

## Economics

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# European Economic Forecast Highlights

April 2012

- This document is a companion piece to our [Global Economic Outlook and Strategy - April 2012](#).
- It contains **detailed quarterly economic forecasts** (consistent with GEOS) for the main European countries to end 2013.
- It contains **annual forecasts** for all countries to 2016.
- It is updated every month once GEOS has been released.
- Tables 18 and 19 give annual forecast to 2016 for GDP growth, CPI inflation, short-term interest rates, current balance, fiscal balance and government debt.
- **We expect several further sovereign ratings downgrades** by S&P and Moody's among EMU countries over the rest of this year, with downgrades by at least one of these agencies of at least one notch for Italy, Spain, Ireland and Portugal. In addition, we believe that it is likely that Moody's will place France's Aaa rating on review for possible downgrade by the autumn, after close examination of the supplementary budget due to be adopted after the extraordinary session of parliament that will follow the June legislative elections. Further ahead, we expect a wider range of sovereign ratings downgrades over the next 2-3 years, including France, Austria, Belgium, Finland and the Netherlands – on top of additional downgrades (at least one notch) for Italy, Spain, Portugal and Ireland. The only upgrade that we expect among advanced economies is for Greece, which we see as likely to emerge soon from the current "Selective Default" rating to a weak speculative grade rating. Nevertheless, further sovereign debt restructuring for Greece is likely over time and Greece probably will have another episode with a "Selective Default" rating at some stage in coming years. See [Sovereign Ratings Outlook - April 2012](#).

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

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## Euro Area

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With indications of a somewhat smaller decline in 1Q GDP, we have revised up our euro area GDP forecast for 2012 from -1.2% to -1.0%, a third consecutive upward revision. However, with extra austerity measures in the pipeline and the continuing deleveraging in the private sector, we expect the euro area to stay in recession. For 2013 we left our forecast unchanged at -0.2%. In the periphery countries particularly we expect a weaker economic performance. Consequently, budget deficits are likely to exceed the governments' targets. Partly due to high inflation at the beginning of the year and with additional indirect tax increases to come, we have also revised up our inflation forecast from 2.5% to 2.8% for 2012.

While there has been an agreement on increasing the ESM/EFSF lending capacity and the IMF is likely to get more firepower as well, in our view, the facilities are still too small to be able to fully fund Spain and Italy if necessary. Furthermore, the upcoming elections in France and Greece are likely to get market attention and in our view the outcome of the Greek election is key regarding the country's EMU membership. Given the limited capacity of support measures by the ESM/EFSF and the IMF, the ECB probably needs to make further contributions. While several ECB officials highlighted their willingness to take further measures, the ECB probably will wait until governments have taken extra action. In our view it looks more likely that the ECB provides additional multi-year LTROs rather than re-activating the SMP programme substantially. Regarding interest rates, with inflation rates – although mainly related to energy and indirect tax increases – clearly above the ECB's target of “below but close to 2%”, a rate cut in 2012 looks less likely. However, with ongoing economic weakness ahead and some Council members already concerned about deflation, we expect the next ECB rate move to be a cut.

Figure 1. Euro Area – Economic Forecasts, 2011-13F

		History			Forecast			History				Forecast							
		2011	2012	2013				1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	1.5	-1.0	-0.2				2.4	1.6	1.3	0.7	-0.5	-0.9	-1.3	-1.2	-0.7	-0.5	-0.1	0.3
	QQ SAAR							3.1	0.5	0.6	-1.3	-1.8	-1.1	-1.2	-0.6	0.0	-0.1	0.5	0.9
Final Domestic Demand	YY	0.5	-1.6	-0.6				1.3	0.5	0.4	-0.3	-1.2	-1.4	-1.9	-1.8	-1.3	-0.8	-0.4	-0.1
Private Consumption	YY	0.2	-1.0	-0.3				0.9	0.3	0.3	-0.6	-1.0	-0.7	-1.3	-0.9	-0.6	-0.4	-0.2	0.0
Public Consumption	YY	0.1	-2.0	-1.6				0.4	0.3	0.0	-0.3	-0.9	-1.8	-2.5	-2.9	-2.5	-1.8	-1.1	-0.8
Fixed Investment	YY	1.6	-2.8	-0.6				3.5	1.5	1.0	0.6	-2.2	-3.0	-3.2	-3.0	-1.9	-0.8	-0.3	0.5
– Business Equipment	YY	3.3	-1.6	0.6				5.5	3.6	2.9	1.3	-0.8	-1.7	-2.2	-1.8	-0.9	0.4	0.8	1.9
– Construction	YY	-0.3	-4.1	-1.2				1.2	-0.9	-1.1	-0.3	-3.9	-4.4	-4.2	-3.9	-2.6	-1.7	-0.7	0.2
Stocks (Contrib. to YY GDP Growth)		0.0	-0.2	0.0				0.1	0.1	0.0	-0.2	-0.3	-0.3	-0.1	0.0	0.0	0.0	-0.1	-0.1
Exports of Goods and Services	YY	6.3	1.7	3.9				9.9	6.3	5.5	3.6	2.2	1.7	1.0	2.0	3.1	3.5	4.2	4.9
Imports of Goods and Services	YY	4.0	0.0	3.1				8.1	4.2	3.3	0.6	-0.1	-0.4	-0.6	1.0	2.1	2.9	3.5	4.1
Consumer Prices	YY	2.7	2.8	1.9				2.5	2.8	2.7	2.9	2.7	3.0	3.0	2.6	2.2	1.8	1.7	1.7
Core CPI	YY	1.4	1.9	1.5				1.1	1.6	1.3	1.6	1.5	2.0	2.1	1.9	1.9	1.4	1.4	1.3
CPI Ex Energy and Unprocessed Food	YY	1.7	2.1	1.6				1.3	1.8	1.7	2.0	1.9	2.4	2.2	2.0	1.9	1.6	1.5	1.4
Unemployment Rate	YY	10.2	11.0	11.1				10.0	10.0	10.2	10.5	10.8	10.9	11.0	11.1	11.1	11.1	11.1	11.1
Current Account Balance	€ bn	-29.2	-26.4	-24.8															
	% GDP	-0.3	-0.3	-0.3															
General Government Balance	€ bn	-389.2	-311.0	-235.7															
	% GDP	-4.1	-3.3	-2.4															
General Government Debt	€ bn	8334.2	8926.4	9300.8															
	% GDP	88.3	94.0	96.6															
Gross Operating Surplus	YY	2.6	-0.6	0.3															
ECB Refi Rate (Ann Avg, then qtr-end)	%	1.19	1.00	0.63				1.00	1.25	1.50	1.00	1.00	1.00	1.00	1.00	0.75	0.75	0.50	0.50
Ten-year Bund yield (Period Avg.)	%	2.71	1.75	2.10				3.17	3.13	2.30	1.98	1.88	1.75	1.70	1.75	1.80	2.00	2.25	
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.39	1.30	1.27				1.42	1.45	1.34	1.30	1.33	1.30	1.29	1.27	1.25	1.26	1.27	1.29

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

## Germany

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With mixed sentiment and activity data we have left our GDP forecast for 2012 unchanged. After a roughly unchanged GDP reading in 1Q we expect a recovery in the course of the year backed by improving domestic and foreign demand. On the domestic side, we expect a broad based increase including gains in construction spending and private consumption. With high energy prices and increasing wages, which are likely to lead to modest increases in unit labour costs, we expect German inflation to remain above 2%. While there seems now a broad based agreement in Parliament on the ESM, the opposition parties, whose support is required to get a 2/3 majority in parliament, ask for amendments to the fiscal compact. In any case the outcome of the upcoming state election in NRW on May 13 will be important for the stability of Angela Merkel's centre-right coalition.

Figure 2. Germany – Economic Forecasts, 2011-13F

		History			Forecast			History				Forecast				Forecast			
		2011	2012	2013	2011	2012	2013	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	3.1	0.9	1.6				4.6	2.9	2.7	2.0	0.7	0.8	0.8	1.5	2.0	1.8	1.5	1.3
	QQ SAAR							5.5	1.1	2.3	-0.7	0.0	1.6	2.4	2.1	0.0	1.6	1.1	1.1
Final Domestic Demand	YY	2.4	1.1	1.6				3.6	1.9	2.2	1.8	0.8	1.3	1.0	1.4	1.7	1.8	1.5	1.4
	QQ SAAR							4.3	-1.0	3.6	0.4	0.3	0.9	2.2	2.3	0.0	1.3	1.4	1.1
Private Consumption	YY	1.4	1.0	1.5				2.4	0.8	1.7	0.8	0.4	1.3	0.7	1.6	1.7	1.7	1.4	1.1
	QQ SAAR							2.2	-2.8	4.7	-0.8	0.7	0.8	2.1	2.7	0.0	1.2	0.7	1.0
Public Consumption	YY	1.4	0.9	0.4				0.4	1.9	1.6	1.6	1.6	0.9	0.5	0.5	0.5	0.4	0.4	0.4
	QQ SAAR							0.6	3.3	2.3	0.2	0.4	0.8	0.4	0.4	0.4	0.4	0.4	0.4
Fixed Investment	YY	6.6	1.8	3.3				11.5	5.6	4.3	5.4	1.4	1.6	2.3	2.1	2.9	3.8	3.2	3.5
	QQ SAAR							15.8	0.3	1.9	4.4	-1.0	1.2	4.7	3.4	0.0	2.5	4.6	2.1
-- Business Equipment	YY	7.8	1.0	3.2				14.1	8.9	5.9	3.1	1.9	1.0	0.3	0.9	2.1	4.0	2.9	4.0
	QQ SAAR							2.8	2.1	7.9	-0.1	-2.2	-1.4	5.1	2.1	2.5	6.4	0.9	6.2
-- Construction	YY	5.9	2.2	3.1				10.5	3.1	2.9	7.6	0.4	1.6	3.8	3.0	3.5	3.3	3.0	2.7
	QQ SAAR							31.8	-1.8	-4.1	7.9	-0.1	3.2	4.3	4.5	2.1	2.4	3.0	3.1
Stocks (Contrib. to YY GDP Growth)		0.0	-0.1	0.0				0.0	0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2
Exports of Goods and Services	YY	8.4	3.1	4.6				12.0	7.5	8.1	6.3	4.6	2.9	1.5	3.3	4.6	4.4	4.5	4.8
	QQ SAAR							6.8	11.2	10.8	-3.0	0.1	4.3	4.9	4.0	0.0	5.2	3.5	5.2
Imports of Goods and Services	YY	7.5	3.6	4.7				9.5	6.2	8.1	6.4	5.6	3.4	1.9	3.4	4.5	4.8	4.9	4.9
	QQ SAAR							4.1	12.0	11.2	-1.1	0.9	3.2	4.8	4.9	0.0	4.9	4.5	5.1
Net Exports (Contrib. to YY GDP Growth)		0.9	0.0	0.2				0.4	0.1	0.1	-0.3	-0.1	0.2	0.1	0.0	0.1	-0.1	0.1	0.1
Consumer Prices	YY	2.3	2.2	2.3				2.1	2.3	2.5	2.3	2.2	2.1	2.2	2.1	2.4	2.2	2.3	2.3
Compensation per Employee	YY	3.3	3.4	3.7				3.4	3.9	3.1	2.8	2.8	3.1	3.8	4.0	3.9	3.8	3.6	3.5
Employment Growth	YY	1.3	0.7	0.1				1.4	1.3	1.3	1.4	1.3	0.8	0.5	0.3	0.1	0.1	0.2	0.1
Unemployment Rate (ILO)	%	6.0	5.4	5.3				6.4	6.1	5.9	5.6	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.3
Current Account Balance	€ bn	147.7	130.0	119.5															
	% GDP	5.8	5.0	4.4															
General Government Balance	€ bn	-26.7	-15.9	-7.8															
	% GDP	-1.0	-0.6	-0.3															
General Government Debt	€ bn	2091.0	2134.0	2168.0															
	% GDP	81.3	81.3	80.2															
Gross Trading Profits	YY	1.5	-1.6	3.5				5.3	0.5	2.4	-2.2	-8.3	-2.3	-1.2	5.6	3.4	4.4	3.1	3.2

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

## France

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The first round of the Presidential elections (22 April) will likely show that President Nicolas Sarkozy and Socialist challenger François Hollande will make it to the second and final round on 6 May. The first round vote remains too close to call, with Sarkozy on 27% and Hollande on 28%, but we still believe that Hollande is more likely to be elected President, which should pave the way for a legislative election win for the Left in early June (10 & 17). Markets will likely react negatively to the news, particularly if the Far Left candidate Jean-Luc Mélenchon were to come in third place, enabling his party and its communist allies to influence policies, albeit at the margin. We are revising our forecast upwards from -0.3% to +0.1%, owing to the less negative start to 2012 (Q1 expected to be 0.0%), suggesting that France will avoid falling back into recession. We leave our 2013 GDP forecast at 0.5%.

Figure 3. France – Economic Forecasts, 2011-13F

		History			Forecast				History				Forecast							
		2011	2012	2013					1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	1.7	0.1	0.5					2.3	1.7	1.6	1.3	0.4	0.3	-0.1	-0.3	-0.1	0.2	0.7	1.1
	QQ SAAR								3.5	-0.1	1.3	0.6	-0.1	-0.6	-0.5	0.1	0.5	0.7	1.5	1.8
Final Domestic Demand	YY	0.9	0.0	0.4					1.7	0.9	0.6	0.6	0.1	0.3	0.0	-0.3	0.0	0.3	0.5	0.8
	QQ SAAR								1.5	-1.6	1.0	1.6	-0.7	-0.7	-0.2	0.3	0.5	0.6	0.8	1.2
Private Consumption	YY	0.4	0.0	0.5					1.4	0.4	0.0	-0.3	-0.6	0.3	0.2	0.1	0.3	0.4	0.5	0.7
	QQ SAAR								0.6	-3.7	1.0	0.7	-0.5	0.0	0.4	0.4	0.4	0.4	0.8	1.2
Public Consumption	YY	0.9	0.4	0.2					0.9	0.8	0.8	1.0	0.8	0.5	0.2	-0.1	-0.1	0.1	0.3	0.4
	QQ SAAR								1.4	0.5	0.9	1.0	0.6	-0.4	-0.4	0.0	0.4	0.4	0.4	0.4
Fixed Investment	YY	3.0	-0.4	0.4					3.6	2.9	2.2	3.1	1.2	-0.2	-0.8	-1.9	-1.0	0.2	1.0	1.5
	QQ SAAR								4.5	2.5	0.8	4.8	-2.9	-3.1	-1.6	0.2	0.7	1.5	1.5	2.5
-- Businesses	YY	4.3	-0.8	0.5					6.9	4.3	2.4	3.5	0.7	-0.7	-0.8	-2.5	-1.3	0.2	1.2	2.1
	QQ SAAR								7.4	1.5	-1.6	7.1	-3.9	-3.9	-2.0	0.0	0.8	2.0	2.0	3.6
-- Households	YY	2.5	-0.1	0.3					2.1	3.2	2.6	2.3	2.2	0.3	-1.3	-1.7	-1.0	0.0	0.9	1.4
	QQ SAAR								-1.6	4.8	4.9	1.4	-2.0	-2.8	-2.0	0.0	0.8	1.2	1.6	2.0
Stocks (Contrib. to YY GDP Growth)		-0.1	0.0	-0.1					1.0	-0.2	-0.1	-0.8	0.1	-0.1	0.0	0.0	0.1	-0.1	-0.2	0.1
Exports of Goods and Services	YY	5.0	3.1	4.2					7.1	4.8	3.7	4.6	4.0	3.8	2.8	2.0	2.4	3.1	5.2	6.0
	QQ SAAR								4.7	3.9	5.1	4.8	2.3	3.1	1.0	1.5	3.9	6.1	9.6	4.6
Imports of Goods and Services	YY	4.8	0.3	3.4					10.3	5.7	2.5	1.3	-0.9	0.4	0.2	1.7	2.5	3.2	3.8	4.3
	QQ SAAR								11.3	-4.0	2.6	-3.8	1.6	1.2	2.0	2.0	4.9	4.1	4.1	4.1
Net Exports (Contrib. to YY GDP Growth)		0.0	0.8	0.2					-0.5	0.6	0.1	0.6	0.0	0.1	-0.1	0.0	-0.1	0.1	0.4	0.0
Consumer Prices	YY	2.3	2.5	1.6					2.0	2.2	2.3	2.6	2.6	2.4	2.4	2.2	1.9	1.5	1.5	1.1
Average Monthly Wages	YY	2.3	1.3	1.3																
Employment Growth (Private-Sector)	YY	0.8	-0.4	0.7																
Unemployment Rate	%	9.2	9.4	9.2					9.2	9.1	9.3	9.4	9.5	9.6	9.6	9.5	9.5	9.4	9.3	9.2
Current Account Balance	€ bn	-46.8	-40.4	-23.8																
	% GDP	-2.3	-2.0	-1.1																
General Government Balance	€ bn	-104.7	-90.2	-71.0																
	% GDP	-5.2	-4.4	-3.4																
General Government Debt	€ bn	1705.9	1858.2	1962.3																
	% GDP	84.8	91.4	95.3																
Gross Trading Profits	YY	3.0	0.0	1.0																

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

## Italy

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With thanks to Carla Clifton

We revised our prospects for the Italian economy this year up slightly as we expect Q1's GDP data to come in a little better than we expected last month. However, we revised our outlook for 2013 down from a contraction of 0.4% to a contraction of 0.9%. The deterioration in the country's outlook in 2013 reflects the effect of expected additional fiscal tightening and the possible delay in the start of the implementation of key labour market reforms, which will mean that the initial pain associated with the reforms is likely to be pushed into next year.

Figure 4. Italy – Economic Forecasts, 2011-13F

		History			Forecast			History				Forecast			
		2011	2012	2013				1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	0.4	-2.2	-0.9				1.0	0.8	0.3	-0.5	-1.4	-2.2	-2.8	-2.4
	QQ SAAR							0.6	0.0	-0.7	-2.9	-3.3	-1.9	-2.9	-1.5
Final Domestic Demand	YY	-0.3	-3.1	-1.7				0.7	0.4	-0.6	-1.6	-2.7	-3.0	-3.5	-3.1
	QQ SAAR							0.2	-0.6	-1.8	-4.0	-4.4	-1.8	-3.7	-2.5
Private Consumption	YY	0.2	-2.2	-1.1				1.1	1.1	-0.1	-1.2	-1.9	-2.0	-2.6	-2.4
	QQ SAAR							0.0	-0.4	-1.4	-2.8	-3.2	-0.4	-3.9	-2.0
Public Consumption	YY	-0.9	-3.9	-3.3				-0.2	-0.9	-1.1	-1.4	-2.9	-3.8	-4.2	-4.5
	QQ SAAR							1.1	-1.6	-2.4	-2.6	-5.1	-5.1	-3.9	-3.9
Fixed Investment	YY	-1.2	-4.8	-1.9				0.2	-0.2	-1.7	-3.1	-4.9	-5.4	-5.4	-3.7
	QQ SAAR							0.1	-0.3	-2.6	-9.1	-7.4	-2.4	-2.4	-2.4
-- Business Equipment	YY	0.0	-5.7	-2.0				2.1	2.2	-0.1	-4.3	-6.0	-6.9	-6.8	-3.0
	QQ SAAR							1.8	3.2	-3.2	-17.6	-5.1	-0.8	-2.8	-3.2
-- Construction	YY	-2.3	-4.0	-1.8				-1.7	-2.7	-3.3	-1.8	-3.8	-3.9	-3.9	-4.3
	QQ SAAR							-1.7	-3.8	-1.9	0.3	-9.6	-3.9	-2.0	-1.6
Exports of Goods and Services	YY	6.4	0.2	1.2				9.9	6.5	6.1	3.0	2.2	1.0	-1.1	-1.2
	QQ SAAR							0.8	3.0	8.3	0.1	-2.3	-1.9	-0.2	-0.6
Imports of Goods and Services	YY	1.3	-5.2	-1.8				8.6	3.6	0.1	-7.2	-6.6	-5.6	-5.1	-3.6
	QQ SAAR							-8.8	-5.6	-4.6	-9.8	-6.2	-1.6	-2.6	-4.2
Net Exports (Contrib. to YY GDP Growth)		1.4	1.5	0.8				0.2	0.7	1.6	3.0	2.5	1.9	1.1	0.6
Consumer Prices	YY	2.9	3.6	2.0				2.3	2.9	2.7	3.7	3.6	3.7	3.5	3.6
Compensation per Employee	NA	NA	NA	NA				2.9	2.7	2.7	3.7	3.6	3.7	3.5	3.6
Employment Growth		0.4	-1.0	-1.3											
Unemployment Rate	%	8.4	9.8	11.0											
Current Account Balance	€ bn	-50.4	-44.5	-36.7											
	% GDP	-3.2	-2.8	-2.4											
General Government Balance	€ bn	-61.7	-40.3	-26.9											
	% GDP	-3.9	-2.6	-1.7											
General Government Debt	€ bn	1910	2011	2050											
	% GDP	120.9	128.8	131.8											

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

## Spain

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With thanks to Carla Clifton

We continue to expect the Spanish economy to contract by 2.7% this year and by 1.3% in 2013, more than 1pp below official forecasts and driven by fiscal tightening and private deleveraging. Moderate export growth will be insufficient to compensate for the weakness of domestic demand. The recently announced central government budget implies substantial deficit reduction this year, but is unlikely to allow Spain to meet its deficit targets of 5.3% and 3.0% of GDP for 2012 and 2013, respectively.

Recent developments in Spain are a powerful reminder that the sovereign debt crisis is far from being over. As we argued in the [Focus on Spain](#), we expect that the country will need some IMF/EU support. While there has been an agreement on increasing the ESM/EFSF lending capacity and the IMF is likely to get more firepower as well, in our view, the facilities are still too small to be able to fully fund Spain (and Italy if necessary). Given the limited capacity of support measures by the ESM/EFSF and the IMF, the ECB probably needs to make further contributions. While several ECB officials highlighted their willingness to take further measures, the ECB probably will wait until governments have taken extra action. In our view it looks more likely that the ECB provides additional multi-year LTROs rather than re-activating the SMP programme substantially.

Figure 5. Spain – Economic Forecasts, 2011-13F

		History			Forecast				History				Forecast			
		2011	2012	2013	2011	2012	2013	2014	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	0.7	-2.7	-1.3					0.9	0.8	0.8	0.3	-1.1	-2.2	-3.4	-4.0
	QQ SAAR								1.5	0.7	0.1	-1.1	-3.8	-3.9	-4.6	-3.9
Final Domestic Demand	YY	-1.7	-6.0	-4.0					-0.8	-1.9	-1.4	-2.8	-3.9	-5.5	-7.2	-7.4
	QQ SAAR								-0.4	-2.2	-1.9	-6.5	-4.8	-8.6	-8.8	-7.4
Private Consumption	YY	-0.1	-3.0	-2.3					0.4	-0.4	0.5	-1.1	-1.2	-2.7	-4.0	-4.0
	QQ SAAR								-2.1	0.7	0.7	-3.9	-2.4	-5.1	-4.7	-3.9
Public Consumption	YY	-2.2	-10.3	-6.6					0.6	-2.1	-3.6	-3.6	-7.0	-9.0	-11.5	-13.7
	QQ SAAR								5.5	-7.4	-7.8	-4.3	-8.4	-15.3	-17.5	-13.4
Fixed Investment	YY	-5.1	-9.8	-6.2					-4.9	-5.4	-4.0	-6.2	-7.7	-9.4	-11.7	-10.6
	QQ SAAR								-1.7	-4.5	-1.7	-16.0	-7.8	-11.5	-11.5	-11.5
-- Business Equipment	YY	1.9	-7.1	-5.6					5.1	0.5	2.5	-0.5	-3.5	-4.6	-9.6	-10.6
	QQ SAAR								4.3	-7.2	9.8	-7.8	-7.8	-11.5	-11.5	-11.5
-- Construction	YY	-8.1	-10.7	-6.5					-9.2	-8.1	-7.0	-8.2	-9.0	-11.0	-12.1	-10.6
	QQ SAAR								-4.5	-3.1	-7.0	-17.4	-7.8	-11.5	-11.5	-11.5
Exports of Goods and Services	YY	9.1	2.1	4.6					13.1	8.8	9.2	5.2	3.4	3.3	-0.3	1.9
	QQ SAAR								8.4	2.7	17.3	-6.1	1.0	2.2	2.1	2.4
Imports of Goods and Services	YY	-0.1	-9.2	-3.7					6.0	-1.3	0.9	-5.9	-6.5	-8.1	-12.9	-9.1
	QQ SAAR								0.5	-6.8	9.6	-23.4	-2.1	-13.3	-11.6	-8.9
Net Exports (Contrib. to YY GDP Growth)		2.6	3.4	2.5					1.7	2.8	2.3	3.3	3.0	3.4	3.9	3.2
Consumer Prices	YY	3.1	2.0	1.7					3.2	3.3	2.9	2.7	1.9	1.8	2.0	2.1
Compensation per Employee	YY	1.2	0.9	0.5												
Employment Growth	YY	-1.9	-3.5	-2.1					-1.3	-0.9	-2.1	-3.3	-2.9	-4.1	-3.8	-3.3
Unemployment Rate	%	21.6	24.3	25.7					21.3	20.9	21.5	22.9	23.6	24.0	24.3	25.2
Current Account Balance	€ bn	-37.8	-29.8	-23.8												
	% GDP	-3.5	-2.8	-2.2												
General Government Balance	€ bn	-90.4	-67.0	-57.8												
	% GDP	-8.5	-6.3	-5.3												
General Government Debt	€ bn	768.9	846.7	923.5												
	% GDP	71.8	84.0	91.8												

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

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## Greece

We leave our forecast for Greek GDP unchanged. We continue to expect the Greek economy to contract substantially this year driven by a sharp fall in household and government expenditure as the Government tries to implement fiscal tightening worth around 4.5% of GDP as required by the Troika. Over the 2013-2014 period, we expect the Greek economy to continue to perform poorly as the Government attempts to implement the promised €11bn worth of fiscal tightening to reduce the deficit to 2.1% in 2014. The outcome of the 6 May general election will be crucial regarding the country's EMU membership.

Figure 6. Greece – Economic Forecasts, 2011-2016F

		History	Forecast				
		2011	2012	2013	2014	2015	2016
Real GDP	YY	-6.9	-6.5	-2.4	1.0	2.1	2.0
Final Domestic Demand	YY	-9.6	-8.4	-3.6	-0.3	0.9	1.1
Private Consumption	YY	-7.1	-7.2	-3.6	-1.1	1.1	1.2
Fixed Investment	YY	-20.6	-11.3	0.1	1.4	2.0	2.8
Exports of Goods & Services	YY	-0.8	1.2	2.0	2.5	3.1	3.2
Imports of Goods & Services	YY	-8.0	-10.5	-2.0	-1.5	-0.4	0.8
Consumer Prices	YY	3.1	1.3	-0.3	0.2	1.0	1.1
Unemployment Rate	%	17.3	22.6	24.9	26.7	27.9	28.4
Current Account Balance	€ bn	-21.1	-17.7	-13.9	-11.9	-9.9	-9.5
	% GDP	-9.6	-8.5	-7.5	-6.7	-5.6	-5.3
General Government Balance	€ bn	-20.0	-14.8	-12.4	-8.4	-7.1	-6.6
	% GDP	-9.3	-7.4	-6.2	-4.3	-3.5	-3.2
General Government Debt	€ bn	355.2	327.4	342.9	355.2	361.8	365.9
	% GDP	165.1	164.1	176.8	181.4	179.5	176.0

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

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## Ireland

We are cutting our 2012 GDP forecast to minus 0.8% YoY from minus 0.3% last month, and edging up our 2013 forecast from zero to plus 0.3%. The downward revision to 2012 reflects the weaker-than-expected Q4 outturn (minus 0.2% QoQ) plus continued weakness in early-2012 data for retail sales, industrial production and new orders. At this stage, we assume that some of this weakness reflects greater-than-expected destocking and that this will unwind a little in 2013. Further out, there is some support for growth from the continued improvement in competitiveness, with the real exchange rate now at the lowest since 2002. The big picture is still that economic weakness is likely to produce a series of debt and deficit overshoots versus official forecasts.

Figure 7. Ireland – Economic Forecasts, 2011-16F

		History	Forecast				
		2011	2012	2013	2014	2015	2016
Real GDP	YY	0.7	-0.8	0.3	2.3	2.9	3.4
Real GNP	YY	-2.5	-3.2	-0.3	1.7	2.2	2.8
Domestic Demand	YY	-3.0	-6.0	-2.1	-3.4	-2.2	-2.1
Private Consumption	YY	-2.7	-1.7	-2.2	-1.8	-1.0	-0.5
Fixed Investment	YY	-10.6	-21.3	-17.6	-14.5	-11.0	-8.4
Government Consumption	YY	-3.7	-2.9	-1.5	-3.7	-3.0	-5.1
Exports of Goods and Services	YY	4.1	2.8	3.9	6.1	6.0	6.5
Imports of Goods and Services	YY	-0.6	-0.9	2.9	2.2	2.9	3.4
Net Trade		3.7	5.2	2.4	5.7	5.1	5.5
GDP Deflator	YY	-0.4	0.2	0.0	0.3	0.5	0.5
Nominal GDP	YY	0.3	-0.6	0.3	2.6	3.4	3.9
House Prices	YY	-13.2	-13.9	-7.8	-3.0	0.0	0.0
Unemployment Rate	%	14.4	15.1	16.7	17.7	18.2	18.2
Employment	YY	-2.1	-1.0	-2.2	-1.6	-0.9	-0.4
Current Account Balance	€ bn	0.1	6.5	6.6	11.4	15.5	20.0
	% GDP	0.1	4.2	4.2	7.1	9.3	11.6
General Government Balance	€ bn	-18.1	-16.1	-13.5	-12.4	-8.4	-5.2
	% GDP	-9.8	-9.6	-9.7	-7.7	-6.2	-6.1
General Government Debt	€ bn	-6.4	-5.4	-3.7	-1.4	0.2	0.2
	% GDP	105.4	116.9	127.0	130.7	132.1	133.2

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

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



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## Portugal

We downgraded our forecast for Portuguese GDP this year slightly to -5.4% (from -5.3% last month) to reflect the quicker than anticipated deterioration in the labour market and left our forecast for 2013 unchanged at -3.0% to reflect the likely adoption of further austerity measures. We further believe that Portugal will miss its deficit target this year given last year's slippage, net of the effect of one-off measures. We expect that the country needs a second Troika programme this year and we expect a PSI-style debt restructuring in 2013.

Figure 8. Portugal – Economic Forecasts, 2011-13F

		History	Forecast				
		2011	2012	2013	2014	2015	2016
Real GDP	YY	-1.6	-5.4	-3.0	0.4	1.3	1.2
Final Domestic Demand	YY	-5.3	-8.4	-4.4	-0.7	0.3	1.0
Private Consumption	YY	-3.9	-6.7	-3.5	-1.0	0.5	1.0
Fixed Investment	YY	-11.5	-15.9	-7.9	-1.6	1.1	1.2
Exports	YY	7.4	1.8	3.2	3.6	4.0	2.7
Imports	YY	-5.4	-7.3	-0.7	0.8	1.5	2.1
Consumer Prices	YY	3.6	3.1	2.0	0.7	0.2	0.4
Unemployment Rate	%	12.7	15.6	17.3	18.2	17.6	16.5
Current Account Balance	€ bn	-13.9	-8.1	-4.6	-3.2	-3.1	-2.3
	% GDP	-8.1	-5.0	-2.9	-2.0	-1.8	-1.3
General Government Balance	€ bn	-6.9	-4.5	-4.9	-3.8	-3.6	-3.5
	% GDP	-4.0	-5.8	-3.5	-2.4	-2.1	-2.0
General Government Debt	€ bn	181.1	194.6	164.8	173.1	180.8	186.9
	% GDP	105.8	119.2	102.8	106.4	108.4	109.3

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

Sources: BdP, INE and Citi Investment Research and Analysis

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## Netherlands

There are some signs of a recovery in exports, but the outlook for domestic demand remains poor, as the housing market correction continues. We expect that falling consumption and construction spending will keep the economy in recession. While there is some progress in the negotiations of the minority government coalition and the supporting PVV on extra budget cuts, at the time of writing there was still no agreement. As the other opposition parties, which the government needs for the approval of the ESM and the fiscal compact, are against extra near-term austerity we doubt that deficit will fall below 3% of GDP by 2013, as requested by the EDP.

Figure 9. Netherlands – Economic Forecasts, 2011-16F

		History	Forecast				
		2011	2012	2013	2014	2015	2016
Real GDP	YY	1.3	-1.5	0.4	1.2	1.5	1.5
Final Domestic Demand	YY	0.7	-1.6	-0.2	0.7	1.0	1.2
Public Consumption	YY	0.2	-0.9	-0.3	0.2	0.3	0.3
Private Consumption	YY	-1.1	-1.2	0.1	0.8	1.2	1.4
Fixed Investment (ex Stocks)	YY	5.8	-3.5	-0.7	1.3	1.5	2.0
Stocks (Contrib. to YY GDP Growth)		0.1	-0.5	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	3.8	0.8	3.4	3.2	3.5	3.5
Imports of Goods and Services	YY	3.5	0.2	3.0	3.0	3.3	3.4
Net Exports (Contrib. to YY GDP Growth)		0.5	0.5	0.6	0.5	0.5	0.5
Consumer Prices	YY	2.3	2.6	1.8	1.6	1.9	1.8
Unemployment Rate	%	5.3	6.2	6.4	6.3	6.2	6.2
Current Account Balance	€ bn	55.1	61.5	60.0	55.0	50.0	49.0
	% GDP	9.0	10.0	9.5	8.5	7.5	7.1
General Government Balance	€ bn	-28.5	-28.0	-22.0	-15.0	-10.0	-7.0
	% GDP	-4.7	-4.5	-3.5	-2.3	-1.5	-1.0
General Government Debt	€ bn	397.5	431.3	459.3	475.2	485.2	492.2
	% GDP	65.2	70.0	72.9	73.4	72.5	71.2

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

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## Belgium

Despite recent government efforts to construct a budget that would shrink the general government deficit to less than 3% of GDP for 2012, attention is turning to the 2013-15 period when the objective is to balance the books. The country's High Council of Finance estimates that the government will need to find savings worth around 1% of GDP per year to hit the target. Interestingly, the Council also recommended spreading fiscal tightening over time, if GDP growth were to fall short of the government's baseline. We are revising up our 2012 GDP forecast to 0.0% from -0.3%, taking on board the modest improvement in business confidence.

Figure 10. Belgium – Economic Forecasts, 2011-16F

		History	Forecast				
		2011	2012	2013	2014	2015	2016
Real GDP	YY	1.9	0.0	1.1	1.7	2.1	1.8
Final Domestic Demand	YY	2.1	-0.5	0.3	1.2	1.9	1.8
Public Consumption	YY	0.8	0.3	0.0	0.5	1.1	1.5
Private Consumption	YY	0.8	-0.1	0.4	1.2	1.9	1.8
Fixed Investment (ex Stocks)	YY	5.1	-0.5	0.7	2.0	3.1	2.5
Exports of Goods and Services	YY	4.8	1.2	2.6	3.3	3.9	3.8
Imports of Goods and Services	YY	5.2	0.6	2.0	2.8	4.3	4.0
Consumer Prices	YY	3.5	2.9	1.7	1.9	2.3	2.3
Unemployment Rate	%	7.2	7.7	8.1	7.7	7.2	6.8
Current Account Balance	€ bn	-2.7	-7.4	-5.2	-2.0	1.9	4.1
	% GDP	-0.8	-0.2	0.3	1.0	2.0	2.4
General Government Balance	€ bn	-13.7	-9.1	-5.9	-1.6	1.8	3.3
	% GDP	-3.7	-2.9	-1.7	-1.0	-0.3	0.1
General Government Debt	€ bn	361.2	410.5	418.7	420.3	418.5	415.2
	% GDP	96.7	110.4	114.9	112.2	108.0	103.8

Note: Percentage changes unless indicated. Annual data are period averages.  
Sources: BNB, Belgostat and Citi Investment Research and Analysis

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## Slovakia

The new left-wing SMER-SD government remains vocally committed to fiscal consolidation. While the previous government made consolidation particularly on the expenditure side, the new government probably will focus on lifting revenues. However, in our view, these measures probably will not be enough to prevent the deficit rising this year. Therefore, we expect a warning from the European Commission after midyear, which is likely to fasten the consolidation effort (including, eventually, spending cuts).

Figure 11. Slovakia – Economic forecasts, 2011-13F

		History	Forecast	
		2011	2012	2013
Real GDP	YY	3.3	1.5	2.1
Final Domestic Demand	YY	0.6	0.7	1.4
Public Consumption	YY	-3.5	-1.1	-0.7
Private Consumption	YY	-0.4	-0.5	0.9
Fixed Investment (ex Stocks)	YY	5.7	4.4	3.5
Exports of Goods and Services	YY	10.8	3.2	4.6
Imports of Goods and Services	YY	4.5	3.1	3.8
Consumer Prices	YY	3.9	3.5	2.9
Unemployment Rate	%	13.2	13.7	13.6
Current Account Balance	% GDP	0.2	0.3	0.2
General Government Balance	% GDP	-4.8	-4.8	-3.2
General Government Debt	% GDP	43.3	46.3	47.8

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

Source: Citi Investment Research and Analysis

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## Slovenia

Both, government debt and the deficit, rose slightly more than we expected in 2011. The deterioration in government finances reflects the capital injections into public enterprises and gradual, but sizeable increase of social benefits. The centre-right wing government of PM Janez Jansa (SDS) introduced a list of austerity measures to achieve an ambitious fiscal goal to cut the fiscal deficit to 3% of GDP in 2013 from 6.4% in 2011 (5.1% excluding the capital transfers). However, the government effort is likely to be hit on three fronts: i) referendums; ii) recession; iii) banking sector.

Figure 12. Slovenia – Economic Forecasts, 2011-13F

		History	Forecast	
		2011	2012	2013
Real GDP	YY	0.2	-1.2	1.3
Final Domestic Demand	YY	-2.6	-2.6	0.1
Public Consumption	YY	-0.9	-2.3	-0.4
Private Consumption	YY	-0.1	-0.9	0.8
Fixed Investment (ex Stocks)	YY	-10.2	-5.2	-1.5
Exports of Goods and Services	YY	7.8	-2.1	1.8
Imports of Goods and Services	YY	4.7	-2.9	1.6
Consumer Prices	YY	1.8	1.9	2.7
Unemployment Rate	%	8.2	9.5	10.4
Current Account Balance	% GDP	-1.5	-0.8	0.3
General Government Balance	% GDP	-6.4	-4.3	-3.2
General Government Debt	% GDP	47.6	51.8	53.6

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

Source: Citi Investment Research and Analysis

## United Kingdom

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Our UK forecasts are little changed from last month: we continue to look for GDP growth of about 0.2% this year and about 1% in 2013. Weakness in construction output and industrial production in Jan-Feb, along with other data, suggest that Q1 GDP growth (released on 25 April) will be around zero QQ, with the YY rate slowing to 0.3% from 0.4% in 4Q11. We disagree with the MPC's view that the economy's underperformance just reflects high inflation and the EMU crisis. New IMF research highlights that household debt booms are usually followed by extended economic weakness and household deleveraging, and we believe the MPC understate this drag for the UK. We believe further economic underperformance is likely. With the EMU crisis still bubbling away, we continue to expect further QE in the UK. The fiscal deficit will fall sharply, to 6-7% of GDP in 2012/13, because of the absorption of the pension fund of the state-owned postal service. The deficit will then rebound to an underlying level of about 7% of GDP in 2013/14, with the general government gross debt/GDP ratio likely to reach about 100% in 2014 or 2015.

Figure 13. UK – Economic Forecasts, 2011-13F

		History			Forecast				History				Forecast							
		2011	2012	2013	2011	2012	2013	2014	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	0.6	0.2	1.0					1.6	0.3	0.3	0.4	0.3	0.1	0.0	0.4	0.7	1.4	1.0	0.8
	QQ SAAR								0.8	-0.4	2.5	-1.2	0.2	-1.1	2.0	0.7	1.4	1.4	0.5	-0.2
Final Domestic Demand	YY	-0.9	0.1	-0.6					-0.5	-0.9	-1.3	-0.8	0.4	0.3	0.3	-0.7	-1.1	-0.8	-0.5	-0.2
	QQ SAAR								-2.7	-0.6	-1.1	1.1	2.2	-0.8	-1.3	-2.9	0.5	0.6	-0.1	-1.7
Private Consumption	YY	-1.2	1.0	1.2					-0.3	-1.5	-1.8	-1.0	0.1	1.0	1.6	1.4	1.3	1.2	1.1	1.2
	QQ SAAR								-3.0	-1.7	-1.0	1.7	1.6	1.8	1.4	0.9	0.9	1.6	0.8	1.2
Public Consumption	YY	0.1	0.9	-0.1					0.4	-0.1	-0.4	0.3	1.0	0.7	1.2	0.6	-0.2	-0.1	0.0	0.1
	QQ SAAR								0.2	0.7	-2.0	2.2	3.2	-0.2	-0.2	-0.2	-0.2	0.2	0.2	0.2
Fixed Investment	YY	-1.2	-4.9	-9.6					-3.0	-0.3	-0.5	-1.0	0.7	-2.3	-6.5	-11.7	-12.5	-10.4	-8.1	-7.0
	QQ SAAR								-3.7	-0.6	2.6	-2.2	3.2	-12.0	-14.0	-22.1	-0.5	-3.2	-5.1	-18.1
-- Business Investment	YY	1.2	-10.9	-16.5					-8.8	5.6	6.6	1.6	5.7	-10.3	-17.7	-19.5	-19.9	-18.3	-15.0	-12.0
	QQ SAAR								-30.7	59.6	7.5	-12.4	-17.8	-21.8	-22.0	-18.2	-19.4	-16.4	-7.9	-5.3
-- Construction of Private Dwellings	YY	0.1	1.2	-1.2					14.6	-2.8	-7.2	-2.1	0.3	0.1	3.0	1.5	-2.0	-1.3	-0.1	-1.3
	QQ SAAR								0.5	-7.4	-12.5	10.8	12.5	-8.1	-1.9	4.6	-2.2	-5.3	2.9	-0.4
Stocks (Contrib. to YY GDP Growth)	YY	0.0	-0.7	0.4					0.3	0.1	-0.3	0.1	0.0	-1.0	-1.6	-0.3	0.2	0.8	0.6	0.0
Exports of Goods and Services	YY	4.6	2.1	6.2					11.1	3.9	3.2	0.7	-1.6	1.7	4.2	3.9	6.5	7.0	5.6	5.8
	QQ SAAR								5.8	-8.5	-0.2	6.4	-3.5	4.3	10.1	5.2	6.6	6.1	4.3	6.2
Imports of Goods and Services	YY	1.2	-0.3	2.2					5.5	1.8	-0.9	-1.3	-0.1	-0.3	-0.1	-0.8	0.8	2.5	2.7	3.0
	QQ SAAR								-6.7	-2.4	0.8	3.6	-2.4	-2.9	1.5	0.7	4.0	3.7	2.6	1.5
Net Exports (Contrib. to YY GDP Growth)	YY	1.5	0.8	1.2					1.8	1.1	1.9	1.1	-0.1	0.8	1.3	1.5	1.7	1.4	0.9	0.9
Consumer Prices	YY	4.5	2.9	2.0					4.1	4.4	4.7	4.7	3.5	3.0	2.7	2.3	2.0	2.0	2.0	1.9
Average Earnings YY	YY	2.4	1.7	1.7					2.7	2.7	2.2	2.0	1.8	1.7	1.5	1.9	1.7	1.6	1.6	1.6
Employment Growth	YY	0.5	-1.2	-0.8					1.4	0.9	-0.4	0.0	-0.8	-1.2	-1.1	-1.5	-1.4	-1.1	-0.6	-0.3
Unemployment Rate	%	8.1	9.4	10.4					7.7	7.9	8.3	8.4	8.9	9.2	9.7	10.0	10.3	10.4	10.4	10.4
Current Account Balance	£ bn	-29.0	-24.1	2.8					-6.6	-3.4	-10.5	-8.4	-9.9	-7.1	-4.5	-2.6	-1.1	0.1	1.0	2.9
	% GDP	-1.9	-1.6	0.2					-1.8	-0.9	-2.8	-2.2	-2.6	-1.9	-1.2	-0.7	-0.3	0.0	0.2	0.7
Public Sector Net Borrowing	£ bn FY	126.0	103.3	120.4																
	% GDP	-8.3	-6.7	-7.6																
General Government Balance	% GDP	-8.3	-6.6	-7.4																
General Government Debt	£ bn	1250.3	1372.7	1508.8																
	% GDP	82.9	88.3	94.3																
Gross Non Oil Trading Profits	YY	3.5	-5.7	8.6					14.5	7.5	-1.5	-6.4	-14.1	-6.8	0.6	0.4	9.6	11.1	7.8	6.1
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)	%	3.00	2.10	2.50					3.73	3.42	2.79	2.28	2.12	2.10	2.10	2.15	2.20	2.40	2.65	
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.87	0.83	0.81					0.89	0.82	0.87	0.84	0.83	0.83	0.83	0.82	0.82	0.81	0.80	0.80
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.59	1.57	1.57					1.52	1.50	1.58	1.55	1.60	1.57	1.56	1.55	1.54	1.56	1.59	1.61

Note: Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS and Citi Investment Research and Analysis

## Switzerland

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We are lifting our forecast for 2012 growth to 0.7% from 0.1% last month and minus 0.2% two months ago, following continued gains in recent surveys. Within that, we expect growth of about 0.1% QoQ in Q1, the same pace as Q4. With deflation likely to continue for an extended period, the SNB is likely to continue to keep 3-month libor rates at close to zero and strongly defend the CHF1.20/EUR level.

Figure 14. Switzerland – Economic Forecasts, 2011-13F

		History			Forecast				History				Forecast			
		2011	2012	2013					1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Real GDP	YY	1.9	0.7	0.9					2.4	2.1	1.7	1.2	1.0	0.7	0.6	0.6
Final Domestic Demand	YY	1.8	1.7	0.1					2.7	2.0	1.1	1.2	1.3	2.0	2.2	1.3
Public Consumption	YY	1.7	1.2	0.9					0.4	2.3	2.3	1.9	2.2	0.9	0.7	0.9
Private Consumption	YY	1.0	1.1	0.3					1.0	1.2	0.8	0.8	1.0	1.2	1.2	0.8
Fixed Investment	YY	3.9	3.7	-0.9					8.4	4.1	1.5	1.8	1.5	4.8	5.6	2.9
Exports of Goods and Services	YY	3.4	0.4	2.5					6.6	3.8	2.2	1.2	-0.6	-0.2	1.5	0.7
Imports of Goods and Services	YY	1.9	0.0	1.2					6.0	1.9	0.4	-0.5	-2.1	-0.1	0.2	2.2
Consumer Prices	YY	0.2	-0.8	-1.3					0.6	0.4	0.4	-0.5	-0.9	-0.9	-0.8	-0.5
Unemployment Rate	%	3.1	3.3	3.8					3.4	3.1	3.0	3.1	3.1	3.3	3.5	3.4
Current Account Balance	Sfr bn	84.6	78.7	80.9					18.2	19.9	27.2	19.2	17.4	20.1	22.8	18.4
	% GDP	15.0	13.8	14.0					13.0	14.1	19.2	13.6	12.3	14.1	16.0	12.9
General Government Balance	Sfr bn	0.0	0.0	0.0												
	% GDP	0.6	0.2	-0.2												
General Government Debt	Sfr bn	0.0	0.0	0.0												
	% GDP	52.6	51.7	51.3												
SNB Rate (Annual Avge, then qtr-end)	%	0.44	0.00	0.00					0.75	0.75	0.25	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	1.53	0.80	1.15					1.78	1.82	1.21	0.88	0.71	0.80	0.75	0.80
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.25	1.20	1.22					1.42	1.32	1.22	1.21	1.20	1.20	1.20	1.21
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.90	0.93	0.97					1.05	1.08	0.92	0.93	0.90	0.92	0.94	0.95

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

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## Sweden

Sentiment indicators signal a slowdown rather than a recession, suggesting that the sharp decline in Q4 GDP exaggerates the underlying weakness. Next year, growth is expected to rebound, but still by a below-trend rate of 1.9%. The slowdown will primarily be driven by weaker exports (about 70% of exports stay within Europe and Sweden is heavily dependent on cyclically sensitive investment and intermediate goods). Private consumption, however, will also moderate substantially, reflecting a weaker housing market and only limited support from economic policies.

Scope for an expansionary fiscal policy, especially next year, is a key factor behind Sweden's expected economic resilience compared to other European countries. Although the Spring Budget Bill was thin on new spending and the Government reiterated the need for safety margins (rather than stimulating demand) in case of a weaker-than-expected economic outlook, rising unemployment this year clearly increases the need for fiscal stimulus. The Spring Budget Bill also suggested limited room for reforms in the upcoming Budget Bill for 2013 with priority given to measures to keep unemployment from getting entrenched at high levels and to improve the functioning of the economy and the situation for vulnerable groups.

A split Riksbank Board left the key policy rate unchanged at 1.50%, and kept its conditional interest rate path unchanged, confirming that it has no bias for further rate cuts (rate path suggests a rate hike in 2Q/3Q 2013). The Bank appears reluctant to cut the already-low policy rate unless Sweden faces a more pronounced downturn. We reckon, however, that the combination of rising unemployment and ongoing EMU strains will prompt further monetary easing this year, but acknowledge that with no bias to cut, the probability of a July rate cut has fallen. We expect the key policy rate to trough at 1.0% towards yearend. An important risk relates to the development in private spending. A continued improvement in consumer sentiment could reduce the currently high savings rate and hence boost demand, while a softer housing market (down by approx. 5-7% since the peak in 3Q10) combined with high household indebtedness (170% of disposable income) could increase focus on deleveraging with adverse affects on consumption.

Figure 15. Sweden – Economic Forecasts, 2011-16F

		History	Forecast				
		2011	2012	2013	2014	2015	2016
Real GDP	YY	4.0	0.7	1.9	2.6	2.7	2.7
Final Domestic Demand	YY	2.8	0.4	1.9			
Public Consumption	YY	1.8	0.8	1.2			
Private Consumption	YY	2.1	0.6	2.0			
Fixed Investment	YY	6.3	-0.5	2.7			
Exports of Goods & Services	YY	7.0	0.3	3.8			
Imports of Goods & Services	YY	6.3	0.2	3.8			
Consumer Prices	YY	2.9	1.2	1.9	1.9	2.1	2.0
Unemployment Rate	%	7.5	7.8	8.0			
Current Account Balance	% GDP	7.2	7.5	7.8	6.7	6.9	7.3
General Government Balance	% GDP	0.1	-0.4	-0.2	0.5	1.5	1.9
General Government Debt	% GDP	36.9	36.6	35.7	33.7	30.6	27.3
Riksbank Rate (Annual Average)	%	1.80	1.20	1.10	1.60	2.10	2.50
Ten-year Yield (Period Average)	%	2.66	1.66	2.03	2.55	2.85	3.25
EUR-SEK FX Rate (Annual Average)		9.14	8.82	8.72	8.65	8.63	8.62
USD-SEK FX Rate (Annual Average)		6.60	6.80	6.87	6.61	6.49	6.37

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



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## Denmark

Denmark is in for a prolonged period of limited economic expansion with GDP growth averaging 0.7% YY this year and 1.2% YY in 2013, well below the long-term average of 1.6% YY. Exports were the primary source of growth in the Danish economy in 2011. However, a marked slowdown in key export markets suggests that exports will slow substantially this year. Investment activity is expected to recover this year after bottoming in 2011, but will likely again be driven primarily by public initiatives as part of the government's "kick-start" stimulus package (i.e. bringing forward investments in infrastructure, schools etc.). And the reimbursement of contributions to the voluntary early retirement pension scheme (to be paid out between Apr and Oct) following the adoption of the retirement reform by the government, is expected to lend a hand to private consumption this year. We doubt, though, that these measures will trigger a sustainable upswing, and view it more as a redistribution of growth between years (hence, our low growth forecast for next year as well). We reckon that without the government's expansionary policy stance, economic growth would have averaged close to nil this year. We also note that the fragile housing market combined with a stagnating labour market will weigh on consumer spending and see a clear risk that households will continue with balance sheet deleveraging. And given continued high economic uncertainty, precautionary savings are also likely to stay high as well. The expansionary fiscal stance is likely to lift the budget deficit to above 5% of GDP this year, implying a need for fiscal austerity (and hence lower growth) ahead. Government debt is still low relatively to most other European economies at around 50% of GDP last year. Hence in the near term the fiscal outlook is not too bad. Nevertheless, if Denmark does not get back on track in terms of growth (not generated by government spending) there could be some risks of a markedly worse debt profile in the medium term.

The euro area debt crisis has led to upward pressures on the DKK and rising currency reserves, prompting the Danish Central Bank to cut deeper than the ECB. The key interest rate spread to the euro area is now negative for the first time. If, as we expect, the ECB cuts the policy rate below 1%, then this will almost certainly create room for Denmark to cut rates further. In addition, if inflows of FX reserves remain substantial ahead, we would not be surprised to see another round of independent cuts from the Danish Central Bank in order to fend off upward pressures on the DKK.

Figure 16. Denmark – Economic Forecasts, 2011-16F

		History	Forecast				
		2011	2012	20123	2014	2015	2016
Real GDP	YY	1.1	0.7	1.2	1.4	1.6	1.8
Final Domestic Demand	YY	-0.3	1.1	1.1			
Public Consumption	YY	-0.7	0.8	0.1			
Private Consumption	YY	-0.2	0.9	1.3			
Fixed Investment	YY	0.3	2.5	2.1			
Exports of Goods & Services	YY	7.1	1.1	2.7			
Imports of Goods & Services	YY	5.4	1.0	2.7			
Consumer Prices	YY	2.7	2.0	1.5	1.5	1.6	1.8
Unemployment Rate	%	7.6	7.7	7.8			
Current Account Balance	% GDP	6.5	5.4	5.2	3.7	3.3	3.5
General Government Balance	% GDP	-2.5	-5.2	-3.9	-2.6	-2.1	1.0
General Government Debt	% GDP	45.4	49.4	52.0	53.1	53.6	50.9
DNB Bank Rate (Annual Avg)	%	1.30	0.60	0.43	0.55	0.60	1.00
Ten-year Yield (Period Average)	%	2.80	1.70	2.10	2.60	2.95	3.25

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

Sources: DNB, national statistical office and Citi Investment Research and Analysis

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## Norway

A recovery in private consumption since the turn of the year and continued high activity in the oil sector have supported momentum in the Norwegian economy since the turn of the year. Strong growth in oil investment acts as a cushion against negative effects from the global slowdown and fiscal policy has ample room to manoeuvre to provide stimuli if needed. With above-trend mainland GDP growth (excl. oil/gas and shipping) of 2.5-3% this and next year, Norway is set to outpace most other European economies in the years ahead. In the 2012 budget proposal, the Government estimates the general government budget surplus at 11.5% of GDP (well above the OECD average), and the spending of oil revenues to marginally undershoot the fiscal policy rule, at 3.9% of the Government Pension Fund – Global (GPF). In case of a marked slowdown in Norway, however, we reckon that the government will likely add more stimulus to the economy. Recall that fiscal policy added 2%-points to mainland GDP in 2009.

The Norges Bank cut the sight deposit rate by 25bp to 1.50% in March, aiming at easing the strong NOK and mitigating potential negative repercussions on the Norwegian economy (economic setback and even lower inflation) from the euro area debt crisis, despite sound domestic fundamentals. Global factors (and the NOK) remain the overriding focus for monetary policy in Norway, and we believe more profound signs of a global recovery remain a prerequisite for the Bank to start focusing on the strong domestic economy. This was confirmed by the new conditional interest rate path, which signals stable rates until 2Q/3Q 2013 (56% probability of a rate hike in 2Q). Hereafter, the sight deposit rate is seen rising gradually to 2.0% by end-2013 and 3.0% in late-2014. Norges Bank also took a new step, making it formal that the Bank will take into consideration the risk of financial instability in its interest rate decisions. Without this change to its loss function, the conditional rate path would have been markedly lower. Unless the krone appreciates markedly, we foresee no changes in the key policy rate until the second half of 2013. Domestic conditions do not warrant a lower policy rate and low rates could fuel a housing bubble (house prices continue to show steady gains and household debt stands at a whopping 207% of disposable income).

Figure 17. Norway – Economic Forecasts, 2011-16F

		History	Forecast				
		2011	2012	2013	2014	2015	2016
Real GDP	YY	2.7	2.5	2.9	2.7	2.7	2.9
Final Domestic Demand	YY	3.2	2.6	2.9			
Public Consumption	YY	1.6	2.3	2.2			
Private Consumption	YY	2.3	2.0	2.4			
Fixed Investment	YY	8.4	4.6	5.4			
Exports of Goods & Services	YY	1.2	2.4	4.8			
Imports of Goods & Services	YY	1.9	3.0	3.5			
Consumer Prices	YY	1.3	1.7	2.0	2.0	2.0	2.3
Unemployment Rate	%	3.3	3.4	3.4			
Current Account Balance	% GDP	14.0	14.3	14.9	15.2	15.8	16.5
General Government Balance	% GDP	12.0	12.5	13.5	15.0	17.0	18.5
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Avg)	%	2.10	1.50	1.60	1.90	2.40	2.90
Ten-year Yield (Period Average)	%	3.07	2.20	2.55	3.10	3.45	3.75
EUR-NOK FX Rate (Annual Avg)		7.84	7.55	7.50	7.50	7.49	7.48
USD-NOK FX Rate (Annual Avg)		5.66	5.82	5.92	5.73	5.63	5.53

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

Figure 18. Longterm Forecasts – GDP, CPI and Interest Rates, 2011-16F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Short-Term Interest Rates, %					
	History	Forecast					History	Forecast					History	Forecast				
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
Euro Area	1.5	-1	-0.2	0.8	1.2	1.7	2.7	2.8	1.9	1.3	1.1	1.2	1.19	1	0.63	0.5	0.5	0.75
Germany	3.1	0.9	1.6	1.5	1.8	1.7	2.3	2.2	2.3	2.3	2.2	2.2						
France	1.7	0.1	0.5	1.1	1.5	1.9	2.3	2.5	1.6	1.3	1.8	1.6						
Italy	0.4	-2.2	-0.9	0.4	0.7	1.8	2.9	3.6	2	0.2	0	0.9						
Spain	0.7	-2.7	-1.3	0.9	0.9	1.4	3.1	2	1.7	0.8	0.7	1.1						
Greece	-6.9	-6.5	-2.4	1	2.1	2	3.1	1.3	-0.3	0.2	1	1.1						
Ireland	0.7	-0.8	0.3	2.3	2.9	3.4	-0.4	0.2	0	0.3	0.5	0.5						
Portugal	-1.6	-5.4	-3	0.4	1.3	1.2	3.6	3.1	2	0.7	0.2	0.4						
Netherlands	1.3	-1.5	0.4	1.2	1.5	1.5	2.3	2.6	1.8	1.6	1.9	1.8						
Belgium	1.9	0	1.1	1.7	2.1	1.8	3.5	2.9	1.7	1.9	2.3	2.3						
Slovakia	3.3	1.5	2.1	NA	NA	NA	3.9	3.5	2.9	NA	NA	NA						
Slovenia	0.2	-1.2	1.3	NA	NA	NA	1.8	1.9	2.7	NA	NA	NA						
Austria*	3.1	0.9	1.8	2.2	2.1	2.1	3.6	2.2	1.9	1.9	1.9	1.9						
Estonia*	7.6	2.0	3.6	3.7	3.8	4.0	5.1	3.9	2.6	2.8	2.8	2.8						
Finland*	2.9	0.6	1.8	2.3	2.0	2.0	3.3	2.9	2.1	2.0	2.0	2.0						
Luxembourg*	1.0	-0.2	1.9	2.0	2.9	3.1	3.4	2.3	1.6	1.5	1.5	1.5						
Denmark	1.1	0.7	1.2	1.4	1.6	1.8	2.7	2	1.5	1.5	1.6	1.8	1.3	0.6	0.43	0.55	0.6	1
Norway	2.7	2.5	2.9	2.7	2.7	2.9	1.3	1.7	2	2	2	2.3	2.1	1.5	1.6	1.9	2.4	2.9
Sweden	4	0.7	1.9	2.6	2.7	2.7	2.9	1.2	1.9	1.9	2.1	2	1.8	1.2	1.1	1.6	2.1	2.5
Switzerland	1.9	0.7	0.9	1.5	1.6	1.6	0.2	-1.2	-1.3	-0.9	0.5	0.8	0.44	0	0	0	0	0
United Kingdom	0.6	0.2	1	1.5	2.2	3.2	4.5	2.8	2	1.9	1.7	1.7	0.5	0.5	0.5	0.5	1.04	2.04

Note: All forecasts are Citi forecasts except those marked with an asterisk. \*IMF World Economic Outlook, April 2012.  
Sources: EU Commission and Citi Investment Research and Analysis

Figure 19. Longterm Forecasts – Current Account, Fiscal Balance and Government Debt, 2011-16F

	Current Balance, Percent of GDP						Fiscal Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
Euro Area	-0.3	-0.3	-0.3	-0.1	0.1	0.2	-4.1	-3.3	-2.4	-1.8	-1.1	-0.4	88	94	97	97	95	93
Germany	5.8	5	4.4	4.7	4.8	5.1	-1	-0.6	-0.3	-0.1	0.4	0.8	81	81	80	78	75	72
France	-2.3	-2	-1.1	-0.4	0.2	0.4	-5.2	-4.4	-3.4	-2.2	-1	-0.3	85	91	95	96	94	91
Italy	-3.2	-2.8	-2.4	-2.1	-1.9	-1.6	-3.9	-2.6	-1.7	-1.6	-1	0.2	121	129	132	132	132	129
Spain	-3.5	-2.8	-2.2	-1.8	-1.6	-1.4	-8.5	-6.3	-5.3	-4.3	-3.7	-2.6	72	84	92	95	97	97
Greece	-9.6	-8.5	-7.5	-6.7	-5.6	-5.3	-9.3	-7.4	-6.2	-4.3	-3.5	-3.2	165	164	177	181	180	176
Ireland	0.1	4.2	4.2	7.1	9.3	11.6	-9.8	-9.6	-9.7	-7.7	-6.2	-6.1	105	117	127	131	132	133
Portugal	-8.1	-5	-2.9	-2	-1.8	-1.3	-4	-5.8	-3.5	-2.4	-2.1	-2	106	119	103	106	108	109
Netherlands	9	10	9.5	8.5	7.5	7.1	-4.7	-4.5	-3.5	-2.3	-1.5	-1	65	70	73	73	73	71
Belgium	-0.8	-0.2	0.3	1	2	2.4	-3.7	-2.9	-1.7	-1	-0.3	0.1	97	110	115	112	108	104
Slovakia	0.2	0.3	0.2	NA	NA	NA	-4.8	-4.8	-3.2	NA	NA	NA	43	46	48	NA	NA	NA
Slovenia	-1.5	-0.8	0.3	NA	NA	NA	-6.4	-4.3	-3.2	NA	NA	NA	48	52	54	NA	NA	NA
Austria*	1.2	1.4	1.4	1.5	1.6	1.6	-2.6	-3.1	-2.4	-2.0	-1.5	-1.2	72	74	74	73	72	71
Estonia*	3.2	0.9	-0.3	-1.9	-2.4	-2.9	1.0	-2.1	-0.5	-0.1	0.6	1.1	6	6	5	5	5	5
Finland*	-0.7	-1.0	-0.3	0.0	0.2	0.3	0.0	-1.4	-0.8	-0.3	-0.2	0.1	49	52	53	53	54	54
Luxembourg*	6.9	5.7	5.6	5.8	6.5	6.3	-0.7	-1.6	-2.0	-1.6	-1.7	-1.7	21	24	27	29	32	34
Denmark	6.5	5.4	5.2	3.7	3.3	3.5	-2.5	-5.2	-3.9	-2.6	-2.1	1	45	49	52	53	54	51
Norway	14	14.3	14.9	15.2	15.8	16.5	12	12.5	13.5	15	17	18.5	NA	NA	NA	NA	NA	NA
Sweden	7.2	7.5	7.8	6.7	6.9	7.3	0.1	-0.4	-0.2	0.5	1.5	1.9	37	37	36	34	31	27
Switzerland	15	13.8	14	14.2	14.7	15.7	0.6	0.2	-0.2	0	-0.1	-0.2	53	52	51	51	51	51
United Kingdom	-1.9	-1.6	0.2	1.1	1.7	2	-8.3	-6.5	-7.4	-6.6	-5.8	-4.5	83	88	94	99	102	103

Note: All forecasts are Citi forecasts except those marked with an asterisk. \*IMF World Economic Outlook, April 2012.  
Sources: EU Commission and Citi Investment Research and Analysis

## Appendix A-1

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