

European Economic Forecast Highlights

August 2013

- This companion to [Global Economic Outlook and Strategy - August 2013](#) contains detailed quarterly forecasts for the main European countries to end 2014. **Tables 20-21 give annual forecasts to 2017** for growth, inflation, short-term interest rates, current balance, fiscal balance and government debt. Table 22 shows the change in our forecasts from last month. **Figures 23-25** compare current forecasts for each country.
- **Overview:** With Q2 GDP up 0.3% QQ, the Euro economy has exited recession and we again lift our growth forecasts. We no longer expect the ECB to cut the refi rate in our base case. However, with a varied mix of sizeable fiscal deficits, falling nominal GDP and (in some cases) sizeable bank recapitalisation needs, the general government debt/GDP ratio in Q1 hit new record highs across periphery countries, up by 6.6 percentage points from a year ago in Italy, 12.6pp in Cyprus, 14.9pp in Portugal, 15.2pp in Spain, 18.3pp in Ireland and 24.0pp in Greece. Moreover, austerity fatigue is widespread amidst very high unemployment, and a series of unresolved issues need to be tackled: Will Greece need a new debt restructuring? Will Portugal need a second rescue package and will this include some restructuring of liabilities? Will Ireland be able to secure an adequate backstop once its current IMF/ESM programme is completed around year-end? Will Spain seek to extend the ESM bank recap facility into 2014? Will Italy's fragile government survive? And what does the German election on September 22 mean for these issues? See [Global Economic Outlook and Strategy](#).

Ann O'Kelly

+44-20-7986-3297
ann.okelly@citi.com

Michael Saunders

+44-20-7986-3299
michael.saunders@citi.com

Guillaume Menuet

+44-20-7986-1314
guillaume.menuet@citi.com

Giada Giani

+44-20-7986-3281
giada.giani@citi.com

Ebrahim Rahbari

+44-20-7986-6522
ebrahim.rahbari@citi.com

Tina Mortensen

+44-20-7986-3284
tina.mortensen@citi.com

Jaromir Sindel

+420-2-3306-1485
jaromir.sindel@citi.com

Antonio Montilla

+44-20-7986-3282
antonio.montilla@citi.com

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

	History	Forecast				
	2012	2013	2014	2015	2016	2017
Euro Area	0.88	0.56	0.50	0.50	0.56	0.81
Denmark	0.43	0.10	0.20	0.40	0.60	1.00
Norway	1.55	1.50	1.55	2.00	2.51	3.08
Sweden	1.45	1.00	1.00	1.31	1.73	2.29
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	1.04

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2013F	2014F	2013F	2014F
Euro Area – Citi Forecast	21-Aug-13	-0.5	0.6	1.5	1.4
OECD Economic Outlook	29-May-13	-0.6	1.1	1.5	1.2
EU Commission Forecast	03-May-13	-0.4	1.2	1.6	1.5
IMF WEO Forecast	25-Jul-13	-0.6	0.9	1.5	1.4
ECB Forecast - mid-point	06-Jun-13	-0.6	1.1	1.4	1.3
Consensus Economics	12-Aug-13	-0.6	0.9	1.5	1.5

Source: OECD, IMF, ECB, EU, Citi Research

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

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Euro Area

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

The better-than-expected 2Q GDP data, showing the first gain in seven quarters, together with the more constructive tone from recent surveys, call for **some upward adjustment in our GDP forecasts**. We raise the 2013 average by 0.2ppt to -0.5% and the 2014 average by 0.4ppt to 0.6%. We must go back to 3Q 2009 to find an upward adjustment of a similar magnitude. **We no longer expect the ECB to cut rates in Q4**, with the main refi rate and the deposit rate staying unchanged (at 0.5% and 0% respectively) for a long period. A cut in one or both interest rates could come back on the agenda in the event of a sharp strengthening of the euro or 'unwarranted' increases in market rates, but even then the authorities would probably aim to talk down the currency and rate expectations first.

Germany and France are outperforming in the upswing and net trade is showing signs of contributing to GDP growth. We continue to expect that the magnitude of upturn will likely disappoint given the many structural impediments across the euro area, including: widespread private sector deleveraging, limited credit availability, still adverse financing conditions and additional fiscal tightening. With GDP growth remaining below potential, and muted domestic demand dynamics, the excessive debt problems cannot be fixed and the large amount of excess capacity cannot be absorbed fast enough to lead to a fall in unemployment. This means that **political risk needs watching carefully**, with a particular focus on Italy. The **German elections are also an important sign-post** in late September since the Bundestag will be required to give its approval to any financial assistance programmes, either in the form of OSI in Greece, a second programme for Portugal or precautionary credit line under the ESM framework for Ireland.

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

		History			Forecast			History				Forecast							
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-0.5	-0.5	0.6				-0.1	-0.5	-0.7	-0.9	-1.1	-0.7	-0.5	0.3	0.7	0.6	0.6	0.6
	QQ SAAR							-0.2	-0.7	-0.4	-2.4	-1.1	1.1	0.4	0.7	0.6	0.6	0.7	0.6
Final Domestic Demand	YY	-1.7	-1.1	0.2				-1.2	-1.6	-1.9	-2.0	-2.0	-1.2	-0.9	-0.2	0.3	0.2	0.3	0.3
Private Consumption	YY	-1.3	-0.4	0.3				-1.1	-1.2	-1.6	-1.5	-1.3	-0.5	-0.3	0.5	0.5	0.3	0.3	0.2
Public Consumption	YY	-0.4	-0.3	-0.2				-0.2	-0.4	-0.4	-0.5	-0.5	-0.2	-0.1	-0.2	-0.1	-0.3	-0.3	-0.3
Fixed Investment	YY	-4.2	-4.0	0.6				-2.8	-4.1	-4.5	-5.3	-5.9	-4.3	-3.7	-2.1	0.1	0.4	0.8	1.0
– Business Equipment	YY	-3.5	-4.3	2.6				-1.2	-3.1	-4.3	-5.3	-6.4	-5.0	-3.8	-1.8	1.8	2.7	3.0	3.0
– Construction	YY	-4.8	-4.0	-1.6				-4.1	-5.0	-4.6	-5.4	-5.5	-3.9	-3.9	-2.8	-2.0	-1.9	-1.4	-1.0
Stocks (Contrib. to YY GDP Growth)		-0.3	0.0	0.0				-0.2	-0.5	-0.3	0.0	0.0	-0.1	0.1	0.1	0.1	0.0	0.0	-0.1
Exports of Goods and Services	YY	2.9	0.7	2.8				2.6	3.7	3.2	2.2	0.5	0.2	0.1	1.7	3.3	2.8	2.7	2.6
Imports of Goods and Services	YY	-0.7	-0.7	2.3				-0.9	-0.5	-0.8	-0.6	-1.9	-1.1	-0.7	1.1	2.9	2.3	2.1	1.9
Consumer Prices	YY	2.5	1.5	1.4				2.7	2.5	2.5	2.3	1.9	1.4	1.4	1.5	1.4	1.6	1.3	1.3
Core CPI	YY	1.5	1.2	1.0				1.6	1.6	1.5	1.5	1.5	1.2	1.2	1.1	0.9	1.0	0.9	0.9
CPI Ex Energy and Unprocessed Food	YY	1.8	1.4	1.2				1.9	1.8	1.7	1.6	1.5	1.3	1.3	1.4	1.2	1.3	1.1	1.1
Unemployment Rate	YY	11.4	12.2	12.3				10.9	11.3	11.5	11.8	12.0	12.1	12.3	12.3	12.2	12.3	12.3	12.3
Current Account Balance	€ bn	118.3	242.2	224.2															
	% GDP	1.2	2.5	2.3															
General Government Balance	€ bn	-352.7	-281.1	-241.4															
	% GDP	-3.7	-2.9	-2.5															
Primary Balance	% GDP	-0.6	0.1	0.5															
General Government Debt	€ bn	8794.6	9219.8	9549.7															
	% GDP	92.7	96.0	97.2															
Gross Operating Surplus	YY	-0.3	-0.1	0.2															
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.88	0.50	0.50				1.00	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Ten-year Bund yield (Period Avg.)	%	1.57	1.60	1.83				1.88	1.49	1.41	1.43	1.51	1.40	1.67	1.70	1.80	1.80	1.80	1.90
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.28	1.31	1.31				1.33	1.26	1.29	1.32	1.28	1.30	1.35	1.33	1.31	1.30	1.31	1.33

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

Germany

Ebrahim Rahbari
(44-20) 7986-6522
ebrahim.rahbari@citi.com

This month, we revise up our GDP growth forecasts to 0.6% and 1.7% for 2013 and 2014 (from 0.3% and 1.5%). Q2 GDP growth (0.7%QQ) came in slightly stronger than expected and recent data have also been fairly strong, notably for industrial production, suggesting positive (albeit moderating) growth into Q3. Net trade is likely to be a modest drag on growth this year, with high consumer confidence and robust wage gains lifting household spending. Business investment, which probably registered the first increase in seven quarters in Q2, also is likely to gain some momentum. Meanwhile, recent polling trends suggest that the chances of the current ruling coalition of CDU/CSU&FDP continuing in power post-election are about even with those of a grand coalition of CDU/CSU&SPD.

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

		History			Forecast				History				Forecast			
		2012	2013	2014					1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	0.9	0.6	1.7					1.3	1.1	0.9	0.3	-0.3	0.5	0.7	1.6
	QQ SAAR								2.7	-0.3	0.8	-1.8	0.0	2.9	1.8	1.5
Final Domestic Demand	YY	0.3	0.7	2.1					1.0	0.8	-0.1	-0.5	-0.5	0.5	0.9	1.8
	QQ SAAR								0.6	-1.5	0.3	-1.5	0.7	2.5	1.9	2.0
Private Consumption	YY	0.7	1.5	2.0					0.9	1.5	0.3	0.2	0.6	1.2	1.6	2.5
	QQ SAAR								1.5	0.5	0.3	-1.3	3.1	2.8	2.0	2.1
Public Consumption	YY	1.2	0.5	0.8					1.8	0.8	1.2	0.9	0.2	0.9	0.4	0.5
	QQ SAAR								2.1	-1.7	2.7	0.6	-0.6	0.8	0.8	0.8
Fixed Investment	YY	-2.0	-1.8	3.7					0.6	-1.6	-2.6	-4.3	-4.8	-2.1	-1.0	0.9
	QQ SAAR								-3.5	-7.4	-2.2	-4.2	-5.5	3.6	2.6	3.3
-- Business Equipment	YY	-4.1	-3.3	3.9					1.3	-2.8	-6.5	-8.1	-7.6	-4.5	-1.8	1.1
	QQ SAAR								-4.5	-11.6	-8.6	-7.5	-2.5	0.7	2.2	4.1
-- Construction	YY	-0.9	-1.0	3.3					-0.2	-1.2	0.0	-2.2	-3.6	-0.8	-0.6	0.9
	QQ SAAR								-2.5	-5.4	2.2	-2.9	-8.1	6.2	3.1	3.1
Stocks (Contrib. to YY GDP Growth)		-0.5	0.2	0.1					-0.2	-0.1	-0.3	0.4	-0.1	0.1	0.3	0.0
Exports of Goods and Services	YY	4.5	0.0	2.9					3.4	6.0	5.3	3.2	0.1	-0.7	-1.3	1.8
	QQ SAAR								4.9	12.9	5.7	-9.3	-7.0	9.3	2.9	2.5
Imports of Goods and Services	YY	2.6	0.3	3.8					3.3	3.4	2.3	1.4	-0.6	-0.6	0.1	2.3
	QQ SAAR								-0.7	9.4	2.5	-5.2	-8.2	9.5	5.2	3.5
Net Exports (Contrib. to YY GDP Growth)		1.1	-0.1	-0.2					0.7	0.6	0.4	-0.7	0.0	0.1	-0.2	-0.1
Consumer Prices	YY	2.0	1.7	1.9					2.1	1.9	2.0	2.0	1.5	1.5	1.9	2.0
Compensation per Employee	YY	2.8	2.8	2.6					2.5	2.7	2.9	3.2	2.9	2.9	2.7	2.6
Employment Growth	YY	1.1	0.3	0.6					1.4	1.2	1.1	0.9	0.6	0.6	-0.1	0.2
Unemployment Rate (ILO)	%	5.5	5.6	5.5					5.5	5.5	5.4	5.4	5.4	5.4	6.0	5.7
Current Account Balance	€ bn	187.7	188.0	170.2												
	% GDP	7.0	6.9	6.0												
General Government Balance	€ bn	4.1	-2.8	7.1												
	% GDP	0.2	-0.1	0.3												
Primary Balance	% GDP	2.6	2.3	2.6												
General Government Debt	€ bn	2166.3	2185.3	2164.1												
	% GDP	81.9	80.4	76.8												
Gross Trading Profits	YY	0.1	1.4	2.2					4.1	2.2	-1.9	-3.9	-4.3	-5.3	3.7	12.2

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

France

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

We raise our 2013 GDP forecasts to 0.2% from -0.2% last month after a better than expected 0.5% QQ gain in 2Q. We also lift our 2014 GDP forecast by 0.3pp to 0.8% to reflect the continued gains in recent surveys. Overall, the recovery remains fragile, with unemployment still trending up, while muted corporate profits and tax uncertainties leave many businesses in a wait-and-see mode. Coming weeks will be important for the government's ability to deliver on pension reforms: demonstrations are planned on September 10, ahead of the presentation by PM Ayrault of his plan after a final round of consultations with trade unions and employers on August 26-27. Public sector employees are also planning a day of demonstration on August 29 to vent frustration about the erosion of purchasing power.

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

		History			Forecast			History								Forecast			
		2012	2013	2014				1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.0	0.2	0.8				0.4	0.1	0.0	-0.3	-0.5	0.3	0.2	0.6	1.0	0.7	0.8	0.8
	QQ SAAR							0.1	-1.3	0.6	-0.7	-0.6	1.9	0.3	1.0	0.9	0.6	0.8	0.9
Final Domestic Demand	YY	-0.1	0.0	0.4				-0.2	0.1	-0.1	-0.2	-0.3	0.2	0.1	0.2	0.4	0.2	0.4	0.5
	QQ SAAR							0.1	-1.0	0.3	0.0	-0.5	1.1	-0.2	0.4	0.3	0.4	0.5	0.7
Private Consumption	YY	-0.3	0.3	0.5				-0.7	-0.2	-0.4	0.0	-0.4	0.5	0.4	0.5	0.6	0.4	0.5	0.4
	QQ SAAR							1.1	-2.0	0.6	0.3	-0.2	1.6	0.0	0.8	0.2	0.4	0.4	0.6
Public Consumption	YY	1.4	1.3	0.5				1.0	1.4	1.6	1.8	1.5	1.7	1.3	0.9	0.7	0.3	0.5	0.6
	QQ SAAR							2.2	1.7	1.5	1.6	1.4	2.2	0.0	0.0	0.6	0.6	0.6	0.6
Fixed Investment	YY	-1.2	-2.4	-0.1				-0.2	-0.5	-1.1	-3.0	-2.7	-2.8	-2.4	-1.7	-0.7	-0.2	0.2	0.5
	QQ SAAR							-5.2	-1.5	-2.2	-3.2	-3.8	-1.9	-0.9	-0.2	0.0	0.1	0.9	0.9
-- Businesses	YY	-1.9	-2.2	0.1				-1.7	-1.1	-1.2	-3.7	-2.9	-2.5	-2.0	-1.2	-0.3	-0.2	0.3	0.6
	QQ SAAR							-6.7	-2.2	-2.5	-3.1	-3.7	-0.4	-0.8	0.0	0.0	0.0	1.2	1.2
-- Households	YY	-0.4	-3.7	-0.4				1.3	0.2	-0.9	-2.1	-2.8	-4.4	-4.3	-3.5	-2.1	-0.3	0.2	0.5
	QQ SAAR							-3.2	-0.2	-1.4	-3.7	-5.6	-6.6	-1.2	-0.4	0.0	0.4	0.8	0.8
Stocks (Contrib. to YY GDP Growth)		-0.8	0.1	0.2				0.1	-0.1	0.0	-0.3	0.1	0.2	0.0	0.1	0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	2.5	0.9	2.2				3.6	3.2	3.1	0.3	-0.6	0.9	1.1	2.2	3.2	1.7	1.9	2.1
	QQ SAAR							1.5	1.6	0.9	-2.7	-2.1	8.1	1.6	1.6	1.6	2.0	2.4	2.4
Imports of Goods and Services	YY	-0.9	0.6	1.4				-2.4	-0.3	-0.7	-0.3	-1.0	0.6	0.8	2.3	2.4	0.8	1.1	1.3
	QQ SAAR							3.2	1.0	-0.5	-4.8	0.3	7.7	0.4	0.8	0.8	1.2	1.6	1.6
Net Exports (Contrib. to YY GDP Growth)		1.0	0.1	0.2				-0.1	0.0	0.1	0.2	-0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	2.2	1.1	1.7				2.6	2.3	2.3	1.7	1.2	0.9	1.1	1.2	1.6	1.7	1.7	1.6
Average Monthly Wages	YY	2.1	1.9	2.0															
Employment Growth (Private-Sector)	YY	-0.2	-0.5	0.6															
Unemployment Rate	%	9.8	10.8	10.9				9.5	9.8	9.9	10.1	10.4	10.7	11.0	11.0	10.9	10.9	10.9	11.0
Current Account Balance	€ bn	-44.4	-32.7	-17.1															
	% GDP	-2.2	-1.6	-0.8															
General Government Balance	€ bn	-98.2	-78.1	-67.7															
	% GDP	-4.8	-3.8	-3.2															
Primary Balance	% GDP	-2.3	-1.2	-0.6															
General Government Debt	€ bn	1833.8	1924.1	1999.0															
	% GDP	90.2	93.6	95.0															
Gross Trading Profits	YY	-0.9	0.0	1.0															

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

Italy

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Recent data suggest GDP may return to modest expansion in H2, supported by a significantly less-tight fiscal stance (partly related to repayments of government arrears). We lift our GDP forecasts by 0.4pp for 2013 and by 0.5pp for 2014, although we still expect the economy will shrink on average in both years. In 2014, additional fiscal consolidation is likely which, together with still tight financing conditions, will cap domestic demand. The fiscal deficit is re-widening and risks of political instability remain high – two risk factors for further rating actions and renewed market tensions. The political backdrop hinders scope for structural reforms and public spending cuts. We do not see the debt ratio stabilising in the next few years, and we think some form of debt restructuring (maturity lengthening and/or coupon reductions) may be likely eventually.

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

		History			Forecast			History								Forecast			
		2012	2013	2014				1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-2.4	-1.6	-0.1				-1.7	-2.4	-2.6	-2.8	-2.3	-2.0	-1.6	-0.5	0.0	0.1	0.0	-0.3
	QQ SAAR							-4.1	-2.3	-1.1	-3.7	-2.2	-1.0	0.6	0.6	-0.2	-0.4	-0.1	-0.6
Final Domestic Demand	YY	-4.7	-2.5	-0.5				-4.1	-4.7	-5.0	-4.9	-3.6	-3.0	-2.1	-1.3	-0.5	-0.4	-0.5	-0.7
	QQ SAAR							-8.4	-3.6	-4.2	-3.2	-3.5	-1.3	-0.3	0.1	-0.4	-0.9	-0.9	-0.7
Private Consumption	YY	-4.3	-2.2	-0.6				-3.4	-4.2	-4.8	-4.7	-3.4	-2.8	-1.7	-1.0	-0.6	-0.5	-0.5	-0.6
	QQ SAAR							-7.0	-3.4	-4.8	-3.3	-1.9	-1.2	-0.4	-0.4	-0.6	-0.6	-0.6	-0.6
Public Consumption	YY	-2.9	-0.1	-1.0				-2.9	-3.0	-2.8	-2.9	-0.8	-0.2	0.3	0.2	-0.3	-0.8	-1.2	-1.7
	QQ SAAR							-7.9	-2.2	-1.7	0.5	0.3	0.1	0.2	0.2	-1.7	-1.7	-1.7	-1.7
Fixed Investment	YY	-8.0	-6.2	0.3				-7.6	-8.3	-8.2	-7.8	-7.5	-7.1	-6.1	-3.9	-0.1	0.6	0.6	0.1
	QQ SAAR							-13.6	-5.6	-4.8	-7.0	-12.7	-3.6	-0.8	2.0	2.0	-0.8	-0.8	0.0
-- Business Equipment	YY	-9.6	-4.6	4.4				-8.4	-10.6	-10.3	-8.9	-8.1	-6.3	-3.9	-0.2	4.6	5.4	4.7	3.0
	QQ SAAR							-13.7	-8.2	-5.1	-8.5	-10.5	-0.7	5.1	6.1	8.1	2.3	2.2	-0.4
-- Construction	YY	-6.4	-7.6	-3.7				-6.8	-6.0	-6.1	-6.7	-7.0	-7.8	-8.2	-7.4	-4.6	-4.0	-3.5	-2.9
	QQ SAAR							-13.5	-3.0	-4.4	-5.5	-14.7	-6.2	-6.2	-2.0	-3.9	-3.9	-3.9	0.4
Exports of Goods and Services	YY	2.2	-0.4	2.6				2.1	2.5	2.5	1.8	-0.2	-0.5	-0.4	-0.5	2.3	3.1	2.7	2.3
	QQ SAAR							0.0	2.4	4.5	0.2	-7.3	1.0	4.8	0.0	3.3	4.5	3.1	-1.6
Imports of Goods and Services	YY	-7.8	-3.1	1.8				-8.9	-7.5	-8.1	-6.7	-5.2	-4.5	-1.9	-0.8	1.7	2.5	1.7	1.2
	QQ SAAR							-12.4	-2.9	-6.9	-4.4	-6.4	0.0	3.6	-0.1	3.2	3.2	0.6	-2.2
Net Exports (Contrib. to YY GDP Growth)		2.8	0.7	0.3				3.2	2.8	3.0	2.4	1.4	1.1	0.4	0.1	0.2	0.3	0.4	0.4
Consumer Prices	YY	3.3	1.5	1.3				3.6	3.6	3.4	2.6	2.1	1.3	1.2	1.7	1.4	1.7	1.3	0.9
Compensation per Employee	NA	NA	NA																
Employment Growth		-0.3	-1.4	-0.5															
Unemployment Rate	%	10.7	12.3	12.6															
Current Account Balance	€ bn	-8.4	22.0	32.5															
	% GDP	-0.5	1.4	2.1															
General Government Balance	€ bn	-47.6	-55.2	-47.5															
	% GDP	-3.0	-3.5	-3.0															
Primary Balance	% GDP	2.5	1.9	2.3															
General Government Debt	€ bn	1989	2075	2148															
	% GDP	127.0	132.8	136.6															

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

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Antonio Montilla
(44-20) 7986-3282
antonio.montilla@citi.com

We are lifting our growth forecasts for 2013 (by 0.3pp to -1.4%) and 2014 (by 0.7pp to -0.2%), reflecting better Q2 data, reduced fiscal drag and lower inflation. We still think, however, that the ongoing internal adjustments (private deleveraging, fiscal balance and housing) together with tight financing conditions are likely to leave the economy with almost no growth until early 2015. We see 2013 fiscal deficit (net of bank recap costs) narrowing marginally to 6.5% of GDP, while extra bank recap needs may also emerge. The debt ratio keeps rising and we think that some form of debt restructuring (maturity extensions/coupon reductions) may be likely eventually.

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

		History			Forecast			History								Forecast							
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-1.4	-1.4	-0.2				-0.7	-1.4	-1.6	-1.9	-2.0	-1.7	-1.4	-0.5	-0.1	-0.1	-0.2	-0.4	-0.1	-0.1	-0.2	-0.4
	QQ SAAR							-1.7	-1.6	-1.3	-3.2	-2.1	-0.4	0.0	0.5	-0.4	-0.5	-0.3	-0.3	-0.4	-0.5	-0.3	-0.3
Final Domestic Demand	YY	-4.0	-3.7	-1.1				-3.2	-3.8	-4.2	-4.8	-5.0	-4.4	-3.5	-1.8	-1.5	-1.1	-1.0	-0.9	-1.5	-1.1	-1.0	-0.9
	QQ SAAR							-1.8	-5.3	-4.3	-7.7	-2.8	-2.7	-0.9	-0.8	-1.6	-0.9	-0.7	-0.5	-1.6	-0.9	-0.7	-0.5
Private Consumption	YY	-2.2	-2.6	-0.6				-1.3	-2.2	-2.1	-3.0	-3.9	-3.2	-2.6	-0.6	-0.7	-0.4	-0.5	-0.7	-0.7	-0.4	-0.5	-0.7
	QQ SAAR							2.1	-4.3	-2.1	-7.6	-1.5	-1.5	0.4	0.4	-2.0	-0.5	0.0	-0.2	-2.0	-0.5	0.0	-0.2
Government Consumption	YY	-3.7	-3.6	-2.0				-3.8	-2.8	-4.0	-4.1	-4.3	-4.5	-2.5	-3.0	-2.2	-2.0	-2.0	-1.7	-2.2	-2.0	-2.0	-1.7
	QQ SAAR							-4.2	-1.2	-9.8	-1.0	-4.7	-2.4	-2.1	-2.9	-1.6	-1.6	-2.0	-1.6	-1.6	-1.6	-2.0	-1.6
Fixed Investment	YY	-9.1	-7.0	-1.8				-7.4	-9.2	-9.7	-10.3	-9.0	-7.6	-7.3	-4.1	-3.2	-1.9	-1.3	-0.9	-3.2	-1.9	-1.3	-0.9
	QQ SAAR							-9.4	-11.9	-4.9	-14.6	-4.4	-6.3	-3.4	-2.2	-0.7	-1.4	-1.1	-0.5	-0.7	-1.4	-1.1	-0.5
-- Business Equipment	YY	-4.5	-2.2	3.7				-3.2	-4.4	-4.4	-6.2	-4.8	-3.2	-3.6	3.0	2.9	3.6	3.9	4.2	2.9	3.6	3.9	4.2
	QQ SAAR							-0.5	-6.1	4.7	-20.8	5.4	0.6	2.6	3.4	5.2	3.2	3.8	4.4	5.2	3.2	3.8	4.4
-- Construction	YY	-11.5	-9.7	-5.1				-9.5	-11.6	-12.5	-12.4	-11.3	-10.1	-9.3	-8.0	-6.7	-5.2	-4.5	-4.1	-6.7	-5.2	-4.5	-4.1
	QQ SAAR							-13.8	-14.8	-9.8	-10.9	-9.5	-10.1	-6.8	-5.4	-4.3	-4.2	-4.2	-3.7	-4.3	-4.2	-4.2	-3.7
Exports of Goods and Services	YY	3.0	3.3	1.9				2.1	2.7	4.2	3.2	4.5	3.9	1.3	3.4	5.9	5.0	3.4	3.4	5.9	5.0	3.4	3.4
	QQ SAAR							-9.9	7.3	21.8	-3.7	-5.2	4.9	10.0	4.5	4.1	1.6	3.4	4.3	4.1	1.6	3.4	4.3
Imports of Goods and Services	YY	-5.0	-3.1	4.4				-5.9	-5.2	-3.4	-5.4	-5.1	-4.0	-4.3	1.0	2.7	2.8	0.8	1.3	2.7	2.8	0.8	1.3
	QQ SAAR							-7.7	-5.2	11.3	-17.9	-6.5	-0.8	10.1	1.7	0.3	-0.4	1.6	3.9	0.3	-0.4	1.6	3.9
Net Exports (Contrib. to YY GDP Growth)		2.4	1.9	0.9				2.4	2.3	2.3	2.6	2.8	2.4	1.7	0.8	1.1	0.8	0.9	0.7	1.1	0.8	0.9	0.7
Consumer Prices	YY	2.4	1.8	0.9				1.9	1.9	2.8	3.2	2.8	1.8	1.5	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Compensation per Employee	YY	0.3	-0.4	NA																			
Employment Growth	YY	-4.5	-3.6	-2.4				-3.9	-4.9	-4.6	-4.8	-4.6	-3.7	-3.5	-2.7	-2.5	-2.6	-2.4	-2.2	-2.5	-2.6	-2.4	-2.2
Unemployment Rate	%	25.0	26.6	27.6				24.4	24.6	25.0	26.0	27.2	26.3	26.1	26.8	27.8	27.4	27.2	27.9	27.8	27.4	27.2	27.9
Current Account Balance	€ bn	-11.5	12.0	21.5																			
	% GDP	-1.1	1.2	2.0																			
General Government Balance	€ bn	-111.6	-67.4	-61.7																			
	% GDP	-10.6	-6.5	-5.9																			
Primary Balance	% GDP	-7.7	-3.1	-2.2																			
General Government Debt	€ bn	883.9	978.2	1084.2																			
	% GDP	84.2	93.6	103.2																			

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

Greece

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Recent data suggest the recession may be less deep than we expected, and hence we have revised up our GDP forecasts by 0.6pp (to -4.4%) in 2013 and by 0.4pp (to -3.9%) in 2014. Nevertheless, the bailout programme probably is off-track again, due to shortfalls in privatisation revenues and poor tax collection. Major uncertainties lie ahead, with key discussions on further public debt restructuring likely before year-end. A large debt relief from official lenders would probably be the only viable (but politically painful) option to restore fiscal sustainability. We still think risks of Greece leaving the euro remain high, although this is not our base case.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-4.4	-3.9	-2.3	0.6	1.3
Final Domestic Demand	YY	-9.7	-7.0	-5.3	-4.3	-0.6	0.5
Private Consumption	YY	-9.1	-7.1	-5.2	-4.7	-1.0	0.6
Public Consumption	YY	-4.0	-3.5	-4.6	-3.7	-0.2	0.1
Fixed Investment	YY	-19.0	-11.3	-6.8	-3.1	0.5	1.3
Exports of Goods and Services	YY	-2.0	1.3	1.5	2.0	2.9	3.0
Imports of Goods and Services	YY	-9.3	-4.1	-3.6	-4.8	-1.2	0.4
Consumer Prices	YY	1.0	-0.4	-0.9	-0.6	0.2	0.3
Unemployment Rate	%	24.1	28.3	31.2	33.6	34.2	33.9
Current Account Balance	€ bn	-6.5	-0.7	1.3	2.3	6.3	8.3
	% GDP	-3.4	-0.4	0.8	1.4	3.9	5.0
General Government Balance	€ bn	-19.4	-9.5	-8.2	-6.0	-3.9	-1.6
	% GDP	-10.0	-5.3	-4.9	-3.7	-2.4	-1.0
Primary Balance	% GDP	-5.0	-1.2	-0.7	-0.2	1.3	2.8
General Government Debt	€ bn	303.9	323.4	333.6	343.1	350.5	355.6
	% GDP	156.9	179.3	196.8	210.2	214.5	215.7

Note: We assume sovereign debt restructuring in 2017.
Percentage changes unless indicated. Annual data are period averages.
Sources: Bank of Greece, ECB, Eurostat and Citi Research forecasts

Portugal

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

The strong Q2 GDP print (+1.1% QQ) and gains in other monthly indicators are behind the revision of our GDP forecasts to -1.9% for 2013 and -0.9% for 2014 (versus -3.0% and -1.4% last month). The reduction in fiscal tightening will likely cause more overshooting of budget targets and a smaller likelihood of a smooth exit from the bailout programme in mid-14. More fiscal austerity will be necessary over the next couple of years, especially if (as we expect) a second bailout programme is agreed. With about half of the debt in official hands, we think some further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may eventually occur to restore debt sustainability.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-1.9	-0.9	0.2	1.1	1.2
Final Domestic Demand	YY	-6.9	-4.1	-2.8	-0.9	0.6	0.8
Private Consumption	YY	-5.6	-3.3	-1.8	-0.2	0.7	0.8
Public Consumption	YY	-4.4	-1.6	-2.5	-1.1	0.6	0.4
Fixed Investment	YY	-14.5	-10.1	-7.4	-3.7	0.0	1.2
Exports	YY	3.3	4.6	3.5	3.2	3.6	3.6
Imports	YY	-6.6	-2.0	-1.1	0.8	2.8	3.1
Consumer Prices	YY	2.8	0.6	0.2	-0.2	0.3	0.5
Unemployment Rate	%	15.7	16.8	17.3	18.3	18.3	18.2
Current Account Balance	€ bn	-2.6	1.9	5.1	5.8	5.8	6.4
	% GDP	-1.5	1.2	3.2	3.6	3.6	3.9
General Government Balance	€ bn	-10.6	-9.8	-9.2	-7.4	-6.4	-5.7
	% GDP	-6.4	-6.0	-5.7	-4.6	-3.9	-3.4
Primary Balance	% GDP	-2.0	-1.6	-1.3	0.0	0.8	1.5
General Government Debt	€ bn	204.5	218.1	243.7	251.0	257.5	263.2
	% GDP	123.8	133.6	151.1	155.2	157.0	157.9

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

Ireland

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

Ireland's economy slipped back into renewed recession from Q2-2012 to Q1-2013, but recent data suggest that period of decline is over. Industrial production surged 3.5% QoQ (non annualised) in Q2, the strongest gain since Q1-2010 with a strong gain in new orders as well (up 6.4% QoQ). In all, we estimate that real GDP rose 1.0% QoQ in Q2, and we are lifting our forecast for the full year from minus 0.2% to plus 0.2%. The public debt/GDP ratio is likely to peak this year, but decline will be slow and this ratio will probably remain above 100% for many years to come.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	0.1	0.2	2.5	2.3	2.7	3.0
Real GNP	YY	1.8	4.4	1.9	1.7	2.1	2.4
Final Domestic Demand	YY	-1.1	-1.9	-0.4	-0.7	-0.6	-0.6
Private Consumption	YY	-0.3	-0.8	0.5	-0.2	-0.3	-0.3
Public Consumption	YY	-3.8	-2.0	-1.6	-0.7	0.0	0.0
Fixed Investment	YY	-0.7	-7.0	-2.7	-3.5	-3.5	-3.3
Exports of Goods and Services	YY	1.6	-0.6	7.0	5.3	5.6	5.9
Imports of Goods and Services	YY	0.0	1.7	3.6	3.4	3.7	3.9
Net Trade		1.7	0.1	4.8	3.1	3.3	3.6
GDP Deflator	YY	0.7	-0.4	1.4	1.6	1.6	1.6
Nominal GDP	YY	0.8	-0.2	3.9	4.0	4.3	4.7
House Prices	YY	-12.8	-0.8	1.2	1.0	1.0	2.1
Unemployment Rate	%	14.7	13.5	13.3	13.0	12.8	12.9
Employment	YY	-0.6	1.1	-0.1	-0.2	-0.3	0.1
Current Account Balance	€ bn	7.3	7.5	12.0	13.8	15.7	18.0
	% GDP	4.4	4.6	7.1	7.8	8.5	9.3
General Government Balance	€ bn	-12.5	-13.5	-9.1	-6.0	-5.0	-4.6
	% GDP	-7.6	-8.2	-5.4	-3.4	-2.7	-2.4
Primary Balance	% GDP	-3.9	-3.2	-0.3	1.7	2.4	2.7
General Government Debt	€ bn	192.8	202.2	206.0	209.4	214.1	217.9
	% GDP	118.6	124.6	122.2	119.4	117.1	113.8

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

Netherlands

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

Dutch 2Q GDP matched our expectations, showing a drop of 0.2% QQ, leaving the level of economic activity 1.8% lower than in the same quarter last year. Domestic demand contributed nothing to GDP, a situation consistent with the continued increase in the jobless rate (up to 8.7% in July versus 6.5% a year ago). With house prices expected to fall further in the rest of 2013, it is difficult to envisage any gains in consumer spending much before the start of the 2H-14, although better performance from large trading partners may support Dutch exports. We anticipate a clearer recovery only during 2014, coming from better investment trends.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-1.3	-1.3	0.3	0.9	1.2	1.6
Final Domestic Demand	YY	-1.8	-2.9	-0.2	0.3	0.4	0.8
Private Consumption	YY	-1.6	-2.0	-0.3	0.4	0.5	0.8
Public Consumption	YY	-0.7	-0.9	-0.6	0.0	0.3	0.7
Fixed Investment (ex Stocks)	YY	-4.0	-8.2	0.4	0.4	0.7	1.1
Stocks (Contrib. to YY GDP Growth)		0.2	-0.3	0.0	0.1	0.1	0.1
Exports of Goods and Services	YY	3.2	1.2	1.4	2.4	3.1	3.5
Imports of Goods and Services	YY	3.3	-1.4	0.8	2.0	2.7	3.1
Net Exports (Contrib. to YY GDP Growth)		0.2	2.1	0.7	0.6	0.7	0.8
Consumer Prices	YY	2.8	3.0	1.9	1.5	1.8	1.6
Unemployment Rate	%	6.4	8.3	8.8	8.9	8.3	7.2
Current Account Balance	€ bn	60.5	57.0	55.0	60.0	62.0	65.0
	% GDP	10.1	9.4	8.9	9.4	9.5	9.6
General Government Balance	€ bn	-24.4	-23.7	-21.3	-18.2	-15.2	-9.8
	% GDP	-4.1	-3.9	-3.4	-2.9	-2.3	-1.4
Primary Balance	% GDP	-2.2	-2.0	-1.4	-0.8	-0.3	0.6
General Government Debt	€ bn	427.5	454.6	472.8	487.9	503.1	512.9
	% GDP	71.3	74.9	76.2	76.8	76.9	75.9

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

Belgium

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

We leave our forecast for Belgium unchanged. 2Q GDP rose by 0.1% QQ after a flat reading in Q1, leaving the YY rate at -0.1% vs. -0.6% YY in 1Q. Sentiment surveys have been improving throughout 2Q and the July survey suggests that the gradual uptrend continued into the third quarter. Economic activity should improve gradually thanks to the better performance in Germany and France. Nevertheless, we expect Belgium to underperform compared to France, given the strong focus on budget consolidation after some criticism from the European Commission in June. The main catalyst for investors remains the 2014 May 25 legislative elections.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.3	-0.2	0.4	1.0	1.4	1.6
Final Domestic Demand	YY	-0.5	-0.7	0.0	0.8	1.3	1.6
Private Consumption	YY	-0.3	-0.1	-0.2	0.5	0.9	1.1
Public Consumption	YY	0.4	0.2	0.3	0.7	1.1	1.5
Fixed Investment (ex Stocks)	YY	-0.6	-3.0	0.4	2.0	2.6	3.0
Exports of Goods and Services	YY	0.7	-1.1	2.2	3.5	3.9	4.3
Imports of Goods and Services	YY	0.5	-1.6	2.2	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.3	1.9	1.8	1.9	1.9
Unemployment Rate	%	7.6	8.7	9.3	9.4	9.1	8.5
Current Account Balance	€ bn	-6.0	-7.7	-6.3	-3.9	-0.9	2.2
	% GDP	-1.6	-2.0	-1.6	-1.0	-0.2	0.5
General Government Balance	€ bn	-14.9	-12.2	-11.3	-8.5	-6.2	-5.8
	% GDP	-3.9	-3.2	-2.9	-2.1	-1.5	-1.3
Primary Balance	% GDP	-0.5	0.4	0.7	1.5	2.0	2.1
General Government Debt	€ bn	375.4	389.6	402.2	410.7	416.9	422.7
	% GDP	99.8	102.3	103.3	102.5	100.4	98.3

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

Sources: BNB, Belgostat and Citi Research forecasts

Slovakia

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

We slightly increased our GDP forecast to 0.8% in 2013 (0.5% previously) and 1.8% next year reflecting a better outlook for foreign demand and better-than-expected GDP growth in 2Q13. Our forecast is on average close to MinFin's estimate of 0.5% and 2.2% GDP growth in 2013 and 2014 respectively. GDP growth accelerated to 0.3% QQ in 2Q13 from 0.2% a quarter ago, probably driven by a larger contribution from net exports after exports accelerated in 2Q13. GDP accelerated despite industrial production easing its quarterly gain to 0.9% QQ in 2Q13 from 1.1% a quarter ago and retail sales slumping to 0.5% from 1.8%. This was probably offset by a milder contraction in the construction sector, where output fell by only 1.8% QQ in 2Q13 after -4.3% a quarter ago. As result GDP slightly accelerated its YY growth to 0.9% YY. In contrast to the GDP data, employment decreased by 0.4% QQ and widened its YY contraction to -1.2%.

Our forecast of milder GDP gains in 2H13 (0.3% cumulatively) reflects weaker prospects for industry. We expect industrial output growth to decelerate to 0.9% YY in 3Q13 from 2.3% in 2Q13 despite improved July confidence in manufacturing as the quarterly survey shows evidence of weaker export orders and capacity use. However, sentiment indicators improved in July in almost all sectors excluding the retail sector. The largest improvement was in consumer confidence which rose above its long-term average to a level last seen in April 2012. Retail confidence worsened in July, however, which puts at risk the recent recovery in retail sales.

Debt manager ARDAL decided to stop issuance of bonds in August for the second consecutive month. ARDAL has already 90% covered the MinFin's gross borrowing requirement. As a result, ARDAL plans partial buybacks of bonds maturing in 2014, when the total maturity of bonds is €3.8bn (of which €1bn is syndicate bond). We think the main reason behind this decision is the government effort to avoid breaching its 57% debt-to-GDP ratio as this would require balancing the budget next year. July's central government cash deficit slightly eased its narrowing compared to previous year. The year-to-date deficit reached €1.63bn in July 2013, narrower by €613mn compared with the same period in 2012. Having said this, government finances are still increasing their chances of meeting the deficit goal of €-3bn in 2013 (-4.2% of GDP) after a 12m cumulative figure of around -4.5% in July. The primary deficit has narrowed to 3% of GDP from -3.7% a year ago. However, the seasonal pattern still suggests the risk of a wider deficit in the range of 4.4%-4.6% of GDP. The government plan envisages the deficit at -€2.8bn (-3.7% of GDP) in 2014 and -€2.7bn (-3.4%) in 2015.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	2.0	0.8	1.8	2.4	2.9	3.4
Final Domestic Demand	YY	-1.4	-1.5	1.6	2.5	3.4	3.6
Private Consumption	YY	-0.6	-0.3	0.8	1.8	2.7	3.0
Public Consumption	YY	-0.6	0.2	0.1	1.5	2.0	2.0
Fixed Investment	YY	-3.7	-5.4	4.3	5.1	6.0	6.0
Exports	YY	8.6	3.1	4.1	5.9	6.0	6.5
Imports	YY	2.8	0.8	3.8	5.4	6.4	7.5
Consumer Prices	YY	3.6	1.7	1.9	2.7	2.7	2.7
Unemployment Rate	%	13.6	14.6	14.8	14.2	13.4	13.4
Current Account Balance	% GDP	2.2	3.6	3.0	2.8	1.8	0.4
General Government Balance	% GDP	-4.3	-3.4	-3.2	-2.6	-2.1	-1.8
Government Primary Balance	% GDP	-2.9	-2.0	-1.7	-1.1	-0.6	-0.3
General Government Debt	% GDP	52.1	55.3	56.1	56.3	55.7	55.2

Sources: National sources and Citi Research forecasts

Slovenia

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

We decided to keep our GDP forecast unchanged reflecting contending factors. While industrial output further eased its YY contraction to -0.6% in June and construction to -11.3% (both slightly better than we expected), exports decreased, although this may reflect temporary distortions from a drop in the number of working days. July's sentiment indicator remains stable, with slightly worse confidence in manufacturing, while services show some improvement. Though external demand prospects are improving, we think that the announcement of complex banking stress test results by the end of 2013 is likely to keep uncertainties high, with negative consequences for domestic demand.

Will Slovenia be able to manage the resolution of its banking sector without the external assistance? The transfer of bad loans from three systemically important banks into the consolidation bank BAMC was postponed to October from the end of June as the EC requires a deeper asset quality review (AQR) and stress test first. Though this transfer of bad loans seems to be still manageable according to schedule, the recapitalization requirements could be larger once the complex AQR and stress test are published by the end of 2013. The longer it takes to resolve the banking sector issues, the later Slovenian government will likely be able to return to financial markets to build up its financing reserve for 2014. We expect this reserve to be depleted by end of 3Q14 (assuming no rollover of t-bills), but this scenario suggests total government deposits will drop below €2bn after 1Q14, which would be the lowest value since 2009.

We estimate the 12m cumulative deficit of the central government at 4.2% of GDP in July this year. While this is wider compared with 3.9% a year ago, it has actually narrowed from 4.4% a month ago. This monthly improvement reflects a narrower primary current balance at -1.2% of GDP from -1.4% a month and also a year ago (this balance excludes interest, capital and EU-related expenditure, revenues and transfers). This shows that a previous worsening of the deficit reflected a temporarily slightly wider deficit related to capital and EU flows, but particularly larger interest expenditures that increased to 2.1% of GDP (12m cumulative) in July this year from -1.6% a year ago. Interest rate expenditure has on average increased by 25% YY in the previous four years. Hence, the sooner the banking sector issues are solved (in our view, even at the cost of lower revenue from privatization of systemic banks), the better it will be for the flexibility of fiscal policy and for easing of political tensions owing to a probable easing in the necessity of cuts to current expenditures.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-2.2	-2.2	-0.3	1.1	2.1	2.9
Final Domestic Demand	YY	-3.8	-2.9	0.1	1.5	1.8	2.1
Private Consumption	YY	-2.8	-4.2	-0.1	1.2	1.7	2.0
Public Consumption		-1.6	-0.5	-0.6	0.8	1.1	1.2
Fixed Investment	YY	-9.1	-2.1	1.4	3.0	2.8	3.2
Exports	YY	1.3	2.9	2.1	3.4	5.4	6.7
Imports	YY	-4.3	2.6	2.6	3.8	5.7	6.7
Consumer Prices	YY	2.6	2.3	2.8	2.3	2.2	2.2
Unemployment Rate	%	8.9	10.2	11.1	12.0	12.5	12.1
Current Account Balance	% GDP	2.3	2.2	3.2	2.9	3.2	3.8
General Government Balance	% GDP	-4.0	-9.1	-6.6	-3.2	-2.4	-1.5
Government Primary Balance	% GDP	-1.9	-6.4	-3.7	-0.4	0.6	1.4
General Government Debt	% GDP	54.1	63.3	68.3	69.0	68.3	67.0

Sources: National sources and Citi Research forecasts

United Kingdom

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

With the upturn in housing, consumer spending and exports, we again lift our UK growth forecasts. We expect Q3 growth to stay around the Q2 pace (0.6% QQ) and now forecast growth of 1.1% for 2013 as a whole, 2.1% in 2014 and 2.7% in 2015, (0.9%, 1.3% and 1.8% respectively last month – since January, we have lifted our UK growth forecasts by 0.7% for 2013, and by 1.4% for both 2014 and 2015). Nevertheless, absent clear risks of inflation or financial instability, the MPC's guidance framework indicates the MPC will not even contemplate tightening until the jobless rate falls to 7% – which we believe will probably take until about 2017. This reflects scope for a cyclical productivity rebound, greater use of under-employed labour, plus strong labour supply growth. UK labour supply is likely to continue to be lifted by high inflows of foreign workers, rising participation rates among the over 50s and tightening benefit standards. More than two thirds of the growth in employment over the past year is accounted for by people born outside the UK, and the potential supply of foreign workers is large given EU labour mobility, relatively high UK pay levels, and large availability of non-UK English speakers.

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

		History			Forecast				History				Forecast			
		2012	2013	2014	2012	2013	2014		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	0.1	1.1	2.1					0.6	-0.1	0.1	0.0	0.2	1.4	1.2	1.8
	QQ SAAR								0.0	-2.3	3.2	-0.8	0.8	2.4	2.3	1.8
Final Domestic Demand	YY	1.4	0.7	1.5					2.2	1.0	1.5	0.9	0.0	0.4	0.9	1.6
	QQ SAAR								5.7	-0.7	0.1	-1.2	1.8	0.9	2.2	1.4
Private Consumption	YY	1.2	1.9	1.8					0.7	1.1	1.5	1.5	1.5	1.7	2.3	2.1
	QQ SAAR								1.2	1.2	1.3	2.2	1.2	2.3	3.5	1.5
Public Consumption	YY	2.8	1.1	-0.6					2.9	1.8	3.1	3.4	0.8	2.0	1.2	0.5
	QQ SAAR								11.3	-3.6	3.5	3.2	0.4	1.0	0.5	0.0
Fixed Investment	YY	0.5	-5.9	3.8					8.3	-0.4	-0.9	-4.7	-8.3	-7.7	-6.5	-0.8
	QQ SAAR								17.5	-8.2	-6.4	-18.4	0.6	-5.5	-1.4	3.4
-- Business Investment	YY	1.8	-11.6	4.6					18.5	-0.7	0.1	-8.8	-16.5	-12.6	-13.3	-2.8
	QQ SAAR								35.5	-28.8	7.9	-35.9	-6.7	-1.0	-4.8	2.4
-- Construction of Private Dwellings	YY	-3.4	12.0	3.0					-2.2	-2.1	-3.4	-5.8	15.6	8.7	10.4	13.6
	QQ SAAR								-27.0	24.9	-7.8	-6.1	65.5	-2.4	-2.1	5.2
Stocks (Contrib. to YY GDP Growth)		-0.4	0.2	0.2					-0.4	-0.5	-1.1	0.7	0.4	0.5	0.1	-0.2
Exports of Goods and Services	YY	0.9	2.2	6.4					-1.4	3.4	4.2	-2.4	-0.8	2.8	1.7	5.0
	QQ SAAR								-6.8	-2.3	7.8	-7.6	-0.5	12.9	3.0	5.1
Imports of Goods and Services	YY	2.8	0.9	5.1					1.8	4.1	3.7	1.5	-0.9	0.8	0.8	2.9
	QQ SAAR								1.6	6.4	2.5	-4.1	-7.7	13.8	2.4	4.4
Net Exports (Contrib. to YY GDP Growth)		-0.9	0.2	0.3					-1.2	-0.6	-0.3	-1.6	-0.2	0.5	0.1	0.4
Consumer Prices	YY	2.8	2.6	2.0					3.5	2.7	2.4	2.7	2.8	2.7	2.6	2.2
Average Earnings YY	YY	1.4	0.6	1.3					0.7	1.7	1.9	1.3	0.9	0.4	0.3	0.8
Employment Growth	YY	1.2	0.8	0.8					0.2	0.9	1.8	2.1	1.5	1.0	0.5	0.2
Unemployment Rate	%	7.9	8.0	8.0					8.2	8.0	7.8	7.8	7.8	7.8	8.1	8.1
Current Account Balance	£ bn	-57.7	-53.4	-48.8					-11.9	-16.7	-15.1	-14.0	-14.5	-12.8	-13.0	-13.1
	% GDP	-3.7	-3.3	-2.9					-3.0	-4.3	-3.9	-3.6	-3.6	-3.2	-3.2	-3.2
Public Sector Net Borrowing	£ bn FY	89.4	103.1	89.3												
	% GDP	-5.7	-6.3	-5.2												
General Government Balance	% GDP	-6.3	-6.9	-5.8												
Government Primary Balance	% GDP	-2.7	-3.2	-2.1												
General Government Debt	£ bn	1387.4	1501.9	1621.0												
	% GDP	89.5	93.3	96.7												
Gross Non Oil Trading Profits	YY	4.5	11.4	9.8					0.7	0.5	4.9	10.3	11.4	15.6	8.3	9.1
Base Rate (Period Average)	%	0.50	0.50	0.50					0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Ten-year Gilt Yield (Period Averages)	%	1.85	2.15	2.89					2.12	1.80	1.65	1.82	2.02	1.92	2.62	2.70
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.81	0.86	0.88					0.83	0.81	0.80	0.81	0.85	0.86	0.87	0.87
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.58	1.54	1.50					1.60	1.57	1.61	1.63	1.52	1.52	1.55	1.52

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

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

The conditions that prompted the SNB to adopt its exchange rate cap have now partly faded. EMU sovereign spreads have fallen sharply, CPI inflation is no longer negative and the economy is growing steadily. We are lifting our 2013 growth forecast to 1.7% from 1.5%. Nevertheless, we expect the SNB will continue to resist FX appreciation for some time to come. First, core inflation, which excludes food, drink, tobacco and energy, remains slightly down YoY (minus 0.2% YoY in June). Second, the economy has ample slack to allow growth without creating domestic inflation pressures. Third, the strong CHF and weakening EM growth pose serious headwinds, especially for Switzerland's top-end consumer goods industries.

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

		History			Forecast			History					Forecast					
		2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14		
Real GDP	YY	1.0	1.7	1.5	1.0	0.4	1.3	1.2	1.4	1.8	1.9	1.8	1.6	1.7	1.4	1.5		
Final Domestic Demand	YY	1.7	1.7	1.2	1.5	1.8	1.7	1.7	1.6	1.9	2.2	1.2	1.3	0.9	1.0	1.5		
Private Consumption	YY	2.5	2.4	1.6	2.4	2.4	2.5	2.8	2.5	2.5	2.9	1.9	1.6	1.5	1.4	1.9		
Public Consumption	YY	0.5	1.0	1.4	1.5	0.0	0.3	0.4	1.6	1.5	0.7	0.1	1.4	1.4	1.4	1.4		
Fixed Investment	YY	-0.2	0.0	-0.1	-1.0	1.0	0.1	-0.7	-0.9	0.2	0.8	-0.1	0.3	-1.1	-0.3	0.6		
Exports of Goods and Services	YY	1.1	1.1	3.7	-0.6	0.0	1.7	3.4	1.6	1.0	1.5	0.4	2.6	4.1	3.8	4.2		
Imports of Goods and Services	YY	2.1	-0.1	3.4	2.5	2.0	1.3	2.6	0.0	-0.1	0.1	-0.6	2.1	3.1	3.6	4.9		
Consumer Prices	YY	-0.7	-0.2	0.3	-0.9	-1.0	-0.5	-0.3	-0.4	-0.4	-0.3	0.3	0.1	0.4	0.2	0.3		
Unemployment Rate	%	2.6	1.8	1.7	3.1	3.2	2.3	1.8	1.9	1.9	2.0	1.6	1.6	1.7	1.8	1.5		
Current Account Balance	Sfr bn	75.9	78.8	81.6	17.6	21.7	19.1	17.5	17.4	21.8	19.8	19.8	19.8	22.1	19.4	20.3		
	% GDP	12.8	12.9	13.0	12.0	14.7	12.8	11.8	11.6	14.3	12.9	12.8	12.8	14.1	12.4	12.8		
General Government Balance	% GDP	0.5	0.7	0.9														
General Government Debt	% GDP	46.7	45.3	43.3														
SNB Rate (Annual Avg, then qtr-end)	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Ten-year Yield (Period Average)	%	0.64	0.82	1.00	0.71	0.59	0.53	0.47	0.64	0.65	1.03	0.95	1.03	1.03	1.03	1.10		
EUR-CHF FX Rate (Annual Avg, then qtr-end)		1.20	1.24	1.26	1.20	1.20	1.21	1.21	1.22	1.23	1.25	1.25	1.25	1.25	1.26	1.27		
USD-CHF FX Rate (Annual Avg, then qtr-end)		0.94	0.94	0.96	0.90	0.95	0.94	0.91	0.95	0.94	0.93	0.94	0.95	0.96	0.96	0.95		

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

Sweden

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

After a growth recovery in early 2013, GDP fell 0.1% QQ in 2Q. However, the ongoing large positive growth contribution from inventories – which is somewhat surprising given both the business cycle and the large decline in imports – suggests that underlying demand may be even weaker than implied by headline GDP. It is important, though, to keep in mind that the 2Q GDP flash estimate is based on a smaller data set than for other quarters (as is the case every year), and, hence, can be subject to revisions at a later stage. Statistics Sweden publishes the 2Q flash estimate in order to provide information to assist the government in preparing its autumn budget bill. In other words, complete inventories data are not included in the preliminary data release. Nevertheless, economic recovery is likely to be weak in a historical perspective; exports look set to stay weak, household deleveraging risks are increasing and ongoing fiscal erosion limits the size of fiscal easing.

Inflation pressure continues to be very low, with CPI inflation around zero and underlying CPIF inflation (CPI excluding interest rates) at 1.0% YY. Most indications are that inflation will remain low during the next 1-2 years; high unemployment, modest wage growth and a steady decline in import prices support the view. The Riksbank is weighing low inflation and capacity utilization against financial stability considerations (high household debt burden and rising house prices). Although the Central Bank, so far, has appeared reluctant to ease monetary policy further, additional macro prudential measures should free the Riksbank's hands somewhat, in our view. At the July policy meeting, the Riksbank kept the conditional interest rate path unchanged and, in turn, confirmed its near-term easing bias. Hence, the Bank keeps an option to cut in September open in case the economy disappoints or inflation declines more than forecast. Even if these factors would support easing, a September rate cut is unlikely given the strong focus on financial stability considerations among the majority board (unlikely to go away as we see signs of recovery in the housing market).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	1.1	1.0	2.2	2.5	2.5	2.9
Final Domestic Demand	YY	1.9	0.6	1.8			
Private Consumption	YY	1.6	1.7	1.9			
Public Consumption	YY	1.1	1.0	0.7			
Fixed Investment	YY	3.9	-2.7	3.0			
Exports of Goods & Services	YY	1.3	-2.3	2.8			
Imports of Goods & Services	YY	0.5	-2.6	2.0			
Consumer Prices	YY	0.9	0.1	1.0	1.8	2.2	2.3
Unemployment Rate	%	8.0	8.3	8.2			
Current Account Balance	% GDP	6.9	7.1	6.9	6.7	6.8	6.7
General Government Balance	% GDP	-0.6	-1.5	-1.5	-0.4	0.7	1.5
General Government Debt	% GDP	38.4	39.4	39.8	38.5	36.1	32.8
Riksbank Rate (Annual Avg.)	%	1.45	1.00	1.00	1.31	1.73	2.29
Ten-year Yield (Period Average)	%	1.59	2.00	2.23	2.30	2.55	2.80
EUR-SEK FX Rate (Annual Average)		8.63	8.71	8.81	8.65	8.49	8.33
USD-SEK FX Rate (Annual Average)		6.77	6.63	6.71	6.43	6.29	6.17

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

Denmark

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

The Danish economy has balanced on the edge of recession since mid-2010. GDP growth contracted 0.4% YY last year and economic activity remains sluggish. Given the substantial setback in 4Q12, the economy entered 2013 at a lower level than previously assumed. Coupled with very weak exports and stagnant domestic spending, this indicates barely any growth this year. Our forecast assumes that economic activity gradually will improve, driven by stronger domestic demand. However, recovery will be weak as households continue to deleverage/save on the back of the housing bust, and risks are substantial and tilted to the downside. They largely relate to a further slowdown in major trade partners, in particular the euro area, and renewed house price declines. **The government has implemented a string of economic reforms** to boost domestic demand (increased government investment and lower income taxes) and to improve the supply side of the economy (labour market reforms, changes to the unemployment and social security benefit system, lower corporate tax and indirect company tax cuts). So far, there appears to have been little material effect, however, we reckon the reforms should make the fundamental structure of the economy better positioned to benefit from economic recovery once the cycle turns. However, **the easing of fiscal policy is nearing an end**, with government estimates suggesting that recent years' initiatives will boost economic growth by 0.3pp this year, while having a slightly tightening effect in 2014. The fiscal measures led to a substantial weakening of public finances in 2012; however, this year the deficit should shrink markedly, as temporary stimuli cease while bringing forward the tax on capital pension schemes should boost fiscal revenues. **The Danish National Bank only partly shadowed ECB action in May, cutting the lending rate by 10bp to 0.20%**, while keeping its other interest rates unchanged. This reflected a reasonable stable development in EUR/DKK with the Danish krone trading only marginally stronger than the central parity, at the same time as the lending rate already was close to zero prior to the rate announcement. The DNB had also said that *"With low monetary policy rates, the room for further reduction of Denmark's Nationalbank's lending rate is limited. The lending rate will remain positive"*. In other words, the Bank is saving some of its ammunition. The DNB has not intervened in the foreign-exchange market in Feb-Jun, suggesting that the currency is trading around satisfactory levels versus the euro, and that the next independent interest rate move is unlikely to happen in the very short term.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.4	0.1	0.7	1.4	1.5	1.5
Final Domestic Demand	YY	0.4	-0.1	0.7			
Private Consumption	YY	0.5	0.5	0.7			
Public Consumption	YY	0.7	-0.5	0.4			
Fixed Investment	YY	-0.1	-0.9	1.0			
Exports of Goods & Services	YY	0.2	-1.3	1.5			
Imports of Goods & Services	YY	1.0	1.2	1.4			
Consumer Prices	YY	2.4	0.9	1.5	1.7	1.8	1.9
Unemployment Rate	%	7.5	7.5	7.4			
Current Account Balance	% GDP	6.7	5.3	4.7	4.2	4.0	3.8
General Government Balance	% GDP	-4.3	-2.0	-1.5	-1.0	0.5	1.0
General Government Debt	% GDP	45.8	47.4	47.8	47.4	45.4	42.9
DNB Bank Rate (Annual Avg)	%	0.43	0.10	0.20	0.40	0.60	1.00
Ten-year Yield (Period Avg)	%	1.51	1.66	1.75	1.95	2.25	2.75

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

Norway

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

Mainland GDP (excl. oil/gas and shipping) expanded by a trend-like pace of 0.7% QQ in 1Q 2013 (in seasonally-adjusted terms), about the same pace as in the first three quarters of 2012, but markedly up from the meagre 0.2% QQ gain in 4Q 2012. Meanwhile, growth was revised down in the first half of 2012, and the year-on-year rate eased from 2.6% in 4Q 2012 to 2.3% in 1Q 2013. With survey indicators pointing to a near-term slowdown, we expect to see slightly below-trend growth this year (0.5% QQ in 2Q). Nevertheless, vigorous activity in the petroleum sector and construction industry plus recovering private spending should ensure continued Norwegian outperformance versus most of Europe.

With below-target inflation and no apparent near-term triggers for a pick-up (wage growth below pace compatible with 2.5% inflation target, moderating economic activity and higher unemployment) plus high lending margins, Norges Bank turned even more dovish at the June monetary policy meeting and lowered its conditional interest rate path, now signalling a 50% probability of a September rate cut. Given concerns over weaker-than-expected cost pressures in the Norwegian economy and lower domestic capacity utilization (assessed to be “close to a normal level” vs. above previously), the Bank cut its inflation forecasts significantly and now only sees inflation at 1.9% by end-2016 – well below the 2.5% inflation target. Financial stability concerns, though, weigh increasingly more in the interest rate decisions and, with a weaker-than-projected NOK, we doubt Norges Bank will cut rates in the near term. But, should the NOK strengthen again (or the economy slow further), the question will re-emerge. We do not, however, expect economic indicators to disappoint on the low side ahead of the 19 September meeting; the Central Bank now forecast virtually stable capacity utilization and roughly unchanged inflation over coming months, which basically reflects our assessment of the economy.

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

		History		Forecast			
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	2.2	2.6	2.8	2.7	2.7
Final Domestic Demand	YY	2.8	2.5	2.9			
Private Consumption	YY	3.1	3.0	3.1			
Public Consumption	YY	1.6	2.1	2.0			
Fixed Investment	YY	3.8	1.6	3.9			
Exports of Goods & Services	YY	3.4	2.1	2.5			
Imports of Goods & Services	YY	4.2	1.7	3.9			
Consumer Prices	YY	0.7	1.7	1.5	1.8	1.9	2.3
Unemployment Rate	%	3.2	3.6	3.6			
Current Account Balance	% GDP	14.2	14.5	14.9	15.2	15.4	15.0
General Government Balance	% GDP	13.8	13.1	13.0	14.0	15.5	15.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Avg)	%	1.55	1.50	1.56	2.00	2.51	3.08
Ten-year Yield (Period Avg)	%	2.15	2.45	2.63	2.75	3.00	3.25
EUR-NOK FX Rate (Annual Average)		7.48	7.84	7.81	7.52	7.34	7.18
USD-NOK FX Rate (Annual Average)		5.82	5.96	5.96	5.59	5.44	5.32

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

Sources: Norges Bank, Statistics Norway and Citi Research forecasts

Figure 20. Long-Term Forecasts – GDP, CPI and Current Balance, 2012-14F

	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	0.6	0.9	1.3	1.5	2.5	1.5	1.4	1.3	1.4	1.3	1.2	2.5	2.3	2.3	2.3	2.3
Germany	0.9	0.6	1.7	1.6	1.5	1.4	2	1.7	1.9	1.9	1.8	1.8	7	6.9	6	5.4	4.9	4.7
France	0	0.2	0.8	0.9	1.4	1.9	2.2	1.1	1.7	1.4	1.7	1.4	-2.2	-1.6	-0.8	-0.2	0.3	0
Italy	-2.4	-1.6	-0.1	0.1	0.4	0.7	3.3	1.5	1.3	0.7	0.3	0.4	-0.5	1.4	2.1	2.2	2.3	2.5
Spain	-1.4	-1.4	-0.2	0.5	1.3	1.5	2.4	1.8	0.9	0.7	0.5	0.5	-1.1	1.2	2	3	3.6	4.1
Greece	-6.4	-4.4	-3.9	-2.3	0.6	1.3	1	-0.4	-0.9	-0.6	0.2	0.3	-3.4	-0.4	0.8	1.4	3.9	5
Ireland	0.1	0.2	2.5	2.3	2.7	3	0.7	-0.4	1.4	1.6	1.6	1.6	4.4	4.6	7.1	7.8	8.5	9.3
Portugal	-3.2	-1.9	-0.9	0.2	1.1	1.2	2.8	0.6	0.1	-0.3	0.4	0.7	-1.5	1.2	3.2	3.6	3.6	3.9
Netherlands	-1.3	-1.3	0.3	0.9	1.2	1.6	2.8	3	1.9	1.5	1.8	1.6	10.1	9.4	8.9	9.4	9.5	9.6
Belgium	-0.3	-0.2	0.4	1	1.4	1.6	2.8	1.3	1.9	1.8	1.9	1.9	-1.6	-2	-1.6	-1	-0.2	0.5
Slovakia	2.0	0.8	1.8	2.4	2.9	3.4	3.6	1.7	1.9	2.7	2.7	2.7	2.2	3.6	3.0	2.8	1.8	0.4
Slovenia	-2.2	-2.2	-0.3	1.1	2.1	2.9	2.6	2.3	2.8	2.3	2.2	2.2	2.3	2.2	3.2	2.9	3.2	3.8
Austria*	0.8	0.5	1.7				2.6	2.0	1.5				1.8	2.4	2.9			
Cyprus**	-2.4	NA	NA				3.1	NA	NA				-4.9	NA	NA			
Estonia*	3.2	1.5	3.6				4.2	3.4	2.9				-1.2	-3.0	-2.6			
Finland*	-0.2	0.0	1.7				3.2	2.6	2.4				-1.9	-1.6	-0.9			
Luxembourg*	0.3	0.8	1.7				2.9	1.8	1.7				5.6	4.1	5.5			
Denmark	-0.4	0.1	0.7	1.4	1.5	1.5	2.4	0.9	1.5	1.7	1.8	1.9	6.7	5.3	4.7	4.2	4	3.8
Norway	3.3	2.2	2.6	2.8	2.7	2.7	0.7	1.7	1.5	1.8	1.9	2.3	14.2	14.5	14.9	15.2	15.4	15
Sweden	1.1	1	2.2	2.5	2.5	2.9	0.9	0.1	1	1.8	2.2	2.3	6.9	7.1	6.9	6.7	6.8	6.7
Switzerland	1	1.7	1.5	1.7	1.8	1.5	-0.7	-0.2	0.3	1.2	1.2	1	12.8	12.9	13	12.9	14	14
United Kingdom	0.1	1.1	2.1	2.7	2.8	2.9	2.8	2.6	2	2.1	2	2	-3.7	-3.3	-2.9	-2.7	-2.6	-2.5

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

Figure 21. Long-Term Forecasts – Fiscal Balance, Primary Balance, and Government Debt, 2012-17F

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Euro Area	-3.7	-2.9	-2.5	-1.9	-1.6	-1.2	-0.6	0.1	0.5	1.1	1.5	1.8	92.7	96.0	97.2	97.1	96.8	95.4
Germany	0.2	-0.1	0.3	0.5	0.5	0.8	2.6	2.3	2.6	2.6	2.6	2.8	81.9	80.4	76.8	73.6	71.0	68.4
France	-4.8	-3.8	-3.2	-2.8	-2.4	-1.8	-2.3	-1.2	-0.6	-0.2	0.2	0.8	90.2	93.6	95.0	95.8	95.3	94.2
Italy	-3	-3.5	-3	-2.8	-2.7	-2.4	2.5	1.9	2.3	2.6	2.8	3.0	127.0	132.8	136.7	138.9	140.3	140.8
Spain	-10.6	-6.5	-5.9	-4.6	-3.7	-3.1	-7.7	-3.1	-2.2	-0.6	0.4	1.2	84.2	93.6	103.2	106.7	108.2	108.7
Greece	-10	-5.3	-4.9	-3.7	-2.4	-1	-5.0	-1.2	-0.7	-0.2	1.3	2.8	156.9	179.3	196.8	210.1	214.5	215.7
Ireland	-7.6	-8.2	-5.4	-3.4	-2.7	-2.4	-3.9	-3.2	-0.3	1.7	2.4	2.7	118.6	124.6	122.2	119.4	117.1	113.8
Portugal	-6.4	-6	-5.7	-4.5	-3.9	-3.4	-2.0	-1.6	-1.3	0.0	0.8	1.5	123.8	133.6	151.1	155.2	156.9	157.9
Netherlands	-4.1	-3.9	-3.4	-2.9	-2.3	-1.4	-2.2	-2.0	-1.4	-0.8	-0.3	0.6	71.3	74.9	76.2	76.8	76.9	75.9
Belgium	-3.9	-3.2	-2.9	-2.1	-1.5	-1.3	-0.5	0.4	0.7	1.5	2.0	2.1	99.8	102.3	103.3	102.5	100.4	98.3
Slovakia	-4.3	-3.4	-3.2	-2.6	-2.1	-1.8	-2.9	-2.0	-1.7	-1.1	-0.6	-0.3	52.1	55.3	56.1	56.3	55.7	55.2
Slovenia	-4.0	-9.1	-6.6	-3.2	-2.4	-1.5	-1.9	-6.4	-3.7	-0.4	0.6	1.4	54.1	63.3	68.3	69.0	68.3	67.0
Austria*	-2.5	-2.3	-1.7				-0.3	-0.2	0.3				73.5	75.3	75.5			
Cyprus**	-5.6	NA	NA				NA	NA	NA				86.2	NA	NA			
Estonia*	-0.3	0.0	0.3				1.2	0.9	1.0				10.1	11.4	10.8			
Finland*	-2.3	-2.3	-1.8				-2.5	-2.6	-2.1				53.1	56.0	59.7			
Luxembourg*	-0.8	-0.7	-0.6				-1.1	-1.0	-0.9				20.8	22.8	24.4			
Denmark	-4.3	-2	-1.5	-1	0.5	1							45.8	47.4	47.8	47.4	45.4	42.9
Norway	13.8	13.1	13	14	15.5	15							NA	NA	NA	NA	NA	NA
Sweden	-0.6	-1.5	-1.5	-0.4	0.7	1.5							38.4	39.4	39.8	38.5	36.1	32.8
Switzerland	0.5	0.7	0.9	0.8	0.8	-0.6							46.7	45.3	43.3	42.3	42.0	41.8
United Kingdom	-6.3	-6.9	-5.8	-4.7	-2.8	-1.4	-2.7	-3.2	-2.1	-0.9	1.1	2.7	89.5	93.3	96.7	98.0	97.0	94.2

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

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

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Euro Area		0.2	0.4			0.1					0.1	-0.2
Germany		0.3	0.2		0.2	-0.3		0.2	0.6		0.4	0.2
France		0.4	0.3		0.1	0.1					0.1	0.4
Italy		0.4	0.5					-0.3	-0.3			0.2
Spain		0.3	0.7		0.1			0.2	0.2			0.1
Greece		0.6	0.4					0.3	0.4		0.2	
Ireland		0.4	0.3					-2.9	-3.1		0.2	0.3
Portugal		1.1	0.5		-0.2	-0.2		0.2	0.2			
Netherlands		-0.1	0.1		0.2	0.2					-0.1	
Belgium					0.1							
Slovakia		0.3	0.1					0.3				
Slovenia					-0.4	-0.1			-0.1			
Denmark			0.1				0.5					
Norway		-0.2	-0.1									
Sweden		-0.2	0.2									
Switzerland		0.2	0.3		0.1	0.4		0.1	0.6		0.1	0.3
United Kingdom		0.2	0.8			-0.2		0.1	0.4		0.2	0.5

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Euro Area - Citi Forecast	21-Aug-13	-0.5	-0.5	0.6	-3.7	-2.9	-2.5	92.7	96.0	97.2
OECD Economic Outlook	29-May-13	-0.5	-0.6	1.1	-3.7	-3.0	-2.5	92.8	95.4	96.3
EU Commission Forecast	03-May-13	-0.6	-0.4	1.2	-3.7	-2.9	-2.8	92.7	95.5	96.0
IMF Article IV consultation	25-Jul-13	-0.6	-0.6	0.9	-3.7	-3.1	-2.6	92.8	95.9	96.5
ECB Forecast - mid-point	06-Jun-13	-0.5	-0.6	1.1						
Germany - Citi Forecast	21-Aug-13	0.9	0.6	1.7	0.2	-0.1	0.3	81.9	80.4	76.8
OECD Economic Outlook	29-May-13	0.9	0.4	1.9	0.2	-0.2	0.0	81.9	80.6	77.8
EU Commission Forecast	03-May-13	0.7	0.4	1.8	0.2	-0.2	0.0	81.9	81.1	78.6
IMF Article IV consultation	07-Aug-13	0.9	0.3	1.3	0.1	-0.4	-0.1	81.9	81.3	79.3
France - Citi Forecast	21-Aug-13	0.0	0.2	0.8	-4.8	-3.8	-3.2	90.2	93.6	95.0
OECD Economic Survey	29-May-13	0.0	-0.3	0.8	-4.9	-4.0	-3.5	90.7	94.5	97.2
EU Commission Forecast	03-May-13	0.0	-0.1	1.1	-4.8	-3.9	-4.2	90.2	94.0	96.2
IMF Article IV consultation	05-Aug-13	0.0	-0.2	0.8	-4.8	-3.9	-3.5	90.2	93.5	95.0
Italy - Citi Forecast	21-Aug-13	-2.4	-1.6	-0.1	-3.0	-3.5	-2.8	127.0	132.8	136.7
OECD Economic Survey	29-May-13	-2.4	-1.8	0.4	-2.9	-3.0	-2.3	127.0	131.7	134.3
EU Commission Forecast	03-May-13	-2.4	-1.3	0.7	-3.0	-2.9	-2.5	127.0	131.4	132.2
IMF WEO Forecast	09-Jul-13	-2.4	-1.8	0.7	-3.0	-2.6	-2.3	127.0	130.6	130.8
Spain - Citi Forecast	21-Aug-13	-1.4	-1.4	-0.2	-10.6	-6.5	-5.9	84.2	93.6	103.2
OECD Economic Outlook	29-May-13	-1.4	-1.7	0.4	-10.6	-6.9	-6.4	84.1	91.4	97.0
EU Commission Forecast	03-May-13	-1.4	-1.5	0.9	-10.6	-6.5	-7.0	84.2	91.3	96.8
IMF Article IV consultation	02-Aug-13	-1.4	-1.6	0.0	-10.5	-6.7	-5.9	84.0	92.0	98.0
Greece - Citi Forecast	21-Aug-13	-6.4	-4.4	-3.9	-10.0	-5.3	-4.9	156.9	179.3	196.8
OECD Economic Outlook	29-May-13	-6.4	-4.8	-1.2	-10.0	-4.1	-3.5	157.0	175.1	180.6
EU Commission Forecast	03-May-13	-6.4	-4.2	0.6	-10.0	-3.8	-2.6	156.9	175.2	175.0
IMF Article IV consultation	31-Jul-13	-6.4	-4.2	0.6	-6.3	4.1	-3.2	157.0	176.0	174.0
Ireland - Citi Forecast	21-Aug-13	0.1	0.2	2.5	-7.6	-8.2	-5.4	118.6	124.6	122.2
OECD Economic Outlook	29-May-13	0.9	1.0	1.9	-7.5	-7.5	-4.6	117.6	123.6	120.7
EU Commission Forecast	03-May-13	0.9	1.1	2.2	-7.6	-7.5	-4.3	117.6	123.3	119.5
IMF WEO Forecast	16-Apr-13	0.9	1.1	2.2	-7.7	-7.5	-4.5	117.1	122.0	120.2
Portugal - Citi Forecast	21-Aug-13	-3.2	-1.9	-0.9	-6.4	-6.0	-5.7	123.8	133.6	151.1
OECD Economic Outlook	29-May-13	-3.2	-2.7	0.2	-6.4	-6.4	-5.6	123.6	127.7	132.1
EU Commission Forecast	03-May-13	-3.2	-2.3	0.6	-6.4	-5.5	-4.0	123.6	123.0	124.3
IMF Seventh Review	13-Jun-13	-3.2	-2.3	0.6	-4.9	-5.5	-4.0	123.6	122.9	124.2
Netherlands - Citi Forecast	21-Aug-13	-1.0	-1.3	0.3	-4.1	-3.9	-3.4	71.3	74.9	76.2
OECD Economic Outlook	29-May-13	-1.0	-0.9	0.7	-4.0	-3.7	-3.6	71.1	72.8	74.2
EU Commission Forecast	03-May-13	-1.0	-0.8	0.9	-4.1	-3.6	-3.6	71.2	74.6	75.8
IMF Article IV consultation	10-May-13	-1.0	-0.5	1.1	-4.1	-3.4	-3.7	71.7	74.5	75.8
Belgium - Citi Forecast	21-Aug-13	-0.3	-0.2	0.4	-3.9	-3.2	-2.9	99.8	102.3	103.3
OECD Economic Survey	29-May-13	-0.3	0.0	1.1	-4.0	-2.6	-2.3	99.8	100.4	100.2
EU Commission Forecast	03-May-13	-0.2	0.0	1.2	-3.9	-2.9	-3.1	99.6	101.4	102.1
IMF Article IV consultation	17-May-13	-0.2	0.2	1.2	-3.9	-2.5	-2.0	99.6	100.3	99.9
Slovakia - Citi Forecast	21-Aug-13	2.0	0.8	1.8	-4.3	-3.4	-3.2	52.1	55.3	56.1
OECD Economic Outlook	29-May-13	2.0	0.8	2.0	-4.3	-2.6	-2.2	52.1	54.4	55.8
EU Commission Forecast	03-May-13	2.0	1.0	2.8	-4.3	-3.0	-3.1	52.1	54.6	56.7
IMF Article IV consultation	15-Aug-13	2.0	0.6	2.3	-4.3	-2.9	-3.8	52.1	55.3	57.5
Slovenia - Citi Forecast	21-Aug-13	-2.2	-2.2	-0.3	-4.0	-9.1	-6.6	54.1	63.3	68.3
OECD Economic Survey	29-May-13	-2.3	-2.3	0.1	-4.0	-7.8	-3.4	54.1	63.8	68.1
EU Commission Forecast	03-May-13	-2.3	-2.0	-0.1	4.0	-5.3	-4.9	54.1	61.0	66.5
IMF WEO Forecast	16-Apr-13	-2.3	-2.0	1.5	-3.2	-6.9	-4.3	52.6	68.8	71.7

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

Figure 24. Euro Area Countries – Economic Forecasts Compared, 2012-14F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	0.8	0.5	1.7	-2.5	-2.3	-1.7	73.5	75.3	75.5
EU Commission Forecast	03-May-13	0.8	0.6	1.8	-2.5	-2.2	-1.8	73.4	73.8	73.7
IMF WEO Forecast	16-Apr-13	0.8	0.8	1.6	-2.5	-2.2	-1.5	73.7	74.2	73.7
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	-2.4	-8.7	-3.9	-6.3	-6.5	-8.4	85.8	109.5	124.0
IMF WEO Forecast	16-Apr-13	-2.4	--	--	-5.6	--	--	86.2	--	--
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	3.2	1.5	3.6	-0.3	0.0	0.3	10.1	11.4	10.8
EU Commission Forecast	03-May-13	3.2	3.0	4.0	-0.3	-0.3	0.2	10.1	10.2	9.6
IMF WEO Forecast	16-Apr-13	3.2	3.0	3.2	-0.2	0.4	0.4	8.5	9.7	9.1
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	-0.2	0.0	1.7	-2.3	-2.3	-1.8	53.1	56.0	59.7
EU Commission Forecast	03-May-13	-0.2	0.3	1.0	-1.9	-1.8	-1.5	53.0	56.2	57.7
IMF WEO Forecast	16-Apr-13	-0.2	0.5	1.2	-1.7	-2.0	-1.3	53.3	56.9	58.4
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	0.3	0.8	1.7	-0.8	-0.7	-0.6	20.8	22.8	24.4
EU Commission Forecast	03-May-13	0.3	0.8	1.6	-0.8	-0.2	-0.4	20.8	23.4	25.2
IMF WEO Forecast	16-Apr-13	0.1	0.1	1.3	-1.9	-1.0	-1.3	21.1	23.3	25.7
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	0.8	1.4	1.8	-3.3	-3.7	-3.6	72.1	73.9	74.9
IMF Article IV Consultation	12-Jul-13	0.8	1.3	1.8	-3.3	-3.5	-3.5	72.1	73.7	74.2

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

Figure 25. Selected European Countries – Economic Forecasts Compared, 2012-14F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Denmark - Citi Forecast	21-Aug-13	-0.4	0.1	0.7	-4.3	-2.0	-1.5	45.8	47.4	47.8
OECD Economic Outlook	29-May-13	-0.5	0.4	1.7	-4.1	-1.8	-1.8	45.7	45.5	45.2
EU Commission Forecast	03-May-13	-0.5	0.7	1.7	-4.0	-1.7	-2.7	45.8	45.0	46.4
IMF WEO Forecast	16-Apr-13	-0.6	0.8	1.3	-4.4	-2.8	-2.3	50.1	51.8	52.4
Norway - Citi Forecast	21-Aug-13	3.3	2.2	2.6	13.8	13.1	13.0	NA	NA	NA
OECD Economic Outlook	29-May-13	3.2	1.3	3.0	13.9	12.3	11.8	34.6	41.3	53.2
IMF WEO Forecast	16-Apr-13	3.0	2.5	2.2	13.8	12.3	11.1	34.1	34.1	34.1
Sweden - Citi Forecast	21-Aug-13	1.1	1.0	2.2	-0.6	-1.5	-1.5	38.4	39.4	39.8
OECD Economic Outlook	29-May-13	1.2	1.3	2.5	-0.7	-1.6	-1.1	38.2	42.1	42.1
EU Commission Forecast	03-May-13	0.8	1.5	2.5	-0.5	-1.1	-0.4	38.2	40.7	39.0
IMF WEO Forecast	16-Apr-13	1.2	1.0	2.2	-0.4	-0.8	-0.5	38.0	37.7	36.5
Switzerland - Citi Forecast	21-Aug-13	1.0	1.7	1.5	0.5	0.7	0.9	46.7	45.3	43.3
OECD Economic Outlook	29-May-13	1.0	1.4	2.0	0.7	0.7	0.6	43.8	43.1	42.3
IMF WEO Forecast	16-Apr-13	1.0	1.3	1.8	0.3	0.2	0.5	49.1	48.3	46.7
UK - Citi Forecast	21-Aug-13	0.1	1.1	2.1	-6.3	-6.9	-5.8	89.5	93.3	96.7
OECD Economic Outlook	29-May-13	0.3	0.8	1.5	-6.5	-7.1	-6.5	90.0	93.9	97.9
EU Commission Forecast	03-May-13	0.3	0.6	1.7	-6.3	-6.8	-6.3	90.0	95.5	98.7
IMF Article IV Consultation	17-Jul-13	0.2	0.9	1.5	-7.5	-6.0	-6.4	88.2	91.7	97.1
OBR	20-Mar-13	0.2	0.6	1.8	-6.0	-5.2	-4.3	75.9	79.2	82.6

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

Notes

Notes

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd

Ann O'Kelly; Michael Saunders; Guillaume Menuet; Giada Giani; Ebrahim Rahbari; Tina Mortensen; Antonio Montilla

Citibank Europe plc Czech Republic

Jaromir Sindel

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A., Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A.,

Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2013 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on

a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
