

Euro Economics Weekly

Portugal: “Clean Exit” or Precautionary Credit Line?

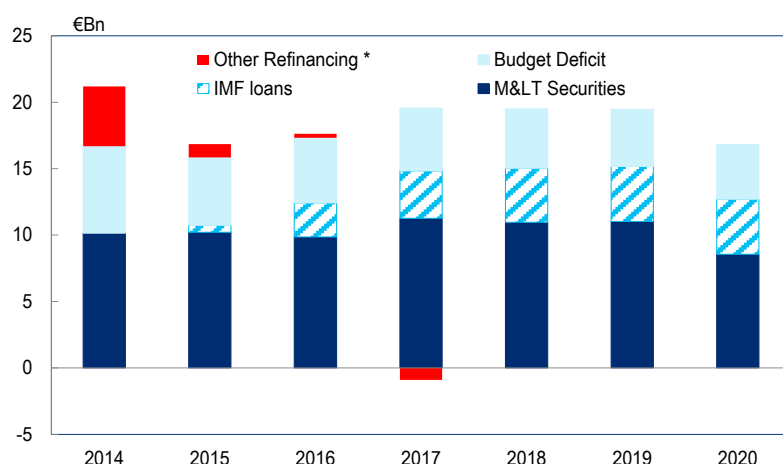
- The combination of improved economic and fiscal performance, the government’s large cash buffers and the large share of public debt in official loans will probably allow the Portuguese government to opt for a “clean exit” from the bailout programme in May. While the recovery in real GDP should continue, we expect nominal GDP growth to remain subdued due to persistent disinflationary pressures.
- Near-term financing needs are quite high (around 10% of GDP per year) and public debt sustainability remains uncertain, but 35% of public debt in official loans leaves room for further debt-relieving measures on official debt, if necessary. A precautionary credit line would probably make more sense in economic terms. But politically we expect a “clean exit” to be the preferred option, both for the Portuguese government – ahead of EU May elections and national elections in 2015 – and for creditor countries facing rising anti-European sentiment.

Figure 1. Citi Forecasts

		Euro	10-yr		UK	10-Yr	SEK		NOK		CHF	CHF
	\$/€	Repo	Bunds	£/€	Bank	Gilt-	Policy	NOK/€	Policy	SFR/€	Policy	Spread
					Rate	Bund	Rate		Rate		Rate	vsBunds
3Q 14	1.39	0.10	1.70	0.82	0.50	158	8.83	0.75	8.20	1.50	1.24	0.00
1Q 15	1.40	0.10	1.90	0.81	1.25	163	8.79	0.75	8.01	1.50	1.26	0.00
												-70
												-80

Source: Citi Research

Figure 2. Portugal — Estimated Government Financing Needs, 2014-2020



Note: Other refinancing includes refinancing of other public entities within General Government (namely SOEs and regions). Source: Citi Research estimates based on Portuguese Finance Ministry data

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Portugal — “Clean Exit” or Precautionary Credit Line?

A “clean exit” from the bailout programme looks the most likely option

Portugal is approaching the end of the bailout programme, officially on 17 May.¹ The government has yet to make a decision on the bailout exit strategy, in particular on whether to request a precautionary credit line or go for a “clean exit” like Ireland. We review the recent economic developments in Portugal and note that the country has outperformed key bailout targets in 2013, and that the recovery is strengthening and becoming more self-sustaining. While potential GDP growth probably remains weak, the output gap is very large, leaving ample room for actual GDP growth to pick up in the next couple of years. While government debt refinancing needs are quite high in the next few years (10% of GDP per year in 2014-2016) and the cost of market financing will most likely remain well above that of official funding, a “clean exit” looks the most appealing option both for the Portuguese government and for its European creditors.

Surprisingly strong economic and fiscal performance in 2013

Portugal has recently surprised on the upside on several key programme parameters. 2013 real GDP growth came at -1.4%, against -2.3% expected in the March 2013 programme review. 2014 growth is now projected at 1.2% (latest IMF forecast) against +0.6% expected one year ago. The export rebound in 2013 was much stronger than previously expected (+6.2% YY vs. 0.8% YY in the Mar-13 review), but the largest surprise in terms of contribution to GDP growth came from private consumption (-1.6% realized in 2013, vs. -3.5% projected in Mar-13). Moreover, the unemployment rate surprised to the downside significantly: in March 2013 it was projected to average 18.2% in 2013, up from 15.7% in 2012, while it averaged 16.3%, dropping further to 15.3% in Feb-14. Finally, the government budget deficit came at 4.5% of GDP last year (4.9% including bank recap costs, according to the national statistical office estimate), well below the target of 5.5% agreed in spring of 2013.

Fiscal adjustment more advanced than in Spain or Ireland

Additional fiscal tightening likely to be small, given the improvement seen so far

Portugal's progress on fiscal consolidation is at a more advanced stage than Ireland's or Spain's, in both nominal and structural terms (see Figure 3). Excluding bank recap costs, at 4.5% of GDP in 2013, the Portuguese fiscal deficit was well below Ireland's (7.2% of GDP) and Spain (6.6%), although above Greece's (2.1%, according to the latest estimate by the Greek statistical office)². Even allowing for the usual uncertainty around the estimates of output gaps and structural deficits, the April IMF Fiscal Monitor estimates the Portuguese 2013 structural deficit at 3.1% of GDP, against a structural deficit of 5.0% in Ireland and 4.9% in Spain. This implies that the extent of additional fiscal tightening to be delivered to bring the deficit within the 3% of GDP threshold is smaller.

2014 fiscal tightening much smaller than originally envisaged, but still allowing for the deficit target to be met

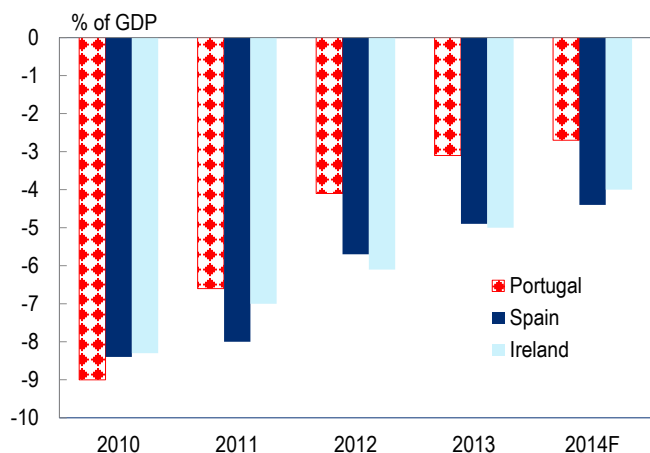
True, the 2013 better-than-expected fiscal deficit was partly due to one-off revenues from a tax amnesty on tax arrears which, according to government's calculations, brought some €1.2bn (or 0.7% of GDP) into the state coffers at the end of last year. However, even excluding this one-off income, revenue performance was extraordinarily strong in 2013, especially from income and wealth taxes, supported by previously introduced tax rate hikes and improved employment dynamics (see Figure 4). The better 2013 fiscal outcome is already reducing the pressure on the

¹ Some press reports have recently suggested that the EU Commission is calling for a later deadline for the bailout exit, to be postponed until June, after the last disbursement has been made. We assume that the exit date remains 17 May, as confirmed by PM Passos Coelho this week.

² However, the Greek fiscal deficit (net of bank recaps) in 2013 was reduced by the transfers related to the income of euro-area national central banks from their investment portfolio holdings of Greek government bonds. The Greek deficit was also compressed significantly by the 10-year moratorium on interest payments on EFSF loans agreed for Greece as part of the Dec-12 debt relief deal.

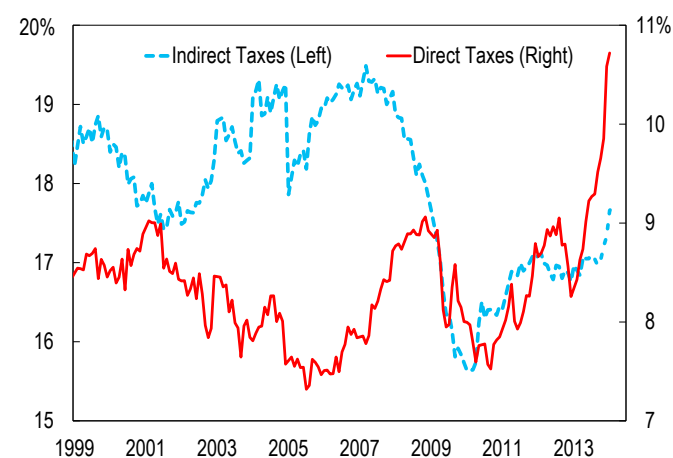
government to deliver the full amount of planned fiscal consolidation measures included in the 2014 Budget (a sizable 2.3% of GDP, implying a structural primary adjustment of about 1% of GDP, according to the IMF January 2013 review). With tax elasticities to GDP growth looking good so far, we reckon that the on-going economic recovery should allow the budget deficit target of 4.0% of GDP for 2014 to be met. The IMF estimates that the size of fiscal tightening (i.e., the change in the structural balance) in 2014 will amount to just 0.4% of GDP, after a tightening worth 1.0% of GDP delivered in 2013, and that this would be enough to bring the headline deficit ratio down to 4.0%. Additional spending cuts worth €1.4bn (0.8% of GDP) have been agreed by the government this week for 2015 in order to bring the fiscal deficit down to 2.5% of GDP at the end of 2015 (from 4.0% projected in 2014). While a further reorganization of the public administration is desirable to reduce costs, the pressure to continue with the austerity drive has clearly reduced, given the progress already made so far. This should be seen as a welcome development as it will allow more room for the nascent recovery to strengthen.

Figure 3. Portugal, Spain and Ireland — Structural Fiscal Balance (Pct. of GDP), 2010-2014F



Sources: IMF Fiscal Monitor April 2014

Figure 4. Portugal — State Tax Revenues (Pct of GDP), 1999-Jan 14



Sources: Bank of Portugal, Haver Analytics and Citi Research

Strong export performance supports GDP growth

Export performance is outpacing even Spain

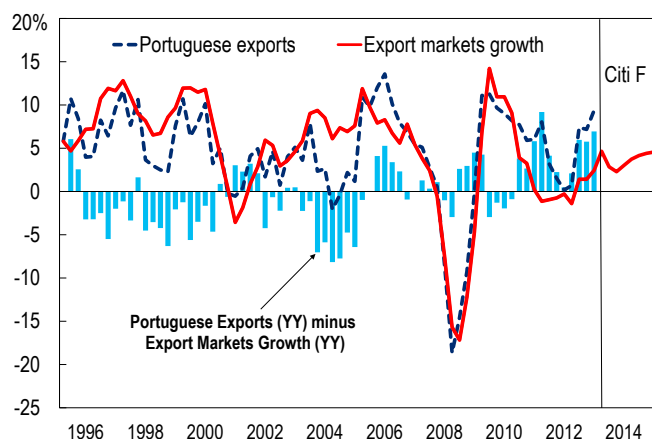
Two areas of strength are worth highlighting for the Portuguese economy, especially compared to other periphery countries. First, the improvement in export competitiveness has been remarkable and in many aspects stronger than Spain. Portuguese export growth has persistently outpaced growth in its export markets since mid-2011 (by 2.9pp in 2011, 3.9pp in 2012 and 5.2pp in 2013), clearly inverting the trend of the pre-crisis years (see Figure 5)³. A similar shift in export performance has been observed in Spain too, but the improvement was bigger in Portugal. Exports still account only for 40% of GDP in Portugal – a low share relative to other similar-sized European economies – but up substantially from 30% in 2008. The current account has rebalanced to a small surplus (0.5% of GDP in the 12 months ending in Jan-14) and import penetration has declined quite significantly from pre-crisis levels – possibly a sign of improved competitiveness also in domestic markets – although the recent pick-up in imports has slowed down the pace of current account rebalancing.

³ These computations are based on our calculations for export market growth. These estimates are fairly similar to the OECD computation of export market performance for Portuguese exports (2.8% in 2011, 3.0% in 2012 and 4.4% in 2013), based on the latest update of the OECD Economic Outlook in December 2013.

A high household saving rate bodes well for further gains in private consumption

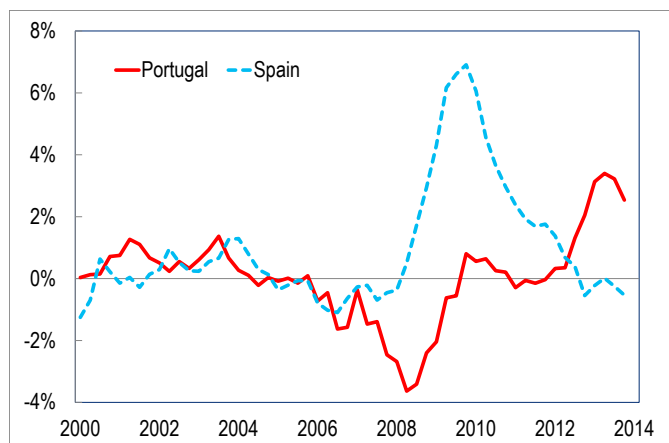
Second, the household sector's balance sheets are stronger than we previously thought and in better shape than in other periphery countries. The household sector financial balance has improved significantly since the trough in 2008 (to a surplus of 7.7% of GDP in Q2 13, from a small surplus of 0.7% of GDP in 2008), suggesting that household deleveraging is at a quite advanced stage. In addition, job creation has started much earlier and more strongly than generally expected, making the recovery more self-sustainable. Possibly as a payback after large job losses at the end of 2012, employment started to grow strongly in Q2 13, coinciding with the first positive reading in GDP, and continued to post solid growth in H2 13. The improved outlook on the job market and a smaller fiscal tightening have probably contributed to compress the household saving rate since Q3 13 from record-high levels. In contrast with Spain, for example, where the saving rate is still close to record-lows, a saving rate that sits well above the pre-crisis average leaves more room for a stronger pick-up in private consumption in coming quarters (see Figure 6).

Figure 5. Portugal — Export Performance (YY), 1996-2015



Note: We compute export market growth as the average import growth in Portugal's main exporting markets, weighted by their share on total exports.
Sources: Eurostat, INE and Citi Research

Figure 6. Portugal and Spain — Household Saving Rate (Current Minus 2000-2007 Average), 2000-Q4 13



Sources: National Statistical Offices, Haver Analytics and Citi Research

High corporate debt still a headwind on growth, but official figures likely inflated by SOEs debts

One of the main risks to the outlook we think remains the high level of corporate indebtedness: according to the national sector accounts, non-financial corporations (NFC) debt as a percentage of GDP has really just started to stabilise in mid-2013 (at around 135% of GDP), while the NFC financial balance is still in negative territory (at -2.1% of GDP in Q4 13). High corporate debt may dampen prospects of a recovery in employment and investment. However, it remains unclear to what extent these figures reflect the high indebtedness of large state-owned enterprises (SOEs) and private-public partnerships (PPPs). These entities are still in part accounted for in the private sector, but they may well eventually be transferred onto the public sector balance sheet.⁴ Whether public or private, these liabilities may still have an impact on the Portuguese banks' balance sheets, especially ahead of the ECB Asset Quality Review this autumn (although the government has cash buffers for €6.4bn as part of the bailout programme for bank recapitalization needs). The other potential risk relates to current disinflationary trends (HICP inflation dropped to -0.4% YY in March) deepening further and entering fully deflationary territory (similar to what it is happening in Greece). While supporting real incomes,

⁴ According to Bank of Portugal data, in January 2014 there were still €19.7bn (or 11.9% of GDP) in outstanding debt of public corporations that are not included in the general government balance sheets.

Real GDP growth expected to pick up, but inflation to remain negative

persistently negative inflation rates would have major negative repercussions on corporate profitability, tax revenues and public and private debt sustainability.

Overall, however, we think the economic recovery will continue in 2014 and 2015, also taking into account the still ample spare capacity (2014 output gap estimated at -2.9% by the IMF, at -7.7% by the OECD). We expect real GDP growth of 1.5% in 2014, rising to 1.8% in 2015, with HICP inflation staying negative (-0.6% in 2014 and -0.8% in 2015). Nominal GDP growth will be broadly in line with real growth in our forecasts.

The debt-to-GDP ratio is unlikely to fall meaningfully in the near term

Public debt sustainability restored?

The gross government debt ratio rose to 129.0% of GDP at the end of 2013, from 124.0% of GDP in 2012. Of this, some 10.5% of GDP (€15.3bn) is accounted for by accumulated government cash reserves, according to Finance Ministry data. If we assume that the primary balance is kept at small surplus of 0.3% of GDP (as projected by the IMF for 2014) and that the average cost of debt remains at the record-low level of 3.4% observed in 2013, nominal GDP growth would have to average 3.3% per year in order to stabilise the debt-to-GDP ratio at current levels, or 4.4% per year in order to reduce the ratio below 120% by 2020. These growth rates seem quite unattainable to us at this stage, especially because we believe that the internal devaluation process will persist for quite some time, keeping GDP deflator inflation very contained.⁵ Hence, approaching the end of the bailout programme, the sustainability of public debt remains unclear, in our view.

Cash reserves will likely be reduced, but SOEs' liabilities may add to the public debt stock

However, these are simplistic calculations. Government deposits of more than 10% of GDP, for example, will most likely be progressively reduced, thus reducing the debt-to-GDP ratio by an equivalent amount. Between 2001 and 2007 the level of cash reserves maintained by the Portuguese central government has averaged at around 3% of GDP, leaving more than 7pp of GDP as a possible reduction in the debt-to-GDP ratio as reserves are run down.⁶ On the other hand, other items could lift the debt ratio – with the most notable being SOEs' and PPPs' liabilities being moved onto the public sector balance sheet, possibly later on this year.⁷ Some 11.9% of GDP was the outstanding debt in Jan-14 of public corporations not included in the scope of general government, according to Bank of Portugal data. However, we expect that some of these SOEs' liabilities could be restructured before being transferred onto the public sector balance sheet, thus limiting the impact on the government debt ratio.

Overall, we project the debt-to-GDP ratio to rise further in 2014, to around 135% (assuming that cash reserves are not reduced right after the bailout exit for precautionary reasons, but additional SOEs' debt will probably add to the overall debt ratio) and to start declining marginally from 2015 onwards, mainly as a result of reducing cash buffers. We project it to stand at around 130% of GDP at the end of our forecasting horizon in 2018. Even taking the IMF latest forecast, Portugal's debt-to-GDP ratio projected at 126.7% in 2014 will be the sixth highest among 176 countries (following Japan, Greece, Lebanon, Italy and Jamaica).

⁵ See "Euro Economics Weekly: Internal Devaluation in the Periphery", 7 March 2014, Citi.

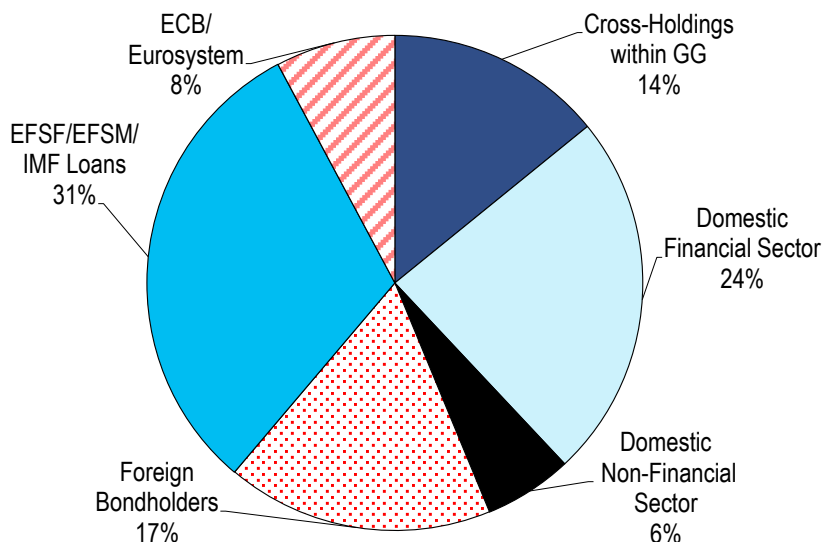
⁶ 3% in cash reserves as pct. of GDP is also the average for all the euro area countries in pre-crisis years. Only Ireland (at 17.5% of GDP in Q3 13) and Slovenia (at 12.0% of GDP in Q3 13) have higher cash buffers than Portugal among euro area countries.

⁷ The new system of national accounts (ESA2010) to be introduced in autumn 2014 will change the rules on sectors delimitation and this could lead to the inclusion of more public enterprises in the scope of general government, which would consequently have an impact on the level of public debt. See Portuguese Public Finance Council, "Public Debt – Notebook by the Portuguese Public Finance", October 2013.

Financing needs in excess of 10% of GDP in the next few years are quite high...

Therefore it is not surprising that the debt burden in terms of refinancing needs and interest payments is likely to remain quite elevated in coming years (despite the extension of the EFSF and EFSM loans by an average of 7 years agreed in 2013). We compute that financing needs to cover redemptions of maturing debt securities, repayments of IMF loans (from 2015) and the fiscal deficit will amount to around 10% of GDP (between €16bn and €19bn) per year between 2015 and 2020 (see Figure 2 on the Front Page).

Figure 7. Portugal — General Government Gross Debt by Holders, Jan 2014



Sources: Bank of Portugal and Citi Research

...but a high share of public debt in official loans leaves rooms for debt relieving measures, if necessary

On the other hand, the sustainability of public debt should be carefully assessed against the important fact that 35% of central government debt (31% of total general government debt) is in the form of IMF/EU official loans (and another 7%-8% are debt securities held by the ECB/Eurosystem as part of the SMP purchases) (see Figure 7). Several forms of debt relief could in principle be agreed on the official loans in order to reduce near-term debt costs and refinancing needs, as the Greek example shows (although the scope for relief is bigger in Greece as more than 80% of public debt is in official hands). Calls for public debt relief to be negotiated with international creditors have been increasing recently within Portugal.⁸ Greece has already obtained meaningful debt relieving measures in December 12, including a 10-year moratorium on EFSF loans interest payments and the transfer of Eurosystem profits on Greek bonds back to the Greek government (amounting to some 1.5% of GDP per year). These measures are not currently under discussion for Portugal, but they might be put on the table in the event of renewed concerns around the sustainability of the Portuguese debt. In particular, measures to diminish the cost of servicing the debt (interest spending reached at an 18-year high of 4.3% of GDP in 2013) would be very welcome in freeing up resources to support the economic recovery in coming years.

⁸ A manifesto signed by more than 70 veteran politicians of the centre-left and centre-right released in March advocates a restructuring of the public debt held by private creditors by lengthening the maturity (by 40 years) and reducing the average interest rate to allow a sustainable economic recovery. It argues that the restructuring should be applied on the part of the debt exceeding the 60%-of-GDP Maastricht threshold (the debt-to-GDP ratio stands at 129% of GDP, or around €214bn).

A “clean exit” probably the preferred option politically by Portugal...

Conclusions

To sum up, we reckon that the combination of improved economic and fiscal performances, high cash buffers and the scope for possible debt relief on official loans if necessary will allow the Portuguese government to opt for a “clean exit” from the bailout programme. To be sure, from a pure economic point of view a precautionary credit line would probably make more sense, given the still high and not yet stabilised public debt-to-GDP ratio and much lower cost of official funding. The estimated “all-in” cost of EFSF loans is 2.2% on an average maturity of 20.6 years, compared with the current 10-year government bond yield of 3.90%. However, a “clean exit” looks likely as the preferred option for the Portuguese government ahead of May EU elections and, more importantly, national elections in 2015: the regained sovereignty could yield an important electoral bonus for the ruling PSD party.

...and creditor countries

As for the governments in creditor countries, agreeing a precautionary credit line ahead of the EU elections at the end of May would likely be highly problematic, given rising anti-European sentiment. But even after May, the hurdle to agree on a precautionary credit line for Portugal (which could potentially imply the ability for the ECB to use the OMT programme for Portugal) will be fairly high, in our view, especially in some creditor countries like Germany or Finland. Yet, we argue that market participants should probably not care much about which option is chosen: a “clean exit” would still allow for some official help to be put together, if needed, in a relatively short period of time.

Key Economic Indicators (21 April – 25 April 2014)

During The Week		Forecast	Last
07:00	Germany: Import Prices, Mar (by Apr 29)		
Monday 21 April		Forecast	Last
UK	Easter Monday Holiday		
Tuesday 22 April		Forecast	Last
08:30	Sweden: Unemployment Rate, Mar	8.7% NSA, 8.2% SA	8.5% NSA. 8.1% SA
10:00	Euro Area: Construction Output, Feb		
15:00	Euro Area: Consumer Confidence, Apr Flash	-8.5	-9.3
Wednesday 23 April		Forecast	Last
09:00	Euro Area: Manufacturing PMI, Apr Flash	52.7	53.0
	Services PMI, Apr Flash	52.5	52.2
	Composite PMI, Apr Flash	53.1	53.1
09:30	UK: Public Sector Net Borrowing (Ex RM, APF & Fin. Intervention), Mar Fiscal Year, Apr13-Mar14	£9.5 Billion Deficit £108.8 Billion Deficit	£11.4 Billion Deficit Apr12-Mar13: £115.2 Billion Deficit
09:30	UK: MPC Minutes		
10:00	Euro Area: General Government Deficit & Debt, 2013 – 1 st Notification		
11:00	UK: CBI Quarterly Industrial Confidence, Apr	+30%	Jan: +21%
	CBI Monthly Output Expectations, Apr	+20%	Mar: +19%
	CBI Order Books, Apr	0%	Mar: +6%
	CBI Selling Prices, Apr	+10%	Mar: +12%
Thursday 24 April		Forecast	Last
07:00	Switzerland: Trade Balance, Mar		
07:45	France: Manufacturing Confidence, Apr	102	100
	Own-Company Production Outlook, Apr	13	9
08:30	Netherlands: Consumer Spending, Feb		
08:30	Netherlands: Producer Confidence, Apr		
09:00	Norway: Survey of Bank Lending, 1Q		
09:00	Germany: ifo Business Climate, Apr	110.2	110.7
10:00	Euro Area: Quarterly Data on Government Deficit, 4Q		
11:00	UK: CBI Retail Survey, Apr		
Friday 25 April		Forecast	Last
08:00	Spain: Producer Prices, Mar		
09:30	UK: Retail Sales Volumes, Mar	0.3% MM, 4.4% YY	1.7% MM, 3.7% YY
09:30	UK: BBA Mortgage Advances, Mar		
14:00	Belgium: Business Confidence, Apr		
17:00	France: Jobseekers – Net Change, Mar	5K	31.5K
	Total Jobseekers, Mar	3,352.7K	3,347.7K

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area

Apr 22 15:00 London Time	Consumer Confidence, Apr	Forecast: -8.5	Prior: -9.3
	We expect further gains for consumer sentiment in the euro area amid very low (and falling) inflation, improvements in the labour market and announcements (mainly in Italy and France) of imminent tax rebates. The level of the index was 0.4 sd above the long-run average in March and it is likely to rise to +0.5 sd in April.		
Apr 23 09:00 London Time	Manufacturing PMI, Apr Flash	Forecast: 52.7	Prior: 53.0
	Services PM, Apr Flash	Forecast: 52.5	Prior: 52.2
	Composite PMI, Apr Flash	Forecast: 53.1	Prior: 53.1

The composite PMI probably remained unchanged in April, reflecting the third consecutive decline in the manufacturing PMI and a rebound in the services PMI. The latter is still catching up with the stronger recovery observed in the manufacturing sector. On the other hand, a strong currency and the slowdown in emerging markets may have negatively affected industrial activity. At these levels, the composite PMI is still consistent with GDP growth of around 1.5% SAAR.

Germany

Apr 24 09:00 London Time	Ifo Business Climate, Apr	Forecast: 110.2	Prior: 110.7
	We think that the ifo business climate index is likely to register a small decrease in April after its first (small) decline in March for four months. We expect the current conditions index to continue to rise, while we think that Ukraine-related tensions could yet again lead to a small downturn in the expectations component. Nevertheless, both components are more than one standard deviation above their long-term averages, underlining that the German economy is currently enjoying relatively robust growth momentum.		

France

Apr 24 07:45 London Time	Manufacturing Confidence (Apr)	Forecast: 102	Prior: 100
	Own-Company Production Outlook (Apr)	Forecast: 13	Prior: 9
	Manufacturing confidence is likely to have increased in April. We estimate that the more business-friendly stance adopted by Prime Minister Valls in his general policy speech when he announced that corporate tax cuts would be effective from 2016, in addition to an extra €10bn to lower the cost of labour, will be interpreted positively by manufacturers. Note that the rebound in confidence is likely to be capped by the strong euro.		
Apr 25 17:00 London Time	Jobseekers – Net Change, Mar (000s)	Forecast: 5K	Prior: 31.5K
	Jobseekers, Mar (000s)	Forecast: 3,352.7K	Prior: 3,347.7K
	Unemployment is expected to be almost unchanged in March (+5k) following a much larger than anticipated uptick in February. While business confidence is back in line with its long-term average, job creation has been lagging. We expect the situation to change gradually over the course of the second quarter, and expect more jobs to be created in the second half in light of a steady improvement in private sector hiring intentions. We forecast that the jobless rate will peak at 9.9% in 1Q-14 and will decline to 9.7% in 1Q-15.		

Sweden

Apr 22 08:30 London Time	Unemployment Rate, Mar	Forecast: 8.7% NSA	Prior: 8.5% NSA
		Forecast: 8.2% SA	Prior: 8.1% SA
	The labour market continues to show signs of stabilising, but development has been somewhat weaker than expected by the Riksbank back in February; since the outset of the year, the LFS jobless rate has overshoot the Central Bank's forecast by 0.2-0.3pp (was 8.2% in Jan and 8.1% in Feb). Meanwhile, employment growth is accelerating, with short-term indicators suggesting that the upward trend in employment will continue and that unemployment likely will start to decline in the near term.		

Norway

Apr 24 08:30 London Time	Survey of Bank Lending, 1Q		
	The 4Q bank lending survey showed a slight easing in credit standards for households in the fourth quarter. Demand for household credit fell and is expected to fall further in the first quarter. The survey also showed that banks' household lending margins were unchanged in the fourth quarter compared with an expectation of tighter margins in the previous survey. For the coming quarter, banks meanwhile expect household lending margins to narrow. This is interesting from a monetary policy point of view. In the latest Monetary Policy Reports from September and December, lending margins were a factor contributing to keeping the conditional interest rate path low. With an expected narrowing of lending margins ahead, this factor will no longer contribute to a lower rate path and may potentially help lift the path a bit.		

Economic Indicators

United Kingdom

Apr 23 **Public Sector Net Borrowing, Mar** Forecast: £9.5 Billion Deficit, £108.8 Billion Deficit Fiscal Year To Date
09:30 **(Ex RM, APF and Financial Intervention)** Year Ago: £11.4 Billion Deficit, £115.2 Billion Deficit Fiscal Year To Date

London Time

Over the first eleven months of the fiscal year, the budget deficit fell by £4.4bn YY, led by higher revenue growth. We expect that base effects from the relatively weak revenue reading a year ago will produce a slightly greater YY improvement in the fiscal balance this month, although there often are volatile flows around the yearend.

Apr 23 **CBI Industrial Trends Survey, Apr**

11:00 **Quarterly Industrial Confidence, Apr** Forecast: +30% Prior (Jan): +21%

London Time **Monthly Output Expectations Net Balance, Apr** Forecast: +20% Prior (Mar): +19%

Monthly Order Books Net Balance, Apr Forecast: +0% Prior (Mar): +6%

Monthly Selling Prices Net Balance, Apr Forecast: +10% Prior (Mar): +12%

We expect the quarterly confidence index to rise to the highest since April 1993 (+31%), reflecting underlying strength plus the usual seasonal bounce in the April survey. However, the monthly survey reading on order books often weakens between March and April and hence we pencil in a softer figure this month – although this would still be consistent with solid growth.

Apr 25 **Retail Sales Volumes, Mar** Forecast: 0.3% MM, 4.4% YY Prior: 1.7% MM, 3.7% YY

09:30

London Time

There is considerable uncertainty over these retail sales data. On one side, after a strong gain in Dec-Feb combined, we may be due for a setback. And the chances of a soft figure may be expanded by the relatively late date of Easter, which this year is the latest since 2003. Against that, the seasonal adjustments seem to be able to cope with shifts in the timing of Easter and retail sales volumes showed modest but steady growth in March in 2000 and 2003 – both years with a similarly late Easter. On balance we go for a modest gain, which would leave 1Q volumes up 1.1% QQ.

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts.

Key Economic Indicators (28 April – 2 May 2014)

During The Week		Forecast	Last
07:00	Germany: Import Prices, Mar (by Apr 29)		
07:00	Germany: Retail Sales, Mar (by Apr 30)		
07:00	UK: Nationwide House Prices, Apr		
Monday 28 April		Forecast	Last
08:30	Sweden: Producer Prices, Mar		
08:30	Sweden: Retail Sales, Mar		
09:00	Italy: Consumer Confidence, Apr		
Tuesday 29 April		Forecast	Last
07:00	Germany: GfK Consumer Confidence, May		
07:45	France: Consumer Confidence, Apr		
08:00	Sweden: Business and Consumer Surveys, Apr		
08:00	Spain: Labour Force Survey, 1Q		
09:00	Italy: Retail Sales, Feb		
09:00	Euro Area: M3, Mar		
09:30	UK: GDP, 1Q Preliminary Estimate		
09:30	UK: Service Sector Output, Feb		
10:00	Italy: Business Confidence, Apr		
10:00	Euro Area: Business & Consumer Surveys, Apr		
13:00	Germany: Consumer Prices, Apr Flash		
	Spain: Budget Balance, Mar		
Wednesday 30 April		Forecast	Last
00:01	UK: GfK Consumer Confidence, Apr		
07:45	France: Consumer Spending, Mar		
07:45	France: Producer Prices, Mar		
08:00	Switzerland: KOF Economic Barometer, Apr		
08:00	Spain: GDP, 1Q Flash		
08:00	Spain: HICP, Apr Flash		
08:00	Spain: Retail Sales, Mar		
08:55	Germany: Unemployment, May		
09:00	Norway: Retail Sales, Mar		
09:00	Norway: Unemployment, Feb		
09:00	Italy: Unemployment, Mar		
10:00	Italy: Consumer Prices, Apr Flash		
10:00	Euro Area: HICP, Apr Flash		
10:00	Greece: Retail Sales, Feb		
14:00	Belgium: GDP, 1Q Flash		
	Spain: Current Account, Feb		
Thursday 1 May		Forecast	Last
07:30	Sweden: Manufacturing PMI, Apr		
08:00	Norway: Manufacturing PMI, Apr		
09:30	UK: Personal Borrowing, Mar		
09:30	UK: Manufacturing PMI, Apr		
Friday 2 May		Forecast	Last
09:00	Euro Area: Manufacturing PMI, Apr Final		
09:30	UK: Construction PMI, Apr		
10:00	Euro Area: Unemployment, Mar		
	Italy: Budget Balance, Apr		

Sources: National statistical offices, central banks and Citi Research

Publication Title	Author	Date
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