

European Economic Forecast Highlights

July 2013

- This document is a companion piece to [Global Economic Outlook and Strategy - July 2013](#). It contains detailed quarterly economic forecasts for the main European countries to end 2014.
- **Tables 20 and 21 give annual forecasts to 2017** for GDP growth, CPI inflation, short-term interest rates, current balance, fiscal balance and government debt.
- **Table 22 shows the change in our forecasts** from last month.
- **Figures 23-25** compare the current economic forecasts for each country.
- Global growth remains a little below its longrun average, with sluggish world trade, slowing EM prospects and lower investment growth by commodity producers. We are cutting 0.1% off our global growth forecasts for both 2013 and 2014, putting them at 2.5% and 3.1% respectively. We are again cutting EM growth forecasts. However, **we are increasing our 2013 euro area GDP forecast by 0.1ppt to -0.7%** and the 2014 GDP forecast by 0.2ppt to 0.2%, essentially reflecting our expectations of a better 2Q outcome. We continue to expect a 25bp refi rate cut in 4Q13.

Figure 1. Short-Term Interest Rates (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	1.56	2.00	2.51	3.08
Sweden	1.45	1.00	1.00	1.32	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

Figure 2. Euro Area – Economic Forecasts Compared (Percent), 2013-14F

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2013F	2014F	2013F	2014F
Euro Area - Citi Forecast	17-Jul-13	-0.7	0.2	1.5	1.3
IMF WEO Forecast	09-Jul-13	-0.6	0.9	1.7	1.5
ECB Forecast - mid-point	06-Jun-13	-0.6	1.1	1.4	1.3
OECD Economic Outlook	29-May-13	-0.6	1.1	1.5	1.2
EU Commission Forecast	03-May-13	-0.4	1.2	1.6	1.5
Consensus Economics	08-Jul-13	-0.6	0.8	1.5	1.5

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

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We lift our 2013 euro area GDP forecast by 0.1ppt to -0.7% and the 2014 GDP forecast by 0.2ppt to 0.2%. This change mainly reflects the likelihood of a better 2Q outcome (0.2% QQ compared to our 0.0% June forecast). European officials are focusing their growth strategy on two main angles: first, by introducing measures against youth unemployment, and second by excluding non-recurring and growth-supportive public investment programmes from deficit calculations. While these initiatives could be of some help for growth, we doubt that they will make much of a dent in the large output gap. On banking union, it is also clear that there are ongoing fundamental disagreements about the degree of centralisation of the resolution authority and the resolution fund, illustrating the difficulties of coordination.

The ECB is continuing to do what it can to cement the euro area's fragile recovery prospects against a backdrop of muted inflation dynamics. At the July meeting, President Draghi announced a new 'forward guidance' framework, allowing *"the key interest rates to remain at present or lower levels for an extended period of time"*. Yet, within a few days of the announcement, various Governing Council members suggested that the decision, aiming to bring market expectations of monetary policy into line with the ECB's expectations of inflation trends, amounted more to a change of communication than a commitment to a rate path. ECB Coeuré's remarks that forward guidance *"would need to be reassessed each month"* highlighted the limited value of the guidance, beyond the introduction of a clear bias on the policy stance. We continue to believe that a likely delay in the ECB's 2H recovery scenario and muted price developments leave the door open to another small 25bp rate cut later in the year, most likely in 4Q.

Figure 3. Euro Area – Economic Forecasts, 2012-14F

		History			Forecast			History				Forecast			
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	-0.5	-0.7	0.2	-0.1	-0.5	-0.7	-0.9	-1.1	-0.8	-0.6	0.0	0.2	0.1	0.1
	QQ SAAR				-0.2	-0.7	-0.4	-2.4	-1.1	0.7	0.3	0.0	-0.1	0.1	0.5
Final Domestic Demand	YY	-1.7	-1.1	0.1	-1.2	-1.6	-1.9	-2.0	-2.0	-1.2	-0.9	-0.3	0.1	0.1	0.1
Private Consumption	YY	-1.3	-0.5	0.1	-1.1	-1.2	-1.6	-1.5	-1.3	-0.6	-0.4	0.2	0.2	0.0	0.1
Public Consumption	YY	-0.4	-0.2	-0.2	-0.2	-0.4	-0.4	-0.5	-0.5	-0.1	0.0	-0.2	0.0	-0.2	-0.3
Fixed Investment	YY	-4.2	-3.9	0.4	-2.8	-4.1	-4.5	-5.3	-5.9	-4.3	-3.5	-1.7	0.3	0.5	0.5
-- Business Equipment	YY	-3.5	-4.7	1.4	-1.2	-3.1	-4.3	-5.3	-6.4	-5.4	-4.5	-2.5	0.7	1.6	1.8
-- Construction	YY	-4.8	-4.0	-1.3	-4.1	-5.0	-4.6	-5.4	-5.5	-4.1	-3.8	-2.5	-1.6	-1.4	-1.1
Stocks (Contrib. to YY GDP Growth)		-0.3	0.0	-0.1	-0.2	-0.5	-0.3	0.0	0.0	0.0	0.2	0.0	0.0	-0.1	-0.1
Exports of Goods and Services	YY	2.9	0.5	2.7	2.6	3.7	3.2	2.2	0.5	0.0	-0.1	1.5	3.0	2.6	2.7
Imports of Goods and Services	YY	-0.7	-1.0	2.1	-0.9	-0.5	-0.8	-0.6	-1.9	-1.5	-1.1	0.4	2.3	2.1	2.0
Consumer Prices	YY	2.5	1.5	1.3	2.7	2.5	2.5	2.3	1.9	1.4	1.3	1.3	1.3	1.4	1.3
Core CPI	YY	1.5	1.1	1.0	1.6	1.6	1.5	1.5	1.5	1.2	1.1	1.0	0.8	0.9	0.9
CPI Ex Energy and Unprocessed Food	YY	1.8	0.0	0.0	1.9	1.8	1.7	1.6	1.5	1.3	1.2	1.3	1.2	1.1	1.1
Unemployment Rate	YY	11.4	12.4	12.7	10.9	11.3	11.5	11.8	12.1	12.4	12.6	12.6	12.6	12.7	12.7
Current Account Balance	€ bn	118.3	242.2	224.2											
	% GDP	1.2	2.5	2.3											
General Government Balance	€ bn	-352.7	-287.3	-223.3											
	% GDP	-3.7	-3.0	-2.3											
Primary Balance	% GDP	-0.6	0.0	0.7											
General Government Debt	€ bn	8794.6	9225.8	9497.9											
	% GDP	92.7	96.1	97.4											
Gross Operating Surplus	YY	-0.3	-0.1	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
Ten-year Bund yield (Period Avg.)	%	1.57	1.51	1.63	1.88	1.49	1.41	1.43	1.51	1.40	1.55	1.50	1.50	1.50	1.70
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.28	1.29	1.30	1.33	1.26	1.29	1.32	1.28	1.3	1.3	1.29	1.28	1.29	1.31

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

Germany

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We forecast a 0.5% QQ gain in Q2, slightly less than last month on account of the weaker export and IP numbers in May. Weaker growth in China and continued weakness in Europe are likely to weigh on German exports for the remainder of 2013, and probably also the prospect of a recovery in business investment, while extensive flooding in late May and June is delaying a snap-back following weather-induced weakness in Q1. Prospects for private consumption are somewhat better, as wage deals are becoming more generous, and the probability of some relaxation of the fiscal stance after the German election — while not our base case — is rising. We still regard it as likely that the election itself will leave Merkel as Chancellor, but this time heading a Grand Coalition with the SPD.

Figure 4. 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	0.3	1.5	1.3	1.0	0.9	0.3	-0.3	0.2	0.3	1.2	1.5	1.4	1.5	1.6								
	QQ SAAR				2.5	0.7	0.9	-2.7	0.3	2.4	1.2	0.8	1.6	2.0	1.5	1.4								
Final Domestic Demand	YY	0.3	0.7	2.1	1.0	0.8	-0.1	-0.5	-0.5	0.5	0.9	1.9	2.2	2.0	2.1	1.9								
	QQ SAAR				0.6	-1.5	0.3	-1.5	0.7	2.6	1.9	2.4	2.0	1.9	2.0	2.0								
Private Consumption	YY	0.7	1.4	1.7	0.9	1.5	0.3	0.2	0.6	1.2	1.5	2.3	1.9	1.6	1.6	1.6								
	QQ SAAR				1.5	0.5	0.3	-1.3	3.1	2.7	1.6	1.6	1.6	1.5	1.6	1.7								
Public Consumption	YY	1.2	0.9	1.5	1.8	0.8	1.2	0.9	0.2	1.2	1.0	1.4	1.8	1.6	1.4	1.2								
	QQ SAAR				2.1	-1.7	2.7	0.6	-0.6	2.0	2.0	2.0	1.2	1.2	1.2	1.2								
Fixed Investment	YY	-2.0	-1.7	4.0	0.6	-1.6	-2.6	-4.3	-4.8	-2.3	-1.1	1.4	3.9	4.1	4.3	3.9								
	QQ SAAR				-3.5	-7.4	-2.2	-4.2	-5.5	2.9	2.9	5.6	4.1	3.8	3.9	3.7								
-- Business Equipment	YY	-4.1	-2.8	4.9	1.3	-2.8	-6.5	-8.1	-7.6	-4.4	-1.5	2.6	4.6	5.0	5.6	4.5								
	QQ SAAR				-4.5	-11.6	-8.6	-7.5	-2.5	1.5	2.9	8.9	5.1	3.3	5.0	4.7								
-- Construction	YY	-0.9	-1.4	3.2	-0.2	-1.2	0.0	-2.2	-3.6	-1.3	-1.1	0.6	3.4	3.1	3.3	3.0								
	QQ SAAR				-2.5	-5.4	2.2	-2.9	-8.1	4.1	3.2	3.8	2.7	2.9	3.7	2.5								
Stocks (Contrib. to YY GDP Growth)		-0.5	0.2	-0.1	-0.2	-0.1	-0.3	0.4	-0.1	0.2	0.2	-0.2	-0.1	0.0	-0.1	0.0								
Exports of Goods and Services	YY	4.5	-0.7	3.6	3.4	6.0	5.3	3.2	0.1	-1.6	-2.2	0.8	3.7	3.5	3.6	3.7								
	QQ SAAR				4.9	12.9	5.7	-9.3	-7.0	5.1	3.2	2.5	4.1	4.3	3.8	2.7								
Imports of Goods and Services	YY	2.6	0.1	4.9	3.3	3.4	2.3	1.4	-0.6	-1.1	-0.1	2.3	5.8	5.1	4.5	4.3								
	QQ SAAR				-0.7	9.4	2.5	-5.2	-8.2	7.4	6.6	4.4	4.7	4.6	4.1	3.8								
Net Exports (Contrib. to YY GDP Growth)		1.1	-0.4	-0.3	0.7	0.6	0.4	-0.7	0.0	-0.1	-0.3	-0.2	0.0	0.0	0.0	-0.1								
Consumer Prices	YY	2.0	1.5	2.2	2.1	1.9	2.0	2.0	1.5	1.5	1.6	1.2	2.0	2.1	2.2	2.6								
Compensation per Employee	YY	2.8	2.7	3.1	2.6	2.7	2.9	3.1	2.9	2.8	2.7	2.6	3.1	3.1	3.1	3.1								
Employment Growth	YY	1.1	0.2	0.5	1.4	1.2	1.0	0.9	0.7	0.2	-0.1	0.1	0.2	0.4	0.7	0.7								
Unemployment Rate (ILO)	%	5.5	5.6	5.5	5.6	5.5	5.5	5.4	5.4	5.6	5.8	5.6	5.4	5.6	5.5	5.4								
Current Account Balance	€ bn	185.4	180.5	150.4																				
	% GDP	7.0	6.7	5.4																				
General Government Balance	€ bn	4.1	-14.5	2.1																				
	% GDP	0.2	-0.5	0.1																				
Primary Balance	% GDP	2.6	2.0	2.5																				
General Government Debt	€ bn	2166.3	2196.9	2180.9																				
	% GDP	81.9	81.5	78.4																				
Gross Trading Profits	YY	0.1	1.2	0.2	4.1	2.2	-1.9	-3.9	-4.3	-4.3	3.2	11.0	-2.9	2.5	0.1	1.4								

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

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We leave our 2013-14 GDP forecasts unchanged, expecting a modest recovery in 2014. This is partly explained by the relative healthiness of its banking system, suggesting that credit availability will not be an obstacle to GDP growth. The key missing ingredients for a more positive outlook are confidence and greater visibility with respect to the government's policies, in our view. Note that a shift away from a continued focus on sizeable budget consolidation would also help. Although the French government has launched some reforms (labour market, competitiveness pact, pensions, etc...) in the year since President Hollande took office, more needs to be done for structural reforms to lift the economy's growth potential. We continue to worry that firms' weak profitability and persistent competitiveness issues will hinder the corporate sector's willingness to invest and hire. We doubt that France will meet its 3% 2015 budget deficit target without more efforts.

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

		History			Forecast			History								Forecast			
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.0	-0.2	0.5				0.3	0.1	0.0	-0.3	-0.4	-0.2	-0.3	0.0	0.3	0.4	0.5	0.7
	QQ SAAR							0.0	-0.7	0.3	-0.8	-0.7	0.2	0.2	0.2	0.5	0.6	0.8	0.9
Final Domestic Demand	YY	-0.1	-0.2	0.2				-0.2	0.2	-0.1	-0.2	-0.4	-0.2	-0.2	-0.2	0.0	0.1	0.3	0.5
	QQ SAAR							0.1	-0.6	-0.2	-0.2	-0.5	0.0	-0.2	0.0	0.3	0.4	0.5	0.7
Private Consumption	YY	-0.3	-0.1	0.2				-0.7	-0.2	-0.4	-0.1	-0.4	0.1	0.1	0.0	0.2	0.2	0.3	0.4
	QQ SAAR							1.0	-1.6	0.1	0.1	-0.3	0.4	0.0	0.0	0.2	0.4	0.4	0.6
Public Consumption	YY	1.4	0.9	0.4				1.0	1.5	1.6	1.7	1.4	1.1	0.7	0.4	0.3	0.3	0.5	0.6
	QQ SAAR							2.3	1.9	1.3	1.3	1.3	0.4	0.0	0.0	0.6	0.6	0.6	0.6
Fixed Investment	YY	-1.2	-2.3	-0.1				-0.2	-0.5	-1.1	-3.0	-2.5	-2.8	-2.3	-1.6	-0.7	-0.2	0.2	0.5
	QQ SAAR							-5.4	-0.7	-2.8	-3.0	-3.5	-1.9	-0.9	-0.2	0.0	0.1	0.9	0.9
-- Businesses	YY	-1.9	-2.3	0.0				-1.7	-1.0	-1.2	-3.6	-2.6	-2.9	-2.2	-1.5	-0.7	-0.2	0.3	0.6
	QQ SAAR							-7.2	-0.7	-3.7	-2.9	-3.2	-2.0	-0.8	0.0	0.0	0.0	1.2	1.2
-- Households	YY	-0.4	-2.8	-0.2				1.3	0.1	-0.9	-2.0	-2.6	-3.1	-3.1	-2.4	-1.1	-0.3	0.2	0.5
	QQ SAAR							-2.9	-0.9	-1.2	-3.2	-5.2	-2.8	-1.2	-0.4	0.0	0.4	0.8	0.8
Stocks (Contrib. to YY GDP Growth)		-0.8	-0.1	0.0				0.2	-0.2	0.0	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	2.5	0.0	1.8				3.2	2.9	3.2	0.8	0.2	-0.4	-0.5	0.6	1.5	1.7	1.9	2.1
	QQ SAAR							0.5	3.7	1.9	-2.9	-1.9	1.2	1.6	1.6	1.6	2.0	2.4	2.4
Imports of Goods and Services	YY	-0.9	-0.6	1.0				-2.6	-0.5	-0.5	-0.1	-0.8	-1.0	-0.9	0.5	0.6	0.8	1.1	1.3
	QQ SAAR							3.5	1.0	0.3	-5.1	0.6	0.4	0.4	0.8	0.8	1.2	1.6	1.6
Net Exports (Contrib. to YY GDP Growth)		1.0	0.2	0.2				-0.2	0.2	0.1	0.2	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	2.2	1.0	1.6				2.6	2.3	2.3	1.7	1.2	0.9	0.9	1.0	1.5	1.6	1.8	1.7
Average Monthly Wages	YY	2.0	1.5	2.0															
Employment Growth (Private-Sector)	YY	-0.2	0.0	0.7															
Unemployment Rate	%	9.8	10.8	10.9				9.5	9.8	9.9	10.1	10.4	10.7	10.9	11.0	10.9	10.9	10.9	10.9
Current Account Balance	€ bn	-44.4	-32.7	-17.1															
	% GDP	-2.2	-1.6	-0.8															
General Government Balance	€ bn	-98.2	-80.4	-73.9															
	% GDP	-4.8	-3.9	-3.6															
Primary Balance	% GDP	-2.3	-1.3	-1.0															
General Government Debt	€ bn	1833.8	1926.3	2009.2															
	% GDP	90.2	94.2	96.3															
Gross Trading Profits	YY	-0.9	0.0	1.0															

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

Italy

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Some improvements in sentiment surveys suggest the economy probably is still shrinking in Q2/Q3 but the decline is less than before. We still expect GDP to fall in H2 and most of 2014. Tight financing conditions act as a major drag on domestic demand, although fiscal drag is diminishing. While Italy exited the Excessive Deficit Procedure in June, recent data indicate a renewed widening of the fiscal deficit, and the deficit is likely to worsen in H2 due to the delays in tax hikes. This probably contributed to the recent S&P downgrade and may prompt more rating actions in the next few quarters. We see limited political willingness/ability to tackle public spending to allow for lower taxes. We do not see the debt ratio stabilising in the next few years, and we think some form of debt restructuring (maturity lengthening and/or coupon reductions) may be likely eventually.

Figure 6. Italy – Economic Forecasts, 2011-14F

		History			Forecast															
		2012	2013	2014	History				Forecast				Forecast				Forecast			
					1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14				
Real GDP	YY	-2.4	-2.0	-0.6	-1.7	-2.5	-2.6	-2.8	-2.4	-2.2	-2.1	-1.3	-0.8	-0.5	-0.4	-0.4				
	QQ SAAR				-4.0	-2.5	-1.0	-3.6	-2.6	-1.5	-0.5	-0.4	-0.7	-0.5	-0.1	-0.4				
Final Domestic Demand	YY	-4.7	-2.7	-1.1	-4.1	-4.7	-5.0	-4.9	-3.6	-3.1	-2.4	-1.7	-1.1	-1.1	-1.1	-1.2				
	QQ SAAR				-8.4	-3.6	-4.2	-3.2	-3.5	-1.5	-1.2	-0.7	-1.1	-1.3	-1.3	-0.9				
Private Consumption	YY	-4.3	-2.3	-0.8	-3.4	-4.2	-4.8	-4.7	-3.4	-2.7	-1.8	-1.2	-0.9	-0.9	-0.8	-0.8				
	QQ SAAR				-7.0	-3.4	-4.8	-3.3	-1.9	-0.8	-1.2	-0.8	-0.8	-0.8	-0.8	-0.8				
Public Consumption	YY	-2.9	-0.1	-1.0	-2.9	-3.0	-2.8	-2.9	-0.8	-0.2	0.3	0.2	-0.3	-0.8	-1.2	-1.7				
	QQ SAAR				-7.9	-2.2	-1.7	0.5	0.3	0.1	0.2	0.2	-1.7	-1.7	-1.7	-1.7				
Fixed Investment	YY	-8.0	-7.1	-2.3	-7.6	-8.3	-8.2	-7.8	-7.5	-7.6	-7.2	-5.9	-3.1	-2.3	-2.2	-1.8				
	QQ SAAR				-13.6	-5.6	-4.8	-7.0	-12.7	-5.9	-3.2	-1.6	-1.6	-2.8	-2.8	0.0				
-- Business Equipment	YY	-9.6	-6.6	-0.6	-8.4	-10.6	-10.3	-8.9	-8.1	-7.6	-6.6	-4.3	-1.3	-0.1	-0.4	-0.7				
	QQ SAAR				-13.7	-8.2	-5.1	-8.5	-10.5	-6.3	-0.7	0.9	0.9	-1.6	-1.6	-0.4				
-- Construction	YY	-6.4	-7.5	-4.0	-6.8	-6.0	-6.1	-6.7	-7.0	-7.6	-7.9	-7.5	-4.7	-4.3	-3.9	-2.9				
	QQ SAAR				-13.5	-3.0	-4.4	-5.5	-14.7	-5.5	-5.5	-3.9	-3.9	-3.9	-3.9	0.4				
Exports of Goods and Services	YY	2.2	-0.5	1.4	2.1	2.5	2.5	1.8	-0.2	0.4	-0.6	-1.5	0.7	0.8	1.6	2.3				
	QQ SAAR				0.0	2.4	4.5	0.2	-7.3	4.5	0.6	-3.2	1.2	4.7	4.1	-0.5				
Imports of Goods and Services	YY	-7.8	-4.1	-0.3	-8.9	-7.5	-8.1	-6.7	-5.2	-4.4	-3.5	-3.2	-1.2	-0.7	0.2	0.4				
	QQ SAAR				-12.4	-2.9	-6.9	-4.4	-6.4	0.3	-3.3	-3.2	1.6	2.3	0.2	-2.2				
Net Exports (Contrib. to YY GDP Growth)		2.8	1.0	0.5	3.2	2.8	3.0	2.4	1.4	1.3	0.8	0.4	0.5	0.4	0.4	0.6				
Consumer Prices	YY	3.3	1.5	1.3	3.6	3.6	3.4	2.6	2.1	1.3	1.0	1.5	1.2	1.6	1.4	0.9				
Compensation per Employee	NA	NA	NA	NA																
Employment Growth		-0.3	-1.5	-0.7																
Unemployment Rate	%	10.7	12.4	12.8																
Current Account Balance	€ bn	-8.4	26.3	37.1																
	% GDP	-0.5	1.7	2.4																
General Government Balance	€ bn	-47.6	-54.9	-50.6																
	% GDP	-3.0	-3.5	-3.2																
Primary Balance	% GDP	2.5	1.9	2.1																
General Government Debt	€ bn	1989	2074	2151																
	% GDP	127.0	133.2	138.0																

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 forecasts

Spain

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We are revising up our growth forecasts for 2013 (by 0.2pp to -1.7pp) and 2014 (0.3pp to -0.9pp), reflecting signs of improvements in domestic demand and activity. Consumer confidence, retail sales and PMIs were getting slightly better in recent months, suggesting a better than expected Q2 and Q3 growth figures. We still think, however, that the ongoing internal adjustments (private deleveraging, housing, and fiscal) together with very tight financing conditions are likely to extend the recession at least until early 2015. We see the fiscal deficit narrowing only marginally to 6.5% of GDP in 2013, while extra bank recap needs may well also emerge. The debt ratio is expected to continue to rise rapidly and we think that some form of debt restructuring (maturity extensions/coupon reductions) may be likely eventually.

Figure 7. Spain – Economic Forecasts, 2012-14F

		History			Forecast			History				Forecast			
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	-1.4	-1.7	-0.9				-0.7	-1.4	-1.6	-1.9	-2.0	-1.9	-1.7	-1.0
	QQ SAAR							-1.7	-1.6	-1.3	-3.2	-2.1	-1.0	-0.4	-0.6
Final Domestic Demand	YY	-4.0	-3.7	-1.8				-3.2	-3.8	-4.2	-4.8	-5.0	-4.2	-3.5	-2.2
	QQ SAAR							-1.8	-5.3	-4.3	-7.7	-2.8	-2.1	-1.2	-2.9
Private Consumption	YY	-2.2	-2.5	-0.7				-1.3	-2.2	-2.1	-3.0	-3.9	-3.0	-2.5	-0.7
	QQ SAAR							2.1	-4.3	-2.1	-7.6	-1.5	-0.6	-0.1	-0.6
Public Consumption	YY	-3.7	-3.6	-2.9				-3.8	-2.8	-4.0	-4.1	-4.3	-4.2	-2.1	-4.0
	QQ SAAR							-4.2	-1.2	-9.8	-1.0	-4.7	-1.2	-1.3	-8.5
Fixed Investment	YY	-9.1	-7.3	-3.7				-7.4	-9.2	-9.7	-10.3	-9.0	-7.8	-7.7	-4.7
	QQ SAAR							-9.4	-11.9	-4.9	-14.6	-4.4	-7.0	-4.3	-3.2
-- Business Equipment	YY	-4.5	-4.7	-3.2				-3.2	-4.4	-4.4	-6.2	-4.8	-5.1	-6.8	-2.1
	QQ SAAR							-0.5	-6.1	4.7	-20.8	5.4	-7.4	-2.7	-3.2
-- Construction	YY	-11.5	-8.7	-4.0				-9.5	-11.6	-12.5	-12.4	-11.3	-9.3	-8.1	-6.2
	QQ SAAR							-13.8	-14.8	-9.8	-10.9	-9.5	-6.9	-5.2	-3.1
Exports of Goods and Services	YY	3.0	3.2	3.5				2.1	2.7	4.2	3.2	4.5	4.0	1.0	3.2
	QQ SAAR							-9.9	7.3	21.8	-3.7	-5.2	5.3	8.2	4.9
Imports of Goods and Services	YY	-5.0	-2.9	1.0				-5.9	-5.2	-3.4	-5.4	-5.1	-3.0	-4.0	0.3
	QQ SAAR							-7.7	-5.2	11.3	-17.9	-6.5	3.8	6.7	-2.3
Net Exports (Contrib. to YY GDP Growth)		2.4	1.8	0.9				2.4	2.3	2.3	2.6	2.8	2.1	1.5	0.9
Consumer Prices	YY	2.4	1.7	0.9				1.9	1.9	2.8	3.2	2.8	1.8	1.4	0.8
Compensation per Employee	YY	0.3	-0.4	NA											
Employment Growth	YY	-4.5	-4.1	-3.1				-3.9	-4.9	-4.6	-4.8	-4.6	-4.4	-4.1	-3.3
Unemployment Rate	%	25.0	27.0	28.5				24.4	24.6	25.0	26.0	27.2	26.9	26.7	27.4
Current Account Balance	€ bn	-11.5	10.4	19.0											
	% GDP	-1.1	1.0	1.8											
General Government Balance	€ bn	-111.6	-67.9	-62.4											
	% GDP	-10.6	-6.5	-6.0											
Primary Balance	% GDP	-7.7	-3.2	-2.3											
General Government Debt	€ bn	883.9	978.7	1085.3											
	% GDP	84.2	93.9	104.2											

Note: We assume sovereign debt restructuring in 2015. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€33.5bn). Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Greece

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Recent gains in confidence (albeit from extreme lows), better readings on inventories and the pickup in imports suggest that decline in domestic demand may be easing. Hence, we raise our 2013 GDP forecast to minus 5.0% from minus 5.5% last month. However, the government reshuffle and tense troika negotiations have reignited political risks. The bailout programme is probably off-track again, due to lack of privatization revenues, while the core fiscal numbers seem roughly in line with targets. Key discussions on further debt restructuring of official loans have been delayed until post-German elections. We think major debt relief from official lenders will be needed to restore fiscal sustainability, and that risks remain quite high of Greece eventually exiting EMU (although this is no longer our base case).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-5.0	-4.3	-2.3	0.6	1.3
Final Domestic Demand	YY	-9.7	-7.4	-5.9	-4.3	-0.6	0.5
Private Consumption	YY	-9.1	-7.7	-6.1	-4.7	-1.0	0.6
Fixed Investment	YY	-19.0	-11.3	-6.8	-3.1	0.5	1.3
Exports of Goods and Services	YY	-2.0	1.3	1.5	2.0	2.9	3.0
Imports of Goods and Services	YY	-9.3	-4.5	-4.2	-4.8	-1.2	0.4
Consumer Prices	YY	1.0	-0.4	-0.9	-0.6	0.2	0.3
Unemployment Rate	%	24.1	28.5	31.7	34.1	34.7	34.3
Current Account Balance	€ bn	-6.5	-1.3	0.7	1.7	5.7	7.7
	% GDP	-3.4	-0.7	0.4	1.1	3.5	4.7
General Government Balance	€ bn	-19.4	-9.9	-8.2	-6.0	-3.9	-1.7
	% GDP	-10.0	-5.5	-4.9	-3.7	-2.4	-1.0
Primary Balance	% GDP	-5.0	-1.4	-0.7	-0.2	1.3	2.8
General Government Debt	€ bn	303.9	323.8	333.0	341.7	349.1	354.3
	% GDP	156.9	181.5	199.3	212.0	216.1	217.0

Note: 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 forecasts

Portugal

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The recent political turmoil mirrors mounting austerity fatigue and it likely implies more overshooting of budget targets and a reduced likelihood of a smooth exit from the bailout programme in mid-14. Private deleveraging remains a major headwind for the economy, especially for the most indebted corporate sector, adding to the fiscal drag. Fiscal tightening will likely remain severe in the next couple of years, especially if a second bailout programme is agreed. With about half of the debt in official hands, we think some further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may eventually occur to restore debt sustainability.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-3.0	-1.4	0.1	1.1	1.1
Final Domestic Demand	YY	-6.9	-4.3	-3.1	-0.9	0.6	0.8
Private Consumption	YY	-5.6	-3.6	-2.2	-0.2	0.7	0.8
Fixed Investment	YY	-14.5	-10.8	-7.6	-3.7	0.0	1.2
Exports	YY	3.3	2.2	2.7	2.9	3.6	3.6
Imports	YY	-6.6	-2.7	-1.7	0.6	2.8	3.1
Consumer Prices	YY	2.8	0.8	0.3	-0.2	0.4	0.6
Unemployment Rate	%	15.7	18.0	19.4	20.5	20.5	20.5
Current Account Balance	€ bn	-2.6	1.6	4.8	5.4	5.5	6.1
	% GDP	-1.5	1.0	3.0	3.4	3.4	3.7
General Government Balance	€ bn	-10.6	-9.6	-9.0	-7.1	-6.3	-5.6
	% GDP	-6.4	-5.9	-5.6	-4.5	-3.9	-3.4
Primary Balance	% GDP	-2.0	-1.4	-1.2	0.0	0.8	1.5
General Government Debt	€ bn	204.5	217.9	239.3	246.4	252.7	258.3
	% GDP	123.8	135.0	150.9	155.1	156.9	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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We are cutting our 2013 growth forecast from 1.0% to minus 0.2% following the soft Q1 GDP data (down 0.6% QQ) and downward revisions to recent quarters. Recent data suggest that the economy has exited recession in Q2, with growth of about 0.5% QQ, but that would still leave Q2 GDP down 1.3% YY. With this weaker outlook, we are revising up our estimate for the 2013 public debt/GDP ratio to 130-131% from 121.7% last month, but still expect this ratio will edge down in 2014.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	0.1	-0.2	2.2	2.4	2.7	2.7
Real GNP	YY	1.8	3.9	1.6	1.7	2.1	2.1
Final Domestic Demand	YY	-1.1	-2.8	-0.8	-0.9	-0.7	-0.6
Private Consumption	YY	-0.3	-2.2	-0.1	-0.3	-0.4	-0.3
Fixed Investment	YY	-0.7	-7.0	-3.3	-3.8	-3.5	-3.3
Government Consumption	YY	-3.8	-2.0	-1.6	-0.7	0.0	0.0
Exports of Goods and Services	YY	1.6	-1.1	4.5	5.9	6.0	5.7
Imports of Goods and Services	YY	0.0	-2.4	0.3	4.1	4.3	4.1
Net Trade		1.7	1.4	4.3	3.2	3.4	3.3
GDP Deflator	YY	0.7	-0.4	1.4	1.6	1.6	1.6
Nominal GDP	YY	0.8	-0.6	3.7	4.0	4.4	4.3
House Prices	YY	-12.8	-1.6	0.7	1.0	1.0	2.1
Unemployment Rate	%	14.7	13.5	13.4	13.2	13.1	13.2
Employment	YY	-0.6	1.1	-0.2	-0.4	-0.3	0.1
Current Account Balance	€ bn	7.3	12.2	17.2	19.3	21.5	23.4
	% GDP	4.4	7.5	10.2	11.0	11.7	12.2
General Government Balance	€ bn	-12.5	-13.7	-9.6	-6.5	-5.5	-5.3
	% GDP	-7.6	-8.4	-5.7	-3.7	-3.0	-2.8
Primary Balance	% GDP	-3.9	-3.3	-0.6	1.5	2.2	2.4
General Government Debt	€ bn	192.4	208.2	212.3	216.0	222.0	226.6
	% GDP	120.0	130.7	128.6	125.8	123.8	121.1

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

Netherlands

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We cut our 2013 Dutch GDP forecast by 0.2ppt to -1.2% in July, mainly because of downward revisions to the 2011-12 GDP level. Looking ahead to 2014, the underlying growth picture remains weak due to the steady correction in house prices and additional fiscal tightening (ministers have earmarked 1% of GDP). In addition, there was news of further delays in pension system reform and the Dutch central bank called on domestic financial institutions to set aside a buffer of €6bn in high-quality capital to cover additional risks and expected losses. We expect the Dutch economy to underperform its 'soft core' peers throughout 2015.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-1.3	-1.2	0.2	0.9	1.2	1.6
Final Domestic Demand	YY	-1.8	-2.8	-0.3	0.3	0.4	0.8
Public Consumption	YY	-0.7	-1.4	-0.7	0.0	0.3	0.7
Private Consumption	YY	-1.6	-1.2	-0.3	0.4	0.5	0.8
Fixed Investment (ex Stocks)	YY	-4.0	-8.3	0.5	0.4	0.7	1.1
Stocks (Contrib. to YY GDP Growth)		0.2	-0.4	-0.1	0.1	0.1	0.1
Exports of Goods and Services	YY	3.2	1.1	1.3	2.4	3.1	3.5
Imports of Goods and Services	YY	3.3	-1.3	0.8	2.0	2.7	3.1
Net Exports (Contrib. to YY GDP Growth)		0.2	1.9	0.5	0.6	0.7	0.8
Consumer Prices	YY	2.8	2.8	1.7	1.5	1.8	1.6
Unemployment Rate	%	6.4	8.3	8.8	8.9	8.3	7.2
Current Account Balance	€ bn	60.5	57.0	55.0	60.0	62.0	65.0
	% GDP	10.1	9.4	8.9	9.5	9.5	9.6
General Government Balance	€ bn	-24.4	-23.0	-20.9	-17.9	-14.9	-9.6
	% GDP	-4.1	-3.8	-3.4	-2.8	-2.3	-1.4
Primary Balance	% GDP	-2.2	-1.9	-1.4	-0.8	-0.3	0.6
General Government Debt	€ bn	427.5	453.9	471.8	486.5	501.4	511.0
	% GDP	71.3	74.8	76.3	76.8	76.9	75.9

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

Sources: DNB, CBS and Citi Research forecasts

Belgium

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We lift our 2013 and 2014 GDP forecasts by 0.2ppt and 0.1ppt to -0.2% and +0.4%, respectively, owing to the slightly better performance of Germany and France, together with tentative signs of improvement in the forward-looking components of the BNB business survey. Illustrating the continued focus on budgetary consolidation, the government announced a combined €3.5bn (1% of GDP) of budgetary savings for 2013-14, focusing on expenditure reduction rather than tax hikes to protect the GDP baseline. King Albert announced his abdication, passing the crown to his son, ahead of the 2014 May 25 legislative elections.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.3	-0.2	0.4	1.0	1.4	1.6
Final Domestic Demand	YY	-0.5	-0.6	0.0	0.9	1.3	1.6
Public Consumption	YY	0.4	0.2	0.3	0.7	1.1	1.5
Private Consumption	YY	-0.3	-0.2	-0.2	0.5	0.9	1.1
Fixed Investment (ex Stocks)	YY	-0.6	-2.7	0.4	2.0	2.6	3.0
Exports of Goods and Services	YY	0.7	-0.9	2.2	3.5	3.9	4.3
Imports of Goods and Services	YY	0.5	-1.4	2.2	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.2	1.9	1.8	1.9	1.9
Unemployment Rate	%	7.6	8.6	9.2	9.2	8.9	8.3
Current Account Balance	€ bn	-6.0	-7.7	-6.3	-3.9	-0.9	2.2
	% GDP	-1.6	-2.0	-1.6	-1.0	-0.2	0.5
General Government Balance	€ bn	-14.9	-12.1	-11.3	-8.4	-6.2	-5.8
	% GDP	-3.9	-3.2	-2.9	-2.1	-1.5	-1.3
Primary Balance	% GDP	-0.5	0.4	0.7	1.5	2.0	2.1
General Government Debt	€ bn	375.4	389.6	402.1	410.5	416.8	422.5
	% GDP	99.8	102.4	103.4	102.7	100.5	98.4

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

Slovakia

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We expect GDP to increase by 0.5% YY in 2013 due to weaker investments and exports. Downside risk from weaker order-books is offset by better retail sales. This should be followed by a recovery of 1.7% in 2014. Monthly indicators from the real economy have provided a mixed picture in May. Our index of real economic activity improved slightly compared to March, but still remains a tick below the 1Q13 average. This particularly reflects a further deceleration of industrial production growth that eased to 2.1% YY in May from 2.4% a month ago and from 7.5% a year ago. Total confidence deteriorated again in June and industrial orders worsened, which suggests the economic recovery will continue to struggle. Overall confidence has continued to worsen in June to levels last seen in early 2013. In particular the services sector is behind this deterioration after confidence dropped to an almost four year low. However, business survey dynamics in the service sector suggest service confidence could be at its trough as expected demand improved in June as well service sector employment expectations.

Government finances have increased their chances of meeting the goal set at a deficit of €-3bn in 2013 (-4.2% of GDP), but the seasonal pattern still suggests a risk of wider deficit of around -4.6% of GDP. The 12m cumulative central government deficit narrowed to 4.4% of GDP in June, which is the lowest ratio since end-2009. The year-to-date deficit reached €1.7bn in June 2013, narrower by €0.7bn compared to the same period in 2012 – suggesting an ongoing improvement given the May deficit was narrower by €0.6bn and April's only by €100mn. The improvement reflects an 11.1% contraction in year-to-date expenditures, while a year ago expenditure increased by 7%. However, weaker economic growth is also reflected in lower revenue growth which fell 3.2% (-4.3% a year ago. Moreover, a more detailed analysis shows the reduction on expenditure side particularly comes from "current expenditures" (82% share), but the "capital expenditures" fell as well (share 20% on lower expenditures). Furthermore, VAT revenue has improved in May-June. Moreover, the revenue side has been recently negatively influenced by lower inflows of EU funds, but - looking at the experience from 2012 – it is only seasonal.

The supply/demand factors at the bond market have remained supportive for bonds. Moreover, ARDAL cancelled the July auction as the MinFin's gross borrowing requirements are already 90% covered. Moreover, ARDAL plans partial buybacks of bonds maturing in 2014, when the total maturity of bonds is €3.8bn (of which €1bn are syndicate bonds).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	2.0	0.5	1.7	2.4	2.9	3.4
Final Domestic Demand	YY	-1.4	-1.5	1.6	2.5	3.4	3.6
Public Consumption		-0.6	0.2	0.1	1.5	2.0	2.0
Private Consumption	YY	-0.6	-0.3	0.8	1.8	2.7	3.0
Fixed Investment	YY	-3.7	-5.4	4.3	5.1	6.0	6.0
Exports	YY	8.6	1.5	2.7	4.5	5.6	6.5
Imports	YY	2.8	-0.4	2.2	4.8	6.4	7.5
Consumer Prices	YY	3.6	1.7	1.9	2.7	2.7	2.7
Unemployment Rate	%	13.6	14.5	14.7	14.1	13.2	13.2
Current Account Balance	% GDP	2.2	3.3	3.0	2.0	0.7	-0.7
General Government Balance	% GDP	-4.3	-3.4	-3.2	-2.6	-2.1	-1.8
Government Primary Balance	% GDP	-2.9	-2.0	-1.8	-1.1	-0.7	-0.3
General Government Debt	% GDP	52.1	55.6	56.5	56.6	56.3	55.8

Sources: National sources and Citi Research forecasts

Slovenia

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The June confidence survey is supportive for the real economy. The survey points to a continuing improvement in June owing to better manufacturing confidence (slightly above the long-term average) and a surge in retail confidence (owing to better sales accompanied by higher orders and lower stocks of inventories). Though the assessment of industrial production worsened in June, the improved confidence in industry reflects a surge in production expectations accompanied by better assessment and expectations of order-books including export orders. While construction confidence worsened slightly, it remains just a tick below the average. The service sector remained weak and consumer confidence slightly worsened in June after its drop a month ago. Higher concerns about unemployment are unlikely to diminish, given fiscal austerity and privatisation projects.

Data from the real economy recently reported have not been so supportive, but still suggest some improvement. Industrial production decreased by 0.8% MM in May after a stronger gain a month ago, which led to a milder YY contraction of -0.7% compared to -1.4% a month ago. Also the export data were weaker in May, which was however also influenced by fewer working days, which led to a mild contraction in exports of goods after a 9% YY increase a month ago. Also June data will be negatively influenced by fewer working days and while there should be a correction in July, it may be diminished by holidays. While May data from industry and export were not supportive, the improved order-books suggest an ongoing improvement in export activity to around 5%-7% YY in forthcoming months. While construction decreased by almost 3% MM in May, its YY contraction eased to 12% after -23% in 1Q13, which is in line with improved confidence indicators. Also retail sales have continued to ease their YY contraction in May and suggest to us a 1.7% YY contraction (for ex. car segment) in 2Q13 compared to -6.4% in 1Q13, suggesting a milder contraction in private consumption.

All in all, we keep our forecast of a 2.2%YY contraction in GDP this year, followed by mild contraction of 0.3% in 2014, before the economy recovers by 1.1% in 2015. While the May data from the real economy were slightly worse compared to April, June business survey and our slightly improved outlook on foreign demand provide a support to our forecast. Politics still represents the main downside risks as Slovenia still hesitates before a required transfer of bad banking assets into consolidation banks, while the privatisation process has not yet started.

Figure 14. Slovenia – Economic Forecasts, 2012-17F

		History	Forecast	2014	2015	2016	2017
		2012	2013				
Real GDP	YY	-2.2	-2.2	-0.3	1.1	2.1	2.9
Final Domestic Demand	YY	-3.8	-2.9	0.1	1.5	1.8	2.1
Public Consumption		-1.6	-0.5	-0.6	0.8	1.1	1.2
Private Consumption	YY	-2.8	-4.2	-0.1	1.2	1.7	2.0
Fixed Investment	YY	-9.1	-2.1	1.4	3.0	2.8	3.2
Exports	YY	1.3	2.9	2.1	3.4	5.4	6.7
Imports	YY	-4.3	2.6	2.6	3.8	5.7	6.7
Consumer Prices	YY	2.6	2.7	2.9	2.0	1.8	1.8
Unemployment Rate	%	8.9	10.2	11.1	12.0	12.5	12.1
Current Account Balance	% GDP	2.3	2.2	3.3	2.9	3.2	3.9
General Government Balance	% GDP	-4.0	-9.1	-6.6	-3.2	-2.4	-1.5
Government Primary Balance	% GDP	-1.9	-6.4	-3.7	-0.4	0.6	1.4
General Government Debt	% GDP	54.1	63.7	69.1	69.8	69.0	67.7

Sources: National sources and Citi Research forecasts

United Kingdom

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Recent data and revisions contain both good and bad news for the UK outlook. The economy is expanding, but has ample slack and continues to face major headwinds. Overall, our UK growth forecasts are little changed this month. Among the components, we expect modest consumer spending growth (about 1½% YY in both 2013 and 2014), with a small but positive boost from net trade. Investment was revised down markedly in the recent GDP data and probably will remain soft, while (in line with the government's fiscal plans) we expect declines in government consumption from 2014 onwards. CPI inflation hit 2.9% YY in the June data, but probably will now head lower. We expect the MPC will implement Fed-style forward guidance soon, with an unemployment threshold of 6.5% or 7% and an inflation knockout (in terms of the MPC's inflation 2-year ahead forecast) set at 0.5% above the MPC's longterm inflation goal of 2%. This will probably come at the August meeting. At present, our forecasts assume little change in exchange rates but if sterling does fall substantially further then this could, over time, feed through to a notably stronger economic picture without, we suspect, creating a worrying level of underlying inflation pressures

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

		History			Forecast			History				Forecast			
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	0.1	0.9	1.3	0.6	-0.1	0.1	0.0	0.2	1.3	0.8	1.4	1.3	1.1	1.3
	QQ SAAR				0.0	-2.3	3.2	-0.8	0.8	2.0	1.2	1.4	0.7	1.2	1.9
Final Domestic Demand	YY	1.4	0.4	0.9	2.2	1.0	1.5	0.9	0.0	0.3	0.4	0.9	0.6	0.8	1.1
	QQ SAAR				5.7	-0.7	0.1	-1.2	1.8	0.5	0.6	0.9	0.6	1.3	1.6
Private Consumption	YY	1.2	1.5	1.4	0.7	1.1	1.5	1.5	1.5	1.6	1.6	1.3	1.2	1.2	1.5
	QQ SAAR				1.2	1.2	1.3	2.2	1.2	1.6	1.3	1.1	0.7	1.9	2.5
Public Consumption	YY	2.8	1.1	-0.6	2.9	1.8	3.1	3.4	0.8	2.0	1.2	0.5	0.1	-0.5	-1.1
	QQ SAAR				11.3	-3.6	3.5	3.2	0.4	1.0	0.5	0.0	-0.9	-1.4	-1.9
Fixed Investment	YY	0.5	-6.2	1.4	8.3	-0.4	-0.9	-4.7	-8.3	-7.7	-6.8	-1.6	-1.1	1.1	2.6
	QQ SAAR				17.5	-8.2	-6.4	-18.4	0.6	-5.5	-3.0	1.4	2.7	3.2	3.1
-- Business Investment	YY	1.8	-12.1	1.1	18.5	-0.7	0.1	-8.8	-16.5	-12.6	-13.9	-4.1	-1.5	0.0	2.8
	QQ SAAR				35.5	-28.8	7.9	-35.9	-6.7	-1.0	-7.4	-0.8	3.1	4.7	3.8
-- Construction of Private Dwellings	YY	-3.4	11.8	0.9	-2.2	-2.1	-3.4	-5.8	15.6	8.7	10.1	12.9	-0.2	0.4	1.4
	QQ SAAR				-27.0	24.9	-7.8	-6.1	65.5	-2.4	-3.0	3.7	1.0	-0.1	1.1
Stocks (Contrib. to YY GDP Growth)		-0.4	0.2	0.2	-0.4	-0.5	-1.1	0.7	0.4	0.5	0.2	-0.1	0.7	0.1	0.1
Exports of Goods and Services	YY	0.9	1.0	4.8	-1.4	3.4	4.2	-2.4	-0.8	1.2	0.0	3.5	4.7	4.3	5.0
	QQ SAAR				-6.8	-2.3	7.8	-7.6	-0.5	5.8	3.0	6.0	4.2	4.1	5.9
Imports of Goods and Services	YY	2.8	-0.1	4.2	1.8	4.1	3.7	1.5	-0.9	-0.5	-0.7	1.5	4.5	3.6	4.4
	QQ SAAR				1.6	6.4	2.5	-4.1	-7.7	8.2	1.5	4.7	3.7	4.4	4.7
Net Exports (Contrib. to YY GDP Growth)		-0.9	0.3	0.1	-1.2	-0.6	-0.3	-1.6	-0.2	0.5	0.2	0.6	0.0	0.2	0.2
Consumer Prices	YY	2.8	2.6	2.2	3.5	2.7	2.4	2.7	2.8	2.7	2.7	2.3	2.1	2.2	2.2
Average Earnings YY	YY	1.4	0.6	1.4	0.7	1.7	1.9	1.3	0.9	0.4	0.3	0.8	1.2	1.3	1.4
Employment Growth	YY	1.2	0.8	1.2	0.2	0.9	1.8	2.1	1.4	0.8	0.5	0.3	0.8	1.0	1.4
Unemployment Rate	%	7.9	7.9	7.7	8.2	8.0	7.8	7.8	7.8	7.9	8.1	7.9	7.8	7.8	7.6
Current Account Balance	£ bn	-57.7	-55.2	-54.8	-11.9	-16.7	-15.1	-14.0	-14.5	-13.6	-13.6	-13.5	-13.6	-13.9	-13.8
	% GDP	-3.7	-3.4	-3.3	-3.0	-4.3	-3.9	-3.6	-3.6	-3.4	-3.4	-3.3	-3.3	-3.4	-3.3
Public Sector Net Borrowing	£ bn FY	89.4	106.7	97.2											
	% GDP	-5.7	-6.6	-5.8											
General Government Balance	% GDP	-6.3	-7.1	-6.3											
Government Primary Balance	% GDP	-2.7	-3.5	-2.6											
General Government Debt	£ bn	1387.4	1505.5	1632.5											
	% GDP	89.5	93.9	98.4											
Gross Non Oil Trading Profits	YY	4.5	9.9	6.1	0.7	0.5	4.9	10.3	11.4	14.5	6.1	6.4	5.6	6.8	6.4
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
Ten-year Gilt Yield (Period Averages)	%	1.85	2.05	2.50	2.12	1.80	1.65	1.82	2.02	1.90	2.20	2.25	2.30	2.40	2.60
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.81	0.86	0.88	0.83	0.81	0.80	0.81	0.85	0.86	0.88	0.88	0.88	0.88	0.88
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.58	1.49	1.48	1.60	1.57	1.61	1.63	1.52	1.52	1.47	1.46	1.46	1.47	1.49

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 forecasts

Switzerland

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Our Swiss economic forecasts are little changed from last month. Recent surveys suggest that the economy continued to expand in Q2, with growth probably at 0.3%-0.4% QoQ. The long period of negative inflation is coming to an end, and inflation will probably rise to slightly above zero around end-13, although it will likely stay low for an extended period. Under these conditions, we expect the SNB will continue to resist FX appreciation pressure for an extended period.

Figure 16. Switzerland – Economic Forecasts, 2012-14F

		History			Forecast			History												Forecast			
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	1.0	1.5	1.2				1.0	0.4	1.3	1.2	1.4	1.8	1.4	1.4	1.2	1.1	1.2	1.3				
Final Domestic Demand	YY	1.7	1.6	1.3				1.5	1.8	1.7	1.7	1.6	1.8	2.1	1.1	1.3	1.1	1.2	1.7				
Public Consumption	YY	0.5	1.0	1.4				1.5	0.0	0.3	0.4	1.6	1.5	0.7	0.1	1.4	1.4	1.4	1.4				
Private Consumption	YY	2.5	2.4	1.6				2.4	2.4	2.5	2.8	2.5	2.5	2.8	1.7	1.5	1.6	1.4	2.0				
Fixed Investment	YY	-0.2	0.0	0.4				-1.0	1.0	0.1	-0.7	-0.9	0.1	0.7	-0.1	0.6	-0.4	0.5	1.1				
Exports of Goods and Services	YY	1.1	1.6	2.9				-0.6	0.0	1.7	3.4	1.6	2.2	2.0	0.8	2.8	2.6	3.0	3.4				
Imports of Goods and Services	YY	2.1	0.8	3.7				2.5	2.0	1.3	2.6	0.0	1.1	1.5	0.7	3.6	3.0	3.5	4.8				
Consumer Prices	YY	-0.7	-0.3	-0.1				-0.9	-1.0	-0.5	-0.3	-0.4	-0.4	-0.5	0.0	-0.3	0.0	0.0	0.1				
Unemployment Rate	%	2.6	1.9	2.0				3.1	3.2	2.3	1.8	1.9	1.9	2.0	1.8	1.8	2.0	2.2	1.9				
Current Account Balance	Sfr bn	75.9	78.0	77.4				17.6	21.7	19.1	17.5	17.4	22.0	19.4	19.3	19.1	21.0	18.3	19.0				
	% GDP	12.8	12.8	12.4				12.0	14.7	12.8	11.8	11.6	14.4	12.7	12.5	12.4	13.5	11.7	12.1				
General Government Balance	% GDP	0.5	0.6	0.6																			
General Government Debt	% GDP	46.7	45.4	43.6																			
SNB Rate (Annual Avge, then qtr-end)	%	0.00	0.00	0.00				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
Ten-year Yield (Period Average)	%	0.64	0.80	0.86				0.71	0.59	0.53	0.47	0.64	0.65	0.90	0.80	0.77	0.77	0.91	0.98				
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.20	1.24	1.26				1.20	1.20	1.21	1.21	1.22	1.23	1.25	1.25	1.25	1.26	1.27	1.28				
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.94	0.96	0.97				0.90	0.95	0.94	0.91	0.95	0.94	0.96	0.97	0.98	0.97	0.97	0.97				

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

Sweden

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After barely any growth in 4Q12, economic activity recovered in early 2013, although 1Q GDP showed signs of weakness (rising inventories). Economic recovery is likely to be weak in a historical perspective; exports will stay weak, household deleveraging risks are increasing and ongoing fiscal erosion limits the size of fiscal easing. With very weak production side data (industrial output down by 7.3% YY in May combined with weak service sector momentum), GDP is unlikely to repeat its 1Q 1.7% YY gain in 2Q. In fact, our forecast of nil growth QQ might turn out to be too optimistic (Riksbank: 0.3% QQ).

Inflation pressure continues to be very low, with CPI inflation slightly negative and underlying CPIF inflation (CPI excluding interest rates) at 0.7% YY. Most indications are that inflation will remain low during the next 1-2 years; high unemployment, modest wage growth and a steady decline in import prices support the view. The Riksbank is weighing low inflation and capacity utilization against financial stability considerations (high household debt burden and rising house prices). Although the Central Bank, so far, has appeared reluctant to ease monetary policy further, additional macro prudential measures should free the Riksbank's hands somewhat, in our view. At the July policy meeting, the Riksbank kept the conditional interest rate path unchanged and, in turn, confirmed its near-term easing bias. Hence, the Bank keeps an option to cut in September open in case the economy disappoints or inflation declines more than forecast. Even if these factors support easing, a September rate cut will still be a close call given the strong focus on financial stability considerations among the majority board (unlikely to go away as we see signs of recovery in the housing market).

With well-below trend GDP growth and rising unemployment, the government announced total fiscal stimulus of around SEK 25bn (0.7% of GDP) this year. With a general election scheduled for 2014, we look for additional reforms of the same magnitude next year, which should generate a budget deficit of around 1.5% of GDP in 2013-14. These are small – roughly in line with those during the 2001-04 slowdown – in an international comparison, and Sweden should continue to outperform. In other words, the announced measures are not aggressive enough to seriously threaten public finances; public debt is likely to stay around 40% of GDP.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	1.1	1.2	2.0	2.5	2.5	2.9
Final Domestic Demand	YY	1.9	0.4	1.7			
Public Consumption	YY	1.1	0.8	0.7			
Private Consumption	YY	1.6	2.0	2.0			
Fixed Investment	YY	3.9	-4.1	2.6			
Exports of Goods & Services	YY	1.3	-1.5	2.5			
Imports of Goods & Services	YY	0.5	-2.6	1.9			
Consumer Prices	YY	0.9	0.1	1.0	1.8	2.2	2.3
Unemployment Rate	%	8.0	8.3	8.2			
Current Account Balance	% GDP	6.9	7.1	6.9	6.7	6.8	6.7
General Government Balance	% GDP	-0.6	-1.5	-1.5	-0.4	0.7	1.5
General Government Debt	% GDP	38.4	39.4	39.8	38.5	36.1	32.8
Riksbank Rate (Annual Average)	%	1.45	1.00	1.00	1.32	1.73	2.29
Ten-year Yield (Period Average)	%	1.59	1.91	2.03	2.10	2.30	2.80
EUR-SEK FX Rate (Annual Average)		8.63	8.71	8.79	8.63	8.47	8.31
USD-SEK FX Rate (Annual Average)		6.77	6.74	6.77	6.42	6.28	6.16

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

Denmark

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The Danish economy has balanced on the edge of recession since mid-2010, and GDP growth contracted 0.4% YY last year, by far the weakest outcome since 2009. Given the substantial setback in 4Q12, the economy entered 2013 at a lower level than previously assumed. Coupled with very weak exports and stagnant domestic spending, this indicates barely any growth this year. Our forecast assumes that economic activity gradually improves, driven by stronger domestic demand. However, recovery is expected to 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, and renewed house price declines. In turn, we have cut our 2014 GDP forecast by 0.5pp to 0.6% YY.

The government has implemented a string of economic reforms in order to boost domestic demand (increased government investment and lower income taxes) and to improve the supply side of the economy (labour market reforms, changes to the unemployment and social security benefit system, lower corporate tax and indirect company tax cuts), which we reckon should bolster the fundamental structure of the economy. However, the easing of fiscal policy is nearing an end, with government estimates suggesting that recent years' initiatives will boost economic growth by 0.3pp this year, while having a slightly tightening effect in 2014.

The Danish National Bank only partly shadowed ECB action in May, cutting the lending rate by 10bp to 0.20%, while keeping its other interest rates unchanged. This reflected a reasonably stable development in EUR/DKK with the Danish krone trading only marginally stronger than the central parity, at the same time as the lending rate already was close to zero prior to the rate announcement. The DNB had also said that *"With low monetary policy rates, the room for further reduction of Denmark's Nationalbank's lending rate is limited. The lending rate will remain positive"*. In other words, the Bank is saving some of its ammunition. The DNB has not intervened in the foreign-exchange market in Feb-Jun, 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. Ahead, we do not expect DNB to fully shadow ECB action (we have an ECB 25bp rate cut in 4Q-13); we expect the lending rate to trough at 0.1% in 4Q this year.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.4	0.1	0.6	1.3	1.5	1.5
Final Domestic Demand	YY	0.4	-0.1	0.7			
Public Consumption	YY	0.7	-0.5	0.4			
Private Consumption	YY	0.5	0.5	0.7			
Fixed Investment	YY	-0.1	-0.9	1.0			
Exports of Goods & Services	YY	0.2	-1.3	1.3			
Imports of Goods & Services	YY	1.0	1.2	1.4			
Consumer Prices	YY	2.4	0.9	1.5	1.7	1.8	1.9
Unemployment Rate	%	7.5	7.5	7.4			
Current Account Balance	% GDP	6.2	5.3	4.7	4.2	4.0	3.8
General Government Balance	% GDP	-4.3	-2.0	-1.5	-1.0	0.5	1.0
General Government Debt	% GDP	45.8	47.3	47.8	47.3	45.1	42.6
DNB Bank Rate (Annual Average)	%	0.43	0.10	0.20	0.40	0.60	1.00
Ten-year Yield (Period Average)	%	1.51	1.66	1.75	1.95	2.25	2.75

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

Sources: DNB, national statistical office and Citi Research forecasts

Norway

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Mainland GDP (excl. oil/gas and shipping) expanded by a trend-like pace of 0.7% QQ in 1Q 2013 (in seasonally-adjusted terms), about the same pace as in the first three quarters of 2012, but markedly up from the meagre 0.2% QQ gain in 4Q 2012. Meanwhile, growth was revised down in the first half of 2012, and the year-on-year rate eased from 2.6% in 4Q 2012 to 2.3% in 1Q 2013. With survey indicators pointing to a near-term slowdown, we expect to see slightly below-trend growth this year. Nevertheless, vigorous activity in the petroleum sector and construction industry plus recovering private spending should ensure continued Norwegian outperformance versus most of Europe. Activity continues to run the strongest among suppliers to the petroleum sector where investments are surging, benefitting the Norwegian economy both directly via increased activity and indirectly via strong income growth. At the same time, the demand for labour in oil-related industries is offsetting the decline in more traditional industries.

With below-target inflation and no apparent near-term triggers for a pick-up (wage growth below pace compatible with 2.5% inflation target, moderating economic activity and higher unemployment) plus high lending margins, an interest rate cut has certainly moved closer. In the June *Monetary Policy Report*, Norges Bank, lowered its conditional interest rate path for a second meeting in a row, reflecting weaker-than-expected cost pressures in the Norwegian economy and lower domestic capacity utilization (assessed to be “close to a normal level” vs. above previously). In turn, the Bank now only sees inflation at 1.9% by end-2016 – well below the 2.5% inflation target – and the conditional interest rate path signals a 50% probability of a September rate cut. Financial stability concerns, though, weigh increasingly more in the interest rate decisions and with the substantial NOK depreciation recently, we doubt Norges Bank will cut rates in the near term. But, should the NOK strengthen again (or the economy slow further), the question will become relevant again. We do not, however, expect economic indicators to disappoint on the low side ahead of the September meeting; the Central Bank now forecast virtually stable capacity utilization and roughly unchanged inflation over coming months, which basically reflects our assessment of the economy.

Figure 19. Norway – Economic Forecasts, 2012-17F

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	2.4	2.7	2.8	2.7	2.7
Final Domestic Demand	YY	2.8	2.7	3.0			
Public Consumption	YY	1.6	2.1	2.0			
Private Consumption	YY	3.1	3.0	3.1			
Fixed Investment	YY	3.8	2.8	4.1			
Exports of Goods & Services	YY	3.4	2.1	2.5			
Imports of Goods & Services	YY	4.2	1.9	3.9			
Consumer Prices	YY	0.7	1.7	1.5	1.8	1.9	2.3
Unemployment Rate	%	3.2	3.6	3.6			
Current Account Balance	% GDP	14.2	14.5	14.9	15.2	15.4	15.0
General Government Balance	% GDP	13.8	13.1	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	1.56	2.00	2.51	3.08
Ten-year Yield (Period Average)	%	2.15	2.36	2.43	2.55	2.75	3.25
EUR-NOK FX Rate (Annual Average)		7.48	7.83	7.83	7.63	7.42	7.21
USD-NOK FX Rate (Annual Average)		5.82	6.06	6.03	6.67	5.50	5.34

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

Figure 20. Long-Term Forecasts – GDP, CPI and Current Balance, 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	-0.7	0.2	0.7	1.2	1.5	2.5	1.5	1.3	1.2	1.3	1.3	1.2	2.5	2.3	2.3	2.3	2.3	2.3
Germany	0.9	0.3	1.5	1.7	1.7	1.7	2.0	1.5	2.2	2.2	2.0	1.8	7.0	6.7	5.4	4.6	4.1	3.9	
France	0.0	-0.2	0.5	0.9	1.4	1.9	2.2	1.0	1.6	1.4	1.7	1.5	-2.2	-1.6	-0.8	-0.2	0.3	0.0	
Italy	-2.4	-2.0	-0.6	0.2	0.4	0.8	3.3	1.5	1.3	0.7	0.3	0.4	-0.5	1.7	2.4	2.5	2.7	2.8	
Spain	-1.4	-1.7	-0.9	0.1	1.2	1.9	2.4	1.7	0.9	0.6	0.5	0.6	-1.1	1.0	1.8	3.1	3.8	4.0	
Greece	-6.4	-5.0	-4.3	-2.3	0.6	1.3	1.0	-0.4	-0.9	-0.6	0.2	0.3	-3.4	-0.7	0.4	1.1	3.6	4.7	
Ireland	0.1	-0.2	2.2	2.4	2.7	2.7	0.7	-0.4	1.4	1.6	1.6	1.6	4.4	7.5	10.2	11.0	11.7	12.2	
Portugal	-3.2	-3.0	1.4	0.1	1.1	1.1	2.8	0.8	0.3	-0.2	0.4	0.6	-1.5	1.0	3.0	3.4	3.4	3.7	
Netherlands	-1.3	-1.2	0.2	0.9	1.2	1.6	2.8	2.8	1.7	1.5	1.8	1.6	10.1	9.4	8.9	9.5	9.5	9.6	
Belgium	-0.3	-0.2	0.4	1.0	1.4	1.6	2.8	1.2	1.9	1.8	1.9	1.9	-1.6	-2.0	-1.6	-1.0	-0.2	0.5	
Slovakia	2.0	0.5	1.7	2.4	2.9	3.4	3.6	1.7	1.9	2.7	2.7	2.7	2.2	3.3	3.0	2.0	0.7	-0.7	
Slovenia	-2.2	-2.2	-0.3	1.1	2.1	2.9	2.6	2.7	2.9	2.0	1.8	1.8	2.3	2.2	3.3	2.9	3.2	3.9	
Austria*	0.8	0.5	1.7				2.6	2.0	1.5				1.8	2.4	2.9				
Cyprus**	-2.4	NA	NA				3.1	NA	NA				-4.9	NA	NA				
Estonia*	3.2	1.5	3.6				4.2	3.4	2.9				-1.2	-3.0	-2.6				
Finland*	-0.2	0.0	1.7				3.2	2.6	2.4				-1.9	-1.6	-0.9				
Luxembourg*	0.3	0.8	1.7				2.9	1.8	1.7				5.6	4.1	5.5				
Denmark	-0.4	0.1	0.6	1.3	1.5	1.5	2.4	0.9	1.5	1.7	1.8	1.9	6.2	5.3	4.7	4.2	4.0	3.8	
Norway	3.3	2.4	2.7	2.8	2.7	2.7	0.7	1.7	1.5	1.8	1.9	2.3	14.2	14.5	14.9	15.2	15.4	15.0	
Sweden	1.1	1.2	2.0	2.5	2.5	2.9	0.9	0.1	1.0	1.8	2.2	2.3	6.9	7.1	6.9	6.7	6.8	6.7	
Switzerland	1.0	1.5	1.2	1.7	1.8	1.5	-0.7	-0.3	-0.1	1.0	1.0	1.0	12.8	12.8	12.4	12.4	13.7	14.0	
United Kingdom	0.1	0.9	1.3	1.8	1.7	1.7	2.8	2.6	2.2	2.4	2.2	2.2	-3.7	-3.4	-3.3	-3.1	-3.0	-2.9	

Note: All forecasts are Citi forecasts except those marked with an asterisk. *OECD *Economic Outlook*, 29 May 2013. **IMF WEO 16 April 2013.
Sources: OECD and Citi Research forecasts

Figure 21. 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
Euro Area	-3.7	-3.0	-2.3	-1.7	-1.3	-0.5	-0.6	0.0	0.7	1.3	1.7	2.4	92.7	96.1	97.4	96.8	95.8	93.7
Germany	0.2	-0.5	0.1	0.4	0.4	1.3	2.6	2.0	2.5	2.8	2.7	3.5	81.9	81.5	78.4	75.0	72.5	69.1
France	-4.8	-3.8	-3.6	-3.5	-3.0	-2.5	-2.3	-1.3	-1.0	-0.8	-0.4	0.2	90.2	94.2	96.3	97.7	97.8	97.2
Italy	-3.0	-3.5	-3.2	-3.0	-2.8	-2.5	2.5	1.9	2.1	2.4	2.6	2.9	127.0	133.2	138.0	140.2	141.6	142.3
Spain	-10.6	-6.5	-6.0	-4.9	-4.0	-3.2	-7.7	-3.2	-2.3	-0.8	0.1	1.0	84.2	93.9	104.2	108.3	110.1	110.4
Greece	-10.0	-5.5	-4.9	-3.7	-2.4	-1.0	-5.0	-1.4	-0.7	-0.2	1.3	2.8	156.9	181.5	199.3	212.0	216.1	217.0
Ireland	-7.6	-7.3	-5.7	-3.7	-3.0	-2.8	-3.9	-3.3	-0.6	1.5	2.2	2.4	120.0	130.7	128.6	125.8	123.8	121.1
Portugal	-6.4	-6.0	-5.7	-4.5	-3.9	-3.4	-2.0	-1.4	-1.2	0.0	0.8	1.5	123.8	135.1	151.0	155.0	156.5	157.2
Netherlands	-4.1	-3.8	-3.4	-2.8	-2.3	-1.4	-2.2	-1.9	-1.4	-0.8	-0.3	0.6	71.3	74.8	76.3	76.8	76.9	75.9
Belgium	-3.9	-3.2	-2.9	-2.1	1.5	-1.3	-0.5	0.4	0.7	1.5	2.0	2.1	99.8	102.4	103.4	102.7	100.5	98.4
Slovakia	-4.3	-3.4	-3.2	-2.6	-2.1	-1.8	-2.9	-2.0	-1.8	-1.1	-0.7	-0.3	52.1	55.6	56.5	56.8	56.3	55.8
Slovenia	-4.0	-9.1	-6.6	-3.2	-2.4	-1.5	-1.9	-6.4	-3.7	-0.4	0.6	1.4	54.1	63.7	69.1	69.8	69.0	67.7
Austria*	-2.5	-2.3	-1.7				-0.3	-0.2	0.3				73.5	75.3	75.5			
Cyprus**	-5.6	NA	NA				NA	NA	NA				86.2	NA	NA			
Estonia*	-0.3	0.0	0.3				1.2	0.9	1.0				10.1	11.4	10.8			
Finland*	-2.3	-2.3	-1.8				-2.5	-2.6	-2.1				53.1	56.0	59.7			
Luxembourg*	-0.8	-0.7	-0.6				-1.1	-1.0	-0.9				20.8	22.8	24.4			
Denmark	-4.3	-2.0	-1.5	-1.0	0.5	1.0							45.8	47.3	47.8	47.3	45.1	42.6
Norway	13.8	13.1	13.0	14.0	15.5	15.0							NA	NA	NA	NA	NA	NA
Sweden	-0.6	-1.5	-1.5	-0.4	0.7	1.5							38.4	39.4	39.8	38.5	36.1	32.8
Switzerland	0.5	0.6	0.6	0.6	0.5	-0.6							46.7	45.4	43.6	42.9	42.8	42.9
United Kingdom	-6.3	-7.1	-6.3	-5.6	-4.2	-3.2	-2.7	-3.5	-2.6	-1.7	0.0	1.1	89.5	93.9	98.4	101.2	102.5	102.4

Note: All forecasts are Citi forecasts except those marked with an asterisk. *OECD *Economic Outlook*, 29 May 2013. **IMF WEO 16 April 2013.
Sources: OECD and Citi Research forecasts

Figure 22. Selected Countries – Changes in Economic Forecasts from Prior Month (Percentage Points), 2012-14F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Euro Area		0.1	0.2		0.1	0.1					0.1	0.3
Germany												0.1
France		0.1	0.1				0.1	0.1	0.2		-0.1	
Italy						0.1		0.1	0.2		-0.3	-0.2
Spain		0.2	0.3		0.1	0.1		-0.1	-0.2			-0.1
Greece		0.5	0.2		0.1	0.1		-0.3	-0.3		-0.4	-0.8
Ireland	-0.8	-1.2	-0.1	-1.2	-1.7			2.6	4.3	-0.3	-1.1	-1.4
Portugal		0.1	0.2		-0.1	0.1					-0.4	-0.6
Netherlands	-0.3	-0.2	0.1		0.1	-0.1					-0.2	-0.2
Belgium		0.1	0.2		0.1	-0.1	-0.2	-0.7	-0.5		0.2	0.3
Slovakia						-0.1						
Slovenia								1.2	1.2			-0.6
Denmark	0.1	-0.1	-0.5		-0.2		0.4		0.1	-0.2		-0.3
Norway						-0.2						
Sweden									-0.1	0.1	-0.1	
Switzerland					0.2	0.1		-0.6	-0.4			
United Kingdom	-0.2	-0.1	0.1		-0.1	-0.1		0.1	0.1		0.3	0.6

Source: Citi Research

Figure 23. 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-Jul-13	-0.5	-0.7	0.2	-3.7	-3.0	-2.3	92.7	96.1	97.4
OECD Economic Outlook	29-May-13	-0.5	-0.6	1.1	-3.7	-3.0	-2.5	92.8	95.4	96.3
EU Commission Forecast	03-May-13	-0.6	-0.4	1.2	-3.7	-2.9	-2.8	92.7	95.5	96.0
IMF WEO Forecast*	16-Apr-13	-0.6	-0.6	0.9	-3.6	-2.9	-2.6	92.9	95.0	95.3
ECB Forecast - mid-point	06-Jun-13	-0.5	-0.6	1.1						
Germany - Citi Forecast	17-Jul-13	0.9	0.3	1.5	0.2	-0.5	0.1	81.9	81.5	78.4
OECD Economic Outlook	29-May-13	0.9	0.4	1.9	0.2	-0.2	0.0	81.9	80.6	77.8
EU Commission Forecast	03-May-13	0.7	0.4	1.8	0.2	-0.2	0.0	81.9	81.1	78.6
IMF WEO Forecast*	16-Apr-13	0.9	0.3	1.3	0.2	-0.3	-0.1	82.0	80.4	78.3
France - Citi Forecast	17-Jul-13	0.0	-0.2	0.5	-4.8	-3.9	-3.6	90.2	94.2	96.3
OECD Economic Survey	29-May-13	0.0	-0.3	0.8	-4.9	-4.0	-3.5	90.7	94.5	97.2
EU Commission Forecast	03-May-13	0.0	-0.1	1.1	-4.8	-3.9	-4.2	90.2	94.0	96.2
IMF WEO Forecast*	16-Apr-13	0.0	-0.2	0.8	-4.6	-3.7	-3.5	90.3	92.7	94.0
Italy - Citi Forecast	17-Jul-13	-2.4	-2.0	-0.6	-3.0	-3.5	-3.2	127.0	133.2	138.0
OECD Economic Survey	29-May-13	-2.4	-1.8	0.4	-2.9	-3.0	-2.3	127.0	131.7	134.3
EU Commission Forecast*	03-May-13	-2.4	-1.3	0.7	-3.0	-2.9	-2.5	127.0	131.4	132.2
IMF WEO Forecast	16-Apr-13	-2.4	-1.8	0.7	-3.0	-2.6	-2.3	127.0	130.6	130.8
Spain - Citi Forecast	17-Jul-13	-1.4	-1.7	-0.9	-10.6	-6.5	-6.0	84.2	93.9	104.2
OECD Economic Outlook	29-May-13	-1.4	-1.7	0.4	-10.6	-6.9	-6.4	84.1	91.4	97.0
EU Commission Forecast*	03-May-13	-1.4	-1.5	0.9	-10.6	-6.5	-7.0	84.2	91.3	96.8
IMF WEO Forecast	16-Apr-13	-1.4	-1.6	0.0	-10.3	-6.6	-6.9	84.1	91.8	97.6
Greece - Citi Forecast	17-Jul-13	-6.4	-5.0	-4.3	-10.0	-5.5	-4.9	156.9	181.5	199.3
OECD Economic Outlook	29-May-13	-6.4	-4.8	-1.2	-10.0	-4.1	-3.5	157.0	175.1	180.6
EU Commission Forecast	03-May-13	-6.4	-4.2	0.6	-10.0	-3.8	-2.6	156.9	175.2	175.0
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-Jul-13	0.1	-0.2	2.2	-7.6	-8.4	-5.7	120.0	130.7	128.6
OECD Economic Outlook	29-May-13	0.9	1.0	1.9	-7.5	-7.5	-4.6	117.6	123.6	120.7
EU Commission Forecast	03-May-13	0.9	1.1	2.2	-7.6	-7.5	-4.3	117.6	123.3	119.5
IMF WEO Forecast	16-Apr-13	0.9	1.1	2.2	-7.7	-7.5	-4.5	117.1	122.0	120.2
Portugal - Citi Forecast	17-Jul-13	-3.2	-3.0	-1.4	-6.4	-6.0	-5.7	123.8	135.1	151.0
OECD Economic Outlook	29-May-13	-3.2	-2.7	0.2	-6.4	-6.4	-5.6	123.6	127.7	132.1
EU Commission Forecast	03-May-13	-3.2	-2.3	0.6	-6.4	-5.5	-4.0	123.6	123.0	124.3
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-Jul-13	-1.3	-1.2	0.2	-4.1	-3.8	-3.4	71.3	74.8	76.3
OECD Economic Outlook	29-May-13	-1.0	-0.9	0.7	-4.0	-3.7	-3.6	71.1	72.8	74.2
EU Commission Forecast	03-May-13	-1.0	-0.8	0.9	-4.1	-3.6	-3.6	71.2	74.6	75.8
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-Jul-13	-0.3	-0.2	0.4	-3.9	-3.2	-2.9	99.8	102.4	103.4
OECD Economic Survey	29-May-13	-0.3	0.0	1.1	-4.0	-2.6	-2.3	99.8	100.4	100.2
EU Commission Forecast	03-May-13	-0.2	0.0	1.2	-3.9	-2.9	-3.1	99.6	101.4	102.1
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-Jul-13	2.0	0.5	1.7	-4.3	-3.4	-3.2	52.1	55.6	56.5
OECD Economic Outlook	29-May-13	2.0	0.8	2.0	-4.3	-2.6	-2.2	52.1	54.4	55.8
EU Commission Forecast	03-May-13	2.0	1.0	2.8	-4.3	-3.0	-3.1	52.1	54.6	56.7
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-Jul-13	-2.2	-2.2	-0.3	-4.0	-9.1	-6.6	54.1	63.7	69.1
OECD Economic Survey	29-May-13	-2.3	-2.3	0.1	-4.0	-7.8	-3.4	54.1	63.8	68.1
EU Commission Forecast	03-May-13	-2.3	-2.0	-0.1	4.0	-5.3	-4.9	54.1	61.0	66.5
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 forecasts

Figure 24. 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	29-May-13	0.8	0.5	1.7	-2.5	-2.3	-1.7	73.5	75.3	75.5
EU Commission Forecast	03-May-13	0.8	0.6	1.8	-2.5	-2.2	-1.8	73.4	73.8	73.7
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	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	-2.4	-8.7	-3.9	-6.3	-6.5	-8.4	85.8	109.5	124.0
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	29-May-13	3.2	1.5	3.6	-0.3	0.0	0.3	10.1	11.4	10.8
EU Commission Forecast	03-May-13	3.2	3.0	4.0	-0.3	-0.3	0.2	10.1	10.2	9.6
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	29-May-13	-0.2	0.0	1.7	-2.3	-2.3	-1.8	53.1	56.0	59.7
EU Commission Forecast	03-May-13	-0.2	0.3	1.0	-1.9	-1.8	-1.5	53.0	56.2	57.7
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	29-May-13	0.3	0.8	1.7	-0.8	-0.7	-0.6	20.8	22.8	24.4
EU Commission Forecast	03-May-13	0.3	0.8	1.6	-0.8	-0.2	-0.4	20.8	23.4	25.2
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	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	0.8	1.4	1.8	-3.3	-3.7	-3.6	72.1	73.9	74.9
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 25. Selected EU 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-Jul-13	-0.4	0.1	0.6	-4.3	-2.0	-1.5	45.8	47.3	47.8
OECD Economic Outlook	29-May-13	-0.5	0.4	1.7	-4.1	-1.8	-1.8	45.7	45.5	45.2
EU Commission Forecast	03-May-13	-0.5	0.7	1.7	-4.0	-1.7	-2.7	45.8	45.0	46.4
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-Jul-13	3.3	2.4	2.7	13.8	13.1	13.0	NA	NA	NA
OECD Economic Outlook	29-May-13	3.2	1.3	3.0	13.9	12.3	11.8	34.6	41.3	53.2
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-Jul-13	1.1	1.2	2.0	-0.6	-1.5	-1.5	37.4	39.4	39.8
OECD Economic Outlook	29-May-13	1.2	1.3	2.5	-0.7	-1.6	-1.1	38.2	42.1	42.1
EU Commission Forecast	03-May-13	0.8	1.5	2.5	-0.5	-1.1	-0.4	38.2	40.7	39.0
IMF WEO Forecast	16-Apr-13	1.2	1.0	2.2	-0.4	-0.8	-0.5	38.0	37.7	36.5
Switzerland - Citi Forecast	17-Jul-13	1.0	1.5	1.2	0.5	0.6	0.6	46.7	45.4	43.6
OECD Economic Outlook	29-May-13	1.0	1.4	2.0	0.7	0.7	0.6	43.8	43.1	42.3
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-Jul-13	0.1	0.9	1.3	-6.3	-4.1	-6.3	89.5	93.9	98.4
OECD Economic Outlook	29-May-13	0.3	0.8	1.5	-6.5	-7.1	-6.5	90.0	93.9	97.9
EU Commission Forecast	03-May-13	0.3	0.6	1.7	-6.3	-6.8	-6.3	90.0	95.5	98.7
IMF WEO Forecast*	16-Apr-13	0.3	0.9	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
Eurostat	22 Apr 13				-6.3			90.0		

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

Notes

Notes

Appendix A-1

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