

European Economic Forecast Highlights

February 2013

a —

- This document is a companion piece to [Global Economic Outlook and Strategy - February 2013](#) and contains more detailed quarterly economic forecasts for the main European economies to end 2014.
- **Long-Term Forecasts:** Figures 19-20 give Citi forecasts to 2017 for GDP growth, CPI inflation, current balance, fiscal balance, primary balance and government debt.
- **Forecasts compared:** Tables 21-23 compare our forecasts for GDP, deficits and debt with those of the European Commission, the IMF and OECD.
- **We believe that the EMU crisis is not over.** Further deep recessions are likely this year in all periphery countries bar Ireland. Hence, even with recent reductions in official borrowing costs, periphery countries have high and rising debt/GDP ratios, while the Italian election highlights the political difficulties of implementing austerity and reforms in the face of recession. Cyprus is likely to request a full standard Troika programme in the near term. We expect that Italy, Spain, Portugal and Ireland will all request ECCL programmes in the next 12-18 months (thus becoming eligible for the ECB's OMT facility) — and the indecisive election could lead Italy to enter a programme in the next few months. Some form of debt restructuring remains likely for Cyprus (nearterm) plus (further ahead) Portugal, Italy, Spain and Greece. This could be a varying mix of OSI (eg longer maturities, lower coupons on official loans, or interest holidays), and PSI (including bank creditors and/or sovereign debt). We no longer expect PSI for Ireland's sovereign debt in coming years. We continue to expect that Greece will probably exit EMU eventually.
- **Sovereign Ratings:** Other ratings agencies are likely to follow Moody's and downgrade the UK in 2013. With the weak economy, the UK will probably also be put on negative outlook over the next 2-3 years in preparation for a second downgrade, especially if political trends cast doubt on the UK's medium-term commitment to fiscal consolidation. We expect that Moody's will return Ireland to investment grade this year, but the Netherlands will probably be put on negative watch this year.

Ann O'Kelly

+44-20-7986-3297
ann.okelly@citi.com

Michael Saunders

+44-20-7986-3299
michael.saunders@citi.com

Jürgen Michels

+44-20-7986-3294
juergen.michels@citi.com

Giada Giani

+44-20-7986-3281
giada.giani@citi.com

Guillaume Menuet

+44-20-7986-1314
guillaume.menuet@citi.com

Tina Mortensen

+44-20-7986-3284
tina.mortensen@citi.com

Jaromir Sindel

+420-2-3306-1485
jaromir.sindel@citi.com

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

	History	Forecast				
	2012	2013	2014	2015	2016	2017
Euro Area	0.88	0.44	0.25	0.25	0.31	0.75
Denmark	0.43	0.10	0.20	0.40	0.60	1.00
Norway	1.60	1.60	1.80	2.30	2.80	3.30
Sweden	1.45	0.80	0.80	1.00	1.70	2.30
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	1.04

Source: Citi Research

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

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Euro Area

Jürgen Michels
(44-20) 7986-3294
juergen.michels@citi.com

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

We are revising up our GDP growth forecast again by one tenth for 2013 and 2014, mainly reflecting a more upbeat view on Germany. However, sentiment data show that the gap between Germany and the rest of the euro area remains large, with little sign of positive contagion into real economic activity in periphery countries. (But see [Euro Economics Weekly - Global Export Bounce: Greece, Ireland & Spain Set to Outperform](#).) The Irish promissory notes deal showed the ECB's willingness to accept modifications to existing arrangements to support periphery countries, which reduce the likelihood of PSI. But some politicians seem more willing to bail-in bank creditors - the treatment of sovereign creditors vs. bank creditors in the case of Cyprus will probably give more insight. Looking forward, the core country aim for broader bail-in of bank bond holders once a common bank restructuring framework is in place and the planned introduction of a Financial Transaction Tax in 11 EA countries suggest that the financial sector will have to make a larger contribution to help restore EMU countries to fiscal sustainability.

By introducing "weaker than expected exports" as a downside risk to economic growth and "the appreciation of the euro exchange rate" as a downside risk to price stability, the ECB made clear that it is likely to react to further euro strength. In our view, the ECB is unlikely to provide Fed-style guidance that rates will stay low, or to introduce quantitative easing measures, while the activation of the OMT depends on government action. In our view, new multi-year LTROs are only likely if there is severe market stress and broad-based QE is only likely if there are clear deflation risks. With ongoing economic weakness and modest reduction of excess liquidity because of the 3Y LTRO repayments, **we expect the ECB to cut the refi rate by 25bp in 2Q**. We expect another cut to 0.25% by the year end, probably joined by a cut in the deposit rate to -0.25%.

Figure 2. Euro Area – Economic Forecasts, 2012-14F

		History			Forecast				History				Forecast							
		2012	2013	2014	2012	2013	2014		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-0.5	-0.5	-0.3					-0.1	-0.5	-0.6	-0.9	-0.8	-0.6	-0.6	-0.1	-0.4	-0.4	-0.4	0.2
	QQ SAAR								-0.1	-0.7	-0.3	-2.3	0.0	0.1	-0.1	-0.5	-1.0	-0.1	0.1	1.7
Final Domestic Demand	YY	-1.5	-1.0	-0.3					-1.1	-1.5	-1.6	-1.7	-1.5	-1.0	-0.9	-0.6	-0.6	-0.5	-0.3	0.2
Private Consumption	YY	-1.2	-0.7	0.2					-1.1	-1.1	-1.4	-1.2	-1.2	-0.8	-0.7	-0.2	-0.1	0.0	0.3	0.5
Public Consumption	YY	-0.2	-0.7	-0.4					-0.1	-0.2	-0.1	-0.2	-0.5	-0.6	-0.7	-1.0	-0.9	-0.7	-0.4	0.5
Fixed Investment	YY	-3.8	-2.2	-1.8					-2.5	-3.9	-4.2	-4.8	-3.5	-2.1	-1.8	-1.3	-2.1	-1.9	-2.0	-0.9
-- Business Equipment	YY	-4.6	-2.1	-2.5					-2.1	-4.6	-5.7	-6.1	-3.9	-2.0	-1.3	-1.1	-2.7	-2.6	-3.1	-1.7
-- Construction	YY	-3.1	-2.1	-1.2					-2.8	-3.4	-2.9	-3.3	-2.9	-1.9	-2.0	-1.8	-1.8	-1.5	-1.0	-0.2
Stocks (Contrib. to YY GDP Growth)		-0.3	-0.2	0.0					-0.3	-0.5	-0.4	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	2.8	2.0	0.6					2.4	3.5	3.0	2.1	2.7	1.7	1.4	2.4	1.0	0.3	0.1	1.0
Imports of Goods and Services	YY	-0.7	0.4	0.0					-1.1	-0.6	-0.7	-0.3	0.5	0.1	0.0	0.9	-0.1	-0.3	-0.2	0.7
Consumer Prices	YY	2.5	1.7	1.5					2.7	2.5	2.5	2.3	1.8	1.7	1.8	1.5	1.6	1.5	1.4	1.4
Core CPI	YY	1.5	1.1	1.2					1.5	1.6	1.6	1.5	1.1	1.0	1.3	1.1	1.3	1.3	1.1	1.0
CPI Ex Energy and Unprocessed Food	YY	1.8	1.2	1.3					1.9	1.8	1.7	1.6	1.1	1.2	1.3	1.2	1.4	1.4	1.2	1.2
Unemployment Rate	YY	11.4	12.0	12.2					10.9	11.3	11.5	11.7	11.8	11.9	12.0	12.1	12.2	12.2	12.3	12.3
Current Account Balance	€ bn	116.1	284.2	328.6																
	% GDP	1.2	3.0	3.4																
General Government Balance	€ bn	-316.8	-258.1	-232.8																
	% GDP	-3.3	-2.7	-2.4																
Primary Balance	% GDP	-0.3	0.4	0.6																
General Government Debt	€ bn	8739.3	9120.3	9124.1																
	% GDP	92.1	94.8	93.5																
Gross Operating Surplus	YY	-0.1	0.0	0.2																
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.88	0.44	0.25					1.00	0.75	0.75	0.75	0.75	0.50	0.25	0.25	0.25	0.25	0.25	0.25
Ten-year Bund yield (Period Avg.)	%	1.57	1.56	1.60					1.88	1.49	1.41	1.43	1.57	1.40	1.75	1.55	1.35	1.55	NA	NA
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.28	1.33	1.30					1.33	1.26	1.29	1.32	1.33	1.33	1.32	1.31	1.31	1.31	1.3	1.30

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

Germany

Jürgen Michels
(44-20) 7986-3294
juergen.michels@citi.com

We are revising up our GDP forecast for 2013 and 2014 by 0.3pp for each year. The recent gains in lead guides suggest that, after GDP fell in 4Q, the recovery in H1-2013 will be stronger than we expected, helped by domestic demand and, assuming a further recovery in global demand and only modest euro appreciation, continued export gains. Political stalemate is likely until the September 22 General Election. We expect that Angela Merkel will stay as Chancellor, but probably with a different coalition partner.

Figure 3. Germany – Economic Forecasts, 2012-14F

		History			Forecast				History				Forecast			
		2012	2013	2014					1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	0.9	0.8	0.8					1.2	1.0	0.9	0.4	0.6	0.7	0.5	1.4
	QQ SAAR								2.0	1.1	0.9	-2.4	2.6	1.6	0.4	1.0
Final Domestic Demand	YY	0.3	0.9	1.1					0.9	0.7	-0.2	-0.3	0.2	0.9	1.0	1.4
	QQ SAAR								0.1	-1.3	0.2	0.0	2.0	1.6	0.6	1.5
Private Consumption	YY	0.6	1.1	0.9					0.6	1.3	0.0	0.4	0.8	1.0	1.1	1.5
	QQ SAAR								0.6	0.7	0.0	0.3	2.2	1.6	0.3	2.0
Public Consumption	YY	1.4	1.1	0.9					1.8	0.9	1.4	1.4	1.1	1.6	1.0	0.7
	QQ SAAR								2.4	-1.4	2.9	1.6	1.2	0.8	0.4	0.4
Fixed Investment	YY	-2.0	-0.1	2.0					0.5	-1.7	-2.6	-4.0	-2.6	-0.1	0.8	1.8
	QQ SAAR								-3.9	-7.4	-1.8	-2.9	2.0	2.5	1.6	0.9
-- Business Equipment	YY	-4.1	-2.5	0.5					1.3	-2.8	-6.5	-8.1	-6.5	-3.1	-0.9	0.7
	QQ SAAR								-4.5	-11.6	-8.6	-7.5	2.3	2.1	0.1	-1.6
-- Construction	YY	-0.9	1.6	3.2					-0.4	-1.4	-0.1	-1.6	-0.4	1.8	1.9	2.9
	QQ SAAR								-3.3	-5.4	2.9	-0.4	1.6	3.2	3.4	3.6
Stocks (Contrib. to YY GDP Growth)		-0.5	-0.1	-0.1					-0.2	-0.1	-0.3	0.2	-0.1	-0.1	0.0	0.0
Exports of Goods and Services	YY	4.3	2.5	1.3					2.9	5.7	5.1	3.4	4.1	1.8	0.8	3.3
	QQ SAAR								3.0	13.8	6.1	-7.9	5.9	3.7	2.0	1.6
Imports of Goods and Services	YY	2.2	2.8	1.9					2.7	2.8	1.7	1.5	3.5	2.0	2.2	3.4
	QQ SAAR								-2.9	9.5	2.6	-2.6	4.7	3.6	3.1	2.4
Net Exports (Contrib. to YY GDP Growth)		1.2	0.1	-0.2					0.7	0.7	0.5	-0.8	0.2	0.1	-0.1	-0.1
Consumer Prices	YY	2.0	1.9	2.3					2.1	1.9	2.0	2.0	1.8	2.1	2.1	1.6
Compensation per Employee	YY	2.8	3.2	2.9					2.5	2.7	2.9	3.0	3.3	3.2	3.1	3.0
Employment Growth	YY	1.1	0.2	0.4					1.4	1.2	1.1	0.8	0.4	0.1	0.1	0.2
Unemployment Rate (ILO)	%	5.5	5.4	5.4					5.5	5.5	5.5	5.4	5.4	5.5	5.4	5.4
Current Account Balance	€ bn	167.0	159.7	149.6												
	% GDP	6.3	5.9	5.4												
General Government Balance	€ bn	4.4	-4.0	-7.7												
	% GDP	0.2	-0.1	-0.3												
Primary Balance	% GDP	2.4	2.0	1.6												
General Government Debt	€ bn	2175.1	2187.6	2205.0												
	% GDP	82.9	81.8	80.7												
Gross Trading Profits	YY	-1.9	-2.1	-2.1					2.1	0.8	-4.0	-6.6	-9.7	-8.1	-0.3	10.8

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

France

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

French politicians have been voicing concerns about risks of excess euro strength, we suspect partly to justify the downward revision to the 2013 GDP baseline that will likely be formalised in late March. Given the government's reluctance to tighten fiscal policy further (the structural budget deficit effort for 2013 will be around 1.8% of GDP), the 3% of GDP budget deficit target will probably be missed. The European Commission's 0.1% French 2013 GDP forecast appears weak enough for France to qualify for an extension of the timeframe to exit the "excessive deficit procedure". Assuming that a sizeable fiscal consolidation effort is maintained and expenditure cuts are detailed sufficiently for 2014 and beyond, we expect that France will likely be given an extra year until 2014 to bring its budget deficit to below 3% of GDP. But the need for a further sizeable structural budget deficit reduction effort will dampen GDP growth going forward.

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

		History			Forecast			History								Forecast							
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.0	-0.2	0.2				0.2	0.1	0.0	-0.3	-0.4	-0.2	-0.3	0.0	0.0	0.2	0.3	0.5				
	QQ SAAR							-0.4	-0.4	0.6	-1.1	-0.5	0.1	0.3	0.1	-0.5	0.8	0.8	0.9				
Final Domestic Demand	YY	0.3	0.0	0.2				0.1	0.6	0.5	0.2	0.1	0.0	-0.1	0.0	0.0	0.2	0.3	0.4				
	QQ SAAR							0.0	0.2	0.6	0.0	-0.4	-0.1	0.1	0.3	-0.2	0.6	0.6	0.7				
Private Consumption	YY	0.0	0.1	0.1				-0.6	0.1	0.1	0.4	0.2	0.3	0.1	0.0	-0.1	0.0	0.1	0.2				
	QQ SAAR							0.4	-0.7	1.0	0.8	-0.4	-0.1	0.0	0.4	-0.6	0.4	0.4	0.6				
Public Consumption	YY	1.4	0.6	0.5				0.8	1.3	1.6	1.8	1.2	0.8	0.4	0.0	0.2	0.4	0.5	0.7				
	QQ SAAR							2.2	1.8	1.6	1.5	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7				
Fixed Investment	YY	0.0	-1.1	0.4				1.0	1.0	0.2	-2.2	-1.4	-1.8	-1.2	-0.1	0.1	0.4	0.5	0.7				
	QQ SAAR							-3.9	1.2	-2.0	-4.0	-0.7	-0.3	0.3	0.3	0.0	0.9	0.9	0.9				
-- Businesses	YY	-0.7	-1.3	0.7				-0.1	0.6	0.0	-3.2	-1.9	-2.2	-1.2	0.2	0.4	0.7	0.8	0.9				
	QQ SAAR							-6.0	1.4	-3.1	-4.8	-0.8	0.0	0.8	0.8	0.0	1.2	1.2	1.2				
-- Households	YY	0.6	-1.0	0.3				2.6	1.3	0.1	-1.3	-1.2	-1.3	-1.2	-0.4	-0.2	0.2	0.4	0.6				
	QQ SAAR							-1.5	0.0	-0.4	-3.3	-0.8	-0.8	0.0	0.0	0.0	0.8	0.8	0.8				
Stocks (Contrib. to YY GDP Growth)		-1.1	-0.5	0.0				-0.1	0.2	-0.3	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Exports of Goods and Services	YY	2.3	0.8	0.6				3.3	2.8	2.7	0.4	0.7	0.9	0.6	1.2	0.3	0.4	0.6	1.2				
	QQ SAAR							0.3	1.1	2.7	-2.4	1.6	1.6	1.6	0.0	-2.0	2.0	2.4	2.4				
Imports of Goods and Services	YY	-0.3	0.0	0.6				-2.0	0.5	0.0	0.2	0.3	-1.0	-0.3	0.8	0.4	0.5	0.7	0.9				
	QQ SAAR							0.6	5.8	-2.0	-3.4	0.8	0.8	0.8	0.8	-0.8	1.2	1.6	1.6				
Net Exports (Contrib. to YY GDP Growth)		0.7	0.2	0.0				0.0	-0.3	0.3	0.1	0.1	0.1	0.1	-0.1	-0.1	0.1	0.1	0.1				
Consumer Prices	YY	2.2	1.3	1.7				2.6	2.3	2.3	1.7	1.3	1.1	1.3	1.3	1.7	1.7	1.8	1.8				
Average Monthly Wages	YY	2.1	1.6	2.0																			
Employment Growth (Private-Sector)	YY	-0.2	-0.1	1.2																			
Unemployment Rate	%	9.9	10.4	10.1				9.6	9.8	9.9	10.1	10.3	10.5	10.4	10.3	10.2	10.1	10.0	9.9				
Current Account Balance	€ bn	-47.9	-31.3	-15.7																			
	% GDP	-2.4	-1.5	-0.7																			
General Government Balance	€ bn	-91.7	-75.6	-63.8																			
	% GDP	-4.5	-3.7	-3.0																			
Primary Balance	% GDP	-2.4	-1.5	-0.7																			
General Government Debt	€ bn	1865.4	1975.2	2046.3																			
	% GDP	91.4	95.8	97.3																			
Gross Trading Profits	YY	0.0	2.0	4.0																			

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

Italy

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Weakness in Q4 GDP was even larger than we had expected (-0.9% QQ), although some could be reversed in Q1. In quarterly terms 2013 GDP may contract less than in 2012, as the size of the fiscal drag is likely to be significantly less, but political uncertainty will remain elevated after the inconclusive election result, implying wider and more volatile bond spreads creating a further drag on economic growth. No additional meaningful fiscal austerity or structural reforms are likely to be passed in the next few months. Political instability, together with a public debt rising close to 135% of GDP in 2014, are likely to heighten market pressure on Italy to request external financial assistance (probably an ESM precautionary credit line and OMT activation) some time in 2013. This may possibly be followed eventually by some form of debt restructuring (via maturity extensions and coupon reductions) which — depending on other countries' and the ECB's willingness towards burden sharing — might include PSI.

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

		History			Forecast				History				Forecast			
		2012	2013	2014	2012	2013	2014		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	-2.2	-1.6	-1.4					-1.3	-2.3	-2.4	-2.7	-2.3	-1.7	-1.6	-1.0
	QQ SAAR								-3.2	-2.9	-0.8	-3.7	-1.5	-0.7	-0.4	-1.3
Final Domestic Demand	YY	-4.4	-2.8	-2.1					-3.8	-4.6	-4.9	-4.5	-3.6	-3.0	-2.5	-2.2
	QQ SAAR								-6.5	-4.2	-3.6	-3.7	-3.0	-1.7	-1.7	-2.4
Private Consumption	YY	-4.2	-2.9	-0.9					-3.2	-4.3	-4.8	-4.5	-4.0	-3.2	-2.5	-1.9
	QQ SAAR								-5.7	-4.7	-4.0	-3.6	-3.9	-1.2	-1.2	-1.2
Public Consumption	YY	-1.0	-1.1	-0.9					-1.6	-1.1	-0.8	-0.6	-0.8	-1.2	-1.2	-1.1
	QQ SAAR								-0.3	0.5	-1.0	-1.5	-1.1	-1.1	-1.1	-1.1
Fixed Investment	YY	-9.1	-4.7	-7.5					-7.9	-9.6	-9.8	-9.0	-5.6	-4.6	-4.2	-4.4
	QQ SAAR								-15.6	-7.9	-5.3	-7.0	-2.0	-3.9	-3.9	-7.8
-- Business Equipment	YY	-11.2	-3.4	-11.0					-9.2	-12.6	-12.8	-10.1	-5.2	-2.9	-2.1	-3.4
	QQ SAAR								-17.5	-11.0	-5.3	-6.2	2.1	-2.0	-2.0	-11.4
-- Construction	YY	-6.9	-6.0	-4.0					-6.6	-6.3	-6.7	-7.9	-5.9	-6.2	-6.3	-5.4
	QQ SAAR								-13.6	-4.8	-5.3	-7.8	-5.9	-5.9	-5.9	-3.9
Exports of Goods and Services	YY	1.5	0.8	-1.7					1.9	2.5	1.6	0.0	1.0	0.5	0.4	1.4
	QQ SAAR								-2.0	4.1	2.2	-4.0	2.1	1.9	1.6	-0.2
Imports of Goods and Services	YY	-7.7	-3.2	-4.3					-9.0	-7.6	-7.8	-6.4	-3.7	-3.5	-2.8	-2.7
	QQ SAAR								-13.3	-2.1	-5.3	-4.5	-2.8	-1.2	-2.8	-3.8
Net Exports (Contrib. to YY GDP Growth)		2.6	1.1	0.6					3.1	2.9	2.7	1.8	1.3	1.1	0.9	1.1
Consumer Prices	YY	3.3	2.3	1.4					3.6	3.6	3.4	2.6	2.2	2.0	2.3	2.5
Compensation per Employee	NA	NA	NA	NA												
Employment Growth		0.0	-0.6	-0.3												
Unemployment Rate	%	10.7	11.9	12.4												
Current Account Balance	€ bn	-10.0	-4.8	-2.7												
	% GDP	-0.6	-0.3	-0.2												
General Government Balance	€ bn	-43.4	-43.0	-45.3												
	% GDP	-2.8	-2.8	-3.0												
Primary Balance	% GDP	2.4	2.4	2.5												
General Government Debt	€ bn	1978	2024	2068												
	% GDP	126.6	130.5	134.6												

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

Spain

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

With thanks to Antonio Montilla

After the weak Q4 GDP (-0.7% QQ), recent indicators suggest continued weakness in Q1. The economy faces powerful headwinds from fiscal drag, tight financing conditions, ongoing private deleveraging and housing adjustment. The saving rate has already hit a record low, and scope for a further decline is probably limited. The 2013 deficit target of 4.5% of GDP will likely be revised up by at least 1.5pp, while extra bank recap needs also may well emerge — probably in 2014. We expect Spain to enter a precautionary ESM programme in 2013. Some form of debt restructuring (maybe including PSI) may eventually be likely when it becomes clear that budget austerity alone may not be able to restore fiscal sustainability.

See also *Euro Economics Weekly - Spain — It's All About The Lack of Growth*.

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

		History			Forecast			History				Forecast							
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-1.3	-2.2	-2.1				-0.7	-1.3	-1.6	-1.8	-2.1	-2.2	-2.3	-2.3	-2.4	-2.3	-2.1	-1.4
	QQ SAAR							-1.6	-1.6	-1.2	-2.8	-2.7	-2.1	-1.6	-2.7	-3.4	-1.7	-0.8	0.2
Final Domestic Demand	YY	-4.0	-5.1	-3.2				-3.1	-3.8	-4.1	-4.8	-5.4	-5.3	-5.2	-4.5	-4.6	-4.1	-3.0	-1.0
	QQ SAAR							-1.8	-5.1	-4.3	-8.1	-4.0	-4.9	-3.6	-5.6	-4.3	-2.8	0.7	2.4
Private Consumption	YY	-2.0	-3.9	-1.1				-1.3	-2.1	-2.0	-2.5	-4.1	-4.4	-4.1	-2.9	-2.5	-1.6	-0.8	0.5
	QQ SAAR							2.1	-3.7	-2.0	-6.3	-4.2	-4.9	-0.9	-1.7	-2.5	-1.2	2.3	3.4
Public Consumption	YY	-4.3	-6.9	-4.5				-3.7	-2.9	-3.9	-6.5	-6.6	-7.1	-6.7	-7.1	-6.5	-5.8	-4.4	-1.6
	QQ SAAR							-3.9	-2.2	-9.1	-10.7	-4.1	-4.4	-7.3	-12.2	-1.6	-1.6	-1.6	-1.6
Fixed Investment	YY	-9.0	-6.8	-7.8				-7.5	-9.2	-9.9	-9.3	-7.8	-6.2	-6.7	-6.5	-8.6	-9.5	-8.2	-4.9
	QQ SAAR							-9.7	-11.6	-5.5	-10.4	-3.6	-5.3	-7.2	-9.9	-11.9	-9.0	-1.5	3.4
-- Business Equipment	YY	-4.1	-3.6	-7.9				-3.6	-4.7	-4.6	-3.7	-3.0	-2.0	-4.8	-4.5	-8.3	-9.9	-8.4	-5.0
	QQ SAAR							-1.9	-5.8	5.0	-11.2	1.0	-2.2	-6.2	-10.3	-14.2	-8.9	0.3	3.9
-- Construction	YY	-11.4	-8.6	-7.7				-9.4	-11.5	-12.6	-12.3	-10.4	-8.5	-7.7	-7.7	-8.8	-9.3	-8.0	-4.9
	QQ SAAR							-13.5	-14.6	-10.9	-9.9	-6.1	-7.0	-7.8	-9.6	-10.5	-9.0	-2.6	3.1
Exports of Goods and Services	YY	3.3	4.6	-2.2				2.4	2.9	4.3	3.5	7.7	6.5	2.1	2.2	-1.6	-2.3	-3.0	-1.8
	QQ SAAR							-8.8	6.9	20.8	-2.8	7.0	2.5	1.9	-2.4	-8.1	-0.2	-0.9	2.2
Imports of Goods and Services	YY	-5.2	-4.8	-5.7				-5.8	-5.1	-3.5	-6.3	-3.8	-3.9	-7.1	-4.4	-8.2	-7.9	-6.1	-0.8
	QQ SAAR							-7.2	-5.0	10.0	-20.6	3.4	-5.7	-3.6	-11.3	-11.8	-4.4	4.0	10.4
Net Exports (Contrib. to YY GDP Growth)		2.5	2.8	0.9				2.5	2.4	2.4	2.9	3.4	3.1	2.8	2.0	1.8	1.5	0.7	-0.4
Consumer Prices	YY	2.4	1.3	0.3				1.9	1.9	2.8	3.2	2.5	1.9	0.8	-0.1	0.2	0.3	0.2	0.3
Compensation per Employee	YY	0.3	0.2	0.0															
Employment Growth	YY	-4.5	-3.2	-2.0				-3.9	-4.9	-4.6	-4.8	-4.3	-3.3	-2.7	-2.3	-2.7	-2.9	-2.0	-0.5
Unemployment Rate	%	25.0	27.3	28.5				24.4	24.6	25.0	26.0	27.6	27.0	26.7	27.8	29.2	28.9	27.9	28.0
Current Account Balance	€ bn	-14.1	21.1	29.7															
	% GDP	-1.3	2.1	2.9															
General Government Balance	€ bn	-106.7	-65.8	-60.4															
	% GDP	-10.2	-6.4	-5.9															
Primary Balance	% GDP	-7.3	-2.6	-1.7															
General Government Debt	€ bn	919.1	1009.6	1130.3															
	% GDP	87.7	98.9	111.3															

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

Greece

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Although 2012 official fiscal data have been better than expected and debt relief for a total of 71pp of GDP was implemented in 2012, Greece's fiscal position remains most likely unsustainable, in our view. We expect another sharp drop in GDP this year, with the debt ratio rising close to 180% at end 2013. Only a major write-off of the euro area official loans would make the debt burden sustainable again, in our view. We judge this as unlikely, and hence continue to expect that Greece will leave the euro at some point, and for forecasting purposes we assume this occurs in 2014. This is reflected in our forecasts with a large decline in domestic spending and surge in inflation in 2014.

Figure 7. Greece – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-6.3	-11.3	-3.7	1.6	2.8
Final Domestic Demand	YY	-9.6	-7.7	-12.5	-5.8	0.1	1.6
Private Consumption	YY	-8.1	-6.2	-14.2	-7.9	-1.0	1.3
Fixed Investment	YY	-18.9	-13.2	-21.1	-8.1	4.1	3.5
Exports of Goods and Services	YY	-2.4	-0.1	-12.6	-0.8	5.1	5.7
Imports of Goods and Services	YY	-12.7	-9.3	-17.4	-9.1	-0.7	1.3
Consumer Prices	YY	1.0	0.4	17.4	13.4	8.1	6.8
Unemployment Rate	%	24.4	29.0	34.7	39.0	39.1	38.1
Current Account Balance	€ bn	-8.4	-5.9	4.1	8.1	10.1	8.1
	% GDP	-4.3	-3.3	2.2	3.9	4.4	3.2
General Government Balance	€ bn	-14.3	-11.1	-1.0	-0.3	2.8	4.5
	% GDP	-7.4	-5.7	-1.3	-0.4	2.9	4.1
Primary Balance	% GDP	-2.0	-1.5	-1.3	-0.4	2.9	6.6
General Government Debt	€ bn	308.2	322.1	305.2	301.1	280.6	89.1
	% GDP	159.0	179.7	401.7	360.4	293.5	80.9

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

Portugal

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

The weak Q4 GDP reading (-1.8% QQ) leaves a very negative hangover for 2013 growth and supports our view that GDP is likely to fall even faster than in 2012. Fiscal austerity (of about 3.2% of GDP in 2013) together with the Spanish recession is likely to continue weighing on growth. Even with fiscal austerity, the government debt/GDP ratio is likely to exceed 135% of GDP by year-end, and this may lead to new fiscal sustainability worries. Despite the recent return to market funding, we still expect Portugal may be in need of additional external help in 2014, followed eventually by some form of PSI in the form of maturity extension/coupon reduction.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-3.7	-2.8	-0.3	0.9	0.9
Final Domestic Demand	YY	-6.8	-5.3	-3.0	-0.4	0.7	0.8
Private Consumption	YY	-5.6	-4.7	-0.9	0.5	0.7	0.8
Fixed Investment	YY	-13.9	-9.0	-10.7	-3.4	0.9	1.2
Exports	YY	4.1	1.1	-2.5	-0.3	2.4	2.6
Imports	YY	-6.7	-2.2	-3.2	-0.5	2.1	2.4
Consumer Prices	YY	2.8	1.4	0.8	0.5	0.7	0.5
Unemployment Rate	%	15.7	17.9	19.8	19.8	18.8	17.9
Current Account Balance	€ bn	-6.2	-2.3	-1.7	-1.5	-1.0	-0.8
	% GDP	-3.7	-1.4	-1.0	-0.9	-0.6	-0.5
General Government Balance	€ bn	-8.3	-8.7	-8.1	-5.7	-5.0	-4.2
	% GDP	-5.0	-5.4	-5.1	-3.6	-3.1	-2.5
Primary Balance	% GDP	-1.0	-1.0	-0.4	-0.3	0.3	0.9
General Government Debt	€ bn	202.2	217.3	229.3	241.0	248.0	252.2
	% GDP	121.8	135.6	145.4	151.3	152.1	150.7

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

Ireland

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

We recently edged up our 2013 growth forecast from 0.5% to 0.9%, with little change to our 2014 forecast (1.6% now, 1.5% before) and growth still led by exports. Ireland's debt/GDP ratio will probably continue to reach about 120% in 2013-14, but will then begin to edge down. With the more benign economic outlook, the promissory note deal and assuming backstops plus flexibility among other EU countries and institutions, we no longer expect that Ireland will have PSI in coming years. There may still need to be some form of debt restructuring, but it is more likely to come through OSI, and extended liquidity/debt monetisation.

See also [Euro Economics Weekly - Ireland — Steps Back to Fiscal Sustainability](#).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2016
Real GDP	YY	0.5	0.9	1.6	1.9	2.9	2.7
Real GNP	YY	3.2	1.1	1.0	1.3	2.3	2.1
Final Domestic Demand	YY	-1.7	-1.9	-1.6	-1.6	-0.8	-0.7
Private Consumption	YY	-1.4	-0.6	-0.7	-0.7	-0.6	-0.4
Fixed Investment	YY	0.0	-1.8	-2.6	-3.5	-3.5	-3.3
Government Consumption	YY	-3.6	-6.1	-4.0	-3.6	0.6	-0.2
Exports of Goods and Services	YY	3.1	3.8	3.9	5.2	6.0	5.5
Imports of Goods and Services	YY	0.3	1.4	1.6	3.8	4.4	4.0
Net Trade		2.2	2.8	3.4	3.1	3.7	3.4
GDP Deflator	YY	2.7	1.3	1.4	1.6	1.6	1.6
Nominal GDP	YY	3.3	2.2	3.1	3.5	4.5	4.4
House Prices	YY	-12.8	0.7	1.0	1.0	1.0	2.1
Unemployment Rate	%	15.0	15.7	16.2	16.5	16.7	16.7
Employment	YY	-1.0	-1.3	-1.1	-0.8	-0.7	0.1
Current Account Balance	€ bn	7.8	11.5	13.4	14.6	16.7	18.2
	% GDP	4.7	6.8	7.7	8.2	8.9	9.3
General Government Balance	€ bn	-12.9	-11.8	-7.2	-4.2	-3.2	-2.6
	% GDP	-7.9	-7.0	-4.2	-2.3	-1.7	-1.3
Primary Balance	% GDP	-4.0	-1.4	0.8	2.5	3.2	3.6
General Government Debt	€ bn	192.0	200.8	204.5	202.5	202.3	200.8
	% GDP	116.9	119.7	118.2	113.2	108.1	102.8

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

Netherlands

Jürgen Michels
(44-20) 7986-3294
juergen.michels@citi.com

We leave our GDP forecast for the Netherlands roughly unchanged. The Dutch economy is currently experiencing a “triple-dip” recession and prospects of a recovery remain limited in the short-term, with further budgetary adjustments in the pipeline as the coalition government attempts to lower the structural budget deficit over time. In countries like the Netherlands, with high household gross indebtedness, highly leveraged banks, falling asset prices and elevated correlation between wealth and consumption, the worrying prospect of persistently low domestic demand growth cannot be ignored.

See also [Euro Economics Weekly - Netherlands — In the Triple Dip Recession Club](#).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.9	-0.9	0.3	0.9	1.0	1.1
Final Domestic Demand	YY	-1.5	-1.2	0.0	0.1	0.2	0.2
Public Consumption	YY	0.7	0.1	0.0	0.2	0.2	0.2
Private Consumption	YY	-1.4	-1.5	0.0	0.1	0.2	0.2
Fixed Investment (ex Stocks)	YY	-4.7	-2.7	-0.1	-0.1	0.2	0.4
Stocks (Contrib. to YY GDP Growth)		-0.1	-0.4	-0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	3.1	1.7	1.3	2.5	3.3	3.3
Imports of Goods and Services	YY	2.8	1.0	0.9	1.9	2.7	2.7
Net Exports (Contrib. to YY GDP Growth)		0.5	0.7	0.4	0.7	0.8	0.9
Consumer Prices	YY	2.8	2.6	1.7	2.0	1.7	1.4
Unemployment Rate	%	6.4	6.9	7.0	6.8	6.7	7.7
Current Account Balance	€ bn	59.4	60.0	55.0	60.0	62.0	65.0
	% GDP	9.9	10.0	9.0	9.6	9.7	10.0
General Government Balance	€ bn	-24.8	-23.0	-23.2	-15.1	-13.8	-9.6
	% GDP	-4.1	-3.8	-3.8	-2.4	-2.2	-1.5
Primary Balance	% GDP	-2.3	-1.9	-1.7	-0.3	0.0	0.8
General Government Debt	€ bn	428.8	455.2	480.4	495.5	509.3	518.9
	% GDP	71.3	75.5	78.5	79.1	79.5	79.5

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

Sources: DNB, CBS and Citi Research

Belgium

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

4Q GDP fell by 0.1% QQ compared to our forecast for a 0.4% drop. Hence, together with the slightly better tone in lead guides, we are lifting our 2013 GDP forecast by 0.2ppt to -0.1% after a drop of -0.2% in 2012. Based on the Planning Bureau's estimate of 0.2% GDP growth in 2013, the government will have to find another €3bn to hit its budget deficit targets. Belgium is no exception to the general trend of budgetary underperformance across the "soft core" countries. Unless targets are relaxed for most member states, budget deficits are likely to be overshoot in 2013 given the absence of any economic momentum at the start of 2013.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.2	-0.1	0.3	1.2	1.5	1.8
Final Domestic Demand	YY	-0.6	0.1	0.6	1.0	1.4	1.7
Public Consumption	YY	0.1	0.0	0.3	0.7	1.1	1.5
Private Consumption	YY	-0.6	0.1	0.5	0.7	1.1	1.3
Fixed Investment (ex Stocks)	YY	-0.2	0.3	1.4	2.2	2.6	3.0
Exports of Goods and Services	YY	0.7	1.0	1.1	3.5	3.9	4.3
Imports of Goods and Services	YY	0.2	0.7	1.4	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.2	1.9	2.2	2.2	1.9
Unemployment Rate	%	7.4	7.8	7.4	6.9	6.5	6.1
Current Account Balance	€ bn	-3.5	-2.6	-3.2	-3.0	-1.9	-0.1
	% GDP	-0.9	-0.7	-0.8	-0.7	-0.5	0.0
General Government Balance	€ bn	-10.9	-9.5	-8.8	-6.0	-3.4	-0.2
	% GDP	-2.9	-2.5	-2.2	-1.5	-0.8	0.0
Primary Balance	% GDP	-0.6	0.2	0.9	1.7	2.5	3.3
General Government Debt	€ bn	414.8	444.9	454.9	460.9	464.3	464.5
	% GDP	110.0	115.7	115.5	113.3	110.2	106.1

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

Sources: BNB, Belgostat and Citi Research

Slovakia

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

We lowered our 2013 GDP growth forecast to 0.7% YY after 2012 GDP was revised down to 2.0% (1.2% YY in 4Q12). The revised numbers show a cumulative increase in GDP of 1% in 1Q-3Q12, while the previous data showed 1.7% in the same period. Our 2013 forecast is slightly above the growth implied by the base effect (at +0.4 in 2013), supported by a modest recovery in German GDP. Our Slovak GDP forecast is below Reuters' poll of 1% in 2013. The Finance Ministry's chief economist Martin Filko expects foreign demand to stagnate in 1Q13, while the coincident indicators suggest to him stronger acceleration than had been expected in 2H13.

As the GDP contraction was accompanied by a stronger fall in employment of 0.4% QQ in 4Q12 (-0.5% YY after -0.1% in 3Q12), we expect that domestic demand has continued to underperform GDP as in previous quarters (GDP details will be available on 6 March). We see upside risk to our forecast that net exports will offset the fall in domestic demand, as in previous quarters the trade surplus remained in place because imports fell more than exports. The main disappointment in 4Q12 came from industrial production that fell 3% YY after +16% in the prior quarter. This was accompanied by a surge in the unemployment rate (to 14% in 4Q12 from 13.4% in 3Q12). The larger fall in retail sales of 2.3% YY in 4Q12 after -1.4% in 3Q12 suggests that domestic demand will continue to struggle and highlights the underperformance of private consumption, which on average fell by 0.3% YY in 1Q-3Q12 vs. +2.5% YY average GDP growth in the same period.

Developments in industry are key for the Slovak economy as the labor market has been hit by lower economic activity accompanied by a negative impact from the new labour code. Overall, PM Robert Fico (SMER-SD) probably will have to strengthen consolidation efforts unless there is some agreement on further postponing the 3% deficit criterion at the EU level. Year-to-date bond issuance together with issuance from late 2012 represents 64% of 2013's gross borrowing requirement.

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

		History	Forecasts				
		2012	2013F	2014F	2015F	2016F	2017F
Real GDP	YoY	2.0	0.7	1.6	2.7	2.9	3.4
Final Domestic Demand	YoY	-0.6	0.4	1.2	2.6	3.5	3.5
Public Consumption	YoY	-0.2	-0.7	0.0	1.5	2.0	2.0
Private Consumption	YoY	-0.3	0.1	0.5	2.0	3.0	3.0
Fixed Investment	YoY	-1.8	1.7	3.4	4.5	5.5	5.5
Exports	YoY	9.0	2.9	3.2	4.8	6.0	7.0
Imports	YoY	3.6	3.2	2.5	4.9	6.6	7.6
CPI	YoY	3.6	3.0	2.5	2.6	2.6	2.6
Unemployment Rate	YoY	13.6	14.9	15.5	15.1	14.2	14.2
Current Account Balance	% of GDP	2.2	1.0	1.0	0.3	-0.8	-2.0
General Government Balance	% of GDP	-5.1	-3.2	-3.0	-2.6	-2.1	-1.8
Government Primary Balance	% of GDP	-3.6	-1.7	-1.4	-1.1	-0.6	-0.2
General Government Debt	% of GDP	52.1	53.5	54.4	54.7	54.3	53.7

Sources: National sources and Citi Research

Slovenia

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

We have kept our forecast unchanged as the flash GDP is released on February 28. The confidence indicator improved from recent lows that were indicating a fall in GDP of around 4% YY, while we expect a slight easing in GDP contraction to -1.4% YY in 2013 due to improvement in net exports as domestic demand is likely to continue to suffer from front-loaded fiscal consolidation and the credit crunch. However, politics rather than the economy will be crucial for avoiding a bail-out.

New PM-designate. As expected, the National Assembly voted on February 27 for Mrs. Alenka Bartusek (PS) to become the PM-designate in the no-confidence vote against PM Janez Jansa (SDS). She was supported by five parties – two opposition parties (PS and SD) and three parties that left Jansa's cabinet (DL, DeSUS, SLS) – involving 55 of 90 MPs. However, the key game changer for Slovenia's current political stalemate will actually be the formation of a new government – which appears to have less support. The SLS has already indicated that they do not want to participate in government (though this may change after its March congress). However, DL (party of previous Parliamentary Speaker Virant and Finance Minister Sustersic) also mentioned that they do not have to enter into government.

Next task – formation of a government. The success of the no-confidence vote reflects more the agreement of political parties on political matters rather than on economic policy, suggesting that a snap election cannot be ruled out. If a new government is formed around PM Bartusek, it would probably ease the consolidation effort (that has been recently frontloaded and resulted in a narrower central government deficit of €0.5bn in 2012, c. 3.1% of GDP, from €1bn a year ago) and the structure of austerity measures (fewer cuts, more taxes – the opposite of the Jansa cabinet's policies). However, the biggest problem – the bleak situation in the banking sector – has remained untouched in the recent political discussion. Moreover, there are differing views between SD, PS and DL on the privatization process, which we see as the major task for Slovenia in order to successfully manage the consolidation of its banking sector. All in all, we expect the next weeks, when the government is expected to be established, to remain noisy for Slovene assets. For the time being, we think that the successful no-confidence vote has opened the way to early elections unless there is agreement on a solution in the banking sector (creation of the bad bank) and privatization of its largest bank. However, there is also another obstacle that limits the risk of early elections (or better expressed supports the creation of a new government) – that is approval of Croatia's entry into the EU in mid 2013, something that Slovenia cannot put at risk.

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

		History	Forecasts				
		2012	2013F	2014F	2015F	2016F	2017F
Real GDP	YoY	-2.1	-1.5	-0.3	1.2	2.1	2.9
Final Domestic Demand	YoY	-3.5	-3.2	-0.6	0.9	1.7	2.1
Public Consumption	YoY	-2.5	-4.7	-1.0	0.3	0.8	1.2
Private Consumption	YoY	-1.8	-2.5	-0.8	0.8	1.7	2.0
Fixed Investment	YoY	-8.5	-4.4	0.0	2.0	2.8	3.2
Exports	YoY	1.1	-0.3	0.6	3.2	5.4	6.7
Imports	YoY	-2.6	-3.5	0.2	3.5	5.7	6.7
CPI	YoY	2.6	2.2	2.2	2.4	2.3	2.3
Unemployment Rate	YoY	8.8	9.2	9.9	10.7	11.1	10.7
Current Account Balance	% of GDP	1.5	1.6	2.5	1.5	1.0	0.9
General Government Balance	% of GDP	-3.9	-3.3	-2.8	-2.0	-1.0	-0.5
Government Primary Balance	% of GDP	-1.8	-1.1	-0.5	0.3	1.4	1.9
General Government Debt	% of GDP	53.0	57.3	60.3	61.3	60.7	61.4

Sources: National sources and Citi Research

United Kingdom

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

Our growth forecasts are little changed, with sluggish domestic demand and growth led by exports. The weakening pound will eventually give some lift to exports, but this is unlikely to materialise quickly given the UK's poor export mix. The MPC now expects growth of 0.9% for 2013 and 1.8% for 2014, but in our view their forecasts will again prove over-optimistic. We expect that inflation will probably not fall back to the 2.0% target in the next five years, as it is being pushed up by rapid gains in administered prices and food, exacerbated by the rise in import prices caused by the weak pound. To hit the 2% inflation target would require the MPC to crush inflation in other items (eg retail goods and services) close to zero, or to engineer sharp appreciation of sterling — which would reduce import prices but also prevent the much-needed rebalancing of the economy towards export-led growth (see [2% Inflation Target Probably Out of Reach](#)). The MPC are likely to take comfort from weak trends in domestic wages and nominal GDP growth, encouraged perhaps by a more flexible inflation remit making 2% inflation a medium term aim rather than a guide for policy decisions. See also [The Looming Budget Dilemma](#).

Figure 14. UK – Economic Forecasts, 2012-14F

		History			Forecast				History				Forecast							
		2012	2013	2014	2012	2013	2014		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.0	0.4	0.7					0.2	-0.3	0.1	0.1	0.5	0.9	-0.2	0.3	0.4	0.5	0.9	1.1
	QQ SAAR								-0.8	-1.6	4.0	-1.2	0.8	0.0	-0.2	0.7	1.0	0.6	1.1	1.8
Final Domestic Demand	YY	1.2	-0.2	0.3					1.1	1.0	1.4	1.1	-0.2	-0.2	-0.5	-0.1	0.0	0.3	0.4	0.6
	QQ SAAR								4.5	-0.3	1.4	-1.0	-0.7	-0.5	0.3	0.4	-0.1	0.6	0.8	1.1
Private Consumption	YY	0.7	0.5	0.9					0.2	0.7	1.3	0.8	0.2	0.5	0.4	0.8	1.0	0.7	0.8	1.1
	QQ SAAR								2.0	0.6	1.6	-1.0	-0.3	1.8	1.1	0.6	0.4	0.9	1.5	1.5
Public Consumption	YY	2.6	-0.6	-1.4					3.6	2.1	2.8	1.9	-1.2	0.0	-0.9	-0.2	-0.6	-1.3	-1.7	-1.9
	QQ SAAR								13.5	-4.3	3.2	-3.7	0.0	0.5	-0.5	-1.0	-1.4	-2.4	-1.9	-1.9
Fixed Investment	YY	0.0	-2.8	0.6					0.0	-0.1	-0.7	0.6	-0.7	-3.2	-3.5	-3.8	-3.1	1.0	2.1	2.5
	QQ SAAR								2.3	-2.2	-0.9	3.6	-3.1	-11.5	-2.2	2.1	-0.4	4.5	2.2	3.9
-- Business Investment	YY	4.1	-1.3	1.4					6.9	3.6	5.1	0.9	2.4	-0.7	-4.5	-2.1	-0.9	1.8	2.7	2.3
	QQ SAAR								-13.5	4.5	17.6	-5.2	-4.8	-6.7	-0.5	3.7	-0.3	3.6	3.2	2.0
-- Construction of Private Dwellings	YY	-6.7	-4.8	-3.6					-9.2	-3.6	-13.9	0.1	-2.8	-9.3	3.2	-9.4	-10.2	-3.3	-1.2	0.7
	QQ SAAR								11.3	0.4	-44.7	62.8	-1.1	-24.1	-7.1	-3.5	-4.4	2.2	1.2	4.2
Stocks (Contrib. to YY GDP Growth)		-0.1	0.0	-0.1					-0.3	-0.3	-0.7	0.8	0.8	0.2	0.0	-0.9	-0.1	-0.2	-0.1	-0.1
Exports of Goods and Services	YY	-0.5	2.2	4.9					-0.8	0.0	1.3	-2.5	1.0	2.6	1.7	3.6	3.7	4.3	5.4	6.4
	QQ SAAR								-6.5	-4.5	5.1	-3.6	7.7	1.5	1.5	3.9	8.0	3.7	5.9	7.9
Imports of Goods and Services	YY	2.0	0.8	3.3					1.4	3.3	2.8	0.8	1.1	-0.1	0.6	1.6	2.3	2.8	3.7	4.4
	QQ SAAR								-0.4	6.8	-1.6	-1.4	0.9	1.7	1.1	2.8	3.5	3.8	4.8	5.5
Net Exports (Contrib. to YY GDP Growth)		-1.0	0.6	0.5					-0.5	-1.0	-0.6	-1.9	-0.1	0.8	0.3	1.3	0.4	0.4	0.5	0.6
Consumer Prices	YY	2.8	3.0	2.9					3.5	2.7	2.4	2.7	2.8	3.0	3.1	3.1	3.0	2.9	2.8	2.9
Average Earnings YY	YY	1.4	1.0	1.7					0.7	1.7	1.9	1.4	1.4	0.8	0.7	1.0	1.6	1.7	1.8	1.9
Employment Growth	YY	1.0	0.9	0.8					0.2	0.9	1.8	1.4	1.2	0.8	0.6	0.9	0.9	0.7	0.8	0.8
Unemployment Rate	%	8.0	7.9	7.8					8.2	8.0	7.8	8.0	8.0	7.9	7.9	7.8	7.9	7.8	7.8	7.7
Current Account Balance	£ bn	-55.9	-66.6	-65.7					-11.8	-17.4	-12.8	-13.8	-15.4	-17.5	-16.8	-16.9	-16.0	-16.5	-16.7	-16.5
	% GDP	-3.6	-4.2	-4.1					-3.1	-4.5	-3.3	-3.5	-3.9	-4.5	-4.3	-4.3	-4.0	-4.1	-4.1	-4.0
Public Sector Net Borrowing	£ bn FY	92.0	124.6	120.4																
	% GDP	-5.9	-7.9	-7.4																
General Government Balance	% GDP	-5.8	-7.9	-7.4																
Government Primary Balance	% GDP	-2.8	-4.7	-4.1																
General Government Debt	£ bn	1386.9	1508.4	1625.5																
	% GDP	89.9	97.6	102.4																
Gross Non Oil Trading Profits	YY	3.9	0.3	3.6					-1.3	2.5	2.7	10.8	7.0	1.2	-3.3	-3.6	1.6	3.8	4.1	5.0
Base Rate (Period Average)	%	0.50	0.50	0.50					0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Ten-year Gilt Yield (Period Averages)	%	1.85	2.30	2.45					2.12	1.80	1.65	1.82	2.08	2.10	2.50	2.40	2.30	2.45	NA	NA
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.81	0.88	0.87					0.83	0.81	0.80	0.81	0.86	0.87	0.88	0.89	0.88	0.87	0.86	0.85
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.59	1.52	1.51					1.60	1.57	1.61	1.63	1.57	1.53	1.49	1.48	1.49	1.50	1.51	1.52

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

Switzerland

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

We are not changing our Swiss economic forecasts this month, and continue to look for modest growth with negative inflation. Exports have slowed in response to the super-strong CHF but, so far, domestic demand has been solid enough to keep the economy growing a little. We expect the SNB will continue to hold rates close to zero and cap the CHF at CHF1.20/€ for the foreseeable future.

Figure 15. Switzerland – Economic Forecasts, 2012-14F

		History			Forecast				History				Forecast				Forecast			
		2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	1.0	1.4	1.2	1.1	0.4	1.3	1.3	1.2	1.8	1.3	1.2	1.2	1.2	1.0	1.3	1.3			
Final Domestic Demand	YY	1.7	0.6	1.2	1.7	2.0	1.8	1.3	0.6	0.7	0.8	0.6	1.3	1.2	1.2	1.2				
Public Consumption	YY	1.7	2.2	1.4	2.3	1.2	2.0	1.5	3.2	2.7	1.4	1.4	1.4	1.4	1.4	1.4				
Private Consumption	YY	2.1	0.6	2.1	2.5	2.4	2.3	1.3	0.3	0.3	0.7	1.2	2.1	2.4	2.2	1.9				
Fixed Investment	YY	0.7	0.0	-1.4	-0.5	1.6	0.7	1.1	0.1	0.7	0.7	-1.7	-1.0	-2.3	-1.6	-0.7				
Exports of Goods and Services	YY	0.1	3.6	3.1	-1.4	-0.7	0.6	1.9	3.2	4.3	3.6	3.4	3.1	2.5	3.5	3.4				
Imports of Goods and Services	YY	1.9	2.9	3.6	2.5	1.7	0.9	2.6	2.3	3.8	3.1	2.5	3.7	3.0	3.8	3.8				
Consumer Prices	YY	-0.7	-0.9	-0.6	-0.9	-1.0	-0.5	-0.3	-0.8	-0.8	-1.2	-0.9	-0.7	-0.7	-0.5	-0.4				
Unemployment Rate	%	2.6	1.9	2.0	3.1	3.2	2.3	1.8	1.8	2.0	2.0	1.9	1.9	2.0	2.2	1.9				
Current Account Balance	Sfr bn	73.3	76.5	78.4	15.0	18.0	16.6	23.8	16.0	19.7	16.9	23.8	16.6	20.4	17.4	24.1				
	% GDP	12.4	12.6	12.7	10.1	12.2	11.2	15.9	10.7	13.0	11.2	15.6	10.8	13.2	11.2	15.4				
General Government Balance	Sfr bn	0.0	0.0	0.0																
	% GDP	0.6	0.6	0.6																
General Government Debt	Sfr bn	0.0	0.0	0.0																
	% GDP	46.6	45.4	43.6																
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)	%	0.45	0.68	0.66	0.71	0.59	0.53	0.47	0.63	0.62	0.76	0.62	0.49	0.62	NA	NA				
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.20	1.25	1.28	1.20	1.20	1.21	1.21	1.25	1.25	1.25	1.25	1.26	1.27	1.28	1.29				
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.94	0.94	0.98	0.90	0.95	0.94	0.91	0.93	0.94	0.95	0.96	0.97	0.98	0.99	0.99				

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

Sweden

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

The resilience of the Swedish economy is now being severely tested by falling exports and rising unemployment. At the same time, domestic demand is slowing; investment activity is weak and although household finances remain sound, consumers appear reluctant to spend. However, we believe that supportive economic policies (monetary and fiscal) will sustain growth this and next year, and that a recession will be avoided.

We do expect that Sweden is likely to outperform most of Europe this and next year, but we believe that the consensus is too optimistic on the 2014 growth outlook (2.6% Y/Y). Until recently, economic growth has been supported by the resilience of exports and ongoing consumer leverage boom plus modest fiscal stimulus (stretching the fiscal rule a bit). This now seems to have run its course as the export slowdown sharpens, household deleveraging may be starting and continued fiscal erosion will put the fiscal rule out of reach.

We reckon that the government will face a policy dilemma: if it sticks by its current fiscal rules and avoids fiscal loosening, the result is likely to be a long period of subpar growth; but if the government loosens policy to support economic recovery it probably will jeopardize its strict fiscal policy framework. We expect the government to take something of a middle way, loosening fiscal policy a bit but not enough to achieve a rapid economic rebound. The result is likely to be sub-consensus growth and, probably, a persistent albeit modest breach of its cautious fiscal rule. In turn, we have cut our 2014 GDP growth forecast to 1.8% Y/Y from 2.5% Y/Y previously.

In light of weak economic trends, with rising unemployment and very low underlying inflation, we reckon the Riksbank has room to ease further; likely during 1H. Thereafter we estimate the repo rate will be left unchanged during all of 2014. If, as we expect, stronger global growth gives Sweden a lift further ahead, the Riksbank will probably gradually raise the repo rate from 2015 and onwards.

Figure 16. Sweden – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	1.1	1.0	1.8	2.2	2.5	2.7
	YY	1.6	0.8	1.3			
Public Consumption	YY	0.9	0.8	0.7			
Private Consumption	YY	1.4	1.4	1.6			
Fixed Investment	YY	3.5	-0.7	1.6			
Exports of Goods & Services	YY	0.6	1.4	3.0			
Imports of Goods & Services	YY	0.1	0.4	1.8			
Consumer Prices	YY	0.9	0.4	1.7	1.8	2.2	2.3
Unemployment Rate	%	7.7	8.3	8.3			
Current Account Balance	% GDP	7.1	7.3	7.1	6.9	7.0	6.9
General Government Balance	% GDP	-0.5	-1.2	-1.5	-0.4	0.7	1.5
General Government Debt	% GDP	36.6	37.3	37.6	36.5	34.2	31.0
Riksbank Rate (Annual Average)	%	1.45	0.80	0.80	1.00	1.70	2.30
Ten-year Yield (Period Average)	%	1.59	1.86	1.80	2.00	2.25	2.75
EUR-SEK FX Rate (Annual Average)		8.63	8.38	8.42	8.40	8.41	8.42
USD-SEK FX Rate (Annual Average)		6.73	6.31	6.46	6.39	6.24	6.10

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

Sources: Riksbank, Statistics Sweden and Citi Research

Denmark

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

The Danish economy is characterised by weak growth and economic activity has fallen in three out of the last four quarters and activity has been stuck at about the same level since 3Q 2010. The economy is expected gradually to return to the growth track this year, supported by households' large pent-up potential, a delayed positive contribution from public sector consumption and investment plus improved competitiveness. The recovery, though, should be weak as households continue to deleverage/save on the back of the housing bust and risks are substantial and tilted to the downside. They largely relate to a further slowdown in major trade partners, in particular the euro area.

The government has implemented expansionary fiscal policies in order to boost domestic demand. The reform of the early retirement system implemented last year has led to payouts of more than DKK 20bn of contributions, and increasing government investments and renovation of social housing, along with a so-called investment window, were also implemented last year. So far, neither appears to have had any material effect on investment activity or domestic demand. Statistics from the Central Bank even shows that the payouts largely have been deployed on bank accounts. The same statistics also reveal that Danish households have not used the money for balance sheet deleveraging, but rather as a buffer on their savings accounts.

The Danish National Bank independently raised its benchmark rate, the lending rate, and the CD-rate by 10bp to 0.3% and -0.1%, respectively in late-January, to limit the weakening pressure on the Danish krone. The hike followed several months of intervention, which picked up rather substantially in January. In turn, this has probably raised expectations for additional near-term independent interest rate hikes from DNB. Given our forecast of a 25bp cut from the ECB both in 2Q and 3Q this year, we expect the tightening from DNB to come by not fully shadowing ECB action; the lending rate is expected to trough at 0.1% in 3Q 2013, and then gradually to move higher hereafter.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.4	0.9	1.8	1.8	1.9	2.0
Final Domestic Demand	YY	0.7	1.3	1.7			
Public Consumption	YY	0.1	0.7	0.8			
Private Consumption	YY	0.7	1.2	1.7			
Fixed Investment	YY	1.7	2.5	2.9			
Exports of Goods & Services	YY	1.8	1.6	3.3			
Imports of Goods & Services	YY	3.3	2.7	3.2			
Consumer Prices	YY	2.4	1.8	1.9	1.9	2.0	2.0
Unemployment Rate	%	7.7	7.8	7.6			
Current Account Balance	% GDP	5.1	4.5	3.9	4.2	4.0	3.8
General Government Balance	% GDP	-3.8	-2.0	-1.2	-1.0	0.5	1.0
General Government Debt	% GDP	49.5	50.2	49.6	48.8	46.5	43.7
DNB Bank Rate (Annual Average)	%	0.43	0.10	0.20	0.40	0.60	1.00
Ten-year Yield (Period Average)	%	1.51	1.56	1.65	1.95	2.25	2.75

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

Norway

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

Although activity slowed markedly in 2H 2012, the cushion of high oil receipts should ensure that the economy continues to outpace most of Europe. The weakness in private consumption should also prove transitory as suggested by healthy fundamentals. While momentum has peaked, we expect mainland GDP to settle at a trend-like pace. Activity continues to run strongest among suppliers to the petroleum sector where investments are surging, benefitting the Norwegian economy both directly via increased activity and indirectly via strong income growth. The demand for labour in oil-related industries is offsetting the decline in more traditional industries.

Core inflation (CPI-ATE) has hovered around 1.2% YY for a long time, a very low level for an economy operating at normal capacity, with key factors being the past years' NOK appreciation and the low level of inflation internationally, intensifying imported deflation. However, with wage growth in excess of 4% YY and relatively low productivity growth, inflation should edge higher, although staying below the 2.5% inflation target over the forecast horizon. With inflation failing to show signs of picking up, ongoing high global uncertainty and a record strong import-weighted NOK (I-44), **Norges Bank is in no rush to tighten monetary policy**. There is no doubt that continued NOK strength puts the Central Bank in a difficult position, especially given that the economy is operating above full capacity and risks of financial imbalances are building (home prices at elevated levels, high household credit growth and household indebtedness in excess of 200% of disp. income). At the December meeting, the Bank confirmed that rate cuts are off the agenda, but turned somewhat more fuzzy over the timing of the first rate hike. We now expect the first rate hike to be deferred to 4Q this year.

In order to stem household lending and overall indebtedness, the FSA is currently looking into raising the floor for mortgage risk weights from currently 12% to 35% and implementing restrictions on covered bond issuance. Once implemented, this should minimize some of the pressure on Norges Bank in terms of mitigating risks of financial imbalances. The proposal is due on 1 March and will thereafter be sent for a hearing. Hence, new risk weights will probably not be implemented until summer or autumn 2013 at the earliest.

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

		History		Forecast			
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	2.8	2.8	3.0	2.9	2.9
Final Domestic Demand	YY	2.9	3.1	3.1			
Public Consumption	YY	1.9	2.1	2.3			
Private Consumption	YY	3.0	3.0	3.1			
Fixed Investment	YY	4.1	5.1	4.2			
Exports of Goods & Services	YY	4.2	3.1	2.9			
Imports of Goods & Services	YY	5.1	3.7	2.2			
Consumer Prices	YY	0.7	1.7	2.0	2.3	2.5	2.5
Unemployment Rate	%	3.2	3.3	3.4			
Current Account Balance	% GDP	14.3	14.9	15.2	15.2	15.8	14.5
General Government Balance	% GDP	13.6	13.2	13.0	14.0	15.5	15.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Avg)	%	1.60	1.60	1.80	2.30	2.80	3.30
Ten-year Yield (Period Average)	%	2.15	2.31	2.40	2.55	2.75	3.25
EUR-NOK FX Rate (Annual Average)		7.45	7.32	7.27	7.25	7.24	7.23
USD-NOK FX Rate (Annual Average)		5.81	5.51	5.58	5.51	5.37	5.24

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

Figure 19. Longterm Forecasts – GDP, CPI and Current Balance, 2012-17F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Euro Area	-0.5	-0.5	-0.3	1	1.2	1.3	2.5	1.7	1.5	1.4	1.4	1.3	1.2	3	3.4	3.4	3.3	3.3
Germany	0.9	0.8	0.8	1.5	1.7	1.8	2.0	1.9	2.3	2.0	2.0	1.9	6.3	5.9	5.4	4.9	4.6	4.6
France	0.0	-0.2	0.2	1.0	1.5	1.9	2.2	1.3	1.7	1.6	1.8	1.6	-2.3	-1.5	-0.7	-0.1	0.4	0.1
Italy	-2.2	-1.6	-1.4	0.3	0.2	0.2	3.3	2.3	1.4	0.7	0.3	0.4	-0.6	-0.3	-0.2	-0.1	-0.2	-0.2
Spain	-1.3	-2.2	-2.1	0.9	1.6	1.2	2.4	1.3	0.3	0.5	0.7	0.6	-1.3	2.1	2.9	2.0	1.2	0.3
Greece	-6.4	-6.3	-11.3	-3.7	1.6	2.8	1.0	0.4	17.4	13.4	8.1	6.8	-4.3	-3.3	2.2	3.9	4.4	3.2
Ireland	0.5	0.9	1.6	1.9	2.9	2.7	2.7	1.3	1.4	1.6	1.6	1.6	4.7	6.8	7.7	8.2	8.9	9.3
Portugal	-3.2	-3.7	-2.8	-0.3	0.9	0.9	2.8	1.4	0.8	0.5	0.7	0.5	-3.7	-1.4	-1.0	-0.9	-0.6	-0.4
Netherlands	-0.9	-0.9	0.3	0.9	1.0	1.1	2.8	2.6	1.7	2.0	1.7	1.4	9.9	10.0	9.0	9.6	9.7	10.0
Belgium	-0.2	-0.1	0.3	1.2	1.5	1.8	2.8	1.2	1.9	2.2	2.2	1.9	-0.9	-0.7	-0.8	-0.7	-0.5	0.0
Slovakia	2.0	0.7	1.6	2.7	2.9	3.4	3.6	3.0	2.5	2.6	2.6	2.6	2.2	1.0	1.0	0.3	-0.8	-2.0
Slovenia	-2.1	-1.5	-0.3	1.2	2.1	2.9	2.6	2.2	2.2	2.4	2.3	2.3	1.5	1.6	2.5	1.5	1.0	0.9
Austria*	0.7	0.7	1.9				2.6	2.2	1.9				1.7	2.1	1.4			
Cyprus*	-2.3	-3.5	-1.3				3.1	1.5	1.4				-6.0	-1.7	0.1			
Estonia*	3.2	3.0	4.0				4.2	3.6	3.2				-2.7	-2.3	-1.7			
Finland*	-0.1	0.3	1.2				3.2	2.5	2.2				-0.7	-0.7	-1.0			
Luxembourg*	0.2	0.5	1.6				2.9	1.7	1.6				6.3	6.7	6.1			
Denmark	-0.4	0.9	1.8	1.8	1.9	2.0	2.4	1.8	1.9	1.9	2.0	2.0	5.1	4.5	3.9	4.2	4.0	3.8
Norway	3.3	2.8	2.8	3.0	2.9	2.9	0.7	1.7	2.0	2.3	2.5	2.5	14.3	14.9	15.2	15.2	15.8	14.5
Sweden	1.1	1.0	1.8	2.2	2.5	2.7	0.9	0.4	1.7	1.8	2.2	2.3	7.1	7.3	7.1	6.9	7.0	6.9
Switzerland	1.0	1.4	1.2	1.3	1.3	1.5	-0.7	-0.9	-0.6	0.7	0.8	1.0	12.4	12.6	12.7	13.6	15.0	14.0
United Kingdom	0.0	0.4	0.7	1.5	1.5	1.4	2.8	3.0	2.9	2.8	2.9	2.8	-3.6	-4.2	-4.1	-4.0	-4.0	-3.9

Note: All forecasts are Citi forecasts except those marked with an asterisk. *EU Commission Winter Economic Forecasts, 22 February 2013.
Sources: IMF and Citi Research

Figure 20. Longterm Forecasts – Fiscal Balance, Primary Balance and Government Debt, 2012-17F

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
		2012	2013	2014	2015	2016		2017	2012	2013	2014	2015		2016	2017	2012	2013	2014
Euro Area	-3.3	-2.7	-2.4	-1.4	-0.8	-0.3	-0.3	0.4	0.6	1.5	2.0	2.6	92.1	94.8	93.5	92.7	91.2	89.1
Germany	0.2	-0.1	-0.3	0.0	0.3	0.6	2.4	2.0	1.6	1.8	2.0	2.2	82.9	81.8	80.7	78.5	75.9	73.1
France	-4.5	-3.7	-3.0	-2.4	-1.5	-0.2	-2.4	-1.5	-0.7	0.2	1.2	2.2	91.4	95.8	97.3	97.3	95.6	92.3
Italy	-2.8	-2.8	-3.0	-0.5	-0.2	-0.3	2.4	2.4	2.5	2.9	3.3	3.3	126.6	130.5	134.6	133.7	132.9	132.1
Spain	-10.2	-6.4	-5.9	-3.6	-2.6	-1.7	-7.3	-2.6	-1.7	-0.6	0.5	1.4	87.7	98.9	111.3	113.3	113.2	112.6
Greece	-7.4	-5.7	-1.3	-0.4	2.9	4.1	-2.0	-1.5	-1.3	-0.4	2.9	6.6	159.0	179.7	401.7	360.4	293.5	80.9
Ireland	-7.9	-7.0	-4.2	-2.3	-1.7	-1.3	-4.0	-1.4	0.8	2.5	3.2	3.6	116.9	119.7	118.2	113.2	108.1	102.8
Portugal	-5.0	-5.4	-5.1	-3.6	-3.1	-2.5	-1.0	-1.0	-0.4	-0.3	0.3	0.9	121.8	135.6	145.4	151.3	152.1	150.7
Netherlands	-4.1	-3.8	-3.8	-2.4	-2.2	-1.5	-2.3	-1.9	-1.7	-0.3	0.0	0.8	71.3	75.5	78.5	79.1	79.5	79.5
Belgium	-2.9	-2.5	-2.2	-1.5	-0.8	0.0	-0.6	0.2	0.9	1.7	2.5	3.3	110.0	115.7	115.5	113.3	110.2	106.1
Slovakia	-5.1	-3.2	-3.0	-2.6	-2.1	-1.8	-3.6	-1.7	-1.4	-1.1	-0.6	-0.2	52.1	53.5	54.4	54.7	54.3	53.7
Slovenia	-3.9	-3.3	-2.8	-2.0	-1.0	-0.5	-1.8	-1.1	-0.5	0.3	1.4	1.9	53.0	57.3	60.3	61.3	60.7	61.4
Austria*	-3.0	-2.5	-1.8				-0.3	0.1	0.9				74.3	75.2	74.5			
Cyprus*	-5.5	-4.5	-3.8				-1.9	0.2	1.2				86.5	93.1	97.0			
Estonia*	-0.5	-0.4	0.2				-0.3	-0.2	0.4				10.5	11.8	11.3			
Finland*	-1.7	-1.5	-1.3				-0.6	-0.4	-0.1				52.4	55.1	57.1			
Luxembourg*	-1.5	-0.9	-1.3				-1.0	-0.3	-0.6				20.5	22.2	24.1			
Denmark	-3.8	-2.0	-1.2	-1.0	0.5	1.0							49.5	50.2	49.6	48.8	46.5	43.7
Norway	13.6	13.2	13.0	14.0	15.5	15.0							NA	NA	NA	NA	NA	NA
Sweden	-0.5	-1.2	-1.5	-0.4	0.7	1.5							36.6	37.3	37.6	36.5	34.2	31.0
Switzerland	0.6	0.6	0.6	0.4	0.2	-0.6							46.6	45.4	43.6	43.1	43.4	43.8
United Kingdom	-5.8	-7.9	-7.4	-6.6	-5.5	-5.1	-2.8	-4.7	-4.1	-3.0	-1.7	-0.9	89.9	97.6	102.4	105.0	106.8	108.1

Note: All forecasts are Citi forecasts except those marked with an asterisk. * EU Commission Winter Economic Forecasts, 22 February 2013.
Sources: IMF and Citi Research

Figure 21. Euro Area Countries – Economic Forecasts Compared, 2012-14F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Euro Area - Citi Forecast	27-Feb-13	-0.5	-0.6	-0.3	-3.3	-2.7	-2.4	92.1	94.8	93.5
OECD Economic Outlook	27-Nov-12	-0.4	-0.1	1.3	-3.3	-2.8	-2.6	93.6	95.4	96.3
EU Commission Forecast	22-Feb-13	-0.6	-0.3	1.4	-3.5	-2.8	-2.7	93.1	95.1	95.2
IMF WEO Forecast	Jan 13 and Oct 12*	-0.4	-0.2	1.0	-3.2	-2.5	-2.0	91.4	92.4	92.2
ECB	06-Dec-12	-0.6 to -0.4	-0.9 to +0.3	0.2 to 2.2						
Germany - Citi Forecast	27-Feb-13	0.9	0.8	0.8	0.2	-0.1	-0.3	92.9	81.8	80.7
OECD Economic Outlook	27-Nov-12	0.9	0.6	1.9	-0.2	-0.4	-0.7	81.8	80.4	79.3
EU Commission Forecast	22-Feb-13	0.7	0.5	2.0	0.1	-0.2	0.0	81.6	80.7	78.3
IMF WEO Forecast	Jan 13 and Oct 12*	0.9	0.6	1.4	-0.4	-0.4	-0.3	83.0	81.5	79.6
France - Citi Forecast	27-Feb-13	0.0	-0.2	0.2	-4.5	-3.7	-3.0	91.4	95.8	97.3
OECD Economic Outlook	27-Nov-12	0.2	0.3	1.3	-4.5	-3.4	-2.9	91.2	94.2	95.8
EU Commission Forecast	22-Feb-13	0.0	0.1	1.2	-4.6	-3.7	-3.9	90.3	93.4	95.0
IMF WEO Forecast	Jan 13 and Oct 12*	0.2	0.3	0.9	-4.7	-3.5	-2.8	89.9	92.1	92.9
Italy - Citi Forecast	27-Feb-13	-2.2	-1.6	-1.4	-2.8	-2.8	-3.0	126.6	130.5	134.6
OECD Economic Outlook	27-Nov-12	-2.2	-1.0	0.6	-3.0	-2.9	-3.4	127.8	130.4	132.2
EU Commission Forecast	22-Feb-13	-2.2	-1.0	0.8	-2.9	-2.1	-2.1	127.1	128.1	127.1
IMF WEO Forecast	Jan 13 and Oct 12*	-2.1	-1.0	0.5	-2.7	-1.8	-1.6	126.3	127.8	127.3
Spain - Citi Forecast	27-Feb-13	-1.3	-2.2	-2.1	-10.2	-6.4	-5.9	87.7	98.9	111.3
OECD Economic Outlook	27-Nov-12	-1.3	-1.4	0.5	-8.1	-6.3	-5.9	86.1	92.6	97.6
EU Commission Forecast	22-Feb-13	-1.4	-1.4	0.8	-10.2	-6.7	-7.2	88.4	95.8	101.0
IMF WEO Forecast	Jan 13 and Oct 12*	-1.4	-1.5	0.8	-6.9	-5.7	-4.6	90.7	96.9	100.0
Greece - Citi Forecast	27-Feb-13	-6.4	-6.3	-11.3	-7.4	-5.7	-1.3	159.0	179.7	401.7
OECD Economic Outlook	27-Nov-12	-6.3	-4.5	-1.3	-6.9	-5.6	-4.6	176.7	188.6	195.2
EU Commission Forecast	22-Feb-13	-6.4	-4.4	0.6	-6.6	-4.6	-3.5	161.6	175.6	175.2
IMF WEO Forecast	09-Oct-12	-6.0	-4.0	0.0	-7.5	-4.7	-3.4	170.7	181.8	180.2
Ireland - Citi Forecast	27-Feb-13	0.5	0.9	1.6	-7.9	-7.0	-4.2	116.9	119.7	118.2
OECD Economic Outlook	27-Nov-12	0.5	1.3	2.2	-8.1	-7.5	-5.3	117.3	121.9	122.0
EU Commission Forecast	22-Feb-13	0.7	1.1	2.2	-7.7	-7.3	-4.2	117.2	122.2	120.1
IMF WEO Forecast	09-Oct-12	0.4	1.4	2.5	-8.3	-7.5	-5.0	117.7	119.3	118.4
Central Bank of Ireland	29-Jan-13	0.7	1.3	2.5						
Portugal - Citi Forecast	27-Feb-13	-3.2	-3.7	-2.8	-5.0	-5.4	-5.1	121.8	135.6	145.4
OECD Economic Outlook	27-Nov-12	-3.1	-1.8	0.9	-5.2	-4.9	-2.9	115.5	123.0	124.5
EU Commission Forecast	22-Feb-13	-3.2	-1.9	0.8	-5.0	-4.9	-2.9	120.6	123.9	124.7
IMF WEO Forecast	09-Oct-12	-3.0	-1.0	1.2	-4.9	-4.5	-2.5	119.1	123.7	122.6
Netherlands - Citi Forecast	27-Feb-13	-0.9	-0.9	0.3	-4.1	-3.8	-3.8	71.3	75.5	78.5
OECD Economic Outlook	27-Nov-12	-0.9	0.2	1.5	-3.8	-3.0	-2.5	72.1	73.1	73.5
EU Commission Forecast	22-Feb-13	-0.9	-0.6	1.1	-4.1	-3.6	-3.6	70.8	73.8	75.0
IMF WEO Forecast	09-Oct-12	-0.5	0.4	1.4	-3.7	-3.2	-3.6	68.2	70.2	71.6
Belgium - Citi Forecast	27-Feb-13	-0.2	-0.1	0.3	-2.9	-2.5	-2.2	110.0	115.7	115.5
OECD Economic Outlook	27-Nov-12	-0.1	0.5	1.6	-2.8	-2.3	-1.7	99.0	98.7	97.7
EU Commission Forecast	22-Feb-13	-0.2	0.2	1.5	-3.0	-3.0	-3.2	99.8	100.5	101.1
IMF WEO Forecast	09-Oct-12	0.0	0.3	1.0	-3.0	-2.3	-1.5	99.0	99.4	98.6
Slovakia - Citi Forecast	27-Feb-13	2.0	0.7	1.6	-5.1	-3.2	-3.0	52.1	53.5	54.4
OECD Economic Outlook	27-Nov-12	2.6	2.0	3.4	-4.6	-2.9	-2.4	52.2	54.9	56.2
EU Commission Forecast	22-Feb-13	2.0	1.1	2.9	-4.8	-3.3	-3.4	52.4	55.1	57.1
IMF WEO Forecast	09-Oct-12	2.6	2.8	3.6	-4.8	-2.9	-2.9	46.3	47.2	47.6
Slovenia - Citi Forecast	27-Feb-13	-2.1	-1.5	-0.3	-3.9	-3.3	-2.8	53.0	57.3	60.3
OECD Economic Outlook	27-Nov-12	-2.4	-2.1	1.1	-4.3	-3.6	-3.0	53.9	58.5	61.0
EU Commission Forecast	22-Feb-13	-2.0	-2.0	0.7	-4.4	-5.1	-4.7	53.7	59.5	63.4
IMF WEO Forecast	09-Oct-12	-2.2	-0.4	1.7	-4.6	-4.4	-2.8	53.2	57.4	58.7

*IMF forecasts for fiscal balance and debt were released on 9 Oct 2012, GDP forecasts for some countries updated 23 Jan 2013. Note: Negative fiscal balances imply deficit.
WEO World Economic Outlook. Sources: ECB, EU Commission, IMF, OECD and Citi Research

Figure 22. Euro Area Countries – Economic Forecasts Compared, 2012-14F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	27-Nov-12	0.6	0.8	1.8	-3.1	-2.7	-2.1	75.6	77.6	78.5
EU Commission Forecast	22-Feb-13	0.7	0.7	1.9	-3.0	-2.5	-1.8	74.3	75.2	74.5
IMF WEO Forecast	09-Oct-12	0.9	1.1	2.0	-2.9	-2.1	-1.8	74.3	74.9	74.4
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	27-Nov-12	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	22-Feb-13	-2.3	-3.5	-1.3	-5.5	-4.5	-3.8	86.5	93.1	97.0
IMF WEO Forecast	09-Oct-12	-2.3	-1.0	0.7	-4.8	-5.6	-6.4	87.3	92.6	97.6
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	27-Nov-12	3.1	3.7	3.4	-1.0	-0.3	0.2	10.8	12.3	12.0
EU Commission Forecast	22-Feb-13	3.2	3.0	4.0	-0.5	-0.4	0.2	10.5	11.8	11.3
IMF WEO Forecast	09-Oct-12	2.5	3.5	3.5	-1.9	-0.4	-0.4	8.2	9.7	9.3
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	27-Nov-12	0.7	1.1	2.2	-1.4	-1.0	-0.4	53.4	56.6	58.8
EU Commission Forecast	22-Feb-13	-0.1	0.3	1.2	-1.7	-1.5	-1.3	53.4	56.4	57.6
IMF WEO Forecast	09-Oct-12	0.2	1.3	2.1	-1.4	-0.9	-0.3	52.6	53.9	54.1
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	27-Nov-12	0.6	1.2	2.0	-2.0	-1.7	-0.9	22.3	25.1	26.9
EU Commission Forecast	22-Feb-13	0.2	0.5	1.6	-1.5	-0.9	-1.3	20.5	22.2	24.1
IMF WEO Forecast	09-Oct-12	0.2	0.7	1.8	-2.5	-1.8	-2.0	21.7	24.6	27.3
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	27-Nov-12	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	22-Feb-13	1.0	1.5	2.0	-2.6	-2.9	-2.5	73.1	73.8	73.6
IMF WEO Forecast	09-Oct-12	1.2	2.0	2.1	-2.5	-2.2	-1.9	71.8	71.1	69.7

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

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Denmark - Citi Forecast	27-Feb-13	-0.4	0.9	1.8	-3.8	-2.0	-1.2	49.5	50.2	49.6
OECD Economic Outlook	27-Nov-12	0.2	1.4	1.7	-4.1	-2.1	-1.7	45.9	45.8	45.5
EU Commission Forecast	22-Feb-13	-0.4	1.1	1.7	-4.0	-2.7	-2.8	45.6	45.9	47.3
IMF WEO Forecast	09-Oct-12	0.5	1.2	1.8	-3.9	-2.0	-1.9	49.1	49.7	49.0
Norway - Citi Forecast	27-Feb-13	3.3	2.8	2.8	13.6	13.2	13.0	na	na	na
OECD Economic Outlook	27-Nov-12	3.3	2.5	2.0	15.2	16.0	16.8	44.7	44.0	42.9
IMF WEO Forecast	09-Oct-12	3.1	2.4	2.0	13.4	12.5	11.3	49.6	49.6	49.6
Sweden - Citi Forecast	27-Feb-13	1.1	1.0	1.8	-0.5	-1.2	-1.5	36.6	37.3	37.6
OECD Economic Outlook	27-Nov-12	1.2	1.9	3.0	-0.3	-0.8	-0.2	37.7	37.1	36.4
EU Commission Forecast	22-Feb-13	1.0	1.3	2.7	-0.2	-0.9	-0.2	37.7	37.3	35.5
IMF WEO Forecast	09-Oct-12	1.2	2.2	2.5	-0.2	-0.2	0.2	36.6	36.7	35.6
Riksbank Cal-adj	18-Dec-12	1.2	1.3	2.8						
Switzerland - Citi Forecast	27-Feb-13	1.0	1.4	1.2	0.6	0.6	0.6	46.6	45.4	43.6
OECD Economic Outlook	27-Nov-12	0.8	1.1	2.3	0.7	0.5	0.4	39.5	39.0	38.6
IMF WEO Forecast	09-Oct-12	0.8	1.4	1.8	0.5	0.5	0.8	46.6	45.5	44.1
SECO	Dec 12	1.0	1.3	2.0						
UK - Citi Forecast	27-Feb-13	0.0	0.4	0.7	-5.8	-7.9	-7.4	89.9	97.6	102.4
OECD Economic Outlook	27-Nov-12	-0.1	0.9	1.6	-6.6	-6.9	-6.0	105.3	110.4	113.9
EU Commission Forecast	22-Feb-13	0.0	0.9	1.9	-6.2	-7.2	-5.9	89.8	95.4	97.9
IMF WEO Forecast	Jan 13 and Oct 12*	-0.2	1.0	1.9	-6.3	-7.4	6.0	88.7	93.3	95.7
OBR	05-Dec-12	-0.1	1.2	2.0	-5.7	-4.6	-3.7	74.7	76.8	76.3

*IMF forecasts for fiscal balance and debt were released on 9 Oct 2012, GDP forecasts for some countries updated 23 Jan 2013. Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*. Sources: EU Commission, IMF, OECD and Citi Research

Notes

Notes

Notes

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Ann O'Kelly; Michael Saunders; Jürgen Michels; Giada Giani; Guillaume Menuet; Tina Mortensen
Citibank Europe plc Czech Republic	Jaromir Sindel

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports.

Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku

Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Büyükdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFS") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on

such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution. The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2013 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
