlook	25-Nov-14	2.1	1.4	2.2	-4.4	-2.9	-2.4	74.4	77.0	78.9
EU Commission Forecast	04-Nov-14	2.4	1.7	2.5	-4.4	-2.9	-2.7	82.2	82.9	80.6
IMF WEO Forecast	07-Oct-14	1.4	1.4	1.5	-5.0	-3.9	-3.5	77.4	75.6	77.3

*IMF GDP forecasts updated for some countries on 20 Jan 2015, forecasts for fiscal balance and debt as of 7 Oct 2014. Note: Negative fiscal balances imply deficit. WEO World Economic Outlook. Sources: ECB, EU Commission, IMF, OECD and Citi Research

Figure 32. 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	25-Nov-14	0.5	0.9	1.6	-3.0	-2.2	-1.8	86.1	85.1	84.4
EU Commission Forecast	04-Nov-14	0.7	1.2	1.5	-2.9	-1.8	-1.1	87.0	86.1	84.0
IMF WEO Forecast	07-Oct-14	1.0	1.9	1.7	-3.0	-1.5	-0.8	80.1	78.6	76.9
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	25-Nov-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	04-Nov-14	-2.8	0.4	1.6	-3.0	-3.0	-1.4	107.5	115.2	111.6
IMF WEO Forecast	07-Oct-14	-3.2	0.4	1.6	-4.4	-3.9	-1.3	117.4	126.0	122.5
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	25-Nov-14	2.0	2.4	3.4	-0.3	-0.3	-0.2	9.5	8.8	8.0
EU Commission Forecast	04-Nov-14	1.9	2.0	2.7	-0.4	-0.6	-0.5	9.9	9.6	9.5
IMF WEO Forecast	07-Oct-14	1.2	2.5	3.5	-0.3	-0.3	-0.1	10.2	10.4	10.3
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	25-Nov-14	-0.2	0.9	1.3	-2.6	-2.1	-1.8	59.0	60.8	62.4
EU Commission Forecast	04-Nov-14	-0.4	0.6	1.1	-2.9	-2.6	-2.3	59.8	61.7	92.4
IMF WEO Forecast	07-Oct-14	-0.2	0.9	1.6	-2.4	-1.4	-0.9	57.9	59.3	59.7
Latvia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	25-Nov-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EC Commission Forecast	04-Nov-14	2.6	2.9	3.6	-1.1	-1.2	-0.9	40.3	36.3	35.1
IMF WEO Forecast	07-Oct-14	2.7	3.2	3.4	-0.8	-0.7	-1.2	36.0	35.3	34.1
Lithuania - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	25-Nov-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EC Commission Forecast	04-Nov-14	2.7	3.1	3.4	-1.2	-1.4	-0.8	41.3	41.6	41.3
IMF WEO Forecast	07-Oct-14	3.0	3.3	3.7	-2.2	-1.7	-1.7	40.0	39.5	38.9
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	25-Nov-14	3.1	2.2	2.6	0.9	0.2	0.5	24.4	25.9	27.1
EU Commission Forecast	04-Nov-14	3.0	2.4	2.9	0.2	-0.4	-0.6	23.0	24.3	25.4
IMF WEO Forecast	07-Oct-14	2.7	1.9	2.1	0.4	-1.5	-1.3	24.2	26.5	28.4
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	25-Nov-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	04-Nov-14	3.0	2.9	2.7	-2.5	-2.6	-2.0	71.0	71.0	69.8
IMF WEO Forecast	07-Oct-14	2.2	2.2	2.0	-2.7	-2.4	-1.8	71.9	71.3	70.3

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

Figure 33. 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	21-Jan-15	0.9	1.4	1.7	2.0	-2.5	-2.3	42.3	44.0	44.9
OECD Economic Outlook	25-Nov-14	0.8	1.4	1.8	-1.7	-2.2	-2.3	46.6	48.7	50.7
EU Commission Forecast	04-Nov-14	0.8	1.7	2.0	-1.0	-2.3	-2.0	44.1	45.1	45.6
IMF WEO Forecast	07-Oct-14	1.5	1.8	1.9	-1.4	-3.0	-2.3	45.1	46.6	47.3
Norway - Citi Forecast	21-Jan-15	2.6	1.6	1.9	9.7	9.0	9.3	NA	NA	NA
OECD Economic Outlook	25-Nov-14	1.7	1.8	2.5	9.9	9.5	9.4	35.1	34.0	38.0
IMF WEO Forecast	07-Oct-14	1.8	1.9	2.0	10.8	9.9	9.1	29.5	29.5	29.5
Sweden - Citi Forecast	21-Jan-15	1.9	2.3	2.6	-2.3	-1.9	-1.0	42.2	43.1	42.5
OECD Economic Outlook	25-Nov-14	2.1	2.8	3.1	-1.7	-1.3	-0.6	40.8	41.2	42.9
EU Commission Forecast	04-Nov-14	2.0	2.4	2.7	-2.4	-1.8	-1.2	40.3	40.1	39.4
IMF WEO Forecast	07-Oct-14	2.1	2.7	2.7	-2.0	-0.8	-0.1	42.2	41.3	39.3
Switzerland - Citi Forecast	21-Jan-15	1.9	-0.9	-0.3	0.7	-0.1	-0.7	46.7	46.8	46.3
OECD Economic Outlook	25-Nov-14	1.5	1.5	1.5	0.5	0.8	1.2	42.6	41.7	40.3
IMF WEO Forecast	07-Oct-14	1.3	1.6	2.0	0.5	0.7	1.0	47.2	46.4	44.3
UK - Citi Forecast	21-Jan-15	2.6	3.0	3.0	-5.4	-4.0	-1.9	88.2	89.4	88.1
OECD Economic Outlook	25-Nov-14	3.0	2.7	2.5	-5.5	-4.4	-3.1	87.9	89.5	90.0
EU Commission Forecast	04-Nov-14	3.1	2.7	2.5	-5.4	-4.4	-3.4	89.0	89.5	89.9
IMF WEO Forecast*	20-Jan-15	3.2	2.7	2.4	-5.3	-4.1	-2.9	92.0	93.1	92.9
OBR	3 Dec-14	3.0	2.4	2.2	-5.3	-4.3	-2.3	88.0	89.9	90.0

IMF GDP forecast updated on 20 Jan 2015, forecast for fiscal balance and debt as of 7 Oct 2014. Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*. Sources: EU Commission, IMF, OBR, OECD and Citi Research

Appendix A-1

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