

European Economic Forecast Highlights

European Economic Forecast Highlights, August 2014

- This companion to the August issue of [Global Economic Outlook and Strategy](#) gives more detailed forecasts for the main European countries to 1Q16. Figures 20-21 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance, and government debt.
- We are cutting our euro area GDP forecasts for 2014 and 2015 by 0.3pp and 0.2pp to 0.8% and 1.5%, respectively. This marks the largest cut in our numbers since Jan-2012 and the third downward adjustment in four months.
- We have lowered our GDP forecasts for most European countries for 2014, except for Denmark, Norway, Portugal and the UK (unchanged), and the Netherlands and Spain (up 0.1pp each).
- At the early-August press conference, ECB President Draghi repeated the ECB's willingness to loosen further — via unconventional policies — if its inflation forecasts and inflation expectations trends indicate that a sustained undershoot of its inflation target is likely. We believe these conditions for easing are falling into place, and that further downgrades to the ECB's inflation forecasts are likely to trigger a major QE program, most likely at the December meeting but perhaps in early 2015.

Figure 1. Europe – Policy Rates (Percent), 2013-18F

	History	Forecast				
	2013	2014F	2015F	2016F	2017F	2018F
Euro Area	0.50	0.19	0.15	0.16	0.42	0.92
Denmark	0.20	0.20	0.20	0.25	0.55	1.10
Norway	1.50	1.50	1.50	1.77	2.24	2.85
Sweden	0.99	0.52	0.25	0.61	1.18	1.80
Switzerland	0.00	0.00	0.00	0.00	0.38	1.25
United Kingdom	0.50	0.50	1.08	2.46	3.21	3.50

Sources: National central banks and Citi Research

Figure 2. Euro Area – Economic Forecasts Compared (Percent), 2014-15F

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2014F	2015F	2014F	2015F
Euro Area - Citi Forecast	20-Aug-14	0.8	1.5	0.5	0.9
IMF WEO Forecast	24-Jul-14	1.1	1.5	0.9	1.2
ECB Forecast - mid-point	05-Jun-14	1.0	1.7	0.7	1.1
OECD Economic Outlook	06-May-14	1.2	1.7	0.7	1.1
EU Commission Forecast	05-May-14	1.2	1.7	0.8	1.2
Consensus Economics	11-Aug-14	1.0	1.5	0.6	1.1

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

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

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Euro Area

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We cut our GDP forecasts for 2014 and 2015 by 0.3pp and 0.2pp to 0.8% and 1.5%, respectively. This marks the largest cut in our numbers since Jan-2012 and the third downward adjustment in four months, despite the [better-than-expected performance in the euro area periphery excluding Italy](#). This change reflects disappointing 2Q GDP data, risks that sentiment surveys will weaken further in coming weeks ([Is the Euro Area Recovery at Risk of Faltering?](#)) and rising geo-political risks (including [developments in Russia](#)). At the same time, inflation continues to slow, hitting 0.4% YY in July from 0.5% YY in June, suggesting that the 3Q average will again undershoot the ECB's baseline that we estimate to be around 0.65% YY. Our forecasts envisage that the flash HICP August reading could fall to a new cycle low of 0.3% YY, with a risk of a 0.2% YY print if oil prices continue to weaken. Note that last week the Q3-14 Survey of Professional Forecasters (SPF) revealed a further downward drift in the 2014-15 average inflation forecasts to 0.7% and 1.2%. These findings suggest a widespread sense that risks of a persistent inflation undershoot now are greater than at any time in the survey's 15-year history. We continue to believe that the Governing Council remains in wait-and-see mode nearterm and that no action will be forthcoming in September, except perhaps on ABS purchases. Generally, the hurdle for additional policy action remains elevated in the short-term following the June announcements (lower key rates and TLTROs). However, we maintain our baseline that the risks of a prolonged period of very low inflation and the vulnerability of the recovery will prompt the Governing Council to launch a large scale asset purchase programme in late 2014 or early 2015, despite the reservations of some Council members.

Figure 3. Euro Area – Economic Forecasts, 2013-1Q16F

		History			Forecast			History					Forecast					
		2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16		
Real GDP	YY	-0.4	0.8	1.5	-0.6	-0.3	0.5	0.9	0.7	0.9	0.9	1.1	1.5	1.6	1.8	1.9		
	QQ SAAR				1.3	0.4	1.2	0.8	0.2	1.3	1.2	1.7	1.7	1.9	1.9	2.2		
Final Domestic Demand	YY	-0.8	0.8	1.4	-1.0	-0.6	0.1	0.8	0.7	0.7	0.9	1.0	1.4	1.6	1.7	1.7		
Private Consumption	YY	-0.6	0.8	1.5	-0.7	-0.4	0.2	0.5	0.7	0.8	1.1	1.3	1.4	1.5	1.6	1.7		
Public Consumption	YY	0.2	0.6	0.6	0.1	0.6	0.2	0.7	0.6	0.4	0.7	0.2	0.5	0.7	1.1	0.9		
Fixed Investment	YY	-2.8	1.0	2.2	-3.4	-2.4	-0.1	1.7	1.0	0.8	0.5	1.1	2.3	2.6	2.7	2.8		
-- Business Equipment	YY	-1.8	2.0	2.3	-2.0	-1.4	1.2	3.4	2.0	1.9	0.9	0.5	2.2	3.0	3.5	3.6		
-- Construction	YY	-3.8	0.9	2.3	-4.5	-3.2	-1.5	1.1	0.8	0.5	1.0	1.2	2.4	2.6	2.8	2.8		
Stocks (Contrib. to YY GDP Growth)		0.0	0.0	0.0	-0.3	0.2	0.1	0.1	0.1	-0.1	0.1	-0.1	0.0	0.0	0.0	0.1		
Exports of Goods and Services	YY	1.5	3.1	3.4	1.6	1.0	3.0	4.0	2.7	3.2	2.6	3.4	3.2	3.5	3.6	3.7		
Imports of Goods and Services	YY	0.4	3.3	3.4	0.0	0.8	2.5	4.1	3.4	2.9	2.9	3.1	3.2	3.6	3.7	3.5		
Consumer Prices	YY	1.4	0.5	0.9	1.4	1.3	0.8	0.7	0.6	0.3	0.6	0.7	0.9	1.0	1.0	1.1		
Core CPI (ex Food, Energy, Tobacco)	YY	1.1	0.8	0.8	1.1	1.1	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.7	0.7	0.8		
CPI Ex Energy and Unprocessed Food	YY	1.3	0.9	0.9	1.3	1.3	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.9		
Unemployment Rate	YY	11.9	11.5	10.8	11.8	11.5	11.8	12.2	11.5	11.0	11.1	11.4	10.9	10.5	10.6	10.8		
Industrial Production	YY	-0.7	0.9	3.3														
Current Account Balance	€ bn	230.7	279.5	280.4														
	% GDP	2.4	2.9	2.8														
General Government Balance	€ bn	-290.3	-275.5	-243.5														
	% GDP	-3.0	-2.8	-2.4														
Primary Balance	% GDP	-0.1	0.1	0.6														
General Government Debt	€ bn	9,121.3	9,494.4	9,718.0														
	% GDP	95.0	97.2	97.4														
Gross Operating Surplus	YY	1.4	2.1	2.1														
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.50	0.19	0.15	0.75	0.50	0.25	0.25	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15		
Ten-year Bund yield (Period Avg.)	%	1.60	1.28	1.31	1.40	1.78	1.80	1.68	1.43	1.25	0.75	1.00	1.25	1.50	1.50	1.75		
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.32	1.36	1.34	1.30	1.35	1.38	1.38	1.36	1.35	1.34	1.33	1.33	1.34	1.36	1.38		

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

Germany

[Ebrahim Rahbari](#)

German GDP fell by 0.2% QQ in Q2, its first contraction since Q1-2013. Even though temporary factors (including payback from the strong 1Q and calendar effects) may have exaggerated the weakness in Q2, lead guides suggest that momentum in H2 will also be weaker than we expected previously. We therefore cut our growth forecasts for 2014 and 2015 down to 1.6% and 2.0%, respectively (from 2.0% and 2.4%), reflecting weaker export prospects and the spillover to investment. But even with these influences, we expect a strong labour market and very supportive financial conditions to keep German growth above trend in 2014 overall (and beyond) unless the external environment worsens further.

Figure 4. Germany – Economic Forecasts, 2013-15F

		History			Forecast			History								Forecast			
		2013	2014	2015				1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.2	1.6	2.0				-0.6	0.1	0.3	1.1	2.2	1.3	1.4	1.4	1.3	2.1	2.3	2.4
	QQ SAAR							-1.6	3.2	1.2	1.8	2.7	-0.4	1.6	1.7	2.4	2.4	2.5	2.3
Real GDP, Non Work-Day Adjusted	YY	0.1	1.6	2.3															
Final Domestic Demand	YY	0.6	1.8	2.5				-0.3	0.7	1.0	0.9	2.1	1.5	1.4	2.1	1.8	2.6	2.8	3.0
	QQ SAAR							-0.4	2.4	2.2	-0.5	4.5	-0.2	1.9	2.4	3.0	3.0	2.9	2.9
Private Consumption	YY	1.0	1.2	2.4				0.6	1.3	1.3	1.0	1.4	0.8	0.9	1.7	1.8	2.4	2.6	2.8
	QQ SAAR							1.0	2.8	1.3	-1.2	2.8	0.4	1.7	2.2	2.8	2.8	2.8	2.8
Public Consumption	YY	0.4	0.9	1.5				0.4	0.4	0.7	0.1	0.5	1.0	0.7	1.3	1.3	1.4	1.5	1.6
	QQ SAAR							0.0	-0.9	2.7	-1.4	1.7	1.2	1.2	1.2	1.6	1.6	1.6	1.6
Fixed Investment	YY	-0.7	4.7	4.2				-3.8	-0.9	0.3	1.7	6.4	4.2	3.9	4.3	2.4	4.6	4.8	4.9
	QQ SAAR							-5.5	4.9	4.9	3.0	13.2	-3.5	3.6	4.7	5.1	4.9	4.6	4.9
-- Business Equipment	YY	-2.2	4.9	3.7				-6.0	-1.9	-1.2	0.5	5.3	4.6	5.1	4.8	2.5	3.9	4.2	4.2
	QQ SAAR							-5.7	2.0	0.3	5.6	13.8	-0.8	2.2	4.4	4.3	4.5	3.7	4.3
-- Construction	YY	0.0	4.8	4.3				-3.0	-0.8	1.1	2.5	7.8	4.2	3.2	4.2	2.0	5.0	5.2	5.2
	QQ SAAR							-5.7	6.9	8.5	0.8	15.3	-6.5	4.3	4.9	5.7	4.9	5.1	5.1
Stocks (Contrib. to YY GDP Growth)		0.1	0.5	0.1				0.0	-0.2	0.3	0.1	0.3	0.7	0.4	0.6	-0.1	0.0	0.1	0.2
Exports of Goods and Services	YY	1.1	3.7	3.2				-0.4	0.6	0.0	4.2	5.1	3.3	4.1	2.4	3.2	3.3	3.5	3.0
	QQ SAAR							-2.8	10.3	-0.4	10.2	0.7	3.1	2.6	3.3	3.8	3.5	3.3	1.4
Imports of Goods and Services	YY	1.6	5.3	4.2				0.1	0.9	1.6	3.9	5.9	5.3	5.2	4.9	3.9	4.1	4.5	4.2
	QQ SAAR							0.9	6.1	3.2	5.2	9.1	3.8	2.6	4.2	5.1	4.7	4.2	3.0
Net Exports (Contrib. to YY GDP Growth)		-0.2	-0.4	-0.2				-0.4	0.6	-0.4	0.7	-0.9	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.4
Consumer Prices	YY	1.5	1.0	1.7				1.5	1.5	1.6	1.3	1.2	1.1	0.9	1.0	1.3	1.6	1.9	2.1
Compensation per Employee	YY	2.4	2.3	2.4				2.6	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.4	2.4	2.4	2.4
Employment Growth	YY	0.6	0.9	0.7				0.6	0.5	0.6	0.6	0.8	0.9	0.9	1.0	0.9	0.7	0.6	0.5
ILO Unemployment Rate	%	5.3	5.0	4.9				5.4	5.3	5.3	5.2	5.2	5.1	4.8	4.8	4.8	4.9	5.0	5.0
Registered Unemployment Rate	%	6.9	6.6	6.5															
Industrial Production (incl Construction)	YY	0.1	1.5	2.5															
Current Account Balance	€ bn	193.5	194.3	186.1															
	% GDP	7.1	7.0	6.3															
General Government Balance	€ bn	0.3	2.0	5.7															
	% GDP	0.0	0.1	0.2															
Primary Balance	% GDP	2.2	2.1	2.1															
General Government Debt	€ bn	2,147.0	2,154.7	2,134.3															
	% GDP	78.4	77.2	72.8															
Gross Trading Profits	YY	2.7	1.3	3.7				-2.8	1.7	1.9	10.4	0.2	3.7	2.5	-1.0	0.1	3.4	4.8	6.4

Note: The German annual figures are derived from quarterly Bundesbank data and adjusted for working days. Forecasts for GDP and its components are calendar adjusted. Percentage changes unless indicated. Annual data are period averages. Sources: Deutsche Bundesbank, Eurostat, Statistisches Bundesamt and Citi Research forecasts

France

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For the second time in three months, we cut our 2014-15 GDP forecasts after the disappointing 2Q outcome, when the economy flat-lined for the second successive quarter. The lack of confidence in the government's ability to engineer a rebound is having negative consequences on industrialists' ability to make investment plans, with a noticeable deterioration in hiring intentions in the July surveys. Against this backdrop, any further escalation in sanctions related to the Ukraine crisis will likely detract from the already-weak export performance. Although France's reform efforts have gone largely unnoticed in recent years, we doubt that the euro area's second largest economy can recover meaningfully [unless the government is able to deliver a confidence shock in the short-term](#). We expect tax cuts in 2016 to help a little.

Figure 5. France – Economic Forecasts, 2013-15F

		History			Forecast			History								Forecast							
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.4	0.4	0.9				-0.2	0.7	0.3	0.8	0.8	0.1	0.3	0.2	0.4	0.8	1.1	1.4				
	QQ SAAR							0.1	2.7	-0.3	0.7	0.1	-0.1	0.4	0.5	1.0	1.3	1.6	1.8				
Final Domestic Demand	YY	0.5	0.0	0.7				0.0	0.6	0.5	0.8	0.2	0.0	0.0	-0.2	0.4	0.4	0.8	1.2				
	QQ SAAR							0.7	1.6	-0.1	1.0	-1.6	0.6	-0.1	0.1	0.8	1.0	1.4	1.5				
Private Consumption	YY	0.3	0.2	1.0				-0.3	0.6	0.3	0.7	-0.1	0.1	0.4	0.4	1.1	0.8	0.9	1.0				
	QQ SAAR							1.1	1.1	-0.5	1.0	-2.0	2.1	0.8	0.8	0.8	0.8	1.2	1.2				
Public Consumption	YY	2.0	1.5	0.9				1.7	2.1	2.0	2.2	2.1	1.8	1.4	0.7	0.6	0.5	1.0	1.5				
	QQ SAAR							2.0	3.1	1.3	2.3	1.8	1.9	-0.4	-0.4	1.2	1.6	1.6	1.6				
Fixed Investment	YY	-0.8	-2.3	-0.2				-1.2	-0.7	-0.9	-0.4	-1.1	-2.5	-2.8	-2.9	-1.9	-0.5	0.4	1.1				
	QQ SAAR							-1.4	1.3	-0.9	-0.5	-4.1	-4.3	-2.2	-1.0	0.2	0.9	1.5	2.0				
-- Businesses	YY	-0.6	-0.8	0.0				-1.6	-0.9	-0.7	0.9	0.7	-0.6	-1.3	-2.2	-1.5	-0.4	0.6	1.5				
	QQ SAAR							-2.3	1.8	1.0	3.1	-2.9	-3.2	-2.0	-0.8	0.0	1.2	2.0	2.8				
-- Households	YY	-3.1	-7.6	-1.3				-2.8	-2.2	-3.2	-4.1	-6.8	-8.9	-8.2	-6.6	-3.9	-1.4	-0.2	0.6				
	QQ SAAR							-0.5	-0.8	-6.8	-8.2	-10.9	-9.4	-3.9	-2.0	0.0	0.4	0.8	1.2				
Stocks (Contrib. to YY GDP Growth)		-0.2	0.4	0.1				-0.1	0.0	0.4	-0.4	0.5	-0.1	0.1	0.0	0.0	0.0	0.0	0.0				
Exports of Goods and Services	YY	2.4	2.4	2.3				0.3	2.9	2.1	4.1	4.4	1.5	2.4	1.5	1.6	2.2	2.5	2.8				
	QQ SAAR							0.8	12.3	-2.0	5.8	2.1	0.2	1.6	2.0	2.4	2.6	3.0	3.3				
Imports of Goods and Services	YY	1.9	2.4	1.6				-0.4	1.6	2.6	3.7	4.0	2.3	1.7	1.6	1.4	1.4	1.6	1.8				
	QQ SAAR							1.7	8.4	3.7	1.3	2.6	1.5	1.2	1.2	1.6	1.6	2.0	2.0				
Net Exports (Contrib. to YY GDP Growth)		0.1	0.0	0.2				-0.1	0.2	-0.4	0.3	0.0	-0.1	0.0	0.1	0.1	0.1	0.1	0.1				
Consumer Prices	YY	1.0	0.7	1.2				1.2	0.9	1.1	0.8	0.9	0.8	0.5	0.8	1.0	1.3	1.4	1.3				
Average Monthly Wages & Salaries	YY	1.7	1.1	1.2																			
Hourly Wages	YY	1.8	1.9	1.5																			
Employment Growth (Private-Sector)	YY	-0.7	0.0	0.6																			
Unemployment Rate	%	9.9	9.9	9.8				9.9	9.9	9.9	9.7	9.7	9.8	9.9	10.0	9.9	9.9	9.8	9.8				
Manufacturing Production	YY	-1.9	0.3	1.4																			
Current Account Balance	€ bn	-28.4	-14.6	-1.4																			
	% GDP	-1.4	-0.7	-0.1																			
General Government Balance	€ bn	-88.2	-95.2	-92.9																			
	% GDP	-4.3	-4.6	-4.4																			
Primary Balance	% GDP	-2.0	-2.3	-2.1																			
General Government Debt	€ bn	1,925.3	2,027.7	2,120.6																			
	% GDP	93.5	96.9	98.2																			
Gross Trading Profits	YY	-0.2	3.1	3.7																			

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

Italy

[Giada Giani](#)

With 2Q GDP data showing that Italy slipped back into recession in H1 14, we are again cutting our 2014 growth forecast (from +0.1% to -0.1%). We still expect the tax rebates and ample corporate liquidity to support domestic demand in the next couple of quarters, returning GDP growth into positive territory (in line with survey-based indicators). But growth is likely to be weak amid tight financing conditions and poor competitiveness, and below 1% also in 2015. The fiscal deficit may remain just within the 3%-of-GDP threshold this year, but above the government's 2014 target of 2.6%, while the public debt ratio to GDP is likely to keep rising in 2014 and 2015.

Figure 6. Italy – Economic Forecasts, 2013-1Q16F

		History			Forecast			History					Forecast				
		2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	
Real GDP	YY	-1.8	-0.1	0.8	-2.2	-1.9	-0.9	-0.4	-0.3	0.1	0.1	0.4	0.9	1.0	1.2	1.3	
	QQ SAAR				-1.2	-0.5	0.5	-0.4	-0.8	0.9	0.7	0.7	1.2	1.3	1.5	1.1	
Final Domestic Demand	YY	-2.6	0.0	0.7	-3.2	-2.3	-1.4	-0.5	-0.1	0.3	0.2	0.5	0.7	0.8	0.8	0.8	
	QQ SAAR				-1.2	-1.1	0.7	-0.3	0.4	0.3	0.6	0.8	1.0	0.8	0.7	0.9	
Private Consumption	YY	-2.6	0.1	0.6	-3.4	-2.1	-1.4	-0.6	0.0	0.4	0.5	0.6	0.7	0.6	0.6	0.6	
	QQ SAAR				-1.9	-0.6	0.1	0.3	0.4	0.8	0.6	0.6	0.6	0.6	0.6	0.6	
Public Consumption	YY	-0.8	0.4	-0.2	-1.0	-0.7	-0.1	0.3	0.4	0.5	0.4	-0.1	-0.2	-0.3	-0.4	-0.3	
	QQ SAAR				-0.2	-0.7	0.6	1.5	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	
Fixed Investment	YY	-4.6	-0.9	2.1	-4.8	-4.6	-2.8	-1.3	-1.0	-0.4	-0.9	1.0	1.7	2.7	3.0	3.1	
	QQ SAAR				0.0	-3.6	3.1	-4.4	0.9	-1.1	1.3	3.0	3.9	2.8	2.5	3.0	
-- Business Equipment	YY	-2.5	-0.1	2.9	-2.0	-3.0	0.2	-0.5	-0.2	0.9	-0.7	1.6	2.1	3.7	4.0	4.0	
	QQ SAAR				2.5	-7.2	8.4	-5.0	3.7	-2.9	1.7	3.9	5.7	3.5	3.0	3.6	
-- Construction	YY	-6.6	-1.7	1.4	-7.4	-6.2	-5.7	-2.0	-1.9	-1.7	-1.0	0.4	1.4	1.7	2.0	2.1	
	QQ SAAR				-2.5	0.2	-2.0	-3.7	-2.0	0.8	0.8	2.0	2.0	2.0	2.0	2.4	
Exports of Goods and Services	YY	0.0	3.1	3.4	0.0	-0.4	1.0	3.3	3.5	3.4	2.4	2.5	2.8	3.7	4.5	4.5	
	QQ SAAR				2.4	2.5	5.1	3.2	3.1	2.1	1.4	3.4	4.4	5.5	4.9	3.3	
Imports of Goods and Services	YY	-2.9	2.6	3.1	-4.4	-2.0	-0.1	1.3	3.3	2.7	2.9	3.3	2.5	3.2	3.4	3.4	
	QQ SAAR				-0.8	4.1	0.9	1.2	7.0	1.7	1.8	2.7	3.9	4.2	2.6	2.7	
Net Exports (Contrib. to YY GDP Growth)		0.8	0.3	0.2	1.2	0.4	0.3	0.2	0.2	0.3	0.0	-0.1	0.2	0.3	0.0	0.5	
Consumer Prices	YY	1.3	0.1	-0.2	1.3	1.1	0.7	0.5	0.4	-0.1	0.0	-0.1	-0.1	0.0	-0.2	0.0	
Compensation per Employee		NA	NA	NA													
Employment Growth	YY	-2.0	-0.2	0.5													
Unemployment Rate	%	12.2	12.6	12.3													
Current Account Balance	€ bn	15.5	25.6	27.6													
	% GDP	1.0	1.6	1.7													
General Government Balance	€ bn	-44.1	-46.4	-46.1													
	% GDP	-2.8	-3.0	-2.9													
Primary Balance	% GDP	2.2	1.9	1.9													
General Government Debt	€ bn	2,069	2,164	2,202													
	% GDP	132.6	137.8	139.5													

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

Spain

[Giada Giani](#)

[Antonio Montilla](#)

With strong 2Q data (real GDP up by 0.6% QQ), we are raising our growth forecast to 1.4% (vs. 1.3% previously) for this year and to 2% (vs. 1.9%) for 2015. The recovery continues to be driven by private consumption and business investment, supported by a strong corporate financial position leading to job creation, by reduced fiscal tightening, and improving financial conditions. The 2014 budget deficit is likely to be broadly in line with the government target (of 5.5% of GDP).

Figure 7. Spain – Economic Forecasts, 2013-1Q16F

		History			Forecast			History				Forecast			
		2013	2014	2015	2013	2014	2015	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Real GDP	YY	-1.2	1.4	2.0	-1.6	-1.1	-0.2	0.5	1.2	1.7	2.0	2.2	2.0	1.9	1.8
	QQ SAAR				-0.6	0.3	0.7	1.5	2.4	2.3	1.9	2.3	1.6	1.6	1.6
Final Domestic Demand	YY	-2.7	1.5	1.9	-3.7	-2.1	-0.7	0.6	1.6	1.5	2.2	1.7	1.8	1.9	2.3
	QQ SAAR				-2.3	2.3	-1.5	4.1	1.5	2.1	0.9	2.1	2.2	2.4	2.3
Private Consumption	YY	-2.0	2.0	2.1	-3.0	-1.7	0.8	1.6	2.2	2.1	2.1	2.2	2.0	2.1	2.2
	QQ SAAR				0.4	2.1	2.1	1.6	2.9	1.9	1.9	2.2	2.2	2.2	2.1
Government Consumption	YY	-2.3	0.3	0.4	-3.4	0.2	-3.4	-0.2	-0.3	-0.5	2.5	-1.5	0.2	0.5	2.2
	QQ SAAR				-4.5	2.3	-14.6	18.9	-5.1	1.7	-3.9	1.6	1.6	2.8	2.8
Fixed Investment	YY	-5.0	1.2	2.9	-5.8	-5.3	-1.7	-1.1	1.9	2.0	2.2	3.4	2.9	2.7	2.5
	QQ SAAR				-7.3	2.8	2.8	-2.5	4.8	3.3	3.2	2.4	2.7	2.4	2.6
-- Business Equipment	YY	2.6	9.4	6.5	1.4	1.8	9.9	10.8	9.8	8.5	8.3	7.0	6.7	6.2	6.0
	QQ SAAR				10.3	12.9	7.3	13.0	6.2	7.6	6.7	7.5	5.0	5.6	5.9
-- Construction	YY	-9.6	-4.2	0.1	-10.1	-9.8	-8.6	-8.7	-3.4	-2.5	-2.3	0.7	0.0	-0.1	-0.2
	QQ SAAR				-17.1	-3.6	-0.4	-12.5	3.7	0.1	0.5	-1.6	0.9	-0.1	-0.2
Exports of Goods and Services	YY	4.9	4.6	5.7	9.5	3.5	3.7	8.1	2.8	3.4	3.9	6.0	5.7	5.7	5.5
	QQ SAAR				31.2	2.5	3.3	-1.5	7.3	4.8	5.1	7.0	5.7	5.1	4.2
Imports of Goods and Services	YY	0.4	5.7	6.4	3.2	0.6	2.7	9.3	4.4	3.7	5.5	6.0	6.5	6.5	6.7
	QQ SAAR				26.7	8.5	-2.2	6.2	5.3	6.0	4.7	8.1	7.4	6.0	5.3
Net Exports (Contrib. to YY GDP Growth)		0.8	-0.1	-0.1	2.0	0.9	0.4	-0.1	-0.4	0.0	-0.4	0.2	-0.1	-0.1	-0.2
Consumer Prices	YY	1.5	0.0	0.3	1.8	1.3	0.2	0.0	0.2	-0.3	0.2	0.3	0.3	0.4	0.2
Compensation per Employee	YY	0.0	0.0	0.7	-0.6	-0.2	2.5	-0.2	0.0	-0.1	0.2	0.3	0.6	0.9	0.9
Employment Growth	YY	-2.8	1.0	1.6	-3.4	-2.5	-1.2	-0.5	1.1	1.6	1.8	2.3	1.5	1.3	1.2
Unemployment Rate	%	26.1	24.5	23.1	26.1	25.7	25.7	25.9	24.5	23.8	23.7	24.1	23.1	22.5	22.7
Current Account Balance	€ bn	8.0	6.3	5.4											
	% GDP	0.8	0.6	0.5											
General Government Balance	€ bn	-72.4	-58.3	-50.9											
	% GDP	-7.1	-5.6	-4.8											
Primary Balance	% GDP	-3.7	-2.2	-1.5											
General Government Debt	€ bn	960.7	1,023.2	1,074.1											
	% GDP	93.9	98.7	101.0											

Fiscal deficits include the effect of financial support for banks. Percentage changes unless indicated. Annual data are period averages.

Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Greece

[Giada Giani](#)

The rebound in 2Q GDP (by 1.0% QQ, based on our estimate of SA data) was probably driven by the strong tourism season. The fall in YY GDP growth eased to minus 0.2% in Q2, the least negative reading since 2008. However, with June IP and retail sales data looking quite weak, we are lowering slightly our 2014 average growth forecast to 0.1% (from 0.3% last month, against the government forecast of 0.6%). Growth is likely to accelerate to around 1½ in 2015 amid reduced fiscal tightening and further export competitiveness gains.

Figure 8. Greece – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-3.9	0.1	1.5	1.4	1.5	1.6
Final Domestic Demand	YY	-6.4	0.3	0.6	0.8	0.9	0.9
Private Consumption	YY	-5.8	1.1	0.7	0.8	0.8	0.8
Public Consumption	YY	-3.9	-0.4	-0.1	0.4	0.2	0.2
Fixed Investment	YY	-12.8	-2.7	1.1	2.1	2.8	2.3
Exports of Goods and Services	YY	1.2	6.4	3.4	3.7	4.0	4.0
Imports of Goods and Services	YY	-5.3	1.7	0.1	1.8	2.2	1.7
HICP	YY	-0.9	-1.1	-1.0	-1.0	0.0	1.1
Unemployment Rate	%	27.5	27.0	25.8	25.1	24.3	23.6
Current Account Balance	€ bn	1.4	2.2	2.0	2.0	2.0	2.0
	% GDP	0.8	1.2	1.1	1.1	1.1	1.1
General Government Balance	€ bn	-23.1	-3.8	-4.0	-2.7	-1.9	-1.0
	% GDP	-12.7	-2.2	-2.2	-1.5	-1.0	-0.5
Primary Balance	% GDP	-8.7	2.3	2.3	3.1	3.5	3.9
General Government Debt	€ bn	318.7	321.5	324.0	325.2	325.6	326.5
	% GDP	175.1	179.7	180.3	179.6	177.1	172.8

Note: We assume further reductions in the cost of official loans. Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Greece, ECB, Eurostat and Citi Research forecasts

Ireland

[Michael Saunders](#)

Recent data suggest that 2Q GDP growth was very strong, but cast doubt on whether that expansion will be sustained. Industrial production surged by 11.9% QQ in 2Q, the biggest rise since data began in 1980. However, after strong April-May figures, IP fell 16% MM in June, dropping a little below the 1Q average level. Hence while we forecast a 2% QQ rise in 2Q GDP, we pencil in a much slower figure for 3Q GDP. Behind these swings, the underlying trend in the economy seems to be pretty strong, judging from the PMIs.

Figure 9. Ireland – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	5.8	3.6	3.8	3.9	4.0
Real GNP	YY	3.2	5.6	3.0	3.1	3.3	3.4
Final Domestic Demand	YY	-0.6	0.7	1.5	2.1	1.6	1.6
Private Consumption	YY	-0.8	0.8	1.6	1.9	1.8	1.9
Public Consumption	YY	1.3	-1.5	-2.5	0.3	0.0	0.5
Fixed Investment	YY	-1.8	2.9	5.3	4.3	2.5	1.6
Exports of Goods and Services	YY	1.1	7.1	5.3	7.2	7.4	7.3
Imports of Goods and Services	YY	0.6	4.0	3.7	6.7	6.5	6.4
Net Trade		0.3	5.2	2.4	1.6	2.2	2.4
GDP Deflator	YY	1.0	0.3	1.0	1.1	1.6	1.7
Nominal GDP	YY	1.2	6.1	4.6	4.9	5.5	5.7
House Prices	YY	1.4	8.5	8.6	5.6	4.1	4.1
Unemployment Rate	%	13.1	11.6	10.5	9.7	9.0	8.2
Employment	YY	2.4	1.6	2.0	2.2	2.3	2.3
Current Account Balance	€ bn	7.6	7.6	9.2	9.3	10.0	10.7
	% GDP	4.4	4.1	4.7	4.6	4.7	4.7
General Government Balance	€ bn	-11.8	-3.5	1.2	3.5	5.8	8.7
	% GDP	-6.7	-1.9	0.6	1.7	2.7	3.8
Primary Balance	% GDP	-2.6	2.8	5.3	6.2	7.0	7.9
General Government Debt	€ bn	215.5	212.6	211.7	210.4	204.4	195.4
	% GDP	123.3	114.6	109.1	103.4	95.2	86.0

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

Portugal

[Giada Giani](#)

2Q GDP rebounded by 0.6% QQ, broadly in line with our forecasts and confirming that 1Q weakness (-0.6% QQ) was temporary. We therefore leave our 2014 GDP forecast unchanged. Export growth is feeding through to employment, which rose 2% QQ in Q2, adding to the recovery's sustainability. Despite the negative rulings by the High Court on some budget measures, we think the fiscal deficit is likely to fall near the government target of 4% of GDP this year and fall further in 2015 (while still overshooting the government's forecast of 2.5% of GDP).

Figure 10. Portugal – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.4	1.1	2.1	2.1	2.1	2.2
Final Domestic Demand	YY	-2.4	0.7	1.3	1.3	1.3	1.4
Private Consumption	YY	-1.7	1.1	1.4	1.5	1.4	1.2
Public Consumption	YY	-1.8	-0.3	0.2	-0.2	0.4	1.0
Fixed Investment	YY	-6.0	0.1	2.4	2.4	2.1	2.7
Exports	YY	6.1	1.9	4.5	5.3	5.5	5.5
Imports	YY	3.2	3.6	2.2	3.7	4.0	4.1
Consumer Prices	YY	0.4	-0.3	-0.4	-0.2	0.3	0.8
Unemployment Rate	%	16.2	13.7	11.5	10.3	9.4	8.8
Current Account Balance	€ bn	0.9	0.9	1.2	1.6	2.3	2.8
	% GDP	0.5	0.5	0.7	0.9	1.3	1.5
General Government Balance	€ bn	-8.2	-7.0	-5.5	-4.7	-4.0	-3.2
	% GDP	-5.0	-4.2	-3.2	-2.7	-2.2	-1.7
Primary Balance	% GDP	-0.6	0.3	1.5	1.9	2.3	2.7
General Government Debt	€ bn	213.6	228.0	228.5	229.7	231.8	235.0
	% GDP	128.9	136.2	133.9	131.9	130.1	128.4

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

Netherlands

[Guillaume Menuet](#)

2Q GDP recorded a 0.5% QQ gain, more than offsetting the upwardly revised 0.4% QQ drop (-0.6% prev.) in Q1. But domestic demand contracted again, falling by 0.6% QQ in Q2-14 after a 0.4% drop in Q1-14, highlighting some underlying weakness. The contribution from net trade was strong (1.2pp) thanks to a seventh successive gain in exports (+0.6% QQ, 2.9% YY) while imports fell by 1.1% QQ (1.6% YY), which highlights the recovery's vulnerability to adverse external shocks.

Figure 11. Netherlands – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-0.7	0.7	1.3	1.6	2.0	2.1
Final Domestic Demand	YY	-1.7	0.0	0.4	1.0	1.3	1.6
Private Consumption	YY	-1.6	-0.3	0.5	0.9	1.1	1.2
Public Consumption	YY	-0.2	0.2	-0.1	0.3	0.7	0.8
Fixed Investment (ex Stocks)	YY	-3.9	0.3	0.8	2.2	2.7	3.3
Stocks (Contrib. to YY GDP Growth)		-0.2	-0.2	0.0	0.1	0.1	0.1
Exports of Goods and Services	YY	2.2	2.6	2.5	3.1	3.5	3.9
Imports of Goods and Services	YY	1.0	1.8	1.6	2.7	3.1	3.8
Net Exports (Contrib. to YY GDP Growth)		1.0	0.8	0.9	0.7	0.7	0.6
Consumer Prices	YY	2.6	0.7	1.5	1.5	1.7	1.8
Unemployment Rate	%	8.3	8.6	8.4	7.6	6.4	5.3
Current Account Balance	€ bn	65.6	69.5	61.7	60.5	58.9	57.5
	% GDP	10.9	11.4	9.8	9.3	8.8	8.2
General Government Balance	€ bn	-14.8	-16.8	-14.1	-11.3	-8.8	-6.8
	% GDP	-2.4	-2.7	-2.2	-1.7	-1.3	-1.0
Primary Balance	% GDP	-0.7	-1.0	-0.5	0.0	0.4	0.7
General Government Debt	€ bn	443.0	456.7	467.7	479.0	487.8	494.6
	% GDP	73.5	74.7	74.4	73.9	72.6	70.8

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

Belgium

[Guillaume Menuet](#)

We are cutting our 2014-15 GDP growth forecasts by 0.2pp each to 1.1% and 1.3% respectively. Although the flash estimate of 2Q GDP showed a fifth successive gain, the pace of economic activity slowed to 0.1% QQ and 1.1% YY, mirroring the trend of declining business and consumer confidence in Q2-14. Indications of a further deterioration in July surveys are part of the reason behind our decision to cut our forecasts. On the political front, parties are continuing to negotiate to form a government coalition, a situation that should help limit fiscal uncertainty.

Figure 12. Belgium – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	1.1	1.3	1.8	2.1	2.2
Final Domestic Demand	YY	0.3	1.1	1.1	1.4	1.6	1.6
Private Consumption	YY	0.8	1.0	0.8	1.1	1.3	1.3
Public Consumption	YY	0.6	0.2	0.7	0.9	1.1	1.1
Fixed Investment (ex Stocks)	YY	-1.4	2.4	2.1	2.7	3.0	2.9
Exports of Goods and Services	YY	1.9	3.7	4.2	4.0	4.7	5.7
Imports of Goods and Services	YY	1.4	3.1	4.3	3.8	4.2	5.3
Consumer Prices	YY	1.2	0.8	1.2	1.8	1.6	1.9
Unemployment Rate	%	8.4	8.5	8.3	7.9	7.7	7.5
Current Account Balance	€ bn	-7.3	0.4	2.9	3.9	3.3	2.2
	% GDP	-1.9	0.1	0.7	0.9	0.8	0.5
General Government Balance	€ bn	-10.2	-10.5	-9.9	-6.9	-3.6	0.3
	% GDP	-2.7	-2.7	-2.5	-1.7	-0.8	0.1
Primary Balance	% GDP	0.6	0.5	0.7	1.4	2.2	3.0
General Government Debt	€ bn	387.2	398.9	408.8	415.6	419.3	419.0
	% GDP	101.2	102.3	102.3	100.4	97.7	93.9

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

Slovakia

[Jaromir Sindel](#)

Though the outlook on foreign demand worsened, we slightly increase our 2014 GDP (to 2.3% from 2.2% last month) due to better developments in domestic demand. Both factors have influenced our 2015 forecast, but in different directions. Thus our 2015 GDP forecast remains unchanged at 2.7% YY assuming average GDP quarterly growth of 0.8% during 2015. A key risk for both our economic and fiscal forecast remains the ESA2010 revision of GDP and the government debt/GDP ratio — which could potentially trigger another debt-brake rule, although MinFin plans to reduce its cash buffer to avoid this.

Figure 13. Slovakia – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.9	2.3	2.7	3.2	3.1	3.0
Final Domestic Demand	YY	-0.8	2.7	1.5	2.1	2.5	-
Private Consumption	YY	-0.1	2.3	1.9	2.5	2.5	2.5
Public Consumption		1.4	1.9	-0.2	0.8	1.8	2.1
Fixed Investment	YY	-4.3	4.3	2.1	2.0	3.0	2.1
Exports	YY	4.5	7.6	7.2	8.1	8.3	8.3
Imports	YY	2.9	8.9	6.5	7.9	8.2	8.1
Consumer Prices	YY	1.4	0.0	1.0	1.9	2.3	2.5
Unemployment Rate	%	14.1	12.9	12.3	11.6	10.9	10.3
Current Account Balance	% GDP	2.1	1.4	2.2	2.4	2.4	2.7
General Government Balance	% GDP	-2.8	-3.0	-2.8	-2.2	-1.8	-1.4
Government Primary Balance	% GDP	-1.5	-1.7	-1.5	-0.9	-0.6	-
General Government Debt	% GDP	55.4	55.6	55.8	53.6	52.0	50.8

Sources: National sources and Citi Research forecasts

Slovenia

[Jaromir Sindel](#)

The Centrist SMC, led by PM-designated Miro Cerar, is likely to establish a centre-left wing government with pensioners DeSUS, the left-wing ZaAB and socialist SD groups. In our view, the likelihood that the NSi will not join the coalition suggests a slower path for privatization and structural reforms, which will be driven mainly by EC pressure. The EC approved the resolution plan for the third largest (state-owned) bank. We keep our 2014-15 GDP forecasts unchanged as our momentum indicator points to an upside risk but this is offset by downside external risks.

Figure 14. Slovenia

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-0.9	1.0	1.4	2.3	2.9	3.2
Final Domestic Demand	YY	-2.2	0.1	0.5	1.6	2.3	-
Private Consumption	YY	-2.8	-0.2	-0.4	1.1	1.4	1.2
Public Consumption		-2.0	-0.9	-0.3	-0.8	0.4	1.2
Fixed Investment	YY	-0.3	1.2	1.0	2.6	3.8	3.7
Exports	YY	2.7	4.5	6.7	7.6	6.8	5.0
Imports	YY	1.3	3.8	5.7	7.0	6.3	4.4
Consumer Prices	YY	1.8	0.4	0.9	0.8	0.7	0.8
Unemployment Rate	%	10.1	10.1	10.5	10.3	9.9	-
Current Account Balance	% GDP	6.0	3.3	3.5	4.0	4.6	5.2
General Government Balance	% GDP	-14.7	-4.0	-3.5	-3.3	-1.7	-1.4
Government Primary Balance	% GDP	-12.1	-1.1	-0.7	-0.3	1.2	1.4
General Government Debt	% GDP	71.7	81.3	82.7	83.1	81.4	79.2

Sources: National sources and Citi Research forecasts

United Kingdom

[Michael Saunders](#)

We expect that UK GDP growth will continue to outpace the consensus (3.0% and 2.6% in 2014-15). 2Q GDP rose 3.2% YY and business surveys give no sign of a slowdown. Major GDP revisions are due in September, which we expect will probably upgrade recent growth data. The MPC made a more radical re-think than we had expected in the August *Inflation Report*, with greater optimism over the supply-side as well as economic growth forecasts. The MPC also cut their estimate for the medium-term equilibrium unemployment rate to 5.5% from about 6% previously (we had not expected this), and hence concluded that (with the jobless rate at 6.4%) the labour market still has significant slack. With the MPC's lower estimate for the equilibrium jobless rate, we have pushed back our forecast for the first hike from Q4-14 to Q1-15.

Figure 15. UK – Economic Forecasts, 2013-1Q16F

		History			Forecast										
		2013	2014	2015	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP	YY	1.7	3.4	3.7	1.7	1.9	2.8	2.9	3.2	3.4	3.9	3.9	4.0	3.7	3.3
	QQ SAAR				2.4	3.6	2.7	3.1	3.5	4.4	4.4	3.5	3.7	3.2	2.8
Final Domestic Demand	YY	1.4	3.6	4.7	1.0	2.1	2.9	3.1	3.4	3.5	4.3	4.7	4.7	4.7	4.5
	QQ SAAR				3.7	3.7	1.5	3.3	5.3	4.1	4.6	4.9	5.0	4.2	3.9
Private Consumption	YY	2.2	2.9	3.4	2.0	2.5	2.2	2.2	3.1	2.9	3.3	3.2	3.2	3.5	3.5
	QQ SAAR				0.7	3.4	1.3	3.4	4.1	2.7	2.9	3.3	4.1	3.6	2.9
Public Consumption	YY	0.7	0.4	-0.1	1.3	1.7	1.3	1.8	0.1	-0.3	-0.1	0.0	0.2	-0.2	-0.5
	QQ SAAR				5.6	2.3	-0.4	-0.2	-1.3	0.9	0.4	-0.1	-0.5	-0.5	-1.0
Fixed Investment	YY	-0.8	12.7	16.9	-3.7	1.4	8.2	9.7	11.6	12.9	16.2	18.6	17.1	16.7	15.4
	QQ SAAR				13.6	9.9	5.5	9.8	22.0	14.9	18.6	19.1	16.0	13.0	13.7
-- Business Investment	YY	-1.0	14.0	18.1	-3.6	-1.2	8.3	10.6	13.5	14.1	17.6	17.7	18.6	18.6	17.3
	QQ SAAR				3.1	12.6	6.2	21.4	14.4	15.0	19.7	22.0	17.8	15.2	14.4
-- Construction of Private Dwellings	YY	4.5	12.9	20.4	5.7	9.4	10.4	13.2	8.4	12.6	17.4	20.5	22.3	20.2	18.9
	QQ SAAR				35.0	3.6	5.4	11.3	13.5	20.6	24.4	23.8	20.6	12.6	18.8
Stocks (Contrib. to YY GDP Growth)		0.2	-0.5	-0.1	-0.1	0.8	-0.3	0.1	0.1	-1.5	-1.0	-0.6	-0.4	0.1	0.0
Exports of Goods and Services	YY	0.5	1.2	4.6	4.0	-2.0	0.0	0.5	-2.8	3.5	3.8	4.5	6.6	3.8	3.5
	QQ SAAR				9.9	-9.9	3.5	-0.3	-4.1	15.8	4.9	2.4	3.9	4.0	3.7
Imports of Goods and Services	YY	0.2	0.4	7.2	0.5	1.2	-0.2	0.9	-1.2	-0.5	2.5	5.7	7.7	7.7	7.8
	QQ SAAR				9.7	4.6	-5.2	-4.6	0.6	7.7	6.9	7.7	8.4	7.7	7.5
Net Exports (Contrib. to YY GDP Growth)		0.1	0.3	-0.8	0.8	-1.0	0.1	-0.2	-0.3	1.4	0.5	-0.2	-0.2	-1.0	-1.2
Consumer Prices	YY	2.6	1.6	1.7	2.7	2.7	2.1	1.7	1.7	1.4	1.5	1.5	1.6	1.9	1.9
Retail Prices	YY	3.0	2.5	3.3	3.1	3.2	2.6	2.6	2.5	2.4	2.6	2.4	3.0	3.6	4.1
RPIX - Ex Mortgages	YY	3.1	2.6	3.1	3.1	3.2	2.7	2.7	2.6	2.5	2.6	2.4	2.9	3.4	3.6
Average Earnings YY	YY	1.2	1.3	3.2	2.4	0.8	1.3	1.9	-0.2	1.6	1.9	3.0	3.1	3.2	3.5
Employment Growth	YY	1.3	2.6	2.3	1.0	1.3	1.3	2.4	2.8	2.6	2.5	2.2	2.2	2.5	2.5
Unemployment Rate	%	7.6	6.3	5.1	7.8	7.6	7.2	6.8	6.4	6.2	5.9	5.6	5.3	5.0	4.6
Claimant Count Unemployment Rate	%	4.2	3.1	2.5											
Industrial Production	YY	-0.4	2.1	2.0	-0.8	-0.4	2.2	2.4	2.1	2.0	1.9	1.8	2.0	2.0	2.0
Manufacturing Output	YY	-0.7	3.1	1.9	-1.1	-0.8	1.8	3.6	3.2	2.9	2.7	1.7	2.0	2.0	2.0
Current Account Balance	£ bn	-72.8	-69.2	-81.2	-7.7	-23.9	-23.5	-18.5	-19.4	-15.0	-16.3	-18.3	-19.7	-20.9	-22.3
	% GDP	-4.5	-4.1	-4.5	-1.9	-5.9	-5.7	-4.4	-4.6	-3.5	-3.7	-4.1	-4.4	-4.6	-4.8
Public Sector Net Borrowing	£ bn FY	106.8	88.0	57.6											
	% GDP	-6.5	-5.1	-3.1											
General Government Balance	% GDP	-7.1	-5.6	-3.6											
Government Primary Balance	% GDP	-3.5	-2.0	0.1											
General Government Debt	£ bn	1,529.0	1,658.1	1,735.9											
	% GDP	94.5	95.7	94.7											
Gross Non Oil Trading Profits	YY	4.6	14.2	6.1	4.2	2.5	3.5	2.2	18.3	19.7	15.7	8.4	9.4	4.2	2.8
Base Rate (Period Average)	%	0.50	0.50	1.08	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.67	0.92	1.17	1.58
Ten-year Gilt Yield (Period Averages)	%	2.34	2.64	3.06	1.92	2.73	2.79	2.78	2.67	2.70	2.50	2.80	3.00	3.20	3.25
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.85	0.81	0.79	0.86	0.84	0.83	0.83	0.80	0.81	0.80	0.79	0.79	0.79	0.79
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.56	1.68	1.69	1.52	1.62	1.66	1.67	1.70	1.67	1.67	1.67	1.68	1.70	1.72

Fiscal deficits exclude financial intervention, RM and APF transfers. Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS and Citi Research forecasts

Switzerland

[Michael Saunders](#)

With fairly buoyant business surveys, we expect the 2Q GDP data (due in early September) to show real GDP growth of about 0.6% QQ. The Swiss economy continues to perform well compared to most other advanced economies, with the budget deficit and inflation both close to zero, the jobless rate around 3%, a current account surplus of 16% of GDP in 2013 and a general government debt ratio of below 50% and falling. We expect the SNB to keep rates at zero for a while with rates eventually rising modestly as the economy continues to do well.

Figure 16. Switzerland – Economic Forecasts, 2013-1Q16F

		History			Forecast											
		2013	2014	2015	History					Forecast						
					2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Real GDP	YY	2.0	2.0	2.6	2.3	2.1	1.9	1.7	1.8	2.0	2.6	2.7	2.7	2.6	2.5	2.6
Final Domestic Demand	YY	2.3	2.1	2.7	2.4	2.4	2.7	2.2	2.0	2.3	2.0	2.6	2.7	2.8	2.9	2.8
Private Consumption	YY	2.3	1.7	1.9	2.7	2.2	2.0	1.5	1.5	2.0	1.8	2.1	2.1	1.7	1.6	1.5
Public Consumption	YY	3.0	0.1	0.7	3.0	2.9	2.5	0.6	0.5	-0.2	-0.3	0.7	0.7	0.7	0.7	0.7
Fixed Investment	YY	1.8	4.4	6.1	1.4	2.7	4.7	5.4	4.3	4.4	3.7	4.8	5.3	6.8	7.5	7.4
Exports of Goods and Services	YY	2.0	5.3	6.1	2.7	2.0	1.3	4.4	4.4	5.9	6.4	5.5	6.0	6.3	6.6	7.0
Imports of Goods and Services	YY	1.8	2.7	6.4	2.5	0.2	3.4	2.0	2.0	4.3	2.6	5.2	6.0	6.7	7.4	8.7
Consumer Prices	YY	-0.2	0.1	1.1	-0.4	0.0	0.0	0.0	0.1	-0.1	0.5	0.7	0.9	1.4	1.3	1.2
Unemployment Rate	%	3.2	3.3	3.1	3.2	3.2	3.2	3.2	3.2	3.6	3.1	2.9	3.0	3.4	2.9	2.7
Current Account Balance	Sfr bn	96.3	82.9	80.5	30.8	26.2	22.0	17.9	23.4	23.1	18.5	21.0	21.3	20.6	17.6	20.4
	% GDP	16.0	13.5	12.8	20.5	17.3	14.5	11.8	15.3	15.0	11.9	13.5	13.6	13.1	11.1	12.8
General Government Balance	% GDP	0.0	-0.2	0.5												
General Government Debt	% GDP	49.4	48.2	47.2												
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)	%	0.82	0.68	0.70	0.65	1.07	1.00	0.98	0.80	0.54	0.31	0.49	0.66	0.83	0.83	1.01
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.23	1.22	1.23	1.23	1.22	1.23	1.22	1.22	1.21	1.22	1.23	1.23	1.24	1.24	1.24
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.93	0.90	0.92	0.94	0.90	0.89	0.88	0.89	0.90	0.91	0.92	0.93	0.92	0.91	0.90

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

Sweden

[Tina Mortensen](#)

The economy returned to growth in 2Q, but by a weaker-than-expected 0.2% QQ. With a 0.1% QQ drop in 1Q, the economy nearly stagnated in 1H. Meanwhile, the 2Q flash estimate (based on a smaller data set and published early in order to provide information to assist the government in preparing its autumn budget bill) likely underestimates the strength of the economy and will probably be revised up at a later stage. Still, with the trend in sentiment indicators being stable/slightly down, this calls the expected acceleration in GDP growth going into 2015 into question.

At the July monetary policy meeting, the Riksbank confirmed a shift in its reaction function – with a greater focus on preventing a further inflation undershoot and less worry about upside inflation risks or risks that ultra-low rates will further boost the already-high level of household debt – by cutting by a larger-than-expected 50bp to 0.25% and revising its conditional interest rate path substantially lower. The path maintains a slight downside bias (12% probability of another rate cut in Sep) and the timing of initial tightening was postponed by about half a year to late-2015. With the July release, core inflation has now been in line with or above consensus expectations for four consecutive months, confirming that Sweden is past the period of ultra-low inflation readings. Core inflation overshot the Riksbank forecast by 0.2pp again in July, making another rate cut look increasingly unlikely. According to our model, near-term inflation will likely stay slightly above the Riksbank's forecast.

Sweden holds a general election on 14 September 2014, and opinion polls clearly point to a change of government, with the “red-green” block likely to win a majority in Parliament. It is by no means certain that the left-wing will succeed in forming a government. However, with minority governments being very common in Sweden, we believe the risk of an election re-run is relatively small. Meanwhile, we reckon the political system could be tested in the coming year; besides a conceivable new government, Sweden could face untested governing coalitions, new party leaders, parties leaving/entering Parliament and a kingmaker party (the anti-immigration Sweden Democrats), with which no other political party wants to join forces.

Figure 17. Sweden – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	1.6	2.0	2.6	2.7	2.6	2.6
Final Domestic Demand	YY	1.4	2.6	2.2			
Private Consumption	YY	2.1	2.6	2.4			
Public Consumption	YY	1.9	1.1	0.9			
Fixed Investment	YY	-1.0	5.0	3.4			
Exports of Goods & Services	YY	-0.3	2.7	4.3			
Imports of Goods & Services	YY	-0.7	4.3	3.6			
Consumer Prices	YY	0.0	-0.1	1.1	2.4	2.3	2.2
Unemployment Rate	%	8.0	8.0	7.6			
Current Account Balance	SEK bn	234.8	233.5	233.2	248.3	256.9	268.3
	% GDP	6.4	6.3	6.0	6.1	6.0	6.0
General Government Balance	SEK bn	-44.5	-71.9	-36.5	-11.4	21.3	54.4
	% GDP	-1.2	-1.9	-0.9	-0.3	0.5	1.2
General Government Debt	% GDP	38.9	40.0	39.4	37.8	35.4	32.5
Riksbank Rate (Annual Average)	%	0.99	0.52	0.25	0.61	1.18	1.80
Ten-year Yield (Period Average)	%	2.10	1.83	1.89	2.16	2.31	2.56
EUR-SEK FX Rate (Annual Average)		8.65	9.09	9.08	8.99	8.83	8.67
USD-SEK FX Rate (Annual Average)		6.51	6.69	6.78	6.45	6.26	6.10

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

Denmark

[Tina Mortensen](#)

Following half a decade with stagnant GDP growth, economic activity is rising again in Denmark. Leading indicators support our assessment of moderately accelerating growth ahead, driven by rising domestic demand and growing exports. With economic growth expected to outpace potential in 2014-15 (the OECD estimates potential GDP at 0.9%-1.0% YY for this and next year), unemployment should edge lower, and the sizable output gap (2.5% of potential GDP) slowly start to close. The restraint among households and firms means that the private sector has consolidated in recent years, suggesting some potential for stronger growth in private spending and investment over the years to come. A consumption recovery is also supported by higher real wage growth (thanks in part to low inflation) and the ongoing recovery in the housing market (although distributed unevenly geographically).

While public finances seem robust this year, the outlook for 2015 is somewhat worrying; as temporary tax receipts (from the capital pension tax reform) lapse, the public budget deficit could come close to the budget act limits, coinciding with a general election that must be held in autumn-2015 at the latest. In other words, should economic growth fail to rebound or the notoriously volatile revenues from the pension yield tax turn out much lower than expected, the government could be forced to impose tightening measures at a critical point in the cyclical recovery.

In April, the Danish National Bank (DNB) exited a 21-month-long period of negative rates by raising the interest rate on certificates of deposit by 15bp to 0.05% (all other interest rates were left unchanged) amid ongoing DKK weakness (DKK was trading at the edge of its historically permitted corridor vs. the EUR). As EUR/DKK stayed above the central parity despite (minor scale) intervention again in May, the DNB kept all of its policy rates unchanged in June even with the ECB cutting rates and introducing additional easing measures. The wider policy rate spread vis-à-vis the ECB has reduced the negative carry on short EUR/DKK positions, pushing the exchange rate lower (has strengthened), thereby limiting the need for additional intervention and independent interest rate hikes over the coming year.

Figure 18. Denmark – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.4	1.4	1.7	2.0	1.9	2.0
Final Domestic Demand	YY	0.4	1.3	1.8			
Private Consumption	YY	0.1	1.3	2.0			
Public Consumption	YY	0.7	0.8	0.9			
Fixed Investment	YY	0.5	2.3	2.4			
Exports of Goods & Services	YY	1.0	4.1	3.3			
Imports of Goods & Services	YY	1.4	4.6	3.6			
Consumer Prices	YY	0.8	0.7	1.2	1.6	1.9	2.0
Unemployment Rate	%	7.0	6.7	6.5			
Current Account Balance	DKK bn	131.6	124.8	108.6	106.7	112.8	116.4
	% GDP	7.1	6.6	5.6	5.3	5.4	5.4
General Government Balance	% GDP	-0.9	-1.3	-2.7	-1.7	-1.0	-0.9
General Government Debt	% GDP	44.5	44.9	46.3	46.5	45.8	45.0
DNB Bank Rate (Annual Avg)	%	0.20	0.20	0.20	0.25	0.55	1.10
Ten-year Yield (Period Average)	%	1.73	1.34	1.44	1.71	2.06	2.31

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

Norway

[Tina Mortensen](#)

Economic activity will likely continue to grow at a below-trend pace in coming years; while private spending and non-oil exports should continue to add to growth, slowing oil investment trends and ongoing erosion in competitiveness will act as offsets. Both fiscal and monetary policy will remain expansive to support economic recovery; according to the spring budget by the non-socialist government, fiscal easing will amount to 0.7% of mainland trend-GDP this year. Full-year growth in the Norwegian economy downshifted quite sharply in 2013 (to 2.0% YY from 3.4% YY in 2012), but underlying momentum picked up in 2H. In 1Q14, the mainland economy expanded by an expected below-trend 0.5% QQ – an unchanged pace from the prior two quarters – and growth is seen at a similar pace also in 2Q. Overall GDP expanded by a weaker-than-expected 0.3% QQ in 1Q, but this can largely be explained by a substantial drag from the inventory component.

Core inflation surprisingly inched higher in July, to stand at an above target-rate of 2.6% YY, lifted by soaring food prices. Judging from the July outcome, food inflation will likely outweigh Norges Bank's expectations, pointing to an upward revision of the Bank's CPI forecast (and, hence, the conditional interest rate path) in the upcoming September Monetary Policy Report. Combined with firm economic activity indicators since the June monetary policy meeting, a rate cut should be off the agenda (Aug inflation, though, is out prior to the meeting). Recall that Norges Bank postponed initial tightening by a year to mid-2016, and even opened the door for a near-term rate cut should the economic outlook deteriorate further at the June policy meeting. Given Norges Bank's unwillingness to hike ahead of peers (as it wants to avoid NOK appreciation), we confirm our view that initial tightening is unlikely to commence until 2016.

Figure 19. Norway – Economic Forecasts, 2013-18F

		History		Forecast			
		2013	2014	2015	2016	2017	2018
Real GDP - Mainland	YY	2.0	2.0	2.2	2.5	2.9	2.9
Final Domestic Demand	YY	2.5	1.7	2.2			
Private Consumption	YY	2.2	2.1	2.5			
Public Consumption	YY	1.8	2.2	2.3			
Fixed Investment	YY	4.5	0.1	1.1			
Exports of Goods & Services	YY	0.8	1.2	2.8			
Imports of Goods & Services	YY	2.9	1.2	2.9			
Consumer Prices	YY	2.1	2.0	2.1	2.1	2.2	2.4
Unemployment Rate	%	3.5	3.6	3.8			
Current Account Balance	NOK bn	333.6	357.5	382.5	411.0	434.3	472.5
	% GDP	11.1	11.4	11.7	12.0	12.1	12.5
General Government Balance	% GDP	10.9	11.0	11.0	10.0	10.0	9.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Avg)	%	1.50	1.50	1.50	1.77	2.24	2.85
Ten-year Yield (Period Avg)	%	2.57	2.48	2.29	2.51	2.66	2.91
EUR-NOK FX Rate (Annual Avg)		7.81	8.22	7.95	7.75	7.50	7.25
USD-NOK FX Rate (Annual Avg)		5.88	6.05	5.94	5.56	5.32	5.10

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, 2013-18F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-0.4	0.8	1.5	1.9	1.9	1.8	1.4	0.5	0.9	1.2	1.5	1.7	2.4	2.9	2.8	2.8	2.6	2.5
Germany	0.2	1.6	2.0	2.3	2.3	2.1	1.5	1.0	1.7	2.1	2.3	2.5	7.1	7.0	6.3	5.8	5.6	5.3
France	0.4	0.4	0.9	1.7	2.0	1.9	1.0	0.7	1.2	1.4	1.5	1.6	-1.4	-0.7	-0.1	0.4	0.1	-0.1
Italy	-1.8	-0.1	0.8	1.1	0.9	0.7	1.3	0.1	-0.2	0.3	0.9	1.2	1.0	1.6	1.7	1.8	1.8	1.8
Spain	-1.2	1.4	2.0	2.2	1.9	1.8	1.5	0.0	0.3	0.5	0.6	0.8	0.8	0.6	0.5	0.7	0.7	0.9
Greece	-3.9	0.1	1.5	1.4	1.5	1.6	-0.9	-1.1	-1.0	-1.0	0.0	1.1	0.8	1.2	1.1	1.1	1.1	1.1
Ireland	0.2	5.8	3.6	3.8	3.9	4.0	1.0	0.3	1.0	1.1	1.6	1.7	4.4	4.1	4.7	4.6	4.7	4.7
Portugal	-1.4	1.1	2.1	2.1	2.1	2.2	0.4	-0.3	-0.4	-0.2	0.3	0.8	0.5	0.5	0.7	0.9	1.3	1.5
Netherlands	-0.7	0.7	1.3	1.6	2.0	2.1	2.6	0.7	1.5	1.5	1.7	1.8	10.9	11.4	9.8	9.3	8.8	8.2
Belgium	0.2	1.1	1.3	1.8	2.1	2.2	1.2	0.8	1.2	1.8	1.6	1.9	-1.9	0.1	0.7	0.9	0.8	0.5
Slovakia	0.9	2.3	2.7	3.2	3.1	3.0	1.4	0.0	1.0	1.9	2.3	2.5	2.1	1.4	2.2	2.4	2.4	2.7
Slovenia	-0.9	1.0	1.4	2.3	2.9	3.2	1.8	0.4	0.9	0.8	0.7	0.8	6.0	3.3	3.5	4.0	4.6	5.2
Austria*	0.4	1.7	1.7	1.6	1.4	1.4	2.1	1.8	1.7	1.7	1.7	1.7	3.0	3.5	3.5	3.5	3.6	3.7
Cyprus*	-6.0	-4.8	0.9	1.9	2.3	2.2	0.4	0.4	1.4	1.7	1.7	1.8	-1.5	0.1	0.3	0.6	0.5	0.0
Estonia*	0.8	2.4	3.2	3.5	3.6	3.7	3.5	3.2	2.8	2.5	2.4	2.3	-1.0	-1.3	-1.5	-1.4	-0.8	-0.4
Finland*	-1.4	0.4	1.1	1.5	1.6	1.8	2.2	1.7	1.5	1.7	1.9	2.0	-0.8	-0.3	0.2	0.4	0.6	0.5
Latvia*	4.1	3.8	4.4	4.2	4.1	4.0	0.0	1.5	2.5	2.3	2.3	2.3	-0.8	-1.6	-1.9	-2.0	-2.0	-2.0
Luxembourg*	2.0	2.1	1.9	2.0	2.2	2.2	1.7	1.6	1.8	1.8	1.8	1.9	6.7	6.7	5.5	5.5	5.2	5.1
Malta*	2.4	1.8	1.8	1.7	1.6	1.6	1.0	1.2	2.6	2.0	1.8	1.8	0.9	1.4	1.4	1.3	1.4	1.2
Denmark	0.4	1.4	1.7	2.0	1.9	2.0	0.8	0.7	1.2	1.6	1.9	2.0	7.1	6.6	5.6	5.3	5.4	5.4
Norway	2.0	2.0	2.2	2.5	2.9	2.9	2.1	2.0	2.1	2.1	2.2	2.4	11.1	11.4	11.7	12.0	12.1	12.5
Sweden	1.6	2.0	2.6	2.7	2.6	2.6	0.0	-0.1	1.1	2.4	2.3	2.2	6.4	6.3	6.0	6.1	6.0	6.0
Switzerland	2.0	2.0	2.6	2.7	2.7	2.7	-0.2	0.1	1.1	1.1	0.9	1.0	16.0	13.5	12.8	12.3	10.5	10.5
United Kingdom	1.7	3.4	3.7	3.1	2.4	2.2	2.6	1.6	1.7	1.9	1.8	2.0	-4.5	-4.1	-4.5	-4.9	-4.8	-4.5

Note: All forecasts are Citi forecasts except for those marked with an asterisk. *IMF WEO, 8 April 2014. Sources: IMF and Citi Research forecasts

Figure 21. Long-Term Forecasts – Fiscal Balance, Primary Balance and Government Debt, 2013-18F

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-3.0	-2.8	-2.4	-1.9	-1.5	-1.1	-0.1	0.1	0.6	1.1	1.5	1.8	95.0	97.2	97.4	96.7	95.2	93.8
Germany	0.0	0.1	0.2	0.0	0.0	-0.1	2.2	2.1	2.1	1.8	1.7	1.5	78.4	77.2	72.8	69.8	67.9	65.6
France	-4.3	-4.5	-4.3	-3.5	-2.6	-1.8	-2.0	-2.3	-2.1	-1.3	-0.4	0.4	93.5	97.5	99.8	100.4	99.6	98.1
Italy	-2.8	-2.9	-2.8	-2.1	-1.6	-1.2	2.2	1.9	1.9	2.4	2.6	2.8	132.6	137.8	139.3	139.2	139.0	137.6
Spain	-7.1	-5.6	-4.6	-3.6	-2.9	-2.3	-3.7	-2.2	-1.5	-0.6	0.0	0.5	93.9	98.7	100.8	101.2	101.3	100.7
Greece	-12.7	-2.2	-2.2	-1.5	-1.0	-0.5	-8.7	2.3	2.3	3.1	3.5	3.9	175.1	179.7	180.3	179.6	177.1	172.8
Ireland	-6.7	-1.9	0.6	1.7	2.7	3.8	-2.6	2.8	5.3	6.2	7.0	7.9	123.3	114.6	109.1	103.4	95.2	86.0
Portugal	-5.0	-4.2	-3.1	-2.4	-1.9	-1.3	-0.6	0.3	1.5	2.0	2.5	2.9	128.9	136.1	133.5	131.1	128.8	126.5
Netherlands	-2.4	-2.7	-2.2	-1.7	-1.3	-1.0	-0.7	-1.0	-0.5	0.0	0.4	0.7	73.5	74.7	74.4	73.9	72.6	70.8
Belgium	-2.7	-2.7	-2.5	-1.7	-0.8	0.1	0.6	0.5	0.7	1.4	2.2	3.0	101.2	102.3	102.3	100.4	97.7	93.9
Slovakia	-2.8	-3.0	-2.8	-2.2	-1.8	-1.4	-1.5	-1.7	-1.5	-0.9	-0.6		55.4	55.6	55.8	53.6	52.0	50.8
Slovenia	-14.7	-4.0	-3.5	-3.3	-1.7	-1.4	-12.1	-1.1	-0.7	-0.3	1.2	1.4	71.7	81.3	82.7	83.1	81.4	79.2
Austria*	-1.8	-3.0	-1.5	-1.3	-1.1	-1.0	0.2	-1.0	0.6	0.8	1.0	1.0	74.2	79.1	78.2	77.5	76.1	74.8
Cyprus*	-4.7	-5.2	-5.2	-2.0	-1.0	-0.2	-1.8	-1.8	-2.1	NA	NA	NA	112.0	121.5	125.8	122.5	116.1	111.6
Estonia*	-0.4	-0.4	0.2	0.6	0.8	1.1	-0.4	-0.4	0.2	0.6	0.9	1.2	11.3	10.9	10.3	9.6	8.9	8.2
Finland*	-2.6	-2.6	-1.9	-1.7	-1.6	-1.6	-2.6	-2.7	-2.1	-2.0	-1.9	-1.7	57.0	60.2	62.1	62.0	61.9	62.1
Latvia*	-1.3	-1.1	1.3	-1.6	-0.3	-0.5	-0.1	0.4	2.2	-0.6	0.7	0.5	32.1	32.7	29.3	31.3	30.5	28.4
Luxembourg*	0.0	0.1	-2.4	-2.4	-2.8	-3.0	0.4	0.5	-2.0	-2.2	-2.8	-3.2	22.9	24.1	27.0	29.8	32.9	35.8
Malta*	-2.9	-3.1	-3.3	-2.9	-2.9	-2.9	0.1	0.3	0.2	NA	NA	NA	71.7	72.5	72.6	72.6	72.9	73.1
Denmark	-0.9	-1.3	-2.7	-1.7	-1.0	-0.9							44.5	44.9	46.3	46.5	45.8	45.0
Norway	10.9	11.0	11.0	10.0	10.0	9.0							NA	NA	NA	NA	NA	NA
Sweden	-1.2	-1.9	-0.9	-0.3	0.5	1.2							38.9	40.0	39.4	37.8	35.4	32.5
Switzerland	0.0	-0.2	0.5	1.1	1.5	1.9							49.4	48.2	47.2	45.0	43.2	40.1
United Kingdom	-7.1	-5.6	-3.6	-1.3	-0.5	0.4	-3.5	-2.0	0.1	2.4	3.4	4.2	94.5	95.7	94.7	92.2	89.7	86.5

Note: All forecasts are Citi forecasts except those marked with an asterisk. For Spain, fiscal deficits include the effect of financial support for banks. For Greece, we assume further reductions in the cost of official loans. *IMF WEO, 8 Apr 2014. Sources: IMF and Citi Research forecasts

Figure 22. Change in Economic Forecasts from Prior Month (Percentage Points), 2013-15F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Euro Area		-0.3	-0.2						-0.2		-0.1	
Germany	-0.3	-0.4	-0.4		-0.2	-0.3	-0.5		-0.6		-0.1	
France		-0.3	-0.4								-0.3	-0.7
Italy		-0.2	-0.3		-0.1			-0.1	-0.1		0.1	0.1
Spain		0.1	0.1			0.1					0.1	0.3
Greece		-0.2	0.2		0.4	0.5		-0.9	-1.3		-0.2	
Ireland		-0.3	-0.3					-0.2	-0.5		-0.1	-0.2
Portugal			0.1			0.2						0.1
Netherlands		0.1	-0.1		0.3	0.3	0.1	0.8	-0.3		0.1	0.1
Belgium		-0.2	-0.2		0.1	0.1		0.4	0.3		-0.2	-0.5
Slovakia		0.1						-0.1	-0.5			-0.2
Slovenia												
Denmark							-0.1	-0.1		0.1		
Norway												
Sweden		-0.2	-0.2							0.1	-0.3	-0.1
Switzerland		-0.1			0.1	0.2	4.0	2.4	2.6	-0.2	-0.9	-0.6
United Kingdom	-0.1				-0.1	-0.3		-0.3	-0.4		-0.3	-0.2

Source: Citi Research

Figure 23. Euro Area Countries – Economic Forecasts Compared, 2014-16F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Euro Area - Citi Forecast	20-Aug-14	0.8	1.5	1.9	-2.8	-2.4	-1.9	97.2	97.4	96.7
OECD Economic Outlook	06-May-14	1.2	1.7	NA	-2.5	-1.8	NA	96.0	95.2	NA
EU Commission Forecast	05-May-14	1.2	1.7	NA	-2.5	-2.3	NA	96.0	95.4	NA
IMF WEO Forecast	08-Apr-14	1.1	1.5*	1.5	-2.6	-2.0	-1.4	95.6	94.5	92.6
ECB Forecast - mid-point	05-Jun-14	1	1.7	1.8	-2.5	-2.3	-1.9	93.4	92.6	91.1
Germany - Citi Forecast	20-Aug-14	1.6	2.0	2.3	0.1	0.2	0.0	77.2	72.8	69.8
OECD Economic Outlook	06-May-14	1.9	2.1	NA	-0.2	0.2	NA	76.3	72.3	NA
EU Commission Forecast	05-May-14	1.8	2.0	NA	0.0	-0.1	NA	76.0	73.6	NA
IMF WEO Forecast	08-Apr-14	1.9*	1.7*	1.4	0.0	-0.1	0.2	74.6	67.0	70.8
France - Citi Forecast	20-Aug-14	0.4	0.9	1.7	-4.5	-4.3	-3.5	97.5	99.8	100.4
OECD Economic Outlook	06-May-14	0.9	1.5	NA	-3.8	-3.1	NA	95.9	96.9	NA
EU Commission Forecast	05-May-14	1.0	1.5	NA	-3.9	-3.4	NA	95.6	96.6	NA
IMF WEO Forecast	08-Apr-14	0.7*	1.4*	1.7	-3.7	-3.0	-2.1	95.8	96.1	95.3
Italy - Citi Forecast	20-Aug-14	-0.1	0.8	1.1	-2.9	-2.8	-2.1	137.8	139.3	139.2
OECD Economic Outlook	06-May-14	0.6	1.2	NA	-2.7	-2.1	NA	134.3	134.5	NA
EU Commission Forecast	05-May-14	0.6	1.2	1.2	-2.6	-2.2	NA	135.2	133.9	NA
IMF WEO Forecast	08-Apr-14	0.3*	1.1	1.3	-2.7	-1.8	-0.8	134.5	133.1	130.5
Spain - Citi Forecast	20-Aug-14	1.4	2.0	2.2	-5.6	-4.6	-3.6	98.7	100.8	101.2
OECD Economic Outlook	06-May-14	1.0	1.5	NA	-5.5	-4.5	NA	98.3	101.4	NA
EU Commission Forecast	05-May-14	1.1	2.1	NA	-5.6	-6.1	NA	100.2	103.8	NA
IMF WEO Forecast	08-Apr-14	1.2*	1.6*	1.1	-5.9	-4.9	-3.9	98.8	102.0	103.7
Greece - Citi Forecast	20-Aug-14	0.1	1.5	1.4	-2.2	-2.2	-1.5	179.7	180.3	179.6
OECD Economic Outlook	06-May-14	-0.3	1.9	NA	-2.5	-1.4	NA	177.7	177.2	NA
EU Commission Forecast	05-May-14	0.6	2.9	NA	-1.6	-1.0	NA	177.2	172.4	NA
IMF WEO Forecast	08-Apr-14	0.6	2.9	3.7	-2.7	-1.9	-0.7	174.7	171.3	162.5
Ireland - Citi Forecast	20-Aug-14	5.8	3.6	3.8	-1.9	0.6	1.7	114.6	109.1	103.4
OECD Economic Outlook	06-May-14	1.9	2.2	NA	-4.7	-3.1	NA	121.9	121.1	NA
EU Commission Forecast	05-May-14	1.7	3.0	NA	-4.8	-4.2	NA	121.0	120.4	NA
IMF WEO Forecast	08-Apr-14	1.7	2.5	2.5	-5.1	-3.0	-2.4	123.7	122.7	119.6
Portugal - Citi Forecast	20-Aug-14	1.1	2.1	2.1	-4.2	-3.1	-2.4	136.1	133.5	131.1
OECD Economic Outlook	06-May-14	1.1	1.4	NA	-4.0	-2.4	NA	130.8	131.8	NA
EU Commission Forecast	05-May-14	1.2	1.5	NA	-4.0	-2.5	NA	126.7	124.8	NA
IMF WEO Forecast	08-Apr-14	1.2	1.5	1.7	-4.0	-2.5	-2.0	126.7	124.8	122.6
Netherlands - Citi Forecast	20-Aug-14	0.7	1.3	1.6	-2.7	-2.2	-1.7	74.7	74.4	73.9
OECD Economic Outlook	06-May-14	1.0	1.3	NA	-2.7	-2.0	NA	74.7	74.9	NA
EU Commission Forecast	05-May-14	1.2	1.4	NA	-2.8	-1.8	NA	73.8	73.4	NA
IMF WEO Forecast	08-Apr-14	0.8	1.6	1.7	-3.0	-2.0	-1.7	75.0	74.4	74.1
Belgium - Citi Forecast	20-Aug-14	1.1	1.3	1.8	-2.7	-2.5	-1.7	102.3	102.3	100.4
OECD Economic Outlook	06-May-14	1.5	1.9	NA	-2.1	-1.2	NA	101.7	100.3	NA
EU Commission Forecast	05-May-14	1.4	1.6	NA	-2.6	-2.8	NA	101.7	101.5	NA
IMF WEO Forecast	08-Apr-14	1.2	1.2	1.3	-2.5	-2.1	-1.5	99.8	99.6	98.6
Slovakia - Citi Forecast	20-Aug-14	2.3	2.7	3.2	-3.0	-2.6	-2.2	56.3	55.7	55.0
OECD Economic Outlook	06-May-14	2.0	2.9	NA	-2.7	-2.6	NA	55.2	56.2	NA
EU Commission Forecast	05-May-14	2.2	3.1	NA	-2.9	-2.8	NA	56.3	57.8	NA
IMF WEO Forecast	08-Apr-14	2.3	3.0	3.5	-3.8	-3.8	-3.8	58.6	59.8	60.4
Slovenia - Citi Forecast	20-Aug-14	1.0	1.4	2.3	-4.0	-3.5	-3.3	81.3	82.7	83.1
OECD Economic Outlook	06-May-14	0.3	1.2	NA	-4.1	-2.6	NA	77.2	80.9	NA
EU Commission Forecast	05-May-14	0.8	1.4	NA	-4.3	-3.1	NA	80.4	81.3	NA
IMF WEO Forecast	08-Apr-14	0.3	0.9	1.5	-5.5	-4.1	-4.0	74.9	77.9	80.0

IMF WEO update, 24 July 2014. 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, 2014-16F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	1.5	2.1		-2.8	-1.3		81.2	80.7	
EU Commission Forecast	05-May-14	1.6	1.8		-2.8	-1.5		80.3	79.2	
IMF WEO Forecast	08-Apr-14	1.7	1.7	1.6	-3.0	-1.5	-1.3	79.1	78.2	77.5
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-May-14	-4.8	0.9		-5.8	-6.1		122.2	126.4	
IMF WEO Forecast	08-Apr-14	-4.8	0.9	1.9	-5.2	-5.2	-2.0	121.5	125.8	122.5
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	1.2	3.1		-0.2	-0.1		9.9	9.7	
EU Commission Forecast	05-May-14	1.9	3.0		-0.5	-0.6		9.8	9.6	
IMF WEO Forecast	08-Oct-13	2.4	3.2	3.5	-0.4	0.2	0.6	10.9	10.3	9.6
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	0.2	1.1		-2.2	-0.9		59.9	60.7	
EU Commission Forecast	05-May-14	0.2	1.0		-2.3	-1.3		59.9	61.2	
IMF WEO Forecast	08-Apr-14	0.4	1.1	1.5	-2.6	-1.9	-1.7	60.2	62.1	62.0
Latvia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EC Commission Forecast	05-May-14	3.8	4.1		-1.0	-1.1		39.5	33.4	
IMF WEO Forecast	08-Apr-14	3.8	4.4	4.2	-1.1	1.3	-1.6	32.7	29.3	31.3
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	2.8	2.5		0.3	-0.9		24.4	26.3	
EU Commission Forecast	05-May-14	2.6	2.7		-0.2	-1.4		23.4	25.5	
IMF WEO Forecast	08-Apr-14	2.1	1.9	2.0	0.1	-2.4	-2.4	24.1	27.0	29.8
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-May-14	2.3	2.3		-2.5	-2.5		72.5	71.1	
IMF WEO Forecast	08-Apr-14	1.8	1.8	1.7	-3.1	-3.3	-2.9	72.5	72.6	72.6

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

Figure 25. Selected European Countries – Economic Forecasts Compared, 2014-16F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Denmark - Citi Forecast	20-Aug-14	1.4	1.7	2.0	-1.3	-2.7	-1.7	44.9	46.3	46.5
OECD Economic Outlook	06-May-14	1.4	1.8		-1.5	-3.0		45.8	48.6	
EU Commission Forecast	05-May-14	1.5	1.9		-1.2	-2.7		43.5	44.9	
IMF WEO Forecast	08-Apr-14	1.5	1.7	1.7	-1.4	-2.7	-2.2	45.6	46.9	47.5
Norway - Citi Forecast	20-Aug-14	2.0	2.2	2.5	11.0	11.0	10.0	NA	NA	NA
OECD Economic Outlook	06-May-14	2.0	2.4		10.7	10.2		36.7	39.6	
IMF WEO Forecast	05-May-14	1.8	1.9	2.0	11.2	9.9	8.9	29.5	29.5	29.5
Sweden - Citi Forecast	20-Aug-14	2.0	2.6	2.7	-1.9	-0.9	-0.3	40.0	39.4	37.8
OECD Economic Outlook	06-May-14	2.8	3.1		-1.5	-0.8		42.0	41.7	
EU Commission Forecast	05-May-14	2.8	3.0		-1.8	-0.8		41.6	40.4	
IMF WEO Forecast	08-Apr-14	2.8	2.6	2.5	-1.3	-0.5	0.0	41.5	40.0	38.0
Switzerland - Citi Forecast	20-Aug-14	2.0	2.6	2.7	-0.2	0.5	1.1	48.2	47.2	45.0
OECD Economic Outlook	06-May-14	2.0	2.5		0.1	0.3		45.9	45.3	
IMF WEO Forecast	08-Apr-14	2.1	2.2	2.0	-0.2	0.4	0.7	48.1	47.3	45.4
UK - Citi Forecast	20-Aug-14	3.4	3.7	3.1	-5.6	-3.6	-1.3	95.7	94.7	92.2
OECD Economic Outlook	06-May-14	3.2	2.7		-5.3	-4.1		91.5	93.1	
EU Commission Forecast	05-May-14	2.7	2.5		-5.1	-4.1		91.8	92.7	
IMF WEO Forecast	08-Apr-14	3.2*	2.7*	2.5	-5.3	-4.1	-2.9	91.5	92.7	92.5
OBR	19-Mar-14	2.7	2.3	2.3	-5.5	-4.2	-4.2	91.9	85.8	85.8

IMF WEO update, 24 July 2014. Note: Values for UK fiscal balance and debt exclude Royal Mail and APF transfers. Negative fiscal balances imply deficit. WEO *World Economic Outlook*. Sources: EU Commission, IMF, OBR, OECD and Citi Research forecasts

Appendix A-1

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