

European Economic Forecast Highlights

April 2013

- This document is a companion piece to [Global Economic Outlook and Strategy - April 2013](#). It contains **detailed quarterly economic forecasts** for the main European countries to end 2014.
- **Tables 19 and 20 give annual forecasts to 2017** for GDP growth, CPI inflation, short-term interest rates, current balance, fiscal balance and government debt.
- **Sovereign ratings outlook:** We expect very few sovereign ratings changes among advanced economies in the next 2-3 quarters, but anticipate a fairly widespread bias to ratings downgrades in the next 2-3 years. See Global Economic Outlook and Strategy (link above), pages 38-39 and Figure 45.
- Our 2013 global growth forecast is slightly weaker this month, with modest downgrades to forecasts for the euro area and China — which were already below consensus. We look for global growth of 2.6% in 2013 (2.7% last month), gradually strengthening to 3.1% in 2014. Our 2014 growth forecast is a little below the IMF's latest projection, reflecting in particular lower forecasts for Europe and China.
- We expect major central banks to keep policy loose or loosen further. With the euro area still in recession, and poor financing conditions in periphery countries, the ECB is likely to cut rates in May and again later this year. Even so, prospects for the euro area economy remain poor, and — with most periphery countries still, we think, on an unsustainable fiscal path — we still expect some further restructuring of government debts (possibly via OSI in some cases) and/or bank liabilities in a range of countries over time. The UK MPC probably will loosen further through a range of channels, including QE.
- We expect further generalised US dollar strength in coming months. We forecast the euro to trade between a strong USD and a weaker JPY.

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

	History	Forecast				
	2012	2013	2014	2015	2016	2017
Euro Area	0.88	0.50	0.25	0.25	0.31	0.75
Denmark	0.43	0.10	0.20	0.40	0.60	1.00
Norway	1.55	1.50	1.69	2.25	2.76	3.33
Sweden	1.45	0.89	0.75	1.07	1.73	2.29
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.

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We are slightly cutting our 2013 GDP forecast to -0.6% YY from -0.5%, but leave the 2014 forecast unchanged. Weakness in sentiment indicators points to GDP growth around zero in the rest of the year. Partly due to lower energy prices, we revise down our inflation forecast for 2013 and 2014.

There is some progress on the political front, including the likely approval of the Cyprus rescue package, agreement in principle to extend the maturity of official loans to Portugal and Ireland, and progress on the approval of the SSM. However, there has been almost no progress in giving the ESM the right to recapitalise banks directly. The Commission has said it intends to present a proposal for an SRM in June, but there is sizable disagreement between member states over how to fund this. Moreover, the economic situation in most periphery countries remains bleak. The Portuguese government struggles to find extra savings after the constitutional court decision, Italy's politics remain very fragile and rising unemployment will probably lift political risks and social unrest risks in almost all periphery countries. In our view, Greece and Cyprus remain likely to leave the monetary union over time.

Available data suggest that the Cyprus rescue package, including the bail-in of non-insured deposits, has not led so far to deposit flight in other countries. Without increased pressure on bank funding, additional far-reaching non standard measures are unlikely for the time being. While the ECB wants to contribute to improving lending conditions to SMEs, we suspect the central bank will take only limited action. Recent comments suggest that more Council members acknowledge the ongoing economic weakness and falling inflationary pressure, suggesting that the ECB will cut the refi rate by 25bp to 0.5% in May.

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	-0.6	-0.3				-0.1	-0.5	-0.6	-0.9	-0.9	-0.7	-0.6	-0.2	-0.4	-0.4	-0.4	0.0
	QQ SAAR							-0.2	-0.7	-0.3	-2.3	-0.2	0.2	0.0	-0.8	-1.0	0.1	0.2	0.8
Final Domestic Demand	YY	-1.5	-0.9	-0.2				-1.1	-1.4	-1.7	-1.7	-1.4	-0.9	-0.9	-0.5	-0.5	-0.4	-0.1	0.3
Private Consumption	YY	-1.2	-0.5	0.2				-1.1	-1.1	-1.5	-1.2	-1.0	-0.6	-0.5	0.0	0.0	0.1	0.3	0.5
Public Consumption	YY	-0.1	-0.8	-0.5				0.1	-0.1	-0.1	-0.2	-0.4	-0.5	-1.0	-1.4	-1.2	-1.0	-0.2	0.4
Fixed Investment	YY	-3.9	-2.3	-1.2				-2.5	-3.9	-4.4	-4.9	-3.9	-2.4	-1.8	-1.2	-1.3	-1.2	-1.5	-0.7
-- Business Equipment	YY	-3.4	-2.2	-1.3				-1.0	-3.1	-4.6	-5.1	-4.1	-2.5	-1.3	-0.8	-1.2	-0.8	-1.9	-1.1
-- Construction	YY	-4.3	-2.6	-1.0				-3.8	-4.7	-4.2	-4.7	-3.9	-2.5	-2.4	-1.6	-1.5	-1.4	-0.9	-0.2
Stocks (Contrib. to YY GDP Growth)		-0.4	-0.2	0.0				-0.4	-0.6	-0.5	-0.3	-0.3	-0.4	-0.1	-0.1	-0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	2.9	2.1	0.8				2.5	3.6	3.2	2.2	2.5	1.8	1.5	2.4	1.1	0.6	0.4	1.2
Imports of Goods and Services	YY	-0.9	0.4	0.5				-1.1	-0.7	-1.0	-0.6	0.2	0.0	0.2	1.1	0.3	0.2	0.4	1.3
Consumer Prices	YY	2.5	1.6	1.3				2.7	2.5	2.5	2.3	1.8	1.6	1.6	1.3	1.3	1.3	1.2	1.2
Core CPI	YY	1.5	1.3	1.1				1.5	1.6	1.6	1.5	1.3	1.2	1.5	1.3	1.2	1.2	1.0	0.9
CPI Ex Energy and Unprocessed Food	YY	1.8	1.6	1.2				1.9	1.8	1.7	1.6	1.5	1.6	1.7	1.6	1.4	1.3	1.1	1.0
Unemployment Rate	YY	11.4	12.2	12.4				10.9	11.3	11.5	11.8	12.0	12.1	12.2	12.3	12.4	12.4	12.5	12.5
Current Account Balance	€ bn	118.3	242.2	224.2															
	% GDP	1.2	2.5	2.3															
General Government Balance	€ bn	-329.9	-262.8	-231.7															
	% GDP	-3.5	-2.7	-2.4															
Primary Balance	% GDP	-0.4	0.3	0.6															
General Government Debt	€ bn	8703.3	9106.8	9101.4															
	% GDP	91.7	94.7	93.4															
Gross Operating Surplus	YY	-0.1	0.0	0.2															
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.88	0.50	0.25				1.00	0.75	0.75	0.75	0.75	0.50	0.50	0.25	0.25	0.25	0.25	0.25
Ten-year Bund yield (Period Avg.)	%	1.57	1.41	1.48				1.88	1.49	1.41	1.43	1.57	1.40	1.40	1.30	1.30	1.40	1.50	NA
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.28	1.28	1.23				1.33	1.26	1.29	1.32	1.28	1.31	1.28	1.25	1.24	1.23	1.22	1.21

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

Germany

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We leave our economic forecasts roughly unchanged, but are cutting the inflation forecasts partly due to recent softer CPI data and lower oil prices. While we expect further declines in sentiment indicators in coming months, available data so far continue to support our forecast of broad-based economic recovery in 1H 2013. We do not expect major action on the political side, given the approaching general election (September 22) and the ability of the SPD and Greens (with their majority in the upper house) to block initiatives of the ruling CDU/CSU and FDP coalition. Angela Merkel is likely to stay as chancellor after the election, and the CDU/CSU has seen improving support in recent polls. But, the election outcome remains uncertain because it is still unclear if the FDP will be able to enter parliament. In addition, the new eurosceptic party "Alternative for Germany" might get more attention in the election campaign.

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

		History			Forecast			History				Forecast							
		2012	2013	2014				1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.9	0.8	0.8				1.2	1.0	0.9	0.4	0.4	0.6	0.7	1.4	0.8	0.5	0.6	1.1
	QQ SAAR							2.0	1.1	0.9	-2.4	1.9	2.1	1.1	0.4	-0.5	1.0	1.5	2.6
Final Domestic Demand	YY	0.3	0.9	1.3				0.9	0.7	-0.2	-0.3	0.1	0.9	1.2	1.5	1.4	1.3	1.1	1.3
	QQ SAAR							0.1	-1.3	0.2	0.0	1.6	1.9	1.2	1.4	0.9	1.6	0.6	2.0
Private Consumption	YY	0.6	1.4	1.2				0.6	1.3	0.0	0.4	0.8	1.2	1.5	1.9	1.4	1.0	1.1	1.1
	QQ SAAR							0.6	0.7	0.0	0.3	2.4	2.2	1.2	1.9	0.4	0.6	1.6	1.6
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	0.7	0.8	1.0	1.2
	QQ SAAR							2.4	-1.4	2.9	1.6	1.2	0.8	0.4	0.4	1.2	1.2	1.2	1.2
Fixed Investment	YY	-2.0	-0.7	1.9				0.5	-1.7	-2.6	-4.0	-3.2	-0.8	0.2	1.2	1.8	2.6	1.2	2.0
	QQ SAAR							-3.9	-7.4	-1.8	-2.9	-0.5	2.2	2.2	0.8	2.1	5.3	-3.3	4.2
-- Business Equipment	YY	-4.1	-3.1	0.7				1.3	-2.8	-6.5	-8.1	-6.9	-3.9	-1.3	0.1	0.7	2.2	-1.0	0.8
	QQ SAAR							-4.5	-11.6	-8.6	-7.5	0.5	0.5	1.5	-1.9	2.8	6.6	-10.8	5.6
-- Construction	YY	-0.9	0.8	2.9				-0.4	-1.4	-0.1	-1.6	-1.2	1.1	1.2	2.2	2.9	2.9	3.0	2.8
	QQ SAAR							-3.3	-5.4	2.9	-0.4	-1.7	3.8	3.2	3.7	1.1	3.5	3.8	2.8
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	-0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	4.3	2.5	2.0				2.9	5.7	5.1	3.4	3.8	1.8	1.2	3.4	2.1	1.3	1.6	3.0
	QQ SAAR							3.0	13.8	6.1	-7.9	4.3	5.5	3.6	0.3	-1.0	2.2	5.1	5.7
Imports of Goods and Services	YY	2.2	3.0	3.1				2.7	2.8	1.7	1.5	3.2	2.1	2.6	3.9	3.2	3.0	2.7	3.3
	QQ SAAR							-2.9	9.5	2.6	-2.6	3.6	4.9	4.8	2.2	1.2	3.8	3.7	4.7
Net Exports (Contrib. to YY GDP Growth)		1.2	0.0	-0.3				0.7	0.7	0.5	-0.8	0.1	0.2	-0.1	-0.2	-0.3	-0.1	0.2	0.2
Consumer Prices	YY	2.0	1.4	2.1				2.1	1.9	2.0	2.0	1.5	1.4	1.4	1.0	1.8	2.1	2.2	2.3
Compensation per Employee	YY	2.8	3.2	3.1				2.5	2.7	2.9	3.0	3.3	3.2	3.1	3.0	3.0	3.1	3.1	3.1
Employment Growth	YY	1.1	0.3	0.3				1.4	1.2	1.1	0.8	0.4	0.3	0.2	0.3	0.4	0.4	0.3	0.2
Unemployment Rate (ILO)	%	5.5	5.3	5.4				5.6	5.5	5.5	5.4	5.4	5.3	5.3	5.3	5.3	5.3	5.4	5.5
Current Account Balance	€ bn	185.4	181.4	151.4															
	% GDP	7.0	6.7	5.5															
General Government Balance	€ bn	2.2	-5.3	-6.7															
	% GDP	0.1	-0.2	-0.2															
Primary Balance	% GDP	2.4	1.9	1.6															
General Government Debt	€ bn	2162.3	2183.7	2200.1															
	% GDP	82.4	81.8	80.9															
Gross Trading Profits	YY	-1.9	-3.2	-3.3				2.1	0.8	-4.0	-6.6	-10.5	-9.3	-0.9	9.0	-10.3	-1.0	-2.2	-0.1

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With the resignation of Budget minister Cahuzac and some cabinet ministers openly criticising the government's "austerity" strategy, all eyes are on France this spring. We believe that the French economy is on the cusp of a triple-dip recession, and expect that GDP growth in 2013 and 2014 (averaging zero) will disappoint compared to both the EU Commission and consensus forecasts. We believe that the combination of a weak economic environment in the euro area, the precedent of fiscal target relaxation and the new EU focus on structural budget deficits make it unlikely that the government will find the sums needed (at least €20bn, 1% of GDP) to beat the 2.9% 2014 budget deficit objective. While the government's very low (and still falling) popularity levels highlight some implementation risks, we think that more reforms aimed at reducing France's high share of public expenditure will have to be initiated in the coming quarters and years to reassure voters and investors.

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

		History			Forecast			History								Forecast							
		2012	2013	2014				1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	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	2.0	1.0	1.5				2.3	2.0	2.0	1.5	1.1	0.9	1.0	1.0	1.4	1.5	1.5	1.6				
Average Monthly Wages	YY	2.0	1.4	2.0																			
Employment Growth (Private-Sector)	YY	-0.2	-0.4	0.7																			
Unemployment Rate	%	9.9	10.9	11.1				9.6	9.8	9.9	10.2	10.6	10.9	11.0	11.1	11.0	11.1	11.1	11.0				
Current Account Balance	€ bn	-49.3	-35.3	-19.7																			
	% GDP	-2.4	-1.7	-0.9																			
General Government Balance	€ bn	-98.2	-73.6	-63.5																			
	% GDP	-4.8	-3.6	-3.1																			
Primary Balance	% GDP	-2.4	-1.7	-0.9																			
General Government Debt	€ bn	1833.8	1937.3	2008.2																			
	% GDP	90.2	95.0	96.7																			
Gross Trading Profits	YY	-0.9	0.0	1.0																			

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

Italy

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The recession is likely to remain deep in H1 13. Fiscal tightening is severe, although less than in 2012, and credit conditions are very tight due to banks' weak capital and worsening asset quality. However, the recently-approved €40bn repayment in government arrears (2.5% of GDP) will likely lift GDP in Q4 13 and 2014 (by about 0.4%), mainly via higher investment. But this will likely lift the fiscal deficit above 3% of GDP this year, as political uncertainties likely will prevent measures to counteract the widening trend. Settling arrears would also lift the debt ratio by about 3pp, taking it close to 140% in 2014 on our estimates. Some form of debt restructuring (via maturity extension or interest rate reduction) may be likely over time.

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

		History			Forecast			History				Forecast							
		2012	2013	2014				1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-2.4	-1.6	-1.2				-1.6	-2.6	-2.6	-2.8	-2.1	-1.7	-1.6	-0.9	-0.9	-0.9	-1.3	-1.6
	QQ SAAR							-3.7	-3.0	-0.8	-3.7	-1.0	-1.3	-0.5	-0.6	-1.3	-1.2	-2.2	-1.6
Final Domestic Demand	YY	-4.7	-2.4	-1.3				-4.1	-4.9	-5.1	-4.6	-3.2	-2.6	-2.0	-1.7	-1.5	-1.2	-1.3	-1.2
	QQ SAAR							-7.7	-4.5	-3.7	-2.4	-2.1	-2.1	-1.3	-1.3	-1.2	-1.1	-1.5	-1.1
Private Consumption	YY	-4.3	-2.4	-1.0				-3.5	-4.4	-4.8	-4.4	-3.4	-2.8	-1.9	-1.6	-1.3	-1.0	-0.9	-0.8
	QQ SAAR							-6.0	-4.4	-4.5	-2.6	-2.0	-2.0	-1.2	-1.2	-0.8	-0.8	-0.8	-0.8
Public Consumption	YY	-2.9	-0.8	-0.3				-3.0	-3.2	-2.9	-2.5	-1.0	-0.6	-0.7	-1.1	-0.8	-0.5	-0.1	0.2
	QQ SAAR							-7.0	-2.6	-0.5	0.4	-1.1	-1.1	-1.1	-1.1	0.2	0.2	0.2	0.2
Fixed Investment	YY	-8.0	-4.0	-3.6				-7.2	-8.6	-8.5	-7.6	-5.1	-4.3	-3.7	-3.0	-3.0	-3.0	-3.9	-4.4
	QQ SAAR							-13.9	-6.9	-4.5	-4.8	-3.9	-3.9	-2.0	-2.0	-3.9	-3.9	-5.9	-3.9
-- Business Equipment	YY	-9.6	-2.8	-3.1				-7.8	-11.0	-10.8	-8.7	-5.6	-3.5	-1.8	-0.4	-0.9	-1.5	-3.9	-6.0
	QQ SAAR							-14.2	-9.9	-4.9	-5.4	-1.9	-1.9	2.2	0.0	-3.9	-3.9	-7.8	-8.2
-- Construction	YY	-6.4	-5.1	-4.0				-6.6	-6.2	-6.2	-6.6	-4.6	-5.0	-5.4	-5.4	-4.9	-4.4	-3.9	-2.9
	QQ SAAR							-13.6	-4.0	-4.2	-4.2	-5.9	-5.9	-5.9	-3.9	-3.9	-3.9	-3.9	0.4
Exports of Goods and Services	YY	2.2	2.3	-2.7				1.9	2.5	2.5	1.9	3.7	2.8	1.7	1.1	-1.4	-2.4	-3.4	-3.6
	QQ SAAR							-2.2	4.0	4.8	1.1	5.0	0.4	0.3	-1.3	-4.7	-4.0	-3.4	-2.4
Imports of Goods and Services	YY	-7.8	-2.2	-3.1				-9.0	-7.5	-8.0	-6.6	-2.7	-2.8	-1.8	-1.4	-3.1	-3.5	-3.1	-2.8
	QQ SAAR							-13.7	-2.2	-6.5	-3.7	1.8	-2.5	-2.6	-2.3	-4.8	-4.4	-1.0	-0.7
Net Exports (Contrib. to YY GDP Growth)		2.8	1.3	0.0				3.1	2.8	3.0	2.4	1.8	1.6	1.0	0.7	0.4	0.2	-0.2	-0.4
Consumer Prices	YY	3.3	1.9	1.2				3.6	3.6	3.4	2.6	2.1	1.6	1.9	2.0	1.6	1.5	1.0	0.6
Employment Growth		-0.2	-0.8	-0.3															
Unemployment Rate	%	10.6	11.9	12.3															
Current Account Balance	€ bn	-10.0	-4.8	-2.7															
	% GDP	-0.6	-0.3	-0.2															
General Government Balance	€ bn	-47.3	-54.5	-54.4															
	% GDP	-3.0	-3.5	-3.5															
Primary Balance	% GDP	2.4	2.2	2.5															
General Government Debt	€ bn	1990	2075	2156															
	% GDP	127.1	133.2	139.3															

Note: We assume sovereign debt restructuring in 2015. Percentage changes unless indicated. Annual data are period averages.

Sources: Bank of Italy, ECB, Eurostat, ISTAT and Citi Research

Spain

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The economy remains weak, and probably shrank by about 0.5% QoQ in Q1 13, reflecting heavy fiscal drag, tight financing conditions, ongoing private deleveraging and the housing adjustment. While the 2012 fiscal deficit was slightly below our forecasts, we see it narrowing only marginally in 2013-14 (new fiscal targets to be presented on 26 April). Public debt is likely to exceed 100% of GDP by end-2014 in our view, possibly lifted by additional bank recap costs. We still expect Spain to enter a precautionary ESM programme this year and, eventually, some form of debt restructuring (maturity extensions/coupon reductions) probably will be needed.

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	-1.4	-2.2	-2.1				-0.7	-1.4	-1.6	-1.9	-2.0	-2.1	-2.3	-2.4	-2.6	-2.4	-2.1	-1.2
	QQ SAAR							-1.7	-1.6	-1.3	-3.2	-1.8	-2.3	-2.0	-3.5	-2.8	-1.3	-0.9	0.3
Final Domestic Demand	YY	-4.0	-5.2	-3.6				-3.2	-3.8	-4.2	-4.8	-5.3	-5.0	-5.5	-5.1	-5.2	-4.8	-3.1	-1.2
	QQ SAAR							-1.8	-5.3	-4.3	-7.7	-3.9	-3.8	-6.6	-5.9	-4.4	-2.4	0.3	1.9
Private Consumption	YY	-2.2	-3.9	-1.1				-1.3	-2.2	-2.1	-3.0	-4.3	-4.3	-4.3	-2.7	-2.4	-1.6	-0.8	0.2
	QQ SAAR							2.1	-4.3	-2.1	-7.6	-3.4	-4.2	-2.0	-1.3	-2.1	-0.9	1.4	2.7
Public Consumption	YY	-3.7	-6.6	-6.7				-3.8	-2.8	-4.0	-4.1	-4.2	-4.8	-6.9	-10.5	-9.8	-9.3	-5.3	-1.7
	QQ SAAR							-4.2	-1.2	-9.8	-1.0	-4.7	-3.4	-17.7	-15.2	-1.6	-1.6	-2.0	-1.6
Fixed Investment	YY	-9.1	-7.3	-7.5				-7.4	-9.2	-9.7	-10.3	-9.1	-6.9	-7.5	-6.0	-8.2	-9.3	-7.7	-4.8
	QQ SAAR							-9.4	-11.9	-4.9	-14.6	-4.6	-2.9	-7.3	-9.0	-13.4	-7.5	-0.7	3.2
-- Business Equipment	YY	-4.5	-6.5	-8.1				-3.2	-4.4	-4.4	-6.2	-7.2	-5.3	-8.1	-5.3	-8.6	-10.5	-8.4	-5.0
	QQ SAAR							-0.5	-6.1	4.7	-20.8	-4.8	1.8	-7.2	-10.7	-17.1	-6.6	1.7	3.2
-- Construction	YY	-11.5	-7.8	-7.2				-9.5	-11.6	-12.5	-12.4	-10.1	-7.7	-7.1	-6.4	-8.1	-8.7	-7.4	-4.7
	QQ SAAR							-13.8	-14.8	-9.8	-10.9	-4.5	-5.5	-7.4	-8.0	-11.3	-8.0	-2.0	3.2
Exports of Goods and Services	YY	3.0	4.6	-1.6				2.1	2.7	4.2	3.2	7.0	5.7	2.6	3.0	-0.3	-0.9	-3.0	-2.0
	QQ SAAR							-9.9	7.3	21.8	-3.7	4.3	2.2	8.0	-2.2	-8.3	-0.4	-1.1	1.9
Imports of Goods and Services	YY	-5.0	-5.5	-6.3				-5.9	-5.2	-3.4	-5.4	-4.4	-3.9	-8.1	-5.8	-8.5	-8.5	-6.2	-1.9
	QQ SAAR							-7.7	-5.2	11.3	-17.9	-3.5	-3.3	-6.7	-9.5	-14.1	-3.4	3.1	8.2
Net Exports (Contrib. to YY GDP Growth)		2.4	3.0	1.2				2.4	2.3	2.3	2.6	3.4	2.9	3.2	2.6	2.3	2.1	0.7	-0.2
Consumer Prices	YY	2.4	1.6	0.7				1.9	1.9	2.8	3.2	2.8	2.2	1.0	0.5	0.5	0.7	0.8	0.9
Compensation per Employee	YY	0.3	-0.1	0.0															
Employment Growth	YY	-4.5	-2.8	-2.0				-3.9	-4.9	-4.6	-4.8	-4.0	-3.0	-2.3	-2.0	-2.7	-2.9	-2.0	-0.3
Unemployment Rate	%	25.0	27.0	28.1				24.4	24.6	25.0	26.0	27.4	26.8	26.4	27.6	29.0	28.5	27.5	27.5
Current Account Balance	€ bn	-11.3	25.7	38.8															
	% GDP	-1.1	2.5	3.8															
General Government Balance	€ bn	-111.5	-66.5	-60.4															
	% GDP	-10.6	-6.4	-5.9															
Primary Balance	% GDP	-7.6	-2.6	-1.6															
General Government Debt	€ bn	883.9	977.4	1082.1															
	% GDP	84.1	94.6	104.9															

Note: We assume sovereign debt restructuring in 2015. Percentage changes unless indicated. Annual data are period averages.
Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research

Greece

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Despite another positive troika review — which still states that public debt is sustainable — progress in restoring fiscal sustainability remains limited, in our view. The fiscal numbers remain on track because of large declines in interest spending after last year's debt restructuring, but the recession continues and probably is deeper than the programme's baseline scenario (2013 GDP: -4.6%). In the near term, some negative spillover effects from Cyprus are likely to hit Greece's economy. Barring a major write-off of official loans to restore debt sustainability, we still believe there is a fairly high probability that Greece will leave the euro area.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-6.0	-11.2	-3.9	1.6	2.7
Final Domestic Demand	YY	-9.7	-7.0	-11.7	-5.5	0.1	1.6
Private Consumption	YY	-9.1	-6.7	-13.1	-7.9	-1.0	1.3
Fixed Investment	YY	-19.0	-12.8	-21.1	-8.1	4.1	3.5
Exports of Goods & Services	YY	-2.0	-1.5	-16.1	-1.7	5.1	5.7
Imports of Goods & Services	YY	-9.3	-5.4	-17.5	-8.3	-0.7	1.3
Consumer Prices	YY	1.0	0.0	17.3	13.4	8.0	6.8
Unemployment Rate	%	24.1	28.7	34.1	38.6	38.7	37.7
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	-14.2	-10.8	-0.8	-0.2	2.8	4.7
	% GDP	-7.3	-5.6	-1.1	-0.3	3.0	4.3
Primary Balance	% GDP	-2.0	-1.3	-1.1	-0.3	3.0	6.7
General Government Debt	€ bn	308.1	321.8	304.9	300.9	279.9	88.7
	% GDP	159.0	179.8	402.0	361.5	294.0	81.0

Note: We assume Grexit in 2014. We assume sovereign debt restructuring in 2017.

Percentage changes unless indicated. Annual data are period averages.

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

Portugal

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Although the government has recently obtained an extra year to achieve its deficit targets and a 7-year maturity lengthening of bailout loans (effectively a form of OSI), the Constitution Court ruling against deficit-cutting measures for 0.8% of GDP will require additional fiscal tightening measures to be found for this year. This is likely to keep the economy very weak and probably also to weaken the support for the bailout programme and the government. With about half of the debt in official hands, we think some combination of further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may be eventually required to restore sustainability.

Figure 8. Portugal – Economic Forecasts, 2014-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-3.7	-2.8	0.0	1.1	1.0
Final Domestic Demand	YY	-6.9	-5.2	-2.8	-0.2	0.7	0.8
Private Consumption	YY	-5.6	-4.6	-1.1	0.2	0.7	0.8
Fixed Investment	YY	-14.5	-9.0	-10.4	-2.1	0.5	1.2
Exports	YY	3.3	0.5	-3.2	1.3	3.0	2.9
Imports	YY	-6.9	-3.2	-3.9	0.9	2.1	2.4
Consumer Prices	YY	2.8	0.3	0.5	0.5	0.6	0.5
Unemployment Rate	%	15.7	17.9	19.9	19.7	18.6	17.7
Current Account Balance	€ bn	-5.8	-0.5	2.6	3.9	4.5	5.0
	% GDP	-3.5	-0.3	1.7	2.6	2.9	3.2
General Government Balance	€ bn	-10.6	-9.1	-9.3	-8.0	-7.2	-7.2
	% GDP	-6.4	-5.7	-6.1	-5.2	-4.6	-4.5
Primary Balance	% GDP	-2.0	-0.8	-0.7	0.5	1.3	1.5
General Government Debt	€ bn	204.4	217.3	229.0	237.0	244.2	251.4
	% GDP	123.6	136.9	148.7	153.6	155.7	157.9

Note: We assume sovereign debt restructuring in 2015.

Percentage changes unless indicated. Annual data are period averages.

Sources: BdP, INE and Citi Research forecasts

Ireland

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Available data suggest that GDP rose slightly in Q1, perhaps by 0.1% QQ or so, after zero growth in Q4. Exports have fallen 7.5% YY in the last three months in nominal terms, the biggest drop since early 2010. Nevertheless, the IMF's latest update shows benefits of the recent promissory note deal, with debt service payments revised down by €1.2bn for 2013, similar amounts in 2014-16, and by €1.7bn for 2017. In the IMF's forecasts, these savings will be divided between debt repayment and extra spending. The agreement to extend maturities on official loans will provide further fiscal flexibility to absorb possible economic weakness.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	0.9	0.8	2.0	2.4	2.7	2.7
Real GNP	YY	3.4	0.4	1.4	1.8	2.1	2.1
Final Domestic Demand	YY	-1.2	0.3	-0.8	-0.8	-0.7	-0.6
Private Consumption	YY	-0.9	1.4	-0.1	-0.3	-0.4	-0.3
Fixed Investment	YY	1.1	-1.4	-3.2	-3.6	-3.5	-3.3
Government Consumption	YY	-3.8	-2.5	-1.3	-0.5	0.0	0.0
Exports of Goods and Services	YY	2.9	1.8	3.9	5.6	5.9	5.6
Imports of Goods and Services	YY	0.3	1.2	1.9	4.3	4.3	4.1
Net Trade		2.4	0.3	2.9	2.9	3.4	3.3
GDP Deflator	YY	1.9	1.3	1.4	1.6	1.6	1.6
Nominal GDP	YY	2.9	2.1	3.4	4.1	4.4	4.3
House Prices	YY	-12.8	-0.9	1.0	1.0	1.0	2.1
Unemployment Rate	%	14.7	13.9	13.7	13.6	13.5	13.5
Employment	YY	-0.6	0.6	-0.2	-0.4	-0.3	0.1
Current Account Balance	€ bn	7.3	7.7	9.2	10.4	12.2	13.5
	% GDP	4.4	4.6	5.3	5.8	6.5	6.9
General Government Balance	€ bn	-12.0	-12.3	-7.8	-4.2	-3.0	-2.3
	% GDP	-7.3	-7.4	-4.5	-2.3	-1.6	-1.2
Primary Balance	% GDP	-3.4	-1.8	0.6	2.7	3.2	3.5
General Government Debt	€ bn	192.0	203.9	208.3	210.7	214.2	216.6
	% GDP	117.4	122.1	120.6	117.2	114.2	110.7

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

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

Netherlands

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We expect the Dutch economy to continue underperforming the euro area average in 2013, having to deal with very weak business confidence, sizeable fiscal tightening and deleveraging as the housing market experiences the fifth successive year of price declines (-18% since Aug-09 peak). We estimate that the euro area's fifth's largest economy is continuing to contract at an annualised rate close to 1% in 1Q 2103. We see clear risks of some further underperformance extending into 2014. Like many of its peers, the Netherlands is under pressure to deliver structural reforms, with the European Commission focusing on housing market related issues.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-1.0	-1.0	0.0	1.0	1.2	1.6
Final Domestic Demand	YY	-1.6	-1.6	-0.7	0.3	0.4	0.8
Public Consumption	YY	0.0	-0.9	-0.7	0.0	0.3	0.7
Private Consumption	YY	-1.4	-1.8	-0.4	0.4	0.5	0.8
Fixed Investment (ex Stocks)	YY	-4.6	-2.6	-1.2	0.4	0.7	1.1
Stocks (Contrib. to YY GDP Growth)		0.1	0.0	0.0	0.2	0.1	0.1
Exports of Goods and Services	YY	3.3	1.8	1.4	2.7	3.1	3.5
Imports of Goods and Services	YY	3.1	1.6	0.7	2.3	2.7	3.1
Net Exports (Contrib. to YY GDP Growth)		0.4	0.3	0.6	0.6	0.7	0.7
Consumer Prices	YY	2.8	2.8	1.8	1.6	1.8	1.8
Unemployment Rate	%	6.4	7.9	8.3	8.4	7.9	6.8
Current Account Balance	€ bn	59.7	57.0	55.0	60.0	62.0	65.0
	% GDP	9.9	9.5	9.0	9.6	9.7	9.9
General Government Balance	€ bn	-25.0	-23.0	-19.6	-11.0	-9.7	-3.6
	% GDP	-4.2	-3.8	-3.2	-1.8	-1.5	-0.5
Primary Balance	% GDP	-2.4	-2.0	-1.2	0.2	0.6	1.6
General Government Debt	€ bn	429.0	455.3	477.0	488.0	497.7	501.4
	% GDP	71.4	75.5	78.1	78.2	77.8	76.2

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

Sources: DNB, CBS and Citi Research

Belgium

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Belgium is preparing to abandon its 2.15% of GDP 2013 budget deficit target, working instead on a 2.5% target, but still targeting structural adjustments worth 1ppt of GDP. This still requires the government to identify €1.2bn (€1.5bn including social security) of savings on top of the €3.4bn of savings already pencilled in the 2013 budget. The press suggests that the government is considering a 1ppt hike in the VAT rate to 22%, a tax on air travel, and/or an increase in alcohol and tobacco excise duties.

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	-0.7	0.0	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	0.3	0.5	0.7	1.1	1.3
Fixed Investment (ex Stocks)	YY	-0.5	-0.6	1.4	2.2	2.6	3.0
Exports of Goods and Services	YY	0.4	0.0	1.1	3.5	3.9	4.3
Imports of Goods and Services	YY	-0.1	-0.3	1.4	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.3	2.0	2.0	2.0	2.1
Unemployment Rate	%	7.6	8.3	8.2	7.8	7.4	7.0
Current Account Balance	€ bn	-5.2	-5.1	-4.4	-2.7	-0.4	2.0
	% GDP	-1.4	-1.3	-1.1	-0.7	-0.1	0.5
General Government Balance	€ bn	-10.9	-9.5	-8.0	-5.4	-3.4	-0.2
	% GDP	-2.9	-2.5	-2.0	-1.3	-0.8	-0.1
Primary Balance	% GDP	-0.6	0.0	0.8	1.7	2.5	3.3
General Government Debt	€ bn	414.8	444.9	454.1	459.5	462.9	463.2
	% GDP	110.0	115.7	115.4	113.0	109.9	105.9

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

Slovakia

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Larger foreign trade surplus likely to keep GDP growth positive. Weaker industrial production reflects deteriorating export activity: 3.7% YY in February from 7.6% the previous month (and 10.6% in 2012). However, import dynamics fell even more. As a result, the year-to-date trade surplus reached €0.8bn in first two months of 2013, the largest ever. Hence, we keep our forecast of further easing of GDP quarterly growth to zero in 1Q13 from an average 0.3% in 2012. As result, GDP growth should decelerate to 0.9% YY in 1Q13 and 0.7% in the whole of 2013. The easing of growth reflects ongoing contraction in retail sales (likely 2% YY in 1Q13), and deceleration of industrial activity to 4.3% YY (swda) in 1Q13 from 6% a quarter ago. Fixed investment is likely to fall further given lower utilization of capacity in industry in early 1Q13. Thus, as in the prior quarter, net foreign trade is likely to be the only contributor to GDP growth, while domestic demand is likely to fall. Though monthly data on employment in the business sector remained virtually unchanged in the first two months of this year, employment in industry has continued to fall by 1.6% YY in February 2013, though milder compared to -2.6% in 4Q12.

Manufacturing confidence improved substantially to levels last seen in mid-2012, but is driven mainly by expectations, while order-books deteriorated further to levels we saw in 1H09. Our forecasts for 2013 and 2014 GDP growth (0.7% and 1.6%) are below the MinFin's expectations of 1.2% and 2.9% and NBS's latest forecasts of 0.7% and 2.8%, respectively.

The general government deficit narrowed to 4.5% of GDP in 2012 despite the central government deficit widening to -5.3%. In the first three months of 2013 the central government deficit reached €-1bn, narrower by €0.2bn compared to the same period in 2012. The improvement reflects a larger drop in expenditures (-8% YY year-to-date vs. -5% a month ago), but revenues deteriorated by 3.7% YY (+1.5% a month ago). As a result, the 12m cumulative budget deficit is €3.6bn in March, €0.2bn better compared to €3.8bn a year ago (-5% of GDP vs. -5.4% of GDP a year ago). However, the seasonal pattern of tax revenue and expenditure suggests the risk of a wider deficit. However, the revenues have partly underperformed due to lower EU funds inflow (-31% YY) that could improve later. Though MinFin is aware of lower tax revenues this year, it is not hurrying to introduce austerity measures.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	2.0	0.7	1.6	2.7	2.9	3.4
Final Domestic Demand	YY	-1.4	-0.4	1.2	2.6	3.5	3.5
Public Consumption		-0.6	-1.4	0.0	1.5	1.9	1.9
Private Consumption	YY	-0.6	0.1	0.5	2.0	3.0	3.0
Fixed Investment	YY	-3.7	-1.1	3.5	4.6	5.6	5.6
Exports	YY	8.6	3.3	2.9	4.6	5.8	6.7
Imports	YY	2.8	1.3	2.4	4.8	6.5	7.6
Consumer Prices	YY	3.6	2.2	2.5	2.6	2.6	2.6
Unemployment Rate	%	13.6	14.6	15.1	14.7	13.9	13.9
Current Account Balance	% GDP	2.3	3.7	3.2	2.4	1.3	0.0
General Government Balance	% GDP	-4.4	-3.2	-2.9	-2.6	-2.1	-1.8
Government Primary Balance	% GDP	-2.9	-1.7	-1.4	-1.1	-0.6	-0.3
General Government Debt	% GDP	51.4	52.8	53.7	54.0	54.6	54.3

Sources: National sources and Citi Research forecasts

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Slovenia

A slightly worse outlook on foreign demand is behind our gloomier GDP forecast in 2013 and tighter fiscal policy behind our gloomier 2014 forecast. By contrast, some monthly figures, including confidence indicators, suggest a milder GDP contraction compared with the end of 2012. Industrial production accelerated to 3.4% YY (wda) in February from -1.8% a month ago. As manufacturing confidence improved slightly further in March, the February improvement in industrial production is likely to continue somewhat. Although the assessment by manufacturing firms of their export order books slightly worsened in March (but was still close to levels last seen in Feb-Mar 2012), this indicator still suggests some improvement in export growth to around 5% YY, from 3% in Jan-Feb 2013. However, this is probably not enough to improve employment expectations in manufacturing that still point to a decline in employment of 2%-4% YY (-3.7% YY in January 2013).

The EU Commission's in-depth review found excessive macroeconomic imbalances in Slovenia which, although still manageable, are quickly building up. This particularly concerns the high indebtedness of non-financial companies (although private debt in Slovenia is relatively low) that continues to put adverse pressure on the Slovenian banking sector. This is another reason for Slovenia to commit to quick and large-scale privatization as capital transfers into publicly owned companies (not only banks) have also been the source of a larger government deficit in recent years. Proposed measures should be incorporated into the National Reform Programme and Stability and Convergence Programme, before the EC makes policy recommendations (including EDP) on 29 May.

The fiscal rule discussion has been postponed to 7 May, apparently a consensual decision by political leaders, who want to see the impact of the fiscal rule (balanced budget) in exact figures, so as to ensure implementation already in 2015 or 2016 is realistic.

Markets will focus on three issues, which will be key for government to regain creditworthiness. i) privatisation proposals for both banking and non-banking sectors (by end of April); ii) the Stability programme to tackle the EC's assessment of excessive microeconomic imbalances (9 May); iii) implementation of the Bad Bank (in June).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-2.2	-1.8	-0.5	1.1	2.1	2.9
Final Domestic Demand	YY	-3.8	-3.8	-0.6	1.4	1.8	2.1
Public Consumption		-1.6	-2.6	-2.5	0.7	1.1	1.2
Private Consumption	YY	-2.8	-3.8	-0.5	1.1	1.7	2.0
Fixed Investment	YY	-9.1	-5.7	1.4	3.0	2.8	3.2
Exports	YY	1.3	0.7	0.6	3.2	5.4	6.7
Imports	YY	-4.3	-1.7	1.1	3.5	5.7	6.7
Consumer Prices	YY	2.6	1.9	2.2	2.6	2.6	2.6
Unemployment Rate	%	8.9	9.4	10.3	11.1	11.5	11.1
Current Account Balance	% GDP	2.3	2.8	3.6	2.9	2.7	2.8
General Government Balance	% GDP	-3.7	-3.5	-3.0	-2.0	-1.0	-0.5
Government Primary Balance	% GDP	-1.6	-1.3	-0.7	0.3	1.4	1.9
General Government Debt	% GDP	54.1	62.0	68.6	71.9	69.8	67.7

Sources: National sources and Citi Research forecasts

United Kingdom

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We continue to look for growth of less than 1% in both this year and 2014, with persistently above-target inflation. Available data so far suggest the economy remained sluggish in early 2013. We expect that Q1 GDP (released April 25) was roughly flat. The economy as a whole has considerable spare capacity and underlying inflation pressures are weak. CPI inflation is likely to remain well above the 2% target, because of ongoing increases in prices for demand-insensitive items — utilities, petrol, food, tobacco, and tuition fees — as well as some boost to import prices from the lower pound. The Budget left a phased multi-year fiscal consolidation in place, but also gave the MPC a more flexible inflation target and a wider toolkit of monetary policy instruments (including credit easing, liquidity policy, official rates other than Bank Rate and decisions over whether to buy private sector assets) with which to hit that remit. We expect that these changes will produce a more activist MPC, and expect loosening via more credit easing, QE and forward guidance in coming months, with the timing depending on economic data and possibly also the trigger provided by Carney's arrival as Governor from midyear.

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

		History			Forecast				History				Forecast			
		2012	2013	2014	2012	2013	2014	2015	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	0.3	0.4	0.7					0.5	0.0	0.4	0.2	0.2	0.9	0.0	0.4
	QQ SAAR								0.0	-1.5	4.0	-1.5	0.1	1.3	0.0	0.2
Final Domestic Demand	YY	1.5	0.3	0.7					1.1	1.4	1.6	1.7	0.6	0.4	0.3	0.1
	QQ SAAR								3.8	1.0	0.6	1.2	-0.5	0.5	-0.1	0.3
Private Consumption	YY	1.2	1.2	1.3					0.3	1.2	1.7	1.6	1.4	1.3	1.2	1.0
	QQ SAAR								1.6	1.9	1.3	1.5	0.8	1.7	1.0	0.4
Public Consumption	YY	2.2	0.2	-0.6					3.6	1.4	1.8	2.0	-1.1	0.9	0.7	0.1
	QQ SAAR								12.0	-6.6	1.4	2.2	-0.9	1.0	0.5	0.0
Fixed Investment	YY	1.5	-3.0	0.1					0.7	2.5	1.5	1.5	-0.4	-3.3	-4.3	-3.9
	QQ SAAR								2.1	6.8	-1.8	-0.8	-5.4	-5.2	-5.5	0.5
-- Business Investment	YY	4.9	-3.7	1.1					9.2	6.0	4.0	0.8	-1.2	-3.9	-5.2	-4.4
	QQ SAAR								0.9	-6.8	10.7	-2.7	-8.5	-5.0	-4.5	0.1
-- Construction of Private Dwellings	YY	-5.4	-4.5	-5.2					-12.1	-1.0	-4.0	-3.9	1.2	-8.1	-6.5	-4.4
	QQ SAAR								-6.0	29.7	-22.2	-10.1	15.8	-11.9	-16.6	-1.6
Stocks (Contrib. to YY GDP Growth)		-0.1	-0.2	0.0					0.2	0.0	-0.5	-0.1	0.0	-0.2	-0.6	-0.2
Exports of Goods and Services	YY	-0.2	-0.3	4.5					-0.5	0.2	2.2	-2.5	-2.7	0.2	-0.7	1.9
	QQ SAAR								-5.9	-4.4	7.3	-6.4	-6.8	7.9	3.4	3.7
Imports of Goods and Services	YY	2.7	-1.4	4.1					1.9	3.9	3.7	1.2	-2.0	-2.1	-1.7	0.3
	QQ SAAR								2.3	5.2	1.4	-3.8	-10.2	4.9	3.2	4.0
Net Exports (Contrib. to YY GDP Growth)		-1.1	0.2	0.1					-0.8	-1.4	-0.7	-1.4	-0.4	0.7	0.2	0.5
Consumer Prices	YY	2.8	2.9	2.7					3.5	2.7	2.4	2.7	2.7	2.9	3.0	2.9
Average Earnings YY	YY	1.4	0.7	1.5					0.7	1.7	1.9	1.3	1.1	0.5	0.4	0.8
Employment Growth	YY	1.2	1.2	0.8					0.2	0.9	1.8	2.1	1.7	1.2	1.0	0.9
Unemployment Rate	%	7.9	7.8	7.7					8.2	8.0	7.8	7.8	7.9	7.9	7.9	7.7
Current Account Balance	£ bn	-57.7	-41.4	-46.5					-11.9	-16.7	-15.1	-14.0	-10.8	-9.8	-10.1	-10.7
	% GDP	-3.7	-2.6	-2.9					-3.1	-4.4	-3.9	-3.6	-2.7	-2.5	-2.5	-2.7
Public Sector Net Borrowing	£ bn FY	87.1	112.9	108.9												
	% GDP	-5.6	-7.1	-6.6												
General Government Balance	% GDP	-6.3	-7.8	-7.3												
Government Primary Balance	% GDP	-2.6	-3.9	-3.4												
General Government Debt	£ bn	1387.4	1513.9	1655.0												
	% GDP	89.5	94.5	100.7												
Gross Non Oil Trading Profits	YY	3.6	8.9	3.4					0.0	3.7	1.4	8.2	16.6	10.3	3.4	6.5
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
Ten-year Gilt Yield (Period Averages)	%	1.85	2.05	2.35					2.12	1.80	1.65	1.82	2.02	1.90	2.15	2.10
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.81	0.86	0.87					0.83	0.81	0.80	0.81	0.85	0.86	0.87	0.88
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.59	1.48	1.41					1.60	1.57	1.61	1.63	1.52	1.51	1.47	1.43

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

Switzerland

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Our Swiss economic forecasts are little changed from last month, and we continue to expect modest growth coupled with mild deflation in 2013 and 2014. The Kof indicator is at the lowest since May-12, but this survey (like the PMI) is not yet weak enough to signal recession. YoY CPI inflation has been negative each month since Oct-11 and probably will stay negative (thanks to the strong CHF) for the next two years or so. Against this backdrop, the SNB is likely to maintain the CHF1.20/€ cap.

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

		History			Forecast			History								Forecast							
		2012	2013	2014				1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14				
Real GDP	YY	1.0	1.1	1.1				1.0	0.4	1.3	1.2	0.9	1.3	1.0	1.1	1.1	1.0	1.0	1.1				
Final Domestic Demand	YY	1.7	1.8	1.3				1.6	1.9	1.7	1.8	1.7	1.9	2.2	1.3	1.3	1.2	1.2	1.5				
Public Consumption	YY	0.7	2.5	1.4				1.4	0.1	0.5	0.9	3.4	3.2	2.2	1.4	1.4	1.4	1.4	1.4				
Private Consumption	YY	2.5	2.0	1.7				2.5	2.5	2.5	2.7	2.0	2.1	2.5	1.6	1.7	1.8	1.5	1.8				
Fixed Investment	YY	0.1	0.7	0.1				-0.8	1.2	0.2	-0.3	0.1	0.8	1.6	0.4	0.2	-0.7	0.0	0.7				
Exports of Goods and Services	YY	1.1	3.7	1.8				-0.8	0.0	1.8	3.3	4.1	4.3	3.9	2.7	2.0	1.7	1.8	2.0				
Imports of Goods and Services	YY	2.3	4.2	2.6				2.7	1.8	1.5	3.1	3.9	4.9	4.5	3.5	2.7	2.2	2.2	3.1				
Consumer Prices	YY	-0.7	-0.3	-0.4				-0.9	-1.0	-0.5	-0.3	-0.4	-0.2	-0.5	-0.1	-0.4	-0.6	-0.4	-0.4				
Unemployment Rate	%	2.6	2.1	2.3				3.1	3.2	2.3	1.8	1.9	2.1	2.3	2.1	2.0	2.3	2.5	2.3				
Current Account Balance	Sfr bn	75.9	76.8	73.4				17.6	21.7	19.1	17.5	18.9	21.3	18.6	17.9	18.5	20.1	17.3	17.6				
	% GDP	12.8	12.8	12.0				11.9	14.7	12.8	11.8	12.7	14.2	12.3	11.8	12.1	13.1	11.3	11.4				
General Government Balance	Sfr bn	0.0	0.0	0.0																			
	% GDP	0.5	0.4	0.4																			
General Government Debt	Sfr bn	0.0	0.0	0.0																			
	% GDP	46.7	45.5	44.0																			
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	0.62	0.59				0.71	0.59	0.53	0.47	0.63	0.64	0.64	0.61	0.61	0.64	0.67	NA				
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.20	1.25	1.28				1.20	1.20	1.21	1.21	1.24	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	0.96	0.99				0.90	0.95	0.94	0.91	0.95	0.96	0.96	0.97	0.98	0.98	0.99	0.99				

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

Sweden

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The improvement in sentiment indicators (albeit from very low levels) suggests that the Swedish economy is past the worst. Still, economic recovery is likely to be weak in a historical perspective, and major downside risks persist; until recently, economic growth has been supported by the resilience of exports and ongoing consumer leverage boom plus modest fiscal stimulus. This now seems to have run its course as the export slowdown has sharpened, household deleveraging may be starting and continued fiscal erosion limits the size of fiscal easing.

With well-below trend GDP growth and rising unemployment, the government announced additional stimulus measures in its spring budget bill, including further spending of SEK 3bn on education and infrastructure this and next year, coming on top of already presented reform measures of SEK 23bn from the 2013 National Budget (out in Oct-12). In turn, with total stimulus of SEK 25bn (equivalent to 0.7% of GDP) this year, fiscal policy should continue to support economic growth ahead. With a general election scheduled for 2014, we expect additional reforms in the area of SEK 20-25bn also next year, with the inclusion of more voter-friendly reforms (i.e. income tax cuts and government grants) versus the more structural measures announced for this year. This is likely to lead to a persistent and modest breach of the government's cautious fiscal rule. The expected deficits, though, are small – roughly in line with those that arose during the 2001-04 slowdown – in an international comparison, and Sweden should continue to outperform. The announced measures are not aggressive enough to seriously threaten public finances; public debt is likely to stay well below 40% and hence we see no reason to be concerned about public finances in Sweden.

The outlook for monetary policy is a fairly long period of ultra-low rates. Although the Riksbank appears reluctant to cut (due to financial stability considerations), we continue to see one additional rate cut this year, likely around mid-year. This view largely rests on our long-held forecast of two additional ECB rate cuts this year. 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	1.2	1.0	1.9	2.2	2.5	2.7
Final Domestic Demand	YY	2.0	1.2	1.5			
Public Consumption	YY	1.2	0.9	0.8			
Private Consumption	YY	1.7	1.7	1.8			
Fixed Investment	YY	4.1	0.1	1.6			
Exports of Goods & Services	YY	1.3	0.6	3.2			
Imports of Goods & Services	YY	0.5	0.3	1.9			
Consumer Prices	YY	0.9	0.3	1.3	1.8	2.2	2.3
Unemployment Rate	%	8.0	8.2	8.2			
Current Account Balance	% GDP	7.2	7.3	7.1	6.9	7.1	7.0
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	36.6	34.2	31.1
Riksbank Rate (Annual Average)	%	1.45	0.89	0.75	1.07	1.73	2.29
Ten-year Yield (Period Average)	%	1.59	1.79	1.83	2.10	2.25	2.75
EUR-SEK FX Rate (Annual Average)		8.63	8.36	8.38	8.40	8.40	8.40
USD-SEK FX Rate (Annual Average)		6.73	6.53	6.81	6.94	6.77	6.56

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

Sources: Riksbank, Statistics Sweden and Citi Research

Denmark

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The Danish economy has balanced on the edge of recession since mid-2010; and GDP growth in 4Q12 was more than 1% lower than two years earlier. Recent monthly activity data suggest the Danish economy again is expanding, following the market contraction in the final quarter of 2012 (-0.7% QQ, -0.6% YY). We expect the economy gradually will 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, will 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 to boost domestic demand. The reform of the early retirement system last year has led to large payouts, and increasing government investment and renovation of social housing were also implemented last year. Neither appears to have had any material effect on investment activity or domestic demand. The fiscal measures have led to a substantial weakening of public finances, and Denmark looks set to reach a budget deficit in excess of 3% of GDP in 2012 for the first time since the start of the crisis. Already this year, however, we expect the deficit to shrink markedly, as temporary stimuli cease and the bringing forward of the tax on capital pension schemes should boost fiscal revenues.

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 weakening pressure on the Danish krone. The hike followed several months of intervention, which picked up in January. The DNB has not intervened in February or March, suggesting that the currency is trading around satisfactory levels versus the euro, and that the next independent interest rate move is unlikely to happen in the very short term. The DKK is currently trading slightly stronger than the central parity, but nowhere near the levels which triggered two independent interest rate cuts back in Dec-11. With the lending rate at an already very low level, we do not expect DNB to fully shadow ECB action this year (where we forecast two 25bp rate cuts); we expect the lending rate to trough at 0.1% in 4Q this year, 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	-0.5	0.4	1.7	1.8	1.9	2.0
Final Domestic Demand	YY	0.8	1.2	1.6			
Public Consumption	YY	0.2	1.1	0.6			
Private Consumption	YY	0.6	0.8	1.7			
Fixed Investment	YY	2.2	2.4	2.8			
Exports of Goods & Services	YY	0.9	0.8	3.4			
Imports of Goods & Services	YY	2.6	1.4	3.3			
Consumer Prices	YY	2.4	1.5	1.7	1.9	2.0	2.0
Unemployment Rate	%	7.5	7.8	7.6			
Current Account Balance	% GDP	5.6	5.0	4.3	4.2	4.0	3.8
General Government Balance	% GDP	-4.1	-2.0	-1.2	-1.0	0.5	1.0
General Government Debt	% GDP	45.6	46.6	46.2	45.5	43.3	40.7
DNB Bank Rate (Annual Average)	%	0.43	0.10	0.20	0.40	0.60	1.00
Ten-year Yield (Period Average)	%	1.51	1.57	1.60	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

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Despite a marked slowdown in 4Q12 (driven by very weak private goods consumption), the cushion of high oil receipts and recovering private spending in early-2013 should ensure continued Norwegian outperformance versus most of Europe. 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. At the same time, the demand for labour in oil-related industries is offsetting the decline in more traditional industries.

Core inflation (CPI-ATE) has hovered around 1%-1.2% YY since May last year, a very low level for an economy operating at normal capacity. Key factors behind the weak trend are the past years' NOK appreciation and the low level of inflation internationally (imported inflation was -1.1% YY in Mar), which has intensified imported deflation. With the conditional interest rate having been slashed substantially in March – amid concerns over inflation and growth – to signal a 50/50 chance of a rate cut at the upcoming May meeting, combined with indications that wage growth will be more moderate than anticipated this year (pay increases for blue-collar workers in the trend-setting manufacturing sector set to slow from 4.1% in 2012 to 3.4% this year – well below Norges Bank's forecast for economy-wide wage growth of 4.0%), there are strong arguments for a near-term rate cut.

However, we question whether Norges Bank will cut rates based on one weak inflation figure, especially as the inflation rate tends to be very volatile during the spring and early summer due to base effects from airfare prices. Moreover, the wage settlement process is still ongoing and many wage earners get their wage adjustments locally later in the year. In addition, the NOK is trading on the weak side compared to Norges Bank's forecast (0.6% below its 2Q forecast) and could weaken further on rate cut speculation. Finally, the real economy is surely in no need of further monetary stimulus. In other words, we maintain our view of a stable policy rate in May, but acknowledge the possibility that the Bank might state that a rate cut was considered. This would be a strong signal of a possible rate cut at the June meeting, especially if the weak inflation picture continues.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	2.6	2.7	3.0	2.9	2.9
Final Domestic Demand	YY	2.9	3.0	3.0			
Public Consumption	YY	1.9	2.1	2.3			
Private Consumption	YY	3.0	3.0	3.1			
Fixed Investment	YY	4.1	4.6	3.9			
Exports of Goods & Services	YY	4.2	2.2	2.4			
Imports of Goods & Services	YY	5.1	3.5	2.1			
Consumer Prices	YY	0.7	1.6	1.7	2.0	2.1	2.5
Unemployment Rate	%	3.2	3.3	3.4			
Current Account Balance	% GDP	14.2	14.5	14.9	15.2	15.4	15.0
General Government Balance	% GDP	13.9	13.3	13.0	14.0	15.5	15.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.55	1.50	1.69	2.25	2.76	3.33
Ten-year Yield (Period Average)	%	2.15	2.21	2.28	2.55	2.75	3.25
EUR-NOK FX Rate (Annual Avg)		7.45	7.45	7.30	7.24	7.23	7.21
USD-NOK FX Rate (Annual Avg)		5.81	6.60	5.93	5.98	5.83	5.63

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

Sources: Norges Bank, Statistics Norway and Citi Research

Figure 19. Long-Term 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	-0.6	-0.3	1.1	1.3	1.4	2.5	1.6	1.3	1.2	1.3	1.3	1.2	2.5	2.3	2.3	2.3	2.3
Germany	0.9	0.8	0.8	1.8	1.9	2.1	2.0	1.4	2.1	2.0	2.0	1.8	7.0	6.7	5.5	5.4	5.2	5.3
France	0.0	-0.2	0.2	1.0	1.5	1.9	2.0	1.0	1.5	1.4	1.7	1.4	-2.4	-1.7	-0.9	-0.3	0.2	-0.1
Italy	-2.4	-1.6	-1.2	0.2	0.3	0.5	3.3	1.9	1.2	0.5	0.2	0.2	-0.6	-0.3	-0.2	-0.1	-0.2	-0.2
Spain	-1.4	-2.2	-2.1	0.9	1.5	1.2	2.4	1.6	0.7	0.8	0.7	0.6	-1.1	2.5	3.8	3.1	2.4	1.5
Greece	-6.4	-6.0	-11.2	-3.9	1.6	2.7	1.0	0.0	17.3	13.4	8.0	6.8	-4.3	-3.3	2.2	3.9	4.4	3.2
Ireland	0.9	0.8	2.0	2.4	2.7	2.7	1.9	1.3	1.4	1.6	1.6	1.6	4.4	4.6	5.3	5.8	6.5	6.9
Portugal	-3.2	-3.7	-2.8	0.0	1.1	1.0	2.8	0.3	0.5	0.5	0.6	0.5	-3.5	-0.3	1.7	2.6	2.9	3.2
Netherlands	-1.0	-1.0	0.0	1.0	1.2	1.6	2.8	2.8	1.8	1.6	1.8	1.8	9.9	9.5	9.0	9.6	9.7	9.9
Belgium	-0.2	-0.1	0.3	1.2	1.5	1.8	2.8	1.3	2.0	2.0	2.0	2.1	-1.4	-1.3	-1.1	-0.7	-0.1	0.5
Slovakia	2.0	0.7	1.6	2.7	2.9	3.4	3.6	2.2	2.5	2.6	2.6	2.6	2.3	3.7	3.2	2.4	1.3	0.0
Slovenia	-2.2	-1.8	-0.5	1.1	2.1	2.9	2.6	1.9	2.2	2.6	2.6	2.6	2.3	2.8	3.6	2.9	2.7	2.8
Austria*	0.8	0.8	1.6	1.6	1.6	1.4	2.6	2.2	1.9	1.9	1.9	1.9	2.0	2.2	2.3	2.3	2.3	2.3
Cyprus*	-2.4	NA	NA	NA	NA	NA	3.1	NA	NA	NA	NA	NA	-4.9	NA	NA	NA	NA	NA
Estonia*	3.2	3.0	3.2	3.4	3.5	3.6	4.2	3.2	2.8	2.5	2.5	2.5	-1.2	0.0	0.1	0.3	0.7	1.1
Finland*	-0.2	0.5	1.2	1.5	2.0	2.0	3.2	3.0	2.5	2.0	2.0	2.0	-1.7	-1.7	-1.8	-1.8	-1.8	-1.8
Luxembourg*	0.1	0.1	1.3	1.7	2.2	2.2	2.9	1.9	1.9	1.8	2.0	2.0	6.0	6.6	6.8	5.9	5.9	6.0
Denmark	-0.5	0.4	1.7	1.8	1.9	2.0	2.4	1.5	1.7	1.9	2.0	2.0	5.6	5.0	4.3	4.2	4.0	3.8
Norway	3.3	2.6	2.7	3.0	2.9	2.9	0.7	1.6	1.7	2.0	2.1	2.5	14.2	14.5	14.9	15.2	15.4	15.0
Sweden	1.2	1.0	1.9	2.2	2.5	2.7	0.9	0.3	1.3	1.8	2.2	2.3	7.2	7.3	7.1	6.9	7.1	7.0
Switzerland	1.0	1.1	1.1	1.5	1.6	1.5	-0.7	-0.3	-0.4	0.6	0.8	1.0	12.8	12.8	12.0	12.1	13.2	14.0
United Kingdom	0.3	0.4	0.7	1.8	1.7	2.0	2.8	2.9	2.7	2.9	2.9	2.9	-3.7	-2.6	-2.9	-2.9	-3.0	-2.8

Note: All forecasts are Citi forecasts except those marked with an asterisk. *IMF World Economic Outlook, 16 April 2013.
Sources: IMF and Citi Research

Figure 20. Long-Term 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	2015	2016	2017
Euro Area	-3.5	-2.7	-2.4	-1.7	-1.3	-0.7	-0.3	0.4	0.7	1.6	2.0	2.7	91.7	94.7	93.4	92.9	91.8	90.0
Germany	0.1	-0.2	-0.2	-0.2	-0.1	0.0	2.4	1.9	1.7	1.6	1.6	1.6	82.4	81.8	80.9	78.6	76.2	73.8
France	-4.8	-3.6	-3.1	-2.4	-1.7	-0.4	-2.4	-1.5	-0.7	0.2	1.2	2.2	90.2	95.0	96.7	96.7	95.2	92.1
Italy	-3.0	-3.5	-3.5	-3.1	-2.8	-2.7	2.4	2.5	2.5	2.9	3.3	3.2	127.1	133.2	139.3	141.5	143.1	144.2
Spain	-10.6	-6.4	-5.9	-5.5	-4.7	-4.4	-7.2	-2.6	-1.6	-0.9	-0.1	0.4	84.1	94.6	104.9	108.6	110.7	112.8
Greece	-7.3	-5.6	-1.1	-0.3	3.0	4.3	-2.0	-2.3	-2.1	-1.0	2.2	5.9	159.0	179.8	402.0	361.5	294.0	81.0
Ireland	-7.3	-7.4	-4.5	-2.3	-1.6	-1.2	-4.0	-1.5	0.8	2.7	3.4	3.9	117.4	122.1	120.6	117.2	114.2	110.7
Portugal	-6.4	-5.7	-6.1	-5.2	-4.6	-4.5	-0.8	-0.5	0.9	1.5	2.2	2.9	123.6	136.9	148.7	153.6	155.7	157.9
Netherlands	-4.2	-3.8	-3.2	-1.8	-1.5	-0.5	-2.3	-1.9	-1.2	0.3	0.6	1.7	71.4	75.5	78.1	78.2	77.8	76.2
Belgium	-2.9	-2.5	-2.0	-1.3	-0.8	-0.1	-0.6	0.0	0.8	1.7	2.5	3.3	110.0	115.7	115.4	113.0	109.9	105.9
Slovakia	-4.4	-3.2	-2.9	-2.6	-2.1	-1.8	-2.9	-1.7	-1.4	-1.1	-0.6	-0.3	51.4	52.8	53.7	54.0	54.6	54.3
Slovenia	-3.7	-3.5	-3.0	-2.0	-1.0	-0.5	-1.6	-1.3	-0.7	0.3	1.4	1.9	54.1	62.0	68.6	71.9	69.8	67.7
Austria*	-2.5	-2.2	-1.5	-1.1	-1.0	-1.0	-0.5	-0.2	0.5	0.8	1.0	0.9	73.7	74.2	73.7	72.7	71.8	70.6
Cyprus*	-5.6	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	86.2	NA	NA	NA	NA	NA
Estonia*	-0.3	0.4	0.4	0.3	0.3	0.3	-0.3	0.4	0.5	0.4	0.4	0.4	8.5	9.7	9.1	8.6	8.2	7.7
Finland*	-1.7	-2.0	-1.3	-0.7	-0.4	-0.1	-1.9	-2.2	-1.6	-1.5	-1.3	-0.9	53.3	56.9	58.4	58.7	58.6	58.0
Luxembourg*	-1.9	-1.0	-1.3	-2.5	-2.2	-2.3	-1.8	-0.5	-0.9	-2.3	-2.3	-2.7	21.1	23.3	25.7	28.7	31.3	33.8
Denmark	-4.1	-2.0	-1.2	-1.0	0.5	1.0							45.6	46.6	46.2	45.5	43.3	40.7
Norway	13.9	13.3	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	36.6	34.2	31.1
Switzerland	0.5	0.4	0.4	0.3	0.2	-0.6							46.7	45.5	44.0	43.5	43.8	44.2
United Kingdom	-6.3	-7.8	-7.3	-6.8	-5.4	-4.5	-2.9	-5.3	-4.7	-3.5	-2.0	-1.0	89.5	94.5	100.7	105.0	107.6	108.5

Note: All forecasts are Citi forecasts except those marked with an asterisk. *IMF World Economic Outlook, 16 April 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)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Euro Area - Citi Forecast	17-Apr-13	-0.5	-0.6	-0.3	-3.5	-2.7	-2.4	91.7	94.7	93.4
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	16-Apr-13	-0.6	-0.3	1.1	-3.6	-2.9	-2.6	92.9	95.0	95.3
ECB Forecast - mid-point	07-Mar-13	-0.5	-0.5	1.0						
Germany - Citi Forecast	17-Apr-13	0.9	0.8	0.8	0.1	-0.2	-0.2	82.4	81.8	80.9
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	16-Apr-13	0.9	0.6	1.5	0.2	-0.3	-0.1	82.0	80.4	78.3
France - Citi Forecast	17-Apr-13	0.0	-0.2	0.2	-4.8	-3.6	-3.1	90.2	95.0	96.7
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	16-Apr-13	0.0	-0.1	0.9	-4.6	-3.7	-3.5	90.3	92.7	94.0
French Government	07-Apr-13		0.1	1.2		3.7	3.0			
Italy - Citi Forecast	17-Apr-13	-2.4	-1.6	-1.2	-3.0	-3.5	-3.5	127.1	133.2	139.3
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	16-Apr-13	-2.4	-1.5	0.5	-3.0	-2.6	-2.3	127.0	130.6	130.8
Spain - Citi Forecast	17-Apr-13	-1.4	-2.2	-2.1	-10.6	-6.4	-5.9	84.1	94.6	104.9
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	16-Apr-13	-1.4	-1.6	0.7	-10.3	-6.6	-6.9	84.1	91.8	97.6
Greece - Citi Forecast	17-Apr-13	-6.4	-6.0	-11.2	-7.3	-5.6	-1.1	159.0	179.8	402.0
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	16-Apr-13	-6.4	-4.2	0.6	-6.4	-4.6	-3.4	158.5	179.5	175.6
Ireland - Citi Forecast	17-Apr-13	0.9	0.8	2.0	7.3	-7.4	-4.5	117.4	122.1	120.6
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	16-Apr-13	0.9	1.1	2.2	-7.7	-7.5	-4.5	117.1	122.0	120.2
Central Bank of Ireland	05-Apr-13	0.7	1.2	2.5						
Portugal - Citi Forecast	17-Apr-13	-3.2	-3.7	-2.8	-6.4	-5.7	-6.1	123.6	136.9	148.7
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	16-Apr-13	-3.2	-2.3	0.6	-4.9	-5.5	-4.0	123.0	122.3	123.7
Netherlands - Citi Forecast	17-Apr-13	-1.0	-1.0	0.0	-4.2	-3.8	-3.2	71.4	75.5	78.1
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	16-Apr-13	-0.9	-0.5	1.1	-4.1	-3.4	-3.7	71.7	74.5	75.9
Belgium - Citi Forecast	17-Apr-13	-0.2	-0.1	0.3	-2.9	-2.5	-2.0	110.0	115.7	115.4
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	16-Apr-13	-0.2	0.2	1.2	-4.0	-2.6	-2.1	99.6	100.3	99.8
Slovakia - Citi Forecast	17-Apr-13	2.0	0.7	1.6	-4.4	-3.2	-2.9	51.4	52.8	53.7
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	16-Apr-13	2.0	1.4	2.7	-4.9	-3.2	-3.0	52.3	55.3	56.4
Slovenia - Citi Forecast	17-Apr-13	-2.2	-1.8	-0.5	-3.7	3.5	-3.0	54.1	62.0	68.6
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	16-Apr-13	-2.3	-2.0	1.5	-3.2	-6.9	-4.3	52.6	68.8	71.7

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)		
		2012	2013F	2014F	2012	2013F	2014F	2012	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	16-Apr-13	0.8	0.8	1.6	-2.5	-2.2	-1.5	73.7	74.2	73.7
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	16-Apr-13	-2.4	--	--	-5.6	--	--	86.2	--	--
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	16-Apr-13	3.2	3.0	3.2	-0.2	0.4	0.4	8.5	9.7	9.1
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	16-Apr-13	-0.2	0.5	1.2	-1.7	-2.0	-1.3	53.3	56.9	58.4
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	16-Apr-13	0.1	0.1	1.3	-1.9	-1.0	-1.3	21.1	23.3	25.7
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	16-Apr-13	0.8	1.3	1.8	-3.0	-2.9	-2.9	72.5	73.3	73.0

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)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Denmark - Citi Forecast	17-Apr-13	-0.5	0.4	1.7	-4.1	-2.0	-1.2	45.6	46.6	46.2
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	16-Apr-13	-0.6	0.8	1.3	-4.4	-2.8	-2.3	50.1	51.8	52.4
Norway - Citi Forecast	17-Apr-13	3.3	2.6	2.7	13.9	13.3	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	16-Apr-13	3.0	2.5	2.2	13.8	12.3	11.1	34.1	34.1	34.1
Sweden - Citi Forecast	17-Apr-13	1.2	1.0	1.9	-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	16-Apr-13	1.2	1.0	2.2	-0.4	-0.8	-0.4	38.0	37.7	36.5
Switzerland - Citi Forecast	17-Apr-13	1.0	1.1	1.1	0.5	0.4	0.4	46.7	45.5	44.0
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	16-Apr-13	1.0	1.3	1.8	0.3	0.2	0.5	49.1	48.3	46.7
UK - Citi Forecast	17-Apr-13	0.3	0.4	0.7	-6.3	-7.8	-7.3	89.5	94.5	100.7
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	16-Apr-13	0.2	0.7	1.5	-8.3	-7.0	-6.4	90.3	93.6	97.1
OBR	20-Mar-13	0.2	0.6	1.8	-6.0	-5.2	-4.3	75.9	79.2	82.6

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

Notes

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Appendix A-1

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