

European Economic Forecast Highlights

March 2013

- This document is a companion piece to [Global Economic Outlook and Strategy - March 2013](#) and contains more detailed quarterly economic forecasts for the main European economies to end-2014.
- **Long-Term Forecasts:** Figures 19-20 give Citi forecasts to 2017 for GDP growth, CPI inflation, current balance, fiscal balance, primary balance and government debt.
- **Forecasts compared:** Tables 21-23 compare our forecasts for GDP, deficits and debt with those of the European Commission, the IMF and OECD.
- **The euro area remains stuck in recession, and we still believe that the EMU crisis is not over.** Unresolved issues are not limited to the stand-off over the Cyprus bailout/bail-in. With revenues hit by economic weakness, Greece, Italy, Spain, Portugal, and Ireland should all continue to have high and rising general government debt/GDP ratios this year and next. We continue to expect some form of eventual restructuring (in NPV terms) of sovereign debt and/or official loans and/or bank debt in Greece, Cyprus, Portugal, Italy, Spain and Ireland. For Ireland at least this probably will not include PSI on sovereign debt, and, with about 50% of public debt in official hands for Ireland and Portugal — and about 80% for Greece — there is substantial scope for OSI as an alternative to PSI if policymakers desire. There is also increased willingness among EU policymakers to hit bank creditors rather than government debt holders. There are multiple possible triggers that could cause the euro crisis to escalate near term, including the unresolved Cyprus bailout (which could even lead to Cyprus exiting EMU in the near future), possible loss of support for the Greek government, and the possibility of fresh elections in Italy.
- **The ECB and UK MPC remain likely to loosen further in response to continued economic weakness.**
- Our forecasts for Sovereign long-term debt ratings are given in Figure 41 of [Global Economic Outlook and Strategy - March 2013](#).

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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	1.69	2.25	2.76	3.33
Sweden	1.45	0.89	0.75	1.07	1.73	2.29
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	1.04

Source: Citi Research

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

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We leave our GDP growth forecast for 2013 and 2014 roughly unchanged. However, it looks likely that GDP contracted again in 1Q instead of the expected stabilization. With mixed, and clearly below-par, sentiment readings we expect GDP growth around zero in the rest of the year. In an environment of poor economic growth, record high unemployment and moderating wage growth, inflationary pressure continues to ease and we expect inflation to be below the ECB's target.

After rejection of the proposed deposit tax, the outlook for Cyprus is highly uncertain. While there is a chance of last minute agreement on a package, maybe involving Russia, risks of the country leaving EMU have increased, in our view. Separately, the EU Summit made clear that countries likely to miss fiscal targets in 2013 because of adverse economic conditions will get more time to meet the 3%-of-GDP deficit targets. While this suggests no additional fiscal tightening in 2013, additional austerity measures in these countries are likely for 2014 and beyond, and probably will dampen growth. It also suggests debt-ratios are likely to increase further, which probably will not be welcomed by investors and rating agencies.

In case of Cyprus leaving EMU, and/or renewed deposit flight from the periphery, the ECB probably will have to take additional measures. As we see high hurdles for another round of 3Y LTROs – because banks are continuing to repay existing ones and LTROs might be seen as a way to circumvent the condition-bound OMT programme – an easing of collateral rules looks more likely to us. In the weak economic environment and falling inflationary pressure, we continue to expect the ECB to cut the refi rate by 25bp to 0.5% in 2Q, but unlikely in April. We still expect a further refi rate cut in the remainder of the year to 0.25%. While a negative deposit rate at that stage is still possible, despite increasing reluctance of ECB officials, we no longer expect a negative deposit rate in our base case scenario.

Figure 2. Euro Area – 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	-0.5	-0.5	-0.3			-0.1	-0.5	-0.6	-0.9	-0.9	-0.6	-0.6	-0.1	-0.4	-0.4	-0.4	0.0
	QQ SAAR						-0.2	-0.7	-0.3	-2.3	-0.1	0.3	0.0	-0.7	-1.1	0.1	0.3	0.8
Final Domestic Demand	YY	-1.5	-1.0	-0.3			-1.1	-1.4	-1.7	-1.7	-1.5	-0.9	-0.9	-0.6	-0.6	-0.5	-0.3	0.2
Private Consumption	YY	-1.2	-0.6	0.2			-1.1	-1.1	-1.5	-1.2	-1.1	-0.6	-0.5	0.0	0.0	0.1	0.3	0.4
Public Consumption	YY	-0.1	-0.9	-0.6			0.1	-0.1	-0.1	-0.2	-0.5	-0.6	-1.1	-1.5	-1.3	-1.0	-0.3	0.4
Fixed Investment	YY	-3.9	-2.4	-1.6			-2.5	-3.9	-4.4	-4.9	-3.9	-2.4	-1.9	-1.4	-1.9	-1.8	-2.0	-0.9
-- Business Equipment	YY	-4.5	-2.6	-2.2			-2.0	-4.3	-5.7	-6.3	-4.6	-2.9	-1.7	-1.3	-2.2	-2.2	-2.9	-1.6
-- Construction	YY	-3.4	-2.4	-1.1			-2.9	-3.7	-3.2	-3.8	-3.4	-2.1	-2.3	-1.7	-1.5	-1.5	-1.0	-0.2
Stocks (Contrib. to YY GDP Growth)		-0.4	-0.2	0.0			-0.4	-0.6	-0.5	-0.3	-0.3	-0.4	-0.1	-0.1	-0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	2.9	2.1	0.9			2.5	3.6	3.2	2.2	2.6	1.9	1.6	2.5	1.1	0.6	0.5	1.3
Imports of Goods and Services	YY	-0.9	0.3	0.3			-1.1	-0.7	-1.0	-0.6	0.1	-0.1	0.1	0.8	0.0	-0.1	0.2	1.2
Consumer Prices	YY	2.5	1.7	1.5			2.7	2.5	2.5	2.3	1.8	1.7	1.8	1.6	1.7	1.6	1.4	1.4
Core CPI	YY	1.5	1.1	1.2			1.5	1.6	1.6	1.5	1.2	1.0	1.3	1.1	1.3	1.3	1.1	1.0
CPI Ex Energy and Unprocessed Food	YY	1.8	1.4	1.3			1.9	1.8	1.7	1.6	1.4	1.4	1.5	1.4	1.4	1.4	1.2	1.2
Unemployment Rate	YY	11.4	12.1	12.4			10.9	11.3	11.5	11.8	12.0	12.1	12.2	12.2	12.3	12.4	12.4	12.4
Current Account Balance	€ bn	116.1	249.6	240.1														
	% GDP	1.2	2.6	2.5														
General Government Balance	€ bn	-322.9	-264.2	-231.4														
	% GDP	-3.4	-2.7	-2.4														
Primary Balance	% GDP	-0.3	0.4	0.7														
General Government Debt	€ bn	8737.3	9123.4	9133.4														
	% GDP	92.1	94.8	93.5														
Gross Operating Surplus	YY	-0.1	0.0	0.2														
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.88	0.50	0.25			1.00	0.75	0.75	0.75	0.75	0.50	0.50	0.25	0.25	0.25	0.25	0.25
Ten-year Bund yield (Period Avg.)	%	1.57	1.54	1.55			1.88	1.49	1.41	1.43	1.57	1.40	1.65	1.55	1.35	1.55	1.55	NA
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.28	1.30	1.30			1.33	1.26	1.29	1.32	1.31	1.3	1.3	1.29	1.29	1.29	1.3	1.30

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

Germany

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We leave our economic forecasts roughly unchanged, even though soft January data and poor March weather have led us to a lower forecast for 1Q. However, the broad-based ongoing improvement in sentiment indicators suggests a recovery in coming months. In addition to a positive contribution from exports, we also expect a boost from consumption, which is likely to benefit from the combination of modest employment gains and solid wage increases.

We suspect that the new eurosceptic party “Alternative for Germany” is unlikely to get many votes in the September 22 General Election. Even so, it probably will lead to a tougher tone from the current government coalition in euro area related topics. We expect that Angela Merkel will stay as Chancellor, but probably with a different coalition partner.

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

		History			Forecast				History								Forecast							
		2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14								
Real GDP	YY	0.9	0.8	0.8	1.2	1.0	0.9	0.4	0.4	0.7	0.6	1.4	0.8	0.6	0.7	1.1								
Final Domestic Demand	QQ SAAR				2.0	1.1	0.9	-2.4	2.2	1.9	0.9	0.7	-0.5	1.2	1.5	2.4								
	YY	0.3	0.9	1.2	0.9	0.7	-0.2	-0.3	0.1	0.9	1.1	1.5	1.3	1.2	1.1	1.2								
Private Consumption	QQ SAAR				0.1	-1.3	0.2	0.0	1.6	1.7	1.1	1.5	0.9	1.5	0.6	1.8								
	YY	0.6	1.3	1.0	0.6	1.3	0.0	0.4	0.8	1.1	1.5	1.9	1.4	1.0	1.0	0.8								
Public Consumption	QQ SAAR				0.6	0.7	0.0	0.3	2.4	1.9	1.3	2.1	0.2	0.4	1.2	1.3								
	YY	1.4	1.1	0.9	1.8	0.9	1.4	1.4	1.1	1.6	1.0	0.7	0.7	0.8	1.0	1.2								
Fixed Investment	QQ SAAR				2.4	-1.4	2.9	1.6	1.2	0.8	0.4	0.4	1.2	1.2	1.2	1.2								
	YY	-2.0	-0.8	2.1	0.5	-1.7	-2.6	-4.0	-3.2	-0.8	0.0	0.9	1.7	2.6	1.6	2.6								
-- Business Equipment	QQ SAAR				-3.9	-7.4	-1.8	-2.9	-0.5	2.1	1.4	0.8	2.7	5.5	-2.2	4.4								
	YY	-4.1	-3.4	1.2	1.3	-2.8	-6.5	-8.1	-6.9	-4.0	-1.9	-0.4	0.6	2.2	0.0	2.1								
-- Construction	QQ SAAR				-4.5	-11.6	-8.6	-7.5	0.4	0.2	-0.3	-2.0	4.5	6.9	-8.5	6.1								
	YY	-0.9	0.8	2.9	-0.4	-1.4	-0.1	-1.6	-1.2	1.1	1.2	2.2	2.9	2.9	3.0	2.8								
Stocks (Contrib. to YY GDP Growth)	QQ SAAR				-3.3	-5.4	2.9	-0.4	-1.7	3.8	3.2	3.7	1.1	3.5	3.8	2.8								
		-0.5	-0.1	-0.1	-0.2	-0.1	-0.3	0.2	-0.1	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0								
Exports of Goods and Services	YY	4.3	2.7	1.9	2.9	5.7	5.1	3.4	4.1	1.9	1.2	3.5	1.8	1.2	1.7	2.9								
Imports of Goods and Services	QQ SAAR				3.0	13.8	6.1	-7.9	5.8	4.5	3.1	0.7	-1.0	2.2	5.1	5.6								
	YY	2.2	3.0	2.8	2.7	2.8	1.7	1.5	3.5	2.1	2.6	3.8	2.9	2.7	2.5	3.1								
Net Exports (Contrib. to YY GDP Growth)	QQ SAAR				-2.9	9.5	2.6	-2.6	4.8	3.9	4.4	2.1	1.1	3.3	3.6	4.5								
		1.2	0.1	-0.3	0.7	0.7	0.5	-0.8	0.2	0.2	-0.1	-0.1	-0.2	-0.1	0.3	0.2								
Consumer Prices	YY	2.0	1.6	2.3	2.1	1.9	2.0	2.0	1.6	1.8	1.8	1.4	2.2	2.1	2.3	2.4								
Compensation per Employee	YY	2.8	3.2	3.1	2.5	2.7	2.9	3.0	3.3	3.2	3.1	3.0	3.0	3.1	3.1	3.1								
Employment Growth	YY	1.1	0.3	0.3	1.4	1.2	1.1	0.8	0.4	0.3	0.2	0.4	0.4	0.5	0.3	0.2								
Unemployment Rate (ILO)	%	5.5	5.3	5.3	5.6	5.5	5.5	5.4	5.3	5.3	5.3	5.2	5.2	5.2	5.3	5.4								
Current Account Balance	€ bn	185.4	184.4	156.4																				
	% GDP	7.0	6.8	5.7																				
General Government Balance	€ bn	2.2	-5.1	-6.5																				
	% GDP	0.1	-0.2	-0.2																				
Primary Balance	% GDP	2.4	1.9	1.7																				
General Government Debt	€ bn	2162.3	2183.5	2199.7																				
	% GDP	82.4	81.7	80.6																				
Gross Trading Profits	YY	-1.9	-3.0	-2.4	2.1	0.8	-4.0	-6.6	-10.4	-9.0	-0.9	9.5	-9.5	-0.2	-1.0	0.6								

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

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The French economy is struggling under the weight of a sizeable fiscal adjustment, low competitiveness and weak business confidence. With unemployment on a steady uptrend, the popularity of the government has been deteriorating rapidly. In March, both the President and Prime Minister's confidence ratings fell to new lows of around 32%, with respective drops of 7 points and 5 points. While we expect that the government will be successful in its campaign to obtain an extra year to 2014 to bring the budget deficit under the 3% of GDP EDP threshold, the quid pro quo will likely be more efforts in terms of structural reforms, ranging from pensions to the labour market. Detailed expenditure cuts (including family benefits) will also need to form part of the new Stability and Convergence Programme to be submitted to the EU Commission in late April. We are keeping our forecasts unchanged in March, expecting GDP growth to remain close to 0.0% over the period 2013-14.

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

		History			Forecast											
		2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.0	-0.2	0.2	0.2	0.1	0.0	-0.3	-0.4	-0.2	-0.3	0.0	0.0	0.2	0.3	0.5
Final Domestic Demand	QQ SAAR				-0.4	-0.4	0.6	-1.1	-0.5	0.1	0.3	0.1	-0.5	0.8	0.8	0.9
	YY	0.3	0.0	0.2	0.1	0.6	0.5	0.2	0.1	0.0	-0.1	0.0	0.0	0.2	0.3	0.4
Private Consumption	QQ SAAR				0.0	0.2	0.6	0.0	-0.4	-0.1	0.1	0.3	-0.2	0.6	0.6	0.7
	YY	0.0	0.1	0.1	-0.6	0.1	0.1	0.4	0.2	0.3	0.1	0.0	-0.1	0.0	0.1	0.2
Public Consumption	QQ SAAR				0.4	-0.7	1.0	0.8	-0.4	-0.1	0.0	0.4	-0.6	0.4	0.4	0.6
	YY	1.4	0.6	0.5	0.8	1.3	1.6	1.8	1.2	0.8	0.4	0.0	0.2	0.4	0.5	0.7
Fixed Investment	QQ SAAR				2.2	1.8	1.6	1.5	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7
	YY	0.0	-1.1	0.4	1.0	1.0	0.2	-2.2	-1.4	-1.8	-1.2	-0.1	0.1	0.4	0.5	0.7
-- Businesses	QQ SAAR				-3.9	1.2	-2.0	-4.0	-0.7	-0.3	0.3	0.3	0.0	0.9	0.9	0.9
	YY	-0.7	-1.3	0.7	-0.1	0.6	0.0	-3.2	-1.9	-2.2	-1.2	0.2	0.4	0.7	0.8	0.9
-- Households	QQ SAAR				-6.0	1.4	-3.1	-4.8	-0.8	0.0	0.8	0.8	0.0	1.2	1.2	1.2
	YY	0.6	-1.0	0.3	2.6	1.3	0.1	-1.3	-1.2	-1.3	-1.2	-0.4	-0.2	0.2	0.4	0.6
Stocks (Contrib. to YY GDP Growth)	QQ SAAR				-1.5	0.0	-0.4	-3.3	-0.8	-0.8	0.0	0.0	0.0	0.8	0.8	0.8
	YY	-1.1	-0.5	0.0	-0.1	0.2	-0.3	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	2.3	0.8	0.6	3.3	2.8	2.7	0.4	0.7	0.9	0.6	1.2	0.3	0.4	0.6	1.2
Imports of Goods and Services	QQ SAAR				0.3	1.1	2.7	-2.4	1.6	1.6	1.6	0.0	-2.0	2.0	2.4	2.4
	YY	-0.3	0.0	0.6	-2.0	0.5	0.0	0.2	0.3	-1.0	-0.3	0.8	0.4	0.5	0.7	0.9
Net Exports (Contrib. to YY GDP Growth)	QQ SAAR				0.6	5.8	-2.0	-3.4	0.8	0.8	0.8	0.8	-0.8	1.2	1.6	1.6
	YY	0.7	0.2	0.0	0.0	-0.3	0.3	0.1	0.1	0.1	0.1	-0.1	-0.1	0.1	0.1	0.1
Consumer Prices	YY	2.2	1.0	1.7	2.6	2.3	2.3	1.7	1.1	0.9	1.0	1.1	1.6	1.7	1.7	1.8
Average Monthly Wages	YY	2.1	1.6	2.0												
Employment Growth (Private-Sector)	YY	-0.2	-0.4	0.7												
Unemployment Rate	%	9.9	10.9	11.1	9.6	9.8	9.9	10.2	10.6	10.9	11.0	11.1	11.0	11.1	11.1	11.0
Current Account Balance	€ bn	-49.3	-35.3	-19.7												
General Government Balance	% GDP	-2.4	-1.7	-0.9												
	€ bn	-91.7	-74.7	-63.9												
Primary Balance	% GDP	-4.5	-3.6	-3.0												
	% GDP	-2.4	-1.5	-0.7												
General Government Debt	€ bn	1865.5	1974.4	2045.6												
Gross Trading Profits	% GDP	91.4	95.7	97.3												
	YY	0.0	2.0	4.0												

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

Italy

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Recent surveys and data suggest economic activity remains weak, after perhaps a less negative QQ reading in Q1 13. Fiscal drag will be smaller in 2013 than in 2012, but even without a government in place, current policies imply a fiscal tightening of about 1½% of GDP, hence remaining a large drag on growth. Fiscal austerity might be relaxed somewhat if a centre-left minority government is formed. Political instability, together with public debt rising close to 135% of GDP in 2014, are likely to heighten market pressure on Italy to request external financial assistance (probably an ESM precautionary credit line and OMT activation) some time in 2013. This may possibly be followed eventually by some form of debt restructuring (via maturity extensions and coupon reductions).

Sovereign Rating: Political gridlock, almost a month after the election, suggests risks for sovereign rating downgrade have increased recently. Fitch has already cut the rating for Italy by one notch to BBB+, although it just brought the rating in line with the other rating agencies. However, chances have increased that no stable government can be formed following the inconclusive electoral outcome, suggesting new elections may be called for either June or more likely October. Prolonged political instability and lack of strong leadership make it less likely that much-needed structural reforms are passed. Moreover, political uncertainty may work as an additional headwind on the already very weak economy. Signs of a longer-than-anticipated political stalemate and/or deepening of the recession create in our view downside risks on the Italian rating in coming months.

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

		History			Forecast			History				Forecast							
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-2.4	-1.6	-1.4				-1.6	-2.6	-2.6	-2.8	-2.2	-1.7	-1.6	-1.0	-1.1	-1.2	-1.6	-1.8
	QQ SAAR							-3.7	-3.0	-0.8	-3.7	-1.4	-0.9	-0.5	-1.1	-1.9	-1.4	-2.1	-1.6
Final Domestic Demand	YY	-4.7	-2.6	-2.0				-4.1	-4.9	-5.1	-4.6	-3.4	-2.7	-2.2	-2.2	-2.1	-2.1	-2.0	-1.7
	QQ SAAR							-7.7	-4.5	-3.7	-2.4	-3.0	-1.7	-1.7	-2.4	-2.5	-1.8	-1.5	-1.1
Private Consumption	YY	-4.3	-2.8	-0.9				-3.5	-4.4	-4.8	-4.4	-3.9	-3.1	-2.2	-1.9	-1.1	-1.0	-0.9	-0.8
	QQ SAAR							-6.0	-4.4	-4.5	-2.6	-3.9	-1.2	-1.2	-1.2	-0.8	-0.8	-0.8	-0.8
Public Consumption	YY	-2.9	-0.8	-0.3				-3.0	-3.2	-2.9	-2.5	-1.0	-0.6	-0.7	-1.1	-0.8	-0.5	-0.1	0.2
	QQ SAAR							-7.0	-2.6	-0.5	0.4	-1.1	-1.1	-1.1	-1.1	0.2	0.2	0.2	0.2
Fixed Investment	YY	-8.0	-4.1	-7.5				-7.2	-8.6	-8.5	-7.6	-4.6	-3.8	-3.7	-4.4	-6.8	-7.8	-8.2	-7.3
	QQ SAAR							-13.9	-6.9	-4.5	-4.8	-2.0	-3.9	-3.9	-7.8	-11.5	-7.8	-5.9	-3.9
-- Business Equipment	YY	-9.6	-3.1	-11.1				-7.8	-11.0	-10.8	-8.7	-4.6	-2.5	-1.8	-3.4	-8.8	-11.2	-12.6	-11.9
	QQ SAAR							-14.2	-9.9	-4.9	-5.4	2.2	-1.9	-1.9	-11.5	-18.8	-11.8	-8.0	-8.6
-- Construction	YY	-6.4	-5.1	-4.0				-6.6	-6.2	-6.2	-6.6	-4.6	-5.0	-5.4	-5.4	-4.9	-4.4	-3.9	-2.9
	QQ SAAR							-13.6	-4.0	-4.2	-4.2	-5.9	-5.9	-5.9	-3.9	-3.9	-3.9	-3.9	0.4
Exports of Goods and Services	YY	2.2	1.5	-2.3				1.9	2.5	2.5	1.9	2.7	2.0	1.0	0.5	-0.9	-2.0	-3.0	-3.4
	QQ SAAR							-2.2	4.0	4.8	1.1	0.9	1.0	0.8	-0.8	-4.4	-3.7	-3.2	-2.2
Imports of Goods and Services	YY	-7.8	-3.4	-4.2				-9.0	-7.5	-8.0	-6.6	-3.9	-3.7	-2.9	-2.9	-4.0	-5.0	-4.4	-3.6
	QQ SAAR							-13.7	-2.2	-6.5	-3.7	-3.1	-1.5	-3.1	-4.1	-7.2	-5.5	-0.9	-0.6
Net Exports (Contrib. to YY GDP Growth)		2.8	1.4	0.4				3.1	2.8	3.0	2.4	1.8	1.6	1.1	0.9	0.8	0.7	0.2	-0.1
Consumer Prices	YY	3.3	2.3	1.4				3.6	3.6	3.4	2.6	2.2	2.0	2.4	2.5	2.0	1.7	1.0	0.7
Compensation per Employee	NA	NA	NA	NA															
Employment Growth		0.0	-0.6	-0.3															
Unemployment Rate	%	10.7	11.9	12.4															
Current Account Balance	€ bn	-10.0	-4.8	-2.7															
	% GDP	-0.6	-0.3	-0.2															
General Government Balance	€ bn	-47.4	-47.0	-49.0															
	% GDP	-3.0	-3.0	-3.2															
Primary Balance	% GDP	2.4	2.5	2.5															
General Government Debt	€ bn	1989	2038	2086															
	% GDP	127.0	131.1	135.4															

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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The drop in domestic demand in Q4 12 (-2% QQ) is likely to become less negative in Q1 13, but the recession in 2013 will probably remain severe reflecting a still large fiscal drag, tight financing conditions, ongoing private deleveraging and housing adjustment. Public debt (at 84.1% of GDP in 2012, 14.9pp higher than in 2011) could still be lifted by additional bank recapitalisation needs due to rising NPLs and still falling house prices.

We still expect that Spain will enter a precautionary ESM programme at some point this year and that some form of debt restructuring may eventually be likely.

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

		History			Forecast			History				Forecast							
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-1.4	-2.2	-2.1				-0.7	-1.4	-1.6	-1.9	-2.0	-2.1	-2.3	-2.3	-2.5	-2.4	-2.2	-1.4
	QQ SAAR							-1.7	-1.6	-1.3	-3.2	-1.9	-2.2	-2.0	-3.0	-2.9	-1.7	-1.0	0.0
Final Domestic Demand	YY	-4.0	-5.3	-3.8				-3.2	-3.8	-4.2	-4.8	-5.3	-5.0	-5.7	-5.3	-5.4	-5.1	-3.3	-1.3
	QQ SAAR							-1.8	-5.3	-4.3	-7.7	-4.0	-4.0	-7.0	-6.2	-4.3	-2.7	0.0	1.9
Private Consumption	YY	-2.2	-4.0	-1.4				-1.3	-2.2	-2.1	-3.0	-4.3	-4.3	-4.4	-2.9	-2.6	-1.9	-1.0	0.1
	QQ SAAR							2.1	-4.3	-2.1	-7.6	-3.3	-4.2	-2.5	-1.5	-2.3	-1.4	1.2	2.9
Public Consumption	YY	-3.7	-6.9	-6.9				-3.8	-2.8	-4.0	-4.1	-4.4	-5.0	-7.4	-11.0	-10.2	-9.6	-5.4	-1.7
	QQ SAAR							-4.2	-1.2	-9.8	-1.0	-5.2	-4.0	-18.2	-15.6	-1.6	-1.6	-2.0	-1.6
Fixed Investment	YY	-9.1	-7.5	-7.7				-7.4	-9.2	-9.7	-10.3	-9.2	-7.0	-7.6	-6.3	-8.3	-9.3	-8.0	-5.0
	QQ SAAR							-9.4	-11.9	-4.9	-14.6	-5.0	-3.3	-7.1	-9.7	-12.6	-7.9	-1.6	2.7
-- Business Equipment	YY	-4.5	-6.5	-8.0				-3.2	-4.4	-4.4	-6.2	-7.2	-5.4	-8.1	-5.3	-8.1	-10.1	-8.5	-5.3
	QQ SAAR							-0.5	-6.1	4.7	-20.8	-4.8	1.3	-6.6	-10.8	-15.6	-7.0	0.2	2.4
-- Construction	YY	-11.5	-8.1	-7.5				-9.5	-11.6	-12.5	-12.4	-10.2	-7.9	-7.3	-6.9	-8.3	-8.9	-7.8	-4.9
	QQ SAAR							-13.8	-14.8	-9.8	-10.9	-5.1	-5.8	-7.4	-9.1	-10.9	-8.3	-2.5	2.8
Exports of Goods and Services	YY	3.0	4.7	-1.5				2.1	2.7	4.2	3.2	7.1	5.9	2.7	3.0	-0.3	-0.9	-3.0	-1.9
	QQ SAAR							-9.9	7.3	21.8	-3.7	4.7	2.4	7.7	-2.4	-8.1	-0.2	-0.9	2.1
Imports of Goods and Services	YY	-5.0	-5.8	-6.7				-5.9	-5.2	-3.4	-5.4	-4.5	-3.9	-8.2	-6.5	-8.9	-9.1	-6.9	-1.7
	QQ SAAR							-7.7	-5.2	11.3	-17.9	-4.2	-2.7	-7.2	-11.8	-13.5	-3.8	2.3	9.6
Net Exports (Contrib. to YY GDP Growth)		2.4	3.1	1.4				2.4	2.3	2.3	2.6	3.4	2.9	3.3	2.8	2.4	2.3	0.9	-0.2
Consumer Prices	YY	2.4	1.8	0.7				1.9	1.9	2.8	3.2	2.9	2.4	1.2	0.6	0.6	0.6	0.7	0.8
Compensation per Employee	YY	0.3	0.2	0.0															
Employment Growth	YY	-4.5	-2.9	-2.0				-3.9	-4.9	-4.6	-4.8	-4.1	-3.1	-2.3	-2.0	-2.6	-2.9	-2.1	-0.5
Unemployment Rate	%	25.0	27.1	28.3				24.4	24.6	25.0	26.0	27.4	26.8	26.4	27.6	29.0	28.6	27.7	27.9
Current Account Balance	€ bn	-8.3	23.7	37.8															
	% GDP	-0.8	2.3	3.7															
General Government Balance	€ bn	-107.5	-66.3	-60.6															
	% GDP	-10.2	-6.4	-5.9															
Primary Balance	% GDP	-7.2	-2.6	-1.6															
General Government Debt	€ bn	884.4	977.8	1082.7															
	% GDP	84.1	94.6	104.9															

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

Greece

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Although 2012 official fiscal data were better than expected and debt relief measures worth 71pp of GDP were adopted in 2012, **Greece's fiscal position remains most likely unsustainable, in our view**, with the debt ratio likely to be close to 180% by end-2013. Significant liquidity constraints (possibly made worse by developments in Cyprus), bank deleveraging and fiscal austerity are all unlikely to diminish in 2013, implying a GDP forecast similar to 2012 results. Only a major write-off of the official loans would make the debt burden sustainable again, in our view. As this move remains unlikely in our view, **we still see some high probability of Greece leaving the euro area** – for forecasting purposes we assume in 2014.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-6.0	-11.2	-3.9	1.6	2.7
Final Domestic Demand	YY	-9.7	-7.0	-11.7	-5.5	0.1	1.6
Private Consumption	YY	-9.1	-6.7	-13.1	-7.9	-1.0	1.3
Fixed Investment	YY	-19.0	-12.8	-21.1	-8.1	4.1	3.5
Exports of Goods and Services	YY	-2.0	-1.5	-16.1	-1.7	5.1	5.7
Imports of Goods and Services	YY	-9.3	-5.4	-17.5	-8.3	-0.7	1.3
Consumer Prices	YY	1.0	0.7	17.5	13.4	8.1	6.8
Unemployment Rate	%	24.1	28.9	34.3	38.8	38.9	38.0
Current Account Balance	€ bn	-8.4	-5.9	4.1	8.1	10.1	8.1
	% GDP	-4.3	-3.3	2.1	3.9	4.4	3.2
General Government Balance	€ bn	-14.3	-11.1	-1.0	-0.3	2.8	4.5
	% GDP	-7.4	-5.7	-1.3	-0.4	2.9	4.1
Primary Balance	% GDP	-2.0	-2.3	-2.1	-1.0	2.2	5.9
General Government Debt	€ bn	308.2	322.1	305.2	301.1	280.6	89.1
	% GDP	159.0	179.7	401.7	360.4	293.5	80.9

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

Percentage changes unless indicated. Annual data are period averages.

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

Portugal

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Recent growth numbers have been extremely weak: in Q4 12 domestic demand was down by 2.5% QQ, unemployment overshoot projections to 16.9% and tax revenues remain very weak. **The government has negotiated an extra year to achieve its deficit targets** and will also likely get a maturity lengthening of its bailout loans. However, persistently weak growth and risks of new contingent liabilities being recorded in the government balance sheet still leave concerns about the sustainability of the public debt. With about half of the debt in official hands, we think some combination of further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may eventually be required to restore sustainability. See also [Euro Economics Weekly - Some Deserved Fiscal Leeway for Portugal](#).

Sovereign Rating: S&P removed the Negative Outlook on Portugal on 6 March and now rates the sovereign BB Stable. This was driven by S&P's expectation that European lenders would loosen terms on bailout loans and that the Troika would adjust Portugal's consolidation path. We do not expect any significant chance to the BB Stable rating in the near-term. Discussions regarding maturity extensions on loans made to Portugal were also commented on by Moody's who stated this was a "credit positive".

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-3.7	-2.8	0.0	1.1	1.0
Final Domestic Demand	YY	-6.9	-5.2	-2.8	-0.2	0.7	0.8
Private Consumption	YY	-5.6	-4.6	-1.1	0.2	0.7	0.8
Fixed Investment	YY	-14.5	-9.0	-10.4	-2.1	0.5	1.2
Exports	YY	3.3	0.5	-3.2	1.3	3.0	2.9
Imports	YY	-6.9	-3.2	-3.9	0.9	2.1	2.4
Consumer Prices	YY	2.8	0.3	0.5	0.5	0.6	0.5
Unemployment Rate	%	15.7	17.9	19.9	19.7	18.6	17.7
Current Account Balance	€ bn	-5.8	-0.5	2.6	3.9	4.5	5.0
	% GDP	-3.5	-0.3	1.7	2.6	2.9	3.2
General Government Balance	€ bn	-9.9	-9.1	-9.3	-8.0	-7.2	-7.3
	% GDP	-6.0	-5.7	-6.1	-5.2	-4.6	-4.6
Primary Balance	% GDP	-0.8	-0.5	0.9	1.5	2.2	2.9
General Government Debt	€ bn	201.6	214.5	226.2	234.2	241.4	248.7
	% GDP	121.9	135.2	146.9	151.8	154.0	156.2

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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Ireland's economy remains set for modest export-led growth this year and in 2014. Ireland's fiscal position is still weak, but prospects that Ireland will be able to return to fiscal sustainability have been improved by the rise in GDP in 2012, as well as the willingness of European creditors to concede restructuring on the promissory notes. We assume that similar flexibility will be shown to restructure other debt held in official hands and, if necessary, the bank recapitalisation costs.

Sovereign Rating: Discussions regarding maturity extensions on loans made to Ireland were commented on by Moody's who stated this was a "credit positive". We believe Moody's will upgrade Ireland's rating from Ba1 to Baa3 (IG) this year. S&P has already stabilized its BBB+ rating on Ireland, largely due to the recent promissory note deal and the likely impact it would have on Ireland's debt metrics. From Citi's point of view, Ireland's fiscal prospects now seem better than previously expected, and our economists no longer expect sovereign debt restructuring involving privately-held Irish government debt in the coming years ([Ireland — Steps Back to Fiscal Sustainability](#)).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2016
Real GDP	YY	0.4	0.7	1.9	2.4	3.1	2.9
Real GNP	YY	3.1	0.9	1.3	1.8	2.5	2.3
Final Domestic Demand	YY	-1.6	-0.9	-1.3	-1.4	-0.6	-0.6
Private Consumption	YY	-1.2	0.8	-0.1	-0.4	-0.4	-0.2
Fixed Investment	YY	0.0	-2.0	-2.9	-3.5	-3.5	-3.3
Government Consumption	YY	-3.6	-6.1	-4.0	-3.6	0.6	-0.2
Exports of Goods and Services	YY	2.8	2.8	4.1	6.0	6.3	5.8
Imports of Goods and Services	YY	0.2	1.2	1.9	4.3	4.6	4.2
Net Trade		1.9	1.7	3.4	3.4	3.7	3.5
GDP Deflator	YY	2.7	1.3	1.4	1.6	1.6	1.6
Nominal GDP	YY	3.2	2.0	3.4	4.0	4.7	4.6
House Prices	YY	-12.8	-0.1	1.0	1.0	1.0	2.1
Unemployment Rate	%	14.7	13.9	13.7	13.6	13.5	13.5
Employment	YY	-0.6	0.6	-0.2	-0.4	-0.3	0.1
Current Account Balance	€ bn	7.4	9.7	11.7	13.5	15.7	17.5
	% GDP	4.5	5.8	6.7	7.5	8.3	8.9
General Government Balance	€ bn	-12.9	-12.0	-7.2	-3.9	-2.8	-1.9
	% GDP	-7.9	-7.1	-4.2	-2.2	-1.5	-1.0
Primary Balance	% GDP	-4.0	-1.5	0.8	2.7	3.4	3.9
General Government Debt	€ bn	192.0	201.0	204.7	202.4	201.8	199.7
	% GDP	117.0	120.2	118.4	112.5	107.1	101.4

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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Dutch PM Mark Rutte announced in early March that the 3%-of-GDP 2013 budget deficit target would not be met but that it would be necessary to do so in 2014. The strategy adopted is one of 'damage limitation' given the triple-dip recession. A few days later, the government duly announced 2014 budget savings worth €4.3bn that the CPB estimates would likely subtract 0.7pp from its 1% 2014 GDP forecast. If implemented rapidly and on a sufficiently large scale, the news about pension funds preparing to help finance banks' mortgage portfolios could ease the housing market slump, pointing to some upside risks to our 0.0% 2014 GDP baseline.

Sovereign Rating: Although Moody's recently noted (8 March) that "*deficit-curbing measures are positive*" they also noted that "*obstacles to fiscal consolidation remain*". Citi continues to believe the Netherlands' rating will be placed on "negative watch" / "review for downgrade" in coming quarters ([Netherlands — In the Triple Dip Recession Club](#))

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

		History		Forecast			
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.9	-1.0	0.0	1.0	1.2	1.6
Final Domestic Demand	YY	-1.4	-1.4	-0.7	0.3	0.4	0.8
Public Consumption	YY	0.7	-0.6	-0.7	0.0	0.3	0.7
Private Consumption	YY	-1.4	-1.6	-0.4	0.4	0.5	0.8
Fixed Investment (ex Stocks)	YY	-4.7	-2.6	-1.2	0.4	0.7	1.1
Stocks (Contrib. to YY GDP Growth)		-0.1	-0.2	-0.1	0.2	0.1	0.1
Exports of Goods and Services	YY	3.1	1.4	1.4	2.7	3.1	3.5
Imports of Goods and Services	YY	2.8	0.9	0.7	2.3	2.7	3.1
Net Exports (Contrib. to YY GDP Growth)		0.5	0.4	0.6	0.6	0.7	0.7
Consumer Prices	YY	2.8	2.9	1.8	1.6	1.8	1.8
Unemployment Rate	%	6.4	7.5	7.8	7.8	7.3	6.4
Current Account Balance	€ bn	59.4	60.0	55.0	60.0	62.0	65.0
	% GDP	9.9	9.9	9.0	9.6	9.7	9.9
General Government Balance	€ bn	-24.8	-23.2	-20.1	-11.2	-9.4	-3.3
	% GDP	-4.1	-3.8	-3.3	-1.8	-1.5	-0.5
Primary Balance	% GDP	-2.3	-1.9	-1.2	0.3	0.6	1.7
General Government Debt	€ bn	428.8	455.3	477.5	488.7	498.1	501.4
	% GDP	71.3	75.4	78.1	78.2	77.8	76.1

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

Belgium

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The 4Q GDP split released in March confirmed a modest contraction in domestic demand, for the third successive quarter, making Belgium a candidate for the 'triple dip' recession club. **The debate about additional budget savings for 2014 will be crucial during the next few weeks**, as Belgium is falling short of the recommended minimal average annual effort of 0.75pp under the EDP. Central bank governor Luc Coene has reminded the government that there is still *"a lot more work to do"* on budgetary consolidation. The modest recovery in sequential GDP we see in 2Q and 3Q will probably not be enough to lift annual GDP growth into positive territory.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.2	-0.1	0.3	1.2	1.5	1.8
Final Domestic Demand	YY	-0.7	0.0	0.6	1.0	1.4	1.7
Public Consumption	YY	0.1	0.0	0.3	0.7	1.1	1.5
Private Consumption	YY	-0.6	0.3	0.5	0.7	1.1	1.3
Fixed Investment (ex Stocks)	YY	-0.5	-0.6	1.4	2.2	2.6	3.0
Exports of Goods and Services	YY	0.4	0.0	1.1	3.5	3.9	4.3
Imports of Goods and Services	YY	-0.1	-0.3	1.4	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.5	2.0	2.0	2.0	2.1
Unemployment Rate	%	7.3	7.7	7.6	7.2	6.8	6.4
Current Account Balance	€ bn	-3.5	-2.6	-3.2	-3.0	-1.9	-0.1
	% GDP	-0.9	-0.7	-0.8	-0.7	-0.5	0.0
General Government Balance	€ bn	-10.9	-10.1	-8.8	-5.9	-3.5	-0.3
	% GDP	-2.9	-2.6	-2.2	-1.4	-0.8	-0.1
Primary Balance	% GDP	-0.6	0.0	0.8	1.7	2.5	3.3
General Government Debt	€ bn	414.8	445.5	455.5	461.4	464.9	465.2
	% GDP	110.0	115.9	115.8	113.5	110.4	106.3

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

Slovakia

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Although the recent downward revision shows a milder GDP dynamic accompanied by milder growth of industrial production, **we keep our forecast of a further deceleration of GDP growth to 0.7% YY in 2013** from 2% in 2012 owing to the subdued foreign outlook demand and the likely introduction of new fiscal measures to keep the consolidation process on track. Our forecast for 2013 and 2014 GDP growth (0.7% and 1.6%) is below the MinFin's expectation of 1.2% and 2.9%. Our variances can be explained in particular by our expectation of milder foreign demand as we estimate GDP growth of Slovak trade partners to be around 0.6%-0.8% YY in 2014, while Slovak MinFin expects 1.8%.

Confidence indicators were mixed in February and we forecast industrial production to increase by around 1.5% in 2013 (from -4% previously) due to less adverse base effect after the time-series revision narrowed growth in 2012 to 8.2% YY from 10.3% previously (transport equipment production to 26% from 44% initially). However, manufacturing confidence, though improved in February, still suggests a drop in industrial production by 5% YY in the near term. However, these downside risks are somewhat limited by the composition of development in manufacturing confidence. While the car industry has eased its better expectations, they are still above levels seen in 4Q12 and, moreover, the assessment of order books has even markedly improved. By contrast, confidence in the steel and electronics industries worsened, in terms of both expectations and order books.

The central government deficit reached -€0.7bn in the first two months of 2013, narrower by €132mn compared to the same period in 2012. The improvement reflects a drop in expenditure (-5% YY year-to-date), while revenues slightly increased (+1.4%). As a result, the 12m cumulative budget deficit is €3.7bn in February, only marginally better than €3.8bn a year ago (-5.1% of GDP vs. -5.4% of GDP a year ago). As we noted earlier, the MinFin has already reflected the prospect of weaker economic growth in its tax prospects, as seen in the additional gap of €361mn in 2013. Nevertheless, for the time being we do not expect the MinFin to struggle in 2013 unless there is a larger-than-expected drop in domestic demand (MinFin expect the growth of effective domestic demand around 0.2% YY), particularly in total consumption, which fell by around 1% YY in 4Q12 together with more than a 6% drop in fixed investment.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	2.0	0.7	1.6	2.7	2.9	3.4
Final Domestic Demand	YY	-1.4	0.2	1.2	2.6	3.5	3.5
Public Consumption		-0.6	-1.4	0.0	1.5	1.9	1.9
Private Consumption	YY	-0.6	0.1	0.5	2.0	3.0	3.0
Fixed Investment	YY	-3.7	1.5	3.5	4.6	5.6	5.6
Exports	YY	8.6	3.3	2.9	4.6	5.8	6.7
Imports	YY	2.8	1.3	2.4	4.8	6.5	7.6
Consumer Prices	YY	3.6	2.2	2.5	2.6	2.6	2.6
Unemployment Rate	%	13.6	14.8	15.4	14.9	14.1	14.1
Current Account Balance	% GDP	2.3	3.6	3.3	2.6	1.4	0.0
General Government Balance	% GDP	-5.1	-3.2	-2.9	-2.6	-2.1	-1.8
Government Primary Balance	% GDP	-3.6	-1.7	-1.4	-1.0	-0.6	-0.3
General Government Debt	% GDP	52.1	53.5	54.4	54.6	55.1	54.8

Sources: National sources and Citi Research forecasts

Slovenia

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The emerging government, led by PM-designate Alenka Bratusek (PS) has a majority in the National Assembly and also solid support among citizens, according to local poll published by Delo. This is likely to be supportive for Slovenia, given likely continued progress on finding a solution in the banking sector, government plans to focus on insolvency legislation and press on with changes to tighten conditions for calling a referendum. However, the continuing recession owing to fiscal consolidation, credit crunch and weak foreign demand is likely to be a source of dispute between left-wing and right-wing coalition parties. We slightly cut our forecast for 2013 GDP, owing to a larger drop in domestic demand in 4Q12.

Likely new finance minister in favour of bad bank, but in amended form. Mr. Uros Cufer, the likely finance minister in the new government, said that *"there will be a bad bank ... but in somewhat altered shape"*, according to Reuters. As we have recently mentioned, loan restructuring with government guarantees – as proposed by the central bank, banking association and entrepreneurs' representative – could be incorporated in the Bad Bank's operating tools and could make restructuring of the banking sector less demanding on cash-flow. However, though it can provide some relief and lead to an increase in efficiency of companies' management, we are sceptical about the scope for real success of these measures if not accompanied by privatization of the largest state-owned banks.

The registered unemployment rate increased to 13.6% in January, but the unemployment rate on the ILO methodology is lower at 9.6% nsa in 4Q12 (9.5% sa), although the negative dynamic is similar to that of the registered unemployment rate. The increase in the unemployment rate is not driven by seasonal patterns. This supports our view of ongoing contraction in GDP during 1H13, when we expect GDP to fall cumulatively by 0.5% after a 2.8% fall during 2012 – and to contract by even more if the recovery in export activity suggested by confidence indicators does not materialise. February manufacturing confidence was supportive of exports due to an improved assessment of order-book levels suggesting export growth of around 5%-6% YY at the end of 1Q13 after the export of goods accelerated to 3.3% YY in January from an average 0.8% in 4Q12.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-2.2	-1.7	-0.3	1.2	2.1	2.9
Final Domestic Demand	YY	-4.1	-4.7	-0.7	0.9	1.7	2.1
Public Consumption		-1.6	-2.2	-1.0	0.3	0.8	1.2
Private Consumption	YY	-2.8	-3.3	-0.8	0.8	1.7	2.0
Fixed Investment	YY	-9.1	-6.1	0.0	2.0	2.8	3.2
Exports	YY	1.3	0.2	0.6	3.2	5.4	6.7
Imports	YY	-3.4	-4.7	0.2	3.5	5.7	6.7
Consumer Prices	YY	2.6	2.2	2.2	2.4	2.3	2.3
Unemployment Rate	%	8.9	9.4	10.2	10.9	11.4	11.0
Current Account Balance	% GDP	1.5	1.6	2.5	1.5	1.0	0.9
General Government Balance	% GDP	-3.9	-3.3	-2.8	-2.0	-1.0	-0.5
Government Primary Balance	% GDP	-1.8	-1.1	-0.5	0.3	1.4	1.9
General Government Debt	% GDP	53.5	58.1	61.0	62.0	61.3	61.8

Sources: National sources and Citi Research forecasts

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Our economic forecasts are little changed from last month: we continue to expect economic weakness coupled with above-target inflation (this forecast has been completed before the March 20 Budget). While underlying inflation pressures are weak, CPI inflation will probably rise to 3% YY in coming months, because of ongoing increases in prices for demand-insensitive items as well as some boost to import prices from the weaker pound. We expect the government will continue to emphasise medium-term fiscal consolidation. We expect further credit easing measures and a looser inflation target framework to allow more monetary easing, via QE and (once Carney is in place) forward rate guidance. See also [UK - Budget – Fiscal Slippage and Monetary Flexibility](#).

Sovereign Rating: With public debt/GDP ratio set to surge further, we believe S&P (which has the UK's AAA rating on Negative Outlook) will likely follow Moody's and downgrade the UK to AA+ in coming months. Longer-term, given ongoing economic weakness and with political concerns likely to mount as the 2015 election approaches, we believe rating agencies will put the UK's Aa1 back on Negative Outlook, indicating increased likelihood of a further downgrade in the years ahead.

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

		History			Forecast				History				Forecast				Forecast			
		2012	2013	2014	2012	2013	2014	2015	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.2	0.4	0.7					0.4	-0.1	0.3	0.3	0.2	0.9	0.0	0.4	0.6	0.4	0.7	1.0
	QQ SAAR								0.0	-1.5	4.0	-1.2	-0.4	1.1	0.2	0.6	0.3	0.7	1.3	1.7
Final Domestic Demand	YY	1.4	0.1	0.3					1.0	1.3	1.5	1.7	0.4	0.0	-0.1	-0.1	0.0	0.2	0.4	0.5
	QQ SAAR								4.2	1.3	0.5	0.7	-0.8	-0.3	0.1	0.6	-0.2	0.5	0.9	1.0
Private Consumption	YY	1.0	0.9	1.2					0.2	1.0	1.4	1.5	0.9	0.9	0.9	0.9	1.2	1.0	1.2	1.3
	QQ SAAR								1.9	2.0	1.1	0.9	-0.3	1.9	1.3	0.8	0.7	1.2	1.9	1.5
Public Consumption	YY	2.6	0.3	-1.4					3.7	1.7	2.1	2.9	-0.4	1.3	0.6	-0.2	-0.6	-1.3	-1.7	-1.9
	QQ SAAR								13.8	-6.2	2.2	2.6	0.0	0.5	-0.5	-1.0	-1.4	-2.4	-1.9	-1.9
Fixed Investment	YY	1.4	-3.6	-0.7					0.0	2.5	1.6	1.7	0.1	-4.6	-5.2	-4.4	-3.9	-0.7	0.8	1.1
	QQ SAAR								2.3	8.4	-2.3	-1.4	-4.1	-10.5	-4.6	2.2	-2.1	2.0	1.1	3.5
-- Business Investment	YY	4.9	-4.3	0.0					9.3	6.2	4.3	0.4	-1.4	-5.2	-6.1	-4.4	-2.5	0.3	1.2	1.0
	QQ SAAR								-5.4	2.8	7.7	-2.8	-9.5	-8.8	-1.9	2.5	-2.1	1.9	2.0	1.5
-- Construction of Private Dwellings	YY	-4.7	-3.0	-5.2					-13.3	-1.3	-4.8	1.5	4.7	-6.7	-3.1	-6.6	-9.5	-6.1	-2.8	-1.9
	QQ SAAR								-7.2	32.3	-25.0	15.2	5.2	-16.7	-12.6	-0.6	-7.0	-3.5	-0.1	3.4
Stocks (Contrib. to YY GDP Growth)		-0.2	0.0	0.0					0.1	-0.3	-0.4	-0.1	0.0	0.0	-0.3	0.1	0.2	0.0	-0.2	-0.2
Exports of Goods and Services	YY	-0.3	0.2	5.7					-0.6	0.1	1.8	-2.5	-2.8	1.1	-0.1	2.4	6.1	4.5	5.6	6.5
	QQ SAAR								-5.7	-5.1	7.0	-5.7	-6.8	11.1	2.1	4.1	7.1	4.8	6.6	7.5
Imports of Goods and Services	YY	2.0	-0.9	4.3					1.5	3.0	3.2	0.4	-2.4	-1.6	-1.0	1.3	4.9	3.8	4.1	4.3
	QQ SAAR								0.2	5.2	1.2	-4.8	-10.4	8.4	4.0	4.1	3.0	4.2	5.1	5.1
Net Exports (Contrib. to YY GDP Growth)		-1.0	0.3	0.4					-0.7	-1.1	-0.8	-1.3	-0.3	0.8	0.3	0.4	0.3	0.2	0.4	0.6
Consumer Prices	YY	2.8	3.1	2.9					3.5	2.7	2.4	2.7	2.9	3.1	3.2	3.2	3.1	2.9	2.8	2.9
Average Earnings YY	YY	1.4	1.1	1.9					0.7	1.7	1.9	1.4	1.4	0.9	0.8	1.2	1.8	1.9	2.0	2.0
Employment Growth	YY	1.2	1.5	1.1					0.2	0.9	1.8	2.0	1.8	1.5	1.4	1.2	1.2	1.1	1.2	1.1
Unemployment Rate	%	7.9	7.5	7.1					8.2	8.0	7.8	7.8	7.7	7.5	7.5	7.3	7.2	7.2	7.1	6.9
Current Account Balance	£ bn	-55.9	-69.9	-70.9					-11.8	-17.1	-12.9	-14.2	-16.3	-17.7	-17.7	-18.2	-17.5	-17.8	-17.9	-17.7
	% GDP	-3.6	-4.5	-4.4					-3.1	-4.5	-3.3	-3.7	-4.2	-4.6	-4.6	-4.6	-4.4	-4.5	-4.5	-4.4
Public Sector Net Borrowing	£ bn FY	92.0	133.3	130.0																
	% GDP	-6.0	-8.5	-8.1																
General Government Balance	% GDP	-5.8	-8.4	-8.0																
Government Primary Balance	% GDP	-2.9	-5.3	-4.7																
General Government Debt	£ bn	1387.8	1518.0	1644.7																
	% GDP	90.1	98.2	103.6																
Gross Non Oil Trading Profits	YY	2.8	-1.8	1.9					-1.3	2.5	2.7	6.1	3.3	-1.8	-6.2	-2.7	0.4	1.6	2.0	3.4
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	0.50
Ten-year Gilt Yield (Period Averages)	%	1.85	2.30	2.45					2.12	1.80	1.65	1.82	1.85	2.10	2.40	2.40	2.30	2.45	2.45	NA
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.81	0.89	0.88					0.83	0.81	0.80	0.81	0.87	0.88	0.90	0.91	0.90	0.88	0.87	0.86
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.59	1.46	1.48					1.60	1.57	1.61	1.63	1.51	1.48	1.45	1.42	1.44	1.47	1.49	1.51

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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The Swiss economy is likely to continue to outperform within Europe, with positive (albeit modest) growth and little or no inflation. Recent surveys show slightly divergent trends, with a recovery in the PMI but weaker readings for the kof indicator. On balance, we expect that Q1 GDP is up about 0.3% QoQ. CPI inflation is likely to remain slightly negative in 2013-14, reflecting in particular currency-induced weakness in prices of imported goods and services (these have fallen by a total of 7% since mid-11). The SNB is likely to maintain its CHF1.20/€ cap.

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

		History			Forecast											
		2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	1.0	1.1	1.1	1.0	0.4	1.3	1.2	0.9	1.3	1.0	1.1	1.1	1.0	1.0	1.1
Final Domestic Demand	YY	1.7	1.8	1.3	1.6	1.9	1.7	1.8	1.7	1.9	2.2	1.3	1.3	1.2	1.2	1.5
Public Consumption	YY	0.7	2.5	1.4	1.4	0.1	0.5	0.9	3.4	3.2	2.2	1.4	1.4	1.4	1.4	1.4
Private Consumption	YY	2.5	2.0	1.7	2.5	2.5	2.5	2.7	2.0	2.1	2.5	1.6	1.7	1.8	1.5	1.8
Fixed Investment	YY	0.1	0.7	0.1	-0.8	1.2	0.2	-0.3	0.1	0.8	1.6	0.4	0.2	-0.7	0.0	0.7
Exports of Goods and Services	YY	1.1	3.7	1.8	-0.8	0.0	1.8	3.3	4.1	4.3	3.9	2.7	2.0	1.7	1.8	2.0
Imports of Goods and Services	YY	2.3	4.2	2.6	2.7	1.8	1.5	3.1	3.9	4.9	4.5	3.5	2.7	2.2	2.2	3.1
Consumer Prices	YY	-0.7	-0.4	-0.4	-0.9	-1.0	-0.5	-0.3	-0.5	-0.3	-0.6	-0.2	-0.4	-0.5	-0.4	-0.3
Unemployment Rate	%	2.6	2.1	2.3	3.1	3.2	2.3	1.8	1.9	2.1	2.3	2.1	2.0	2.3	2.5	2.3
Current Account Balance	Sfr bn	75.9	76.8	73.4	17.6	21.7	19.1	17.5	18.9	21.3	18.6	17.9	18.5	20.1	17.3	17.6
	% GDP	12.8	12.8	12.0	11.9	14.7	12.8	11.8	12.7	14.2	12.3	11.8	12.1	13.1	11.3	11.4
General Government Balance	% GDP	0.5	0.4	0.4												
General Government Debt	% GDP	46.7	45.5	44.0												
SNB Rate (Annual Avge, then qtr-end)	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	0.45	0.68	0.66	0.71	0.59	0.53	0.47	0.68	0.62	0.76	0.62	0.49	0.62	0.62	NA
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.20	1.25	1.28	1.20	1.20	1.21	1.21	1.24	1.25	1.25	1.25	1.26	1.27	1.28	1.29
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.94	0.96	0.99	0.90	0.95	0.94	0.91	0.95	0.96	0.96	0.97	0.98	0.98	0.99	0.99

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

Sweden

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The improvement in sentiment indicators (albeit from very low levels) suggests that the Swedish economy is past the worst. Still, economic recovery is likely to prove protracted; until recently, economic growth has been supported by the resilience of exports and ongoing consumer leverage boom plus modest fiscal stimulus (stretching the fiscal rule a bit). This now seems to have run its course as the export slowdown sharpens, household deleveraging may be starting and continued fiscal erosion will put the fiscal rule out of reach.

With well-below trend GDP growth ahead, the government faces the dilemma of either jeopardizing its fiscal policy framework if it loosens policy too much or jeopardizing economic recovery if it stays put; if it sticks by its current fiscal rules and avoids fiscal loosening, the result is likely to be a long period of subpar growth; but if the government loosens policy to support economic recovery it probably will jeopardize its strict fiscal policy framework. We expect the government to take something of a middle way, loosening fiscal policy a bit but not enough to achieve a rapid economic rebound. The result is likely to be sub-consensus growth and, probably, a persistent albeit modest breach of its cautious fiscal rule. In turn, we see 2014 GDP growth at 1.9% YY, well below the consensus forecast of 2.6% YY.

The outlook for monetary policy is a fairly long period of ultra-low rates. Although the Riksbank appears reluctant to cut (key focus is on financial stability considerations), we continue to see one additional rate cut, likely around mid-year. This view largely rests on our forecast of two additional ECB rate cuts, the first in 2Q followed by another 25bp in 4Q. Thereafter we estimate the repo rate will be left unchanged during all of 2014. If, as we expect, stronger global growth gives Sweden a lift further ahead, the Riksbank will probably gradually raise the repo rate from 2015 and onwards.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	1.2	1.0	1.9	2.2	2.5	2.7
Final Domestic Demand	YY	2.0	1.2	1.5			
Public Consumption	YY	1.2	0.9	0.8			
Private Consumption	YY	1.7	1.7	1.8			
Fixed Investment	YY	4.1	0.1	1.6			
Exports of Goods & Services	YY	1.3	0.6	3.2			
Imports of Goods & Services	YY	0.5	0.3	1.9			
Consumer Prices	YY	0.9	0.4	1.4	1.8	2.2	2.3
Unemployment Rate	%	8.0	8.2	8.2			
Current Account Balance	% GDP	7.2	7.3	7.1	6.9	7.0	7.0
General Government Balance	% GDP	-0.5	-1.2	-1.5	-0.4	0.7	1.5
General Government Debt	% GDP	36.6	37.3	37.6	36.5	34.2	31.0
Riksbank Rate (Annual Average)	%	1.45	0.89	0.75	1.07	1.73	2.29
Ten-year Yield (Period Average)	%	1.59	1.87	1.75	2.00	2.25	2.75
EUR-SEK FX Rate (Annual Average)		8.63	8.31	8.35	8.40	8.40	8.40
USD-SEK FX Rate (Annual Average)		6.73	6.39	6.42	6.41	6.27	6.13

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; quarters of expansion have been exceeded by quarterly declines and GDP growth in 4Q 2012 was 1.3% lower than two years earlier. **Recent monthly activity data, though, suggest that the Danish economy again is expanding**, following the market contraction in 4Q 2012 (-0.9% QQ, -1.0% YY). We expect the economy gradually will return to the growth track this year, supported by households' large pent-up potential, a delayed positive contribution from public sector consumption and investment plus improved competitiveness. The recovery, though, will likely be weak as households continue to deleverage/save on the back of the housing bust; risks are substantial and tilted to the downside. They largely relate to a further slowdown in major trade partners, in particular the euro area. Following the marked contraction in 4Q GDP growth, we have cut our 2013 GDP forecast by 0.5pp to 0.4% YY.

The government has implemented expansionary fiscal policies to boost domestic demand. The reform of the early retirement system implemented last year has led to large payouts; increasing government investments and renovation of social housing, along with a so-called investment window, were also implemented last year. So far, neither appears to have had any material effect on investment activity or domestic demand. The fiscal measures have led to a substantial weakening of public finances, and Denmark looks set to reach a deficit in excess of 3% of GDP in 2012 for the first time since the start of the crisis. Already this year, however, we expect the deficit to shrink markedly, as temporary stimuli cease, while bringing forward the tax on capital pension schemes should boost fiscal revenues.

The Danish National Bank independently raised its benchmark rate, the lending rate, and the CD-rate by 10bp to 0.3% and -0.1%, respectively, in late-January, to limit the weakening pressure on the Danish krone. The hike followed several months of intervention, which picked up rather substantially in January. In turn, this has probably raised expectations of additional near-term independent interest rate hikes from DNB. Given our forecast of a 25bp cut from the ECB both in 2Q and 4Q this year, we expect the tightening from the DNB to come by not fully shadowing ECB action; we expect the lending rate to trough at 0.1% in 4Q this year, and then gradually to move higher thereafter.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.6	0.4	1.8	1.8	1.9	2.0
Final Domestic Demand	YY	0.6	1.1	1.6			
Public Consumption	YY	0.5	0.7	0.7			
Private Consumption	YY	0.5	1.0	1.7			
Fixed Investment	YY	1.3	2.3	3.0			
Exports of Goods & Services	YY	1.1	0.6	3.4			
Imports of Goods & Services	YY	2.7	1.3	3.4			
Consumer Prices	YY	2.4	1.8	1.9	1.9	2.0	2.0
Unemployment Rate	%	7.6	7.8	7.6			
Current Account Balance	% GDP	5.3	4.7	4.0	4.2	4.0	3.8
General Government Balance	% GDP	-3.8	-2.0	-1.2	-1.0	0.5	1.0
General Government Debt	% GDP	49.8	50.7	50.1	49.3	47.0	44.2
DNB Bank Rate (Annual Average)	%	0.43	0.10	0.20	0.40	0.60	1.00
Ten-year Yield (Period Average)	%	1.51	1.58	1.60	1.95	2.25	2.75

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

Sources: DNB, national statistical office and Citi Research forecasts

Norway

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Despite a marked slowdown in 4Q 2012 (driven by very weak private goods consumption), the cushion of high oil receipts and recovering private spending in early-2013 should ensure continued outperformance versus most of Europe. **While momentum has peaked, we expect mainland GDP to settle at a trend-like pace.** Activity continues to run strongest among suppliers to the petroleum sector where investments are surging, benefitting the economy both directly via increased activity and indirectly via strong income growth. Meanwhile, demand for labour in oil-related industries offsets declines in more traditional industries.

Core inflation (CPI-ATE) has hovered around 1.2% YY since May last year, a very low level for an economy operating at normal capacity. The key factors behind the weak trend are the past years' NOK appreciation and the low level of inflation internationally (imported inflation was -1.0% YY in Feb), which has intensified imported deflation. However, with wage growth in excess of 4% YY and relatively low productivity growth, inflation should edge higher, although staying below the 2.5% inflation target over the forecast horizon.

Despite trend-like growth, a positive output gap and building financial imbalances, the aim of bringing inflation back to target gained the upper hand at the March monetary policy meeting. In turn, **Norges Bank slashed its conditional interest rate path and indicated a 50% probability of a 25bp rate cut at the upcoming May 8 policy meeting.** The timing of the first rate hike was also postponed until spring 2014. Based on the relatively modest revisions to its economic forecasts, though, we find it difficult to justify the dovish rate path, and rather see it as yet another attempt from the Central Bank to weaken the NOK. In other words, Norges Bank is bringing verbal intervention closer to actions, giving a strong warning to the market. Our base case remains stable rates in the foreseeable future with the next move in rates likely to be a hike. We agree that monetary policy tightening is unlikely to take place this year, more likely around mid-2014. For a rate cut to materialize, we reckon that the Norwegian import-weighted krone (I-44) needs to strengthen above the Bank's forecast, domestic data need to continue to surprise on the negative side and/or global central banks need to cut rates further. With our forecast of two ECB rate cuts over the next six months, risks of a rate cut in Norway have clearly increased.

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

		History		Forecast			
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	2.8	2.8	3.0	2.9	2.9
Final Domestic Demand	YY	2.9	2.9	3.0			
Public Consumption	YY	1.9	2.1	2.3			
Private Consumption	YY	3.0	3.0	3.1			
Fixed Investment	YY	4.1	4.2	3.8			
Exports of Goods & Services	YY	4.2	3.5	3.0			
Imports of Goods & Services	YY	5.1	3.7	2.2			
Consumer Prices	YY	0.7	1.7	1.8	2.1	2.3	2.5
Unemployment Rate	%	3.2	3.3	3.4			
Current Account Balance	% GDP	14.2	14.5	14.9	15.2	15.4	15.0
General Government Balance	% GDP	13.6	13.2	13.0	14.0	15.5	15.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.55	1.50	1.69	2.25	2.76	3.33
Ten-year Yield (Period Average)	%	2.15	2.31	2.35	2.55	2.75	3.25
EUR-NOK FX Rate (Annual Average)		7.45	7.47	7.30	7.24	7.22	7.21
USD-NOK FX Rate (Annual Average)		5.81	5.75	5.62	5.53	5.39	5.26

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

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

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Euro Area	-0.5	-0.5	-0.3	1.1	1.3	1.4	2.5	1.7	1.5	1.4	1.4	1.3	1.2	2.6	2.5	2.5	2.5	2.5
Germany	0.9	0.8	0.8	1.8	1.9	2.0	2.0	1.6	2.3	2.1	2.0	1.9	7.0	6.8	5.7	5.6	5.5	5.5
France	0.0	-0.2	0.2	1.0	1.5	1.9	2.2	1.0	1.7	1.6	1.8	1.6	-2.4	-1.7	-0.9	-0.3	0.2	-0.1
Italy	-2.4	-1.6	-1.4	0.3	0.2	0.2	3.3	2.3	1.4	0.6	0.3	0.3	-0.6	-0.3	-0.2	-0.1	-0.2	-0.2
Spain	-1.4	-2.2	-2.1	0.8	1.6	1.3	2.4	1.8	0.7	0.8	0.7	0.6	-0.8	2.3	3.7	3.0	2.3	1.4
Greece	-6.4	-6.0	-11.2	-3.9	1.6	2.7	1.0	0.7	17.5	13.4	8.1	6.8	-4.3	-3.3	2.1	3.9	4.4	3.2
Ireland	0.4	0.7	1.9	2.4	3.1	2.9	2.7	1.3	1.4	1.6	1.6	1.6	4.5	5.8	6.7	7.5	8.3	8.9
Portugal	-3.2	-3.7	-2.8	0.0	1.1	1.0	2.8	0.3	0.5	0.5	0.6	0.5	-3.5	-0.3	1.7	2.6	2.9	3.2
Netherlands	-0.9	-1.0	0.0	1.0	1.2	1.6	2.8	2.9	1.8	1.6	1.8	1.8	9.9	9.9	9.0	9.6	9.7	9.9
Belgium	-0.2	-0.1	0.3	1.2	1.5	1.8	2.8	1.5	2.0	2.0	2.0	2.1	-0.9	-0.7	-0.8	-0.7	-0.5	0.0
Slovakia	2.0	0.7	1.6	2.7	2.9	3.4	3.6	2.2	2.5	2.6	2.6	2.6	2.3	3.6	3.3	2.6	1.4	0.0
Slovenia	-2.2	-1.7	-0.3	1.2	2.1	2.9	2.6	2.2	2.2	2.4	2.3	2.3	1.5	1.6	2.5	1.5	1.0	0.9
Austria*	0.7	0.7	1.9				2.6	2.2	1.9				1.7	2.1	1.4			
Cyprus*	-2.3	-3.5	-1.3				3.1	1.5	1.4				-6.0	-1.7	0.1			
Estonia*	3.2	3.0	4.0				4.2	3.6	3.2				-2.7	-2.3	-1.7			
Finland*	-0.1	0.3	1.2				3.2	2.5	2.2				-0.7	-0.7	-1.0			
Luxembourg*	0.2	0.5	1.6				2.9	1.7	1.6				6.3	6.7	6.1			
Denmark	-0.6	0.4	1.8	1.8	1.9	2.0	2.4	1.8	1.9	1.9	2.0	2.0	5.3	4.7	4.0	4.2	4.0	3.8
Norway	3.3	2.8	2.8	3.0	2.9	2.9	0.7	1.7	1.8	2.1	2.3	2.5	14.2	14.5	14.9	15.2	15.4	15.0
Sweden	1.2	1.0	1.9	2.2	2.5	2.7	0.9	0.4	1.4	1.8	2.2	2.3	7.2	7.3	7.1	6.9	7.0	7.0
Switzerland	1.0	1.1	1.1	1.5	1.6	1.5	-0.7	-0.4	-0.4	0.7	0.8	1.0	12.8	12.8	12.0	12.1	13.2	14.0
United Kingdom	0.2	0.4	0.7	1.7	1.8	1.7	2.8	3.1	2.9	2.9	3.1	3.0	-3.6	-4.5	-4.4	-4.2	-4.1	-3.9

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

Sources: IMF and Citi Research

Figure 20. 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	-3.4	-2.7	-2.4	-1.4	-0.9	-0.4	-0.3	0.4	0.7	1.6	2.0	2.7	92.1	94.8	93.5	92.7	91.2	89.0
Germany	0.1	-0.2	-0.2	-0.2	-0.1	0.0	2.4	1.9	1.7	1.6	1.6	1.6	82.4	81.7	80.6	78.3	76.0	73.6
France	-4.5	-3.6	-3.0	-2.4	-1.5	-0.2	-2.4	-1.5	-0.7	0.2	1.2	2.2	91.4	95.7	97.3	97.2	95.5	92.2
Italy	-3.0	-3.0	-3.2	-0.7	-0.4	-0.5	2.4	2.5	2.5	2.9	3.3	3.2	127.0	131.1	135.4	134.7	134.1	133.5
Spain	-10.2	-6.4	-5.9	-5.6	-4.8	-4.4	-7.2	-2.6	-1.6	-0.9	-0.1	0.4	84.1	94.6	104.9	108.9	111.1	113.1
Greece	-7.4	-5.7	-1.3	-0.4	2.9	4.1	-2.0	-2.3	-2.1	-1.0	2.2	5.9	159.0	179.7	401.7	360.4	293.5	80.9
Ireland	-7.9	-7.1	-4.2	-2.2	-1.5	-1.0	-4.0	-1.5	0.8	2.7	3.4	3.9	117.0	120.2	118.4	112.5	107.1	101.4
Portugal	-6.0	-5.7	-6.1	-5.2	-4.6	-4.6	-0.8	-0.5	0.9	1.5	2.2	2.9	121.9	135.2	146.9	151.8	154.0	156.2
Netherlands	-4.1	-3.8	-3.3	-1.8	-1.5	-0.5	-2.3	-1.9	-1.2	0.3	0.6	1.7	71.3	75.4	78.1	78.2	77.8	76.1
Belgium	-2.9	-2.6	-2.2	-1.4	-0.8	-0.1	-0.6	0.0	0.8	1.7	2.5	3.3	110.0	115.9	115.8	113.5	110.4	106.3
Slovakia	-5.1	-3.2	-2.9	-2.6	-2.1	-1.8	-3.6	-1.7	-1.4	-1.0	-0.6	-0.3	52.1	53.5	54.4	54.6	55.1	54.8
Slovenia	-3.9	-3.3	-2.8	-2.0	-1.0	-0.5	-1.8	-1.1	-0.5	0.3	1.4	1.9	53.5	58.1	61.0	62.0	61.3	61.8
Austria*	-3.0	-2.5	-1.8				-0.3	0.1	0.9				74.3	75.2	74.5			
Cyprus*	-5.5	-4.5	-3.8				-1.9	0.2	1.2				86.5	93.1	97.0			
Estonia*	-0.5	-0.4	0.2				-0.3	-0.2	0.4				10.5	11.8	11.3			
Finland*	-1.7	-1.5	-1.3				-0.6	-0.4	-0.1				52.4	55.1	57.1			
Luxembourg*	-1.5	-0.9	-1.3				-1.0	-0.3	-0.6				20.5	22.2	24.1			
Denmark	-3.8	-2.0	-1.2	-1.0	0.5	1.0							49.8	50.7	50.1	49.3	47.0	44.2
Norway	13.6	13.2	13.0	14.0	15.5	15.0							NA	NA	NA	NA	NA	NA
Sweden	-0.5	-1.2	-1.5	-0.4	0.7	1.5							36.6	37.3	37.6	36.5	34.2	31.0
Switzerland	0.5	0.4	0.4	0.3	0.2	-0.6							46.7	45.5	44.0	43.5	43.8	44.2
United Kingdom	-5.8	-8.4	-8.0	-7.1	-5.9	-5.2	-2.9	-5.3	-4.7	-3.5	-2.0	-1.0	90.1	98.2	103.6	106.5	108.2	109.2

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

Sources: IMF and Citi Research

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Euro Area - Citi Forecast	20-Mar-13	-0.5	-0.5	-0.3	-3.4	-2.7	-2.4	92.1	94.8	93.5
OECD Economic Outlook	27-Nov-12	-0.4	-0.1	1.3	-3.3	-2.8	-2.6	93.6	95.4	96.3
EU Commission Forecast	22-Feb-13	-0.6	-0.3	1.4	-3.5	-2.8	-2.7	93.1	95.1	95.2
IMF WEO Forecast	Jan 13 and Oct 12*	-0.4	-0.2	1.0	-3.2	-2.5	-2.0	91.4	92.4	92.2
ECB Forecast - mid-point	07-Mar-13	-0.5	-0.5	1.0						
Germany - Citi Forecast	20-Mar-13	0.9	0.8	0.8	0.1	-0.2	-0.2	82.4	81.7	80.6
OECD Economic Outlook	27-Nov-12	0.9	0.6	1.9	-0.2	-0.4	-0.7	81.8	80.4	79.3
EU Commission Forecast	22-Feb-13	0.7	0.5	2.0	0.1	-0.2	0.0	81.6	80.7	78.3
IMF WEO Forecast	Jan 13 and Oct 12*	0.9	0.6	1.4	-0.4	-0.4	-0.3	83.0	81.5	79.6
France - Citi Forecast	20-Mar-13	0.0	-0.2	0.2	-4.5	-3.6	-3.0	91.4	95.7	97.3
OECD Economic Outlook	27-Nov-12	0.2	0.3	1.3	-4.5	-3.4	-2.9	91.2	94.2	95.8
EU Commission Forecast	22-Feb-13	0.0	0.1	1.2	-4.6	-3.7	-3.9	90.3	93.4	95.0
IMF WEO Forecast	Jan 13 and Oct 12*	0.2	0.3	0.9	-4.7	-3.5	-2.8	89.9	92.1	92.9
Italy - Citi Forecast	20-Mar-13	-2.4	-1.6	-1.4	-3.0	-3.0	-3.2	127.0	131.1	135.4
OECD Economic Outlook	27-Nov-12	-2.2	-1.0	0.6	-3.0	-2.9	-3.4	127.8	130.4	132.2
EU Commission Forecast	22-Feb-13	-2.2	-1.0	0.8	-2.9	-2.1	-2.1	127.1	128.1	127.1
IMF WEO Forecast	Jan 13 and Oct 12*	-2.1	-1.0	0.5	-2.7	-1.8	-1.6	126.3	127.8	127.3
Spain - Citi Forecast	20-Mar-13	-1.4	-2.2	-2.1	-10.2	-6.4	-5.9	84.1	94.6	104.9
OECD Economic Outlook	27-Nov-12	-1.3	-1.4	0.5	-8.1	-6.3	-5.9	86.1	92.6	97.6
EU Commission Forecast	22-Feb-13	-1.4	-1.4	0.8	-10.2	-6.7	-7.2	88.4	95.8	101.0
IMF WEO Forecast	Jan 13 and Oct 12*	-1.4	-1.5	0.8	-6.9	-5.7	-4.6	90.7	96.9	100.0
Greece - Citi Forecast	20-Mar-13	-6.4	-6.0	-11.2	-7.4	-5.7	-1.3	159.0	179.7	401.7
OECD Economic Outlook	27-Nov-12	-6.3	-4.5	-1.3	-6.9	-5.6	-4.6	176.7	188.6	195.2
EU Commission Forecast	22-Feb-13	-6.4	-4.4	0.6	-6.6	-4.6	-3.5	161.6	175.6	175.2
IMF WEO Forecast	09-Oct-12	-6.0	-4.0	0.0	-7.5	-4.7	-3.4	170.7	181.8	180.2
Ireland - Citi Forecast	20-Mar-13	0.4	0.7	1.9	-7.9	-7.1	-4.2	117.0	120.2	118.4
OECD Economic Outlook	27-Nov-12	0.5	1.3	2.2	-8.1	-7.5	-5.3	117.3	121.9	122.0
EU Commission Forecast	22-Feb-13	0.7	1.1	2.2	-7.7	-7.3	-4.2	117.2	122.2	120.1
IMF WEO Forecast	09-Oct-12	0.4	1.4	2.5	-8.3	-7.5	-5.0	117.7	119.3	118.4
Portugal - Citi Forecast	20-Mar-13	-3.2	-3.7	-2.8	-6.0	-5.7	-6.1	121.9	135.2	146.9
OECD Economic Outlook	27-Nov-12	-3.1	-1.8	0.9	-5.2	-4.9	-2.9	115.5	123.0	124.5
EU Commission Forecast	22-Feb-13	-3.2	-1.9	0.8	-5.0	-4.9	-2.9	120.6	123.9	124.7
IMF WEO Forecast	09-Oct-12	-3.0	-1.0	1.2	-4.9	-4.5	-2.5	119.1	123.7	122.6
Netherlands - Citi Forecast	20-Mar-13	-0.9	-1.0	0.0	-4.1	-3.8	-3.3	71.3	75.4	78.1
OECD Economic Outlook	27-Nov-12	-0.9	0.2	1.5	-3.8	-3.0	-2.5	72.1	73.1	73.5
EU Commission Forecast	22-Feb-13	-0.9	-0.6	1.1	-4.1	-3.6	-3.6	70.8	73.8	75.0
IMF WEO Forecast	09-Oct-12	-0.5	0.4	1.4	-3.7	-3.2	-3.6	68.2	70.2	71.6
Belgium - Citi Forecast	20-Mar-13	-0.2	-0.1	0.3	-2.9	-2.6	-2.2	110.0	115.9	115.8
OECD Economic Outlook	27-Nov-12	-0.1	0.5	1.6	-2.8	-2.3	-1.7	99.0	98.7	97.7
EU Commission Forecast	22-Feb-13	-0.2	0.2	1.5	-3.0	-3.0	-3.2	99.8	100.5	101.1
IMF WEO Forecast	09-Oct-12	0.0	0.3	1.0	-3.0	-2.3	-1.5	99.0	99.4	98.6
Slovakia - Citi Forecast	20-Mar-13	2.0	0.7	1.6	-5.1	-3.2	-2.9	52.1	53.5	54.4
OECD Economic Outlook	27-Nov-12	2.6	2.0	3.4	-4.6	-2.9	-2.4	52.2	54.9	56.2
EU Commission Forecast	22-Feb-13	2.0	1.1	2.9	-4.8	-3.3	-3.4	52.4	55.1	57.1
IMF WEO Forecast	09-Oct-12	2.6	2.8	3.6	-4.8	-2.9	-2.9	46.3	47.2	47.6
Slovenia - Citi Forecast	20-Mar-13	-2.2	-1.7	-0.3	-3.9	-3.3	-2.8	53.5	58.1	61.0
OECD Economic Outlook	27-Nov-12	-2.4	-2.1	1.1	-4.3	-3.6	-3.0	53.9	58.5	61.0
EU Commission Forecast	22-Feb-13	-2.0	-2.0	0.7	-4.4	-5.1	-4.7	53.7	59.5	63.4
IMF WEO Forecast	09-Oct-12	-2.2	-0.4	1.7	-4.6	-4.4	-2.8	53.2	57.4	58.7

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

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

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

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

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Denmark - Citi Forecast	20-Mar-13	-0.6	0.4	1.8	-3.8	-2.0	-1.2	49.8	50.7	50.1
OECD Economic Outlook	27-Nov-12	0.2	1.4	1.7	-4.1	-2.1	-1.7	45.9	45.8	45.5
EU Commission Forecast	22-Feb-13	-0.4	1.1	1.7	-4.0	-2.7	-2.8	45.6	45.9	47.3
IMF WEO Forecast	09-Oct-12	0.5	1.2	1.8	-3.9	-2.0	-1.9	49.1	49.7	49.0
Norway - Citi Forecast	20-Mar-13	3.3	2.8	2.8	13.6	13.2	13.0	NA	NA	NA
OECD Economic Outlook	27-Nov-12	3.3	2.5	2.0	15.2	16.0	16.8	44.7	44.0	42.9
IMF WEO Forecast	09-Oct-12	3.1	2.4	2.0	13.4	12.5	11.3	49.6	49.6	49.6
Sweden - Citi Forecast	20-Mar-13	1.2	1.0	1.9	-0.5	-1.2	-1.5	36.6	37.3	37.6
OECD Economic Outlook	27-Nov-12	1.2	1.9	3.0	-0.3	-0.8	-0.2	37.7	37.1	36.4
EU Commission Forecast	22-Feb-13	1.0	1.3	2.7	-0.2	-0.9	-0.2	37.7	37.3	35.5
IMF WEO Forecast	09-Oct-12	1.2	2.2	2.5	-0.2	-0.2	0.2	36.6	36.7	35.6
Switzerland - Citi Forecast	20-Mar-13	1.0	1.1	1.1	0.5	0.4	0.4	46.7	45.5	44.0
OECD Economic Outlook	27-Nov-12	0.8	1.1	2.3	0.7	0.5	0.4	39.5	39.0	38.6
IMF WEO Forecast	09-Oct-12	0.8	1.4	1.8	0.5	0.5	0.8	46.6	45.5	44.1
SECO	Dec 12	1.0	1.3	2.0						
UK - Citi Forecast	20-Mar-13	0.2	0.4	0.7	-5.8	-8.4	-8.0	90.1	98.2	103.6
OECD Economic Outlook	27-Nov-12	-0.1	0.9	1.6	-6.6	-6.9	-6.0	105.3	110.4	113.9
EU Commission Forecast	22-Feb-13	0.0	0.9	1.9	-6.2	-7.2	-5.9	89.8	95.4	97.9
IMF WEO Forecast	Jan 13 and Oct 12*	-0.2	1.0	1.9	-6.3	-7.4	6.0	88.7	93.3	95.7
OBR	20-Mar-13	0.2	0.6	1.8	-6.0	-5.2	-4.3	75.9	79.2	82.6

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

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Appendix A-1

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