

European Economic Forecast Highlights

European Economic Forecast Highlights, July 2014

- This companion to the July issue of [Global Economic Outlook and Strategy](#) gives more detailed forecasts for the main European countries to end 2015. Figures 20-21 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt.
- **Euro Area:** We lower our 2014 & 2015 GDP forecasts by 0.1pp each year to 1.1% and 1.7%, respectively and also shave a decimal point off our 2014 inflation forecast to 0.5%. Recent developments in Ukraine and the persistence of a strong euro indicate that the balance of risks to economic activity remains skewed to the downside, notwithstanding better signs from the US and China.
- **Monetary Policy:** The prospect of sustained inflation undershoots is likely to prompt the ECB to ease further through major asset purchase programs in Q4 (or perhaps early 2015). The UK economy continues to grow strongly, and the BoE is likely to start to hike rates late this year.

Figure 1. Europe – Policy Rates (Percent), 2013-8F

	History	Forecast				
	2013	2014F	2015F	2016F	2017F	2018F
Euro Area	0.50	0.19	0.15	0.16	0.42	0.92
Denmark	0.20	0.20	0.20	0.25	0.55	1.10
Norway	1.50	1.50	1.50	1.80	2.49	3.09
Sweden	0.99	0.52	0.26	0.92	1.68	2.30
Switzerland	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	0.50	0.54	1.67	2.50	2.71	3.21

Sources: National central banks and Citi Research

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

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2014F	2015F	2014F	2015F
Euro Area - Citi Forecast	30-Jul-14	1.1	1.7	0.5	0.9
IMF WEO Forecast	24-Jul-14	1.1	1.5	0.9	1.2
ECB Forecast - mid-point	05-Jun-14	1.0	1.7	0.7	1.1
OECD Economic Outlook	06-May-14	1.2	1.7	0.7	1.1
EU Commission Forecast	05-May-14	1.2	1.7	0.8	1.2
Consensus Economics	14-Jul-14	1.1	1.6	0.7	1.2

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

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

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Euro Area

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We lower our 2014 & 2015 GDP forecasts by 0.1pp each year to 1.1% and 1.7%, respectively and also shave a decimal point off our 2014 inflation forecast to 0.5%. Recent developments in Ukraine and the persistence of a strong euro indicate that the balance of risks to economic activity remains skewed to the downside, notwithstanding better signs from the US and China. Turning to inflation, strong base effects drove the euro area headline rate to a new multi-year low of 0.4% YY in July, with limited prospects of a rebound before Q4, in our view. Our forecast of weak wage dynamics suggests [core inflation](#) will stay low, in contrast to the ECB's expectations of an imminent rebound.

News on the ECB front has been limited since the sizeable monetary policy easing in June. The main development was the publication of the new ECB Calendar for 2015 Governing Council [New ECB Calendar for 2015 Governing Council meetings](https://ir.citi.com/a7mdYC%2Byghlp183NK0bpszalRMAAJ2FUipr09I0fVhZKssXt6Jk2oi5tCH%2FVPg%2Fe)<https://ir.citi.com/a7mdYC%2Byghlp183NK0bpszalRMAAJ2FUipr09I0fVhZKssXt6Jk2oi5tCH%2FVPg%2Fe>, introducing a longer six-week interval between monetary policy meetings compared to the current monthly frequency. No schedule has been released for the dates of the ECB monetary policy minutes as yet. The ECB also published its disclosure process for the comprehensive assessment (CA) of euro area banks, presented detailed milestones and confirmed that the results of the CA will be published in the second half of October. We are not making any changes to our outlook for ECB monetary policy, and continue to expect that the persistence of low- and below-target inflation, with a fragile recovery, will lead the ECB to launch a large-scale asset purchase programme around Dec 2014, despite indications from various GC members that it is *"not appropriate to think about any next steps at this stage"*.

Figure 3. Euro Area – Economic Forecasts, 2013-15F

		History			Forecast			History				Forecast							
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-0.4	1.1	1.7				-1.1	-0.6	-0.3	0.5	0.9	0.9	1.2	1.4	1.6	1.8	1.8	1.8
	QQ SAAR							-0.8	1.3	0.4	1.2	0.8	1.2	1.7	1.7	1.8	1.7	1.9	1.9
Final Domestic Demand	YY	-0.8	0.9	1.6				-1.9	-1.0	-0.6	0.1	0.8	0.8	0.9	1.1	1.3	1.6	1.7	1.8
Private Consumption	YY	-0.6	0.8	1.5				-1.4	-0.7	-0.4	0.2	0.5	0.6	0.8	1.1	1.4	1.5	1.6	1.6
Public Consumption	YY	0.2	0.6	0.6				-0.2	0.1	0.6	0.2	0.7	0.6	0.4	0.6	0.1	0.5	0.7	1.1
Fixed Investment	YY	-2.8	1.7	3.0				-5.3	-3.4	-2.4	-0.1	1.7	1.6	1.9	1.7	2.5	3.2	3.2	3.0
-- Business Equipment	YY	-1.8	3.0	4.0				-4.6	-2.0	-1.4	1.2	3.4	2.5	3.2	2.8	2.9	4.3	4.4	4.4
-- Construction	YY	-3.8	0.9	2.2				-5.8	-4.5	-3.2	-1.5	1.1	0.8	0.7	1.1	1.3	2.5	2.5	2.6
Stocks (Contrib. to YY GDP Growth)		0.0	0.1	0.1				-0.1	-0.3	0.2	0.1	0.1	0.2	0.0	0.2	0.0	0.1	0.1	0.1
Exports of Goods and Services	YY	1.5	3.2	3.6				0.2	1.6	1.0	3.0	4.0	2.7	3.5	2.9	3.8	3.6	3.5	3.4
Imports of Goods and Services	YY	0.4	3.3	3.6				-1.7	0.0	0.8	2.5	4.1	3.1	2.9	3.1	3.3	3.7	3.7	3.6
Consumer Prices	YY	1.4	0.5	0.9				1.9	1.4	1.3	0.8	0.7	0.6	0.3	0.6	0.8	0.9	0.9	0.9
Core CPI (ex Food, Energy, Tobacco)	YY	1.1	0.8	0.7				1.4	1.1	1.1	0.8	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.6
CPI Ex Energy and Unprocessed Food	YY	1.3	0.9	0.8				1.5	1.3	1.3	1.0	1.0	0.9	0.7	0.8	0.8	0.9	0.9	0.8
Unemployment Rate	YY	11.9	11.5	10.7				12.5	11.8	11.5	11.8	12.2	11.5	11.1	11.2	11.4	10.8	10.3	10.4
Industrial Production	YY	-0.7	1.1	4.1															
Current Account Balance	€ bn	230.7	282.7	296.6															
	% GDP	2.4	2.9	3.0															
General Government Balance	€ bn	-290.3	-262.1	-236.4															
	% GDP	-3.0	-2.7	-2.4															
Primary Balance	% GDP	-0.1	0.3	0.6															
General Government Debt	€ bn	9,121.3	9,481.1	9,697.5															
	% GDP	95.0	97.0	96.9															
Gross Operating Surplus	YY	1.4	2.4	2.5															
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.50	0.19	0.15				1.00	0.75	0.50	0.25	0.25	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Ten-year Bund yield (Period Avg.)	%	1.60	1.46	1.55				1.51	1.40	1.78	1.80	1.68	1.43	1.25	1.45	1.50	1.55	1.55	1.60
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.32	1.35	1.35				1.28	1.30	1.35	1.38	1.38	1.37	1.33	1.33	1.33	1.34	1.36	1.37

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

Germany

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Most soft and hard data have remained weak over the past month. We therefore revise our forecast for Q2 growth down sharply to flat (from 0.4% QQ previously). In our view, some of the weakness is likely exaggerated by calendar effects and a payback from very strong Q1 growth. But as the Bundesbank (amongst others) has noted, geopolitical concerns have contributed to weaker sentiment and lower manufacturing activity in particular, which is why we also lower our forecasts for 2014 and 2015 growth, by 0.2pp and 0.1pp to 2.0% and 2.4% respectively.

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

		History			Forecast				History				Forecast			
		2013	2014	2015					1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.5	2.0	2.4					-0.3	0.5	0.6	1.4	2.3	1.6	1.9	2.2
	QQ SAAR								0.0	2.9	1.3	1.5	3.3	0.1	2.7	2.9
Real GDP, Non Work-Day Adjusted	YY	0.4	2.0	2.6					-0.3	0.7	1.0	0.9	2.1	1.3	1.5	2.3
Final Domestic Demand	YY	0.6	1.8	2.6					-0.4	2.4	2.2	-0.5	4.3	-0.7	2.7	2.9
	QQ SAAR								0.6	1.3	1.3	1.0	1.4	0.7	1.0	2.0
Private Consumption	YY	1.0	1.3	2.5					1.0	2.8	1.3	-1.2	2.8	0.0	2.5	2.9
	QQ SAAR								0.4	0.4	0.7	0.1	0.4	0.9	0.6	1.2
Public Consumption	YY	0.4	0.8	1.5					0.0	-0.9	2.7	-1.4	1.2	1.2	1.2	1.2
	QQ SAAR								-3.8	-0.9	0.3	1.7	6.4	3.9	4.0	4.4
Fixed Investment	YY	-0.7	4.7	4.4					-5.5	4.9	4.9	3.0	13.2	-4.8	5.3	4.7
	QQ SAAR								-6.0	-1.9	-1.2	0.5	5.3	3.6	4.5	4.3
-- Business Equipment	YY	-2.2	4.4	4.0					-5.7	2.0	0.3	5.6	13.8	-4.5	3.9	4.7
	QQ SAAR								-3.0	-0.8	1.1	2.5	7.8	4.2	3.6	4.7
-- Construction	YY	0.0	5.1	4.3					-5.7	6.9	8.5	0.8	15.3	-6.5	6.2	4.8
	QQ SAAR								0.0	-0.2	0.3	0.1	-0.3	0.4	0.1	0.1
Stocks (Contrib. to YY GDP Growth)	YY	0.0	0.1	0.0					-0.4	0.6	0.0	4.2	5.1	3.0	4.4	3.2
Exports of Goods and Services	YY	1.1	3.9	3.7					-2.8	10.3	-0.4	10.2	0.7	2.1	5.0	4.9
	QQ SAAR								0.1	0.9	1.6	3.9	5.9	4.4	5.0	5.2
Imports of Goods and Services	YY	1.6	5.1	4.9					0.9	6.1	3.2	5.2	9.1	0.1	5.9	5.9
	QQ SAAR								-0.5	0.6	-0.4	0.7	-0.9	0.3	0.0	0.0
Net Exports (Contrib. to YY GDP Growth)	YY	-0.2	-0.3	-0.3					1.5	1.5	1.6	1.3	1.2	1.1	1.1	1.3
Consumer Prices	YY	1.5	1.2	2.0					2.6	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Compensation per Employee	YY	2.4	2.3	2.4					0.6	0.5	0.6	0.6	0.8	1.0	0.9	0.9
Employment Growth	YY	0.6	0.9	0.8					5.4	5.3	5.3	5.2	5.2	5.1	4.9	4.9
ILO Unemployment Rate	%	5.3	5.0	4.9												
Registered Unemployment Rate	%	6.9	6.6	6.4												
Industrial Production (incl Construction)	YY	0.1	2.1	3.0												
Current Account Balance	€ bn	207.5	196.6	198.0												
	% GDP	7.6	7.0	6.9												
General Government Balance	€ bn	0.3	4.9	4.5												
	% GDP	0.0	0.2	0.2												
Primary Balance	% GDP	2.2	2.2	2.1												
General Government Debt	€ bn	2,147.0	2,151.8	2,133.0												
	% GDP	78.4	77.1	74.1												
Gross Trading Profits	YY	3.7	3.0	5.1					-2.8	3.5	3.8	10.8	1.5	3.7	3.7	2.9

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

France

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We leave our 2014-15 French GDP forecasts unchanged and look for a modest increase of 0.2% QQ (0.4% YY) in Q2 GDP amid indications of weak IP and muted consumer spending. On fiscal policy, parliament adopted the supplementary 2014 budget. PM Manuel Valls pledged to push through with the reform agenda, including some further loosening of the French labour code, despite some clear opposition from a number of government MPs claiming that the government is focusing too much on giving tax breaks to businesses and too little on households' purchasing power. In the meantime, discussions on the 2015 Budget showed an unprecedented effort in terms of expenditure management. Popularity ratings for the President rebounded a little (+1pt to 20%), but those for PM Valls fell by one point to 42%.

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

		History			Forecast				History				Forecast			
		2013	2014	2015					1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.4	0.7	1.3					-0.2	0.7	0.3	0.7	0.7	0.4	0.7	0.8
	QQ SAAR								0.2	2.4	-0.2	0.7	0.2	1.0	0.9	1.3
Final Domestic Demand	YY	0.5	0.1	1.0					0.0	0.6	0.5	0.7	0.2	0.0	0.2	0.1
	QQ SAAR								0.9	1.4	-0.2	0.9	-1.4	0.8	0.6	0.5
Private Consumption	YY	0.3	0.0	0.9					-0.3	0.6	0.4	0.7	-0.1	-0.1	0.2	0.1
	QQ SAAR								1.0	1.3	-0.6	1.0	-2.0	1.2	0.8	0.6
Public Consumption	YY	2.0	1.2	0.8					1.7	2.1	2.0	2.1	2.0	1.5	1.0	0.4
	QQ SAAR								2.0	3.1	1.3	2.1	1.6	0.8	-0.4	-0.4
Fixed Investment	YY	-0.8	-0.9	1.5					-1.0	-0.7	-0.9	-0.6	-1.2	-1.3	-0.8	-0.3
	QQ SAAR								-0.8	0.0	-0.8	-0.8	-3.3	-0.2	1.3	1.2
-- Businesses	YY	-0.6	0.7	2.3					-1.5	-0.9	-0.7	0.8	0.6	0.6	0.9	0.6
	QQ SAAR								-1.7	1.0	0.8	3.0	-2.2	0.8	2.0	2.0
-- Households	YY	-3.1	-5.7	0.7					-2.3	-2.2	-3.2	-4.6	-6.9	-7.2	-5.4	-3.0
	QQ SAAR								-0.1	-2.5	-6.6	-9.0	-9.2	-3.9	0.8	0.6
Stocks (Contrib. to YY GDP Growth)		-0.2	0.5	0.1					-0.1	0.0	0.4	-0.3	0.5	-0.1	0.1	0.1
Exports of Goods and Services	YY	2.4	3.1	2.4					0.2	2.9	2.1	4.2	4.7	2.3	3.2	2.4
	QQ SAAR								0.7	12.4	-1.9	6.1	2.6	2.6	1.7	2.6
Imports of Goods and Services	YY	1.9	2.7	1.5					-0.5	1.5	2.7	3.9	4.5	2.7	2.0	1.8
	QQ SAAR								1.5	7.9	4.3	1.9	4.0	0.8	1.2	1.2
Net Exports (Contrib. to YY GDP Growth)		0.1	0.1	0.2					-0.1	0.3	-0.4	0.3	-0.1	0.1	0.0	0.1
Consumer Prices	YY	1.0	0.7	1.2					1.2	0.9	1.1	0.8	0.9	0.8	0.5	0.8
Average Monthly Wages & Salaries	YY	1.7	1.1	1.2												
Hourly Wages	YY	1.8	1.9	1.5												
Employment Growth (Private-Sector)	YY	-0.7	0.0	1.4												
Unemployment Rate	%	9.9	9.9	9.8					9.9	9.9	9.9	9.7	9.7	9.9	9.9	10.0
Manufacturing Production	YY	-15.8	4.8	3.9												
Current Account Balance	€ bn	-28.4	-14.6	-1.4												
	% GDP	-1.4	-0.7	-0.1												
General Government Balance	€ bn	-88.2	-88.5	-77.3												
	% GDP	-4.3	-4.2	-3.6												
Primary Balance	% GDP	-2.0	-1.9	-1.3												
General Government Debt	€ bn	1,925.3	2,021.1	2,098.4												
	% GDP	93.5	96.9	98.2												
Gross Trading Profits	YY	-0.2	3.4	3.5												

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

Italy

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Q2 hard data have been somewhat disappointing so far, suggesting Q2 GDP may rise by only 0.1% QQ, after declining by 0.1% QQ in Q1. Yet, we think growth will stay positive — albeit subdued — in H2 14, as the recently-introduced tax rebates and still-positive export performance should support final demand, despite still-tight bank credit conditions. Yet, spare capacity is set to stay ample and we expect inflation to turn negative in the next few months and on average stay negative in 2015. A strong result for the ruling centre-left party PD at the EU elections has reduced political uncertainty and raises hopes for more structural reforms to be agreed in the near future.

Figure 6. Italy – Economic Forecasts, 2013-15F

		History			Forecast			History								Forecast							
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-1.8	0.1	1.1				-2.4	-2.2	-1.9	-0.9	-0.5	0.0	0.3	0.4	0.8	1.0	1.1	1.4				
	QQ SAAR							-2.2	-1.3	-0.6	0.5	-0.5	0.5	0.8	0.6	1.1	1.3	1.5	1.7				
Final Domestic Demand	YY	-2.6	0.1	1.0				-3.5	-3.2	-2.3	-1.4	-0.5	-0.1	0.4	0.4	0.9	1.0	1.1	1.0				
	QQ SAAR							-3.9	-1.2	-1.1	0.7	-0.3	0.3	0.7	1.0	1.4	1.1	0.9	0.7				
Private Consumption	YY	-2.6	0.1	0.8				-3.5	-3.4	-2.1	-1.4	-0.6	0.0	0.4	0.6	0.7	0.8	0.8	0.8				
	QQ SAAR							-3.2	-1.9	-0.6	0.1	0.3	0.3	0.8	0.8	0.8	0.8	0.8	0.6				
Public Consumption	YY	-0.8	0.4	-0.2				-1.5	-1.0	-0.7	-0.1	0.3	0.4	0.5	0.4	-0.1	-0.2	-0.3	-0.4				
	QQ SAAR							-0.3	-0.2	-0.7	0.6	1.5	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.4				
Fixed Investment	YY	-4.6	-0.5	3.4				-6.1	-4.8	-4.6	-2.8	-1.3	-1.0	0.2	0.1	2.7	3.4	3.8	3.7				
	QQ SAAR							-10.3	0.0	-3.6	3.1	-4.4	0.9	1.3	2.8	5.7	3.9	2.8	2.5				
-- Business Equipment	YY	-2.5	0.7	5.3				-5.0	-2.0	-3.0	0.2	-0.5	-0.2	2.1	1.2	4.9	5.3	5.8	5.3				
	QQ SAAR							-2.5	2.5	-7.2	8.4	-5.0	3.7	1.7	4.7	9.4	5.6	3.4	2.9				
-- Construction	YY	-6.6	-1.7	1.4				-7.2	-7.4	-6.2	-5.7	-2.0	-1.9	-1.7	-1.0	0.4	1.4	1.7	2.0				
	QQ SAAR							-17.4	-2.5	0.2	-2.0	-3.7	-2.0	0.8	0.8	2.0	2.0	2.0	2.0				
Exports of Goods and Services	YY	0.0	3.1	3.4				-0.7	0.0	-0.4	1.0	3.3	3.5	3.4	2.4	2.4	2.8	3.6	4.6				
	QQ SAAR							-5.5	2.4	2.5	5.1	3.2	3.1	2.1	1.1	3.3	4.7	5.5	4.8				
Imports of Goods and Services	YY	-2.9	1.9	3.1				-5.0	-4.4	-2.0	-0.1	1.3	2.3	1.8	2.1	2.6	3.0	3.5	3.4				
	QQ SAAR							-4.3	-0.8	4.1	0.9	1.2	2.9	2.0	2.4	3.1	4.5	4.0	1.9				
Net Exports (Contrib. to YY GDP Growth)		0.8	0.4	0.2				1.1	1.2	0.4	0.3	0.6	0.4	0.6	0.2	0.0	0.1	0.2	0.5				
Consumer Prices	YY	1.3	0.2	-0.2				2.1	1.3	1.1	0.7	0.5	0.4	-0.1	0.0	-0.1	-0.1	-0.1	-0.4				
Employment Growth	YY	-2.0	-0.3	0.6																			
Unemployment Rate	%	12.2	12.6	12.3																			
Current Account Balance	€ bn	15.5	26.6	28.6																			
	% GDP	1.0	1.7	1.8																			
General Government Balance	€ bn	-44.1	-47.9	-45.9																			
	% GDP	-2.8	-3.0	-2.9																			
Primary Balance	% GDP	2.2	1.8	1.9																			
General Government Debt	€ bn	2,069	2,166	2,204																			
	% GDP	132.6	137.6	139.0																			

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

Spain

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Further rises in consumer and business confidence, together with strong 'hard' data (e.g. IP, retail sales) confirm our expectations for a pickup in Q2 GDP growth: we look for 0.5% QQ, the fastest QQ gain since Q4 07. The recovery is driven by private consumption and business investment, despite ongoing private deleveraging pressures and a record-low household saving rate. The 2014 fiscal deficit will probably come broadly in line with target (of 5.5% of GDP).

Figure 7. Spain – Economic Forecasts, 2013-15F

		History			Forecast											
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-1.2	1.3	1.9	-1.9	-1.6	-1.1	-0.2	0.5	1.1	1.6	1.8	2.1	2.0	1.9	1.8
	QQ SAAR				-1.2	-0.6	0.3	0.7	1.5	2.1	2.0	1.8	2.5	1.7	1.5	1.5
Final Domestic Demand	YY	-2.7	1.5	1.9	-4.4	-3.7	-2.1	-0.7	0.6	1.6	1.5	2.2	1.6	1.8	1.9	2.2
	QQ SAAR				-1.1	-2.3	2.3	-1.5	4.1	1.5	2.0	1.0	2.0	2.2	2.3	2.3
Private Consumption	YY	-2.0	2.0	2.1	-4.2	-3.0	-1.7	0.8	1.6	2.2	2.1	2.1	2.2	2.0	2.1	2.1
	QQ SAAR				-1.6	0.4	2.1	2.1	1.6	2.9	1.7	2.2	2.1	2.1	2.1	2.1
Government Consumption	YY	-2.3	0.3	0.4	-2.3	-3.4	0.2	-3.4	-0.2	-0.3	-0.5	2.5	-1.5	0.2	0.5	2.2
	QQ SAAR				4.1	-4.5	2.3	-14.6	18.9	-5.1	1.7	-3.9	1.6	1.6	2.8	2.8
Fixed Investment	YY	-5.0	1.2	2.8	-7.2	-5.8	-5.3	-1.7	-1.1	1.9	2.0	2.0	3.2	2.7	2.6	2.5
	QQ SAAR				-4.8	-7.3	2.8	2.8	-2.5	4.8	2.9	2.8	2.2	2.9	2.5	2.4
-- Business Equipment	YY	2.6	9.3	6.4	-2.8	1.4	1.8	9.9	10.8	9.8	8.5	8.2	6.9	6.6	6.2	6.0
	QQ SAAR				9.1	10.3	12.9	7.3	13.0	6.2	7.4	6.3	7.5	5.4	5.5	5.8
-- Construction	YY	-9.6	-4.3	-0.1	-9.8	-10.1	-9.8	-8.6	-8.7	-3.4	-2.6	-2.5	0.4	-0.3	-0.2	-0.3
	QQ SAAR				-12.4	-17.1	-3.6	-0.4	-12.5	3.7	-0.5	0.2	-1.8	1.0	0.0	-0.4
Exports of Goods and Services	YY	4.9	4.5	5.7	2.9	9.5	3.5	3.7	8.1	2.9	3.3	3.5	5.8	5.6	5.8	5.8
	QQ SAAR				-16.7	31.2	2.5	3.3	-1.5	7.3	4.3	4.1	7.5	6.6	5.2	3.9
Imports of Goods and Services	YY	0.4	5.8	6.5	-4.9	3.2	0.6	2.7	9.3	4.6	3.9	5.6	6.0	6.4	6.7	6.9
	QQ SAAR				-17.3	26.7	8.5	-2.2	6.2	6.2	5.7	4.4	7.9	7.9	6.5	5.2
Net Exports (Contrib. to YY GDP Growth)		1.4	-0.3	-0.1	2.3	2.0	0.9	0.4	-0.1	-0.4	-0.1	-0.5	0.1	-0.1	-0.1	-0.2
Consumer Prices	YY	1.5	0.0	0.2	2.8	1.8	1.3	0.2	0.0	0.2	-0.2	0.1	0.2	0.2	0.2	0.3
Compensation per Employee	YY	0.0	0.0	0.6	-1.8	-0.6	-0.2	2.5	-0.2	0.0	-0.1	0.2	0.3	0.6	0.8	0.8
Employment Growth	YY	-2.8	1.0	1.6	-4.1	-3.4	-2.5	-1.2	-0.5	1.1	1.6	1.8	2.3	1.5	1.4	1.2
Unemployment Rate	%	26.1	24.5	23.1	26.9	26.1	25.7	25.7	25.9	24.5	23.7	23.8	24.1	23.1	22.5	22.7
Current Account Balance	€ bn	8.0	6.5	5.5												
	% GDP	0.8	0.6	0.5												
General Government Balance	€ bn	-72.4	-59.0	-52.0												
	% GDP	-7.1	-5.7	-4.9												
Primary Balance	% GDP	-3.7	-2.3	-1.6												
General Government Debt	€ bn	960.7	1,023.9	1,075.9												
	% GDP	93.9	98.8	101.3												

Fiscal deficits include the effect of financial support for banks in 2013 of €4.7bn (0.5% of GDP). Percentage changes unless indicated. Annual data are period averages.

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

Greece

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The very strong data on tourism arrivals and service exports suggest that Q2 GDP is likely to rebound more than we had expected (by about 2.0% QQ SA, after a decline of about 0.2% QQ for Q1). We are therefore raising our 2014 growth forecast to +0.3% (which would be the first expansion since 2007) from minus 0.6% last month. Growth is likely to accelerate to around 1¼% in 2015 amid reduced fiscal tightening and stronger private spending.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-3.9	0.3	1.3	1.4	1.5	1.6
Final Domestic Demand	YY	-6.4	0.3	0.5	0.9	0.9	0.9
Private Consumption	YY	-5.8	1.1	0.7	0.8	0.8	0.8
Public Consumption	YY	-3.9	-0.4	-0.1	0.4	0.2	0.2
Fixed Investment	YY	-12.8	-3.3	0.5	2.1	2.8	2.3
Exports of Goods and Services	YY	1.2	6.2	2.8	3.8	4.0	4.0
Imports of Goods and Services	YY	-5.3	1.3	0.3	1.8	2.2	1.7
Consumer Prices	YY	-0.9	-1.5	-1.5	-1.0	-0.2	1.0
Unemployment Rate	%	27.5	26.9	25.8	25.1	24.3	23.6
Current Account Balance	€ bn	1.4	3.8	4.3	4.3	4.3	4.3
	% GDP	0.8	2.1	2.4	2.4	2.3	2.3
General Government Balance	€ bn	-23.1	-3.7	-4.0	-2.6	-1.9	-1.0
	% GDP	-12.7	-2.0	-2.2	-1.5	-1.1	-0.5
Primary Balance	% GDP	-8.7	2.4	2.3	3.1	3.5	3.9
General Government Debt	€ bn	318.7	321.3	323.8	325.0	325.4	326.4
	% GDP	175.1	179.5	181.3	180.6	178.4	174.3

Fiscal deficits include financial support in 2013 of €19.3bn (10.6% of GDP). Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Greece, ECB, Eurostat and Citi Research forecasts

Ireland

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We are sharply raising our 2014 growth forecast from 2.8% (already above consensus), to a stunning pace of 6.1% YY (highest since 2000). Three factors prompt this change. First, with the ESA 2010 national accounts framework and other revisions, the cumulative gain in real GDP from Q4-09 (crisis low) to Q4-13 has been revised up from 2.2% to 5.2%. Second, Q1 GDP growth was extremely strong, up 2.7% QQ and 5.1% YY, with exports surging 7.2% YoY. Third, available Q2 data are very strong, with industrial production in April-May up by 11.8% from Q1 and up by 23% from Q2-13, led by a surge in pharma output as the “patent cliff” effect unwinds. We pencil in a 2.0% QQ gain in Q2 GDP and regard that as cautious. The public debt/GDP ratio is likely to fall sharply this year.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	6.1	3.9	3.8	3.9	4.0
Real GNP	YY	3.2	5.9	3.3	3.2	3.3	3.4
Final Domestic Demand	YY	-0.6	0.7	1.6	2.2	1.7	1.6
Private Consumption	YY	-0.8	0.8	1.6	2.0	1.9	1.9
Public Consumption	YY	1.3	-1.5	-2.5	0.3	0.0	0.5
Fixed Investment	YY	-1.8	2.9	5.3	4.3	2.5	1.6
Exports of Goods and Services	YY	1.1	7.6	5.8	7.2	7.4	7.3
Imports of Goods and Services	YY	0.6	4.3	3.9	6.8	6.5	6.5
Net Trade		0.3	5.5	2.6	1.6	2.2	2.4
GDP Deflator	YY	1.0	0.3	1.0	1.1	1.6	1.7
Nominal GDP	YY	1.2	6.4	4.9	4.9	5.6	5.8
House Prices	YY	1.4	8.5	8.6	5.6	4.1	4.1
Unemployment Rate	%	13.1	12.1	11.7	10.9	10.2	9.4
Employment	YY	2.4	1.6	2.0	2.3	2.3	2.4
Current Account Balance	€ bn	7.6	8.1	10.1	10.2	11.0	11.6
	% GDP	4.4	4.3	5.2	5.0	5.1	5.1
General Government Balance	€ bn	-11.8	-3.3	1.6	3.9	6.3	9.3
	% GDP	-6.7	-1.8	0.8	1.9	2.9	4.1
Primary Balance	% GDP	-2.6	2.9	5.4	6.4	7.2	8.0
General Government Debt	€ bn	215.5	212.4	211.2	209.4	203.0	193.4
	% GDP	123.3	114.2	108.2	102.3	94.0	84.7

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

Portugal

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Recent data suggest that weakness in Q1 GDP (-0.7% QQ) will likely be offset by a rebound in Q2: we expect real GDP to expand by 0.9% QQ (highest since Q1 10). Exports were quite weak in April and May, but tourist arrivals have been very strong. Both private consumption and investment should continue to expand along recent steady trends. Despite the High Court negative ruling on some spending cuts, we still expect the budget deficit to decline close to the target (4% of GDP) in 2014.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.4	1.1	2.0	1.9	1.9	2.0
Final Domestic Demand	YY	-2.4	0.9	1.2	1.3	1.3	1.4
Private Consumption	YY	-1.7	1.0	1.2	1.5	1.4	1.2
Public Consumption	YY	-1.8	-0.3	0.6	0.0	0.4	1.0
Fixed Investment	YY	-6.0	1.7	2.2	2.4	2.1	2.7
Exports	YY	6.1	2.1	4.4	4.9	5.2	5.2
Imports	YY	3.2	3.3	2.0	3.4	3.8	4.0
Consumer Prices	YY	0.4	-0.3	-0.6	-0.2	0.3	0.8
Unemployment Rate	%	16.2	14.8	13.1	12.0	11.1	10.5
Current Account Balance	€ bn	0.9	0.9	1.2	1.6	2.3	2.8
	% GDP	0.5	0.5	0.7	0.9	1.3	1.5
General Government Balance	€ bn	-8.2	-7.0	-5.3	-4.4	-3.8	-3.0
	% GDP	-5.0	-4.2	-3.1	-2.6	-2.1	-1.6
Primary Balance	% GDP	-0.6	0.3	1.5	2.0	2.3	2.7
General Government Debt	€ bn	213.6	228.0	228.2	229.1	231.1	234.1
	% GDP	128.9	136.0	133.5	131.4	129.6	128.1

Fiscal deficits include financial support in 2013 of €0.7bn (0.4% of GDP). Percentage changes unless indicated. Annual data are period averages. Sources: BdP, INE and Citi Research

Netherlands

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Dutch GDP contracted sharply in Q1 on account of a sizeable reduction in gas production. We expect that part of this decline will unwind in Q2, and look for a solid rebound in real GDP, worth 0.7% QQ. At 0.9% YY, the annual growth rate of GDP would be the highest since Q3-11, but still 21% below its Q1-11 peak. Signs of recovery in house prices, together with higher levels of consumer and business confidence point to a gradual GDP recovery, albeit at smaller rates than its peers.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-0.7	0.6	1.4	1.7	2.0	2.0
Final Domestic Demand	YY	-1.7	1.0	0.8	1.0	1.4	1.6
Private Consumption	YY	-1.6	-0.2	0.7	0.9	1.1	1.2
Public Consumption	YY	-0.2	-0.1	-0.1	0.3	0.7	0.8
Fixed Investment (ex Stocks)	YY	-3.9	5.1	2.3	2.3	2.7	3.3
Stocks (Contrib. to YY GDP Growth)		-0.2	-0.1	0.0	0.1	0.1	0.1
Exports of Goods and Services	YY	2.2	2.6	2.4	3.1	3.5	3.9
Imports of Goods and Services	YY	1.0	3.3	2.0	2.7	3.1	3.8
Net Exports (Contrib. to YY GDP Growth)		1.0	-0.2	0.6	0.6	0.7	0.6
Consumer Prices	YY	2.6	0.4	1.2	1.5	1.6	1.8
Unemployment Rate	%	8.3	8.6	8.4	7.6	6.4	5.3
Current Account Balance	€ bn	65.1	64.8	63.0	62.4	61.5	61.0
	% GDP	10.8	10.6	10.1	9.7	9.2	8.8
General Government Balance	€ bn	-14.8	-17.2	-14.3	-11.4	-9.0	-7.1
	% GDP	-2.4	-2.8	-2.3	-1.8	-1.3	-1.0
Primary Balance	% GDP	-0.7	-1.1	-0.5	0.0	0.4	0.7
General Government Debt	€ bn	443.0	457.2	468.3	479.7	488.7	495.8
	% GDP	73.5	75.0	74.9	74.4	73.1	71.4

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

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Belgium

We estimate that economic activity rose by 0.2% QQ in Q2-14 — the fifth successive quarter of expansion but the lowest QQ gain since the start of 2013. With business confidence eroding noticeably in Q2, and household confidence essentially treading water, we see some risks of a much smaller contribution from domestic demand to GDP growth. We continue to expect slightly faster growth in H2-14, supported by a gradual improvement in private sector employment expectations. Government coalition formation talks continue.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	1.3	1.5	1.6	2.0	2.1
Final Domestic Demand	YY	0.3	1.4	1.2	1.4	1.6	1.6
Private Consumption	YY	0.8	1.3	1.0	1.1	1.3	1.3
Public Consumption	YY	0.6	0.3	0.8	0.9	1.1	1.1
Fixed Investment (ex Stocks)	YY	-1.4	3.3	2.3	2.7	3.0	2.9
Exports of Goods and Services	YY	1.9	2.7	4.2	4.0	4.7	5.7
Imports of Goods and Services	YY	1.4	2.4	4.3	3.8	4.2	5.3
Consumer Prices	YY	1.2	0.7	1.1	1.8	1.6	1.9
Unemployment Rate	%	8.4	8.4	8.2	7.9	7.6	7.5
Current Account Balance	€ bn	-7.3	-1.0	1.5	2.5	1.9	0.8
	% GDP	-1.9	-0.3	0.4	0.6	0.5	0.2
General Government Balance	€ bn	-10.2	-9.7	-8.1	-5.4	-2.2	1.8
	% GDP	-2.7	-2.5	-2.0	-1.3	-0.5	0.4
Primary Balance	% GDP	0.6	0.7	1.2	1.8	2.5	3.3
General Government Debt	€ bn	387.2	398.1	406.2	411.6	413.8	411.9
	% GDP	101.2	102.1	101.4	99.5	96.4	92.3

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

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Slovakia

Overall we keep our 2014 and 2015 GDP growth forecast at 2.2% and 2.7% respectively, followed by around 3.1% growth in 2016-18, below the MinFin's forecasts of 2.4% for this year, 3% in 2015 and 3.5% in 2016-17. While July confidence represents an upside risk, the Ukraine situation remains a key downside risk. The central bank's scenario – which includes a 20% drop in EU exports to Russia and around a 25% increase in oil prices – could cut 1.4%pt from real GDP in 2014, 2.9%pt in 2015 and 1.8% in 2016. June CPI returned to a mild annual contraction of -0.1% YY and the 12m moving average of CPI growth eased to a new all-time low of 0.4% YY, below the low of 0.8% seen in the previous disinflation cycle around 3Q10. Our forecast assumes CPI growth of 0% YY in 2014 and 1% in 2015 (with an upside risk owing to better domestic demand), followed by 1.9% growth in 2016.

Overall our momentum indicator eased somewhat in May, but remains around values seen in early 2014. July confidence increased to a three-year high and its improvement was broad-based. While consumer and industrial confidence are above their long-term averages, confidence in the services and construction sectors remains below long-term averages. We see two implications from the July survey for our forecast. First, higher utilization of manufacturing production capacities bodes well for our forecast of investment activity. Second, while the industrial survey showed higher production expectations, the quarterly survey showed a decrease in expected foreign demand. However, the monthly data for industrial production suggest better performance, with a 1.2% gain in industrial production and only a mild decrease of 0.3% in construction output during 2Q14.

The deficit worsened further in June and it will be worth watching tax collection developments. The central government deficit widened to €2 bn ytd in June (annual deficit at 3.2% of GDP), compared to €1.6bn a year ago: tax revenues and EU fund inflows worsened this year after their strong performance in 2013 and larger current expenditures are only partly offset by stronger non-tax revenues. However, while the seasonal performance of expenditure and revenue points to the risk of a wider central government deficit (5.4% of GDP in 2014), recent dynamics suggest that the approved deficit of €3.3bn (-4.6%) is attainable.

Figure 13. Slovakia – Economic Forecasts, 2013-15F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.9	2.2	2.7	3.1	3.1	3.0
Final Domestic Demand	YY	-0.8	2.5	1.2	2.0	2.5	-
Private Consumption	YY	-0.1	2.1	1.4	2.5	2.5	2.5
Public Consumption		1.4	1.8	-1.4	0.2	1.8	2.1
Fixed Investment	YY	-4.3	4.3	2.8	2.2	3.0	2.1
Exports	YY	4.5	7.6	7.8	8.4	8.3	8.3
Imports	YY	2.9	8.8	6.7	8.1	8.3	8.1
Consumer Prices	YY	1.4	0.0	1.0	1.9	2.3	2.5
Unemployment Rate	%	14.1	12.8	12.1	11.4	10.7	10.1
Current Account Balance	% GDP	2.1	1.5	2.7	3.0	3.1	3.4
General Government Balance	% GDP	-2.8	-3.0	-2.6	-2.2	-1.8	-1.7
Government Primary Balance	% GDP	-1.5	-1.7	-1.3	-0.9	-0.6	-
General Government Debt	% GDP	55.4	56.3	55.7	55.0	54.2	53.2

Sources: National sources and Citi Research forecasts

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Slovenia

Miro Cerar, the likely new PM, is continuing political talks after an exploratory first round. Mr. Cerar still hopes to create a broad coalition, including pensioners' party DeSUS, but also the socialist SD and the right-wing NSi. Note that it would require a great deal of political skill to avoid future political clashes in such a heterogeneous coalition, as both SD and NSi have competing parties in their part of the political spectrum – far-left United Left and right-wing SDS.

The outgoing government of PM Bratusek changed its previous decision to halt the privatization process until a new government could be established. The government had re-opened this issue after doubts over the legality of their decision. While we find the initial decision correct from a political point of view, as only governments are responsible for privatization, there is considerable pressure to quicken the privatization process. In any case, future privatizations will be decided by the new government and there is ongoing pressure from the EC to include more companies than the current list of 15.

There have been mixed developments in recent data. Our momentum indicator dropped in May, reflecting negative readings from industry, construction and retail. On the other hand, the July confidence indicator showed a broad-based improvement and reached the level last seen in September 2008. Confidence in all sectors apart from services is above the long-term average. The index of manufacturers' export order books surged to levels last seen in 2H07, which is consistent with very strong export growth (15%+ YY). We do not expect exports to be as strong as that, but recent data suggest the export-driven recovery with a positive pass-through into domestic demand and employment is likely to continue.

Figure 14. Slovenia – Economic Forecasts, 2013-18F

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

Sources: National sources and Citi Research forecast

United Kingdom

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The economy continues to grow strongly, with Q2 GDP up 0.8% QQ and 3.2% YY, alongside a rapid drop in unemployment. Business surveys suggest that the economy will continue to grow strongly in and the MPC now seem likely to start to hike rates late this year. In our view, the economy is unlikely to slow abruptly as rates rise, as (a) rates will still be very low and (b) household and corporate balance sheets have improved markedly. Thus, we look for 2015 GDP growth of about 3½%, well above consensus, with the jobless rate falling to about 5% at end-2015 and rates at about 2.5% at end-2015. Key uncertainties are (a) external growth and (b) political developments — the Scottish referendum seems unlikely to produce a vote for independence but the 2015 general election could lead to uncertainties over fiscal policy or the UK's EU membership.

Figure 15. UK – Economic Forecasts, 2013-15F

		History			Forecast			History				Forecast			
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	1.8	3.4	3.7				0.7	1.7	1.9	2.8	2.9	3.2	3.5	3.8
	QQ SAAR							2.4	2.4	3.6	2.7	3.1	3.5	4.5	4.2
Final Domestic Demand	YY	1.4	3.6	4.4				-0.3	1.0	2.1	2.9	3.1	3.4	3.5	4.3
	QQ SAAR							2.7	3.7	3.7	1.5	3.3	5.0	4.4	4.6
Private Consumption	YY	2.2	2.9	3.3				2.1	2.0	2.5	2.2	2.2	3.1	2.9	3.3
	QQ SAAR							3.3	0.7	3.4	1.3	3.4	4.1	2.9	2.9
Public Consumption	YY	0.7	0.4	-0.1				-1.6	1.3	1.7	1.3	1.8	0.1	-0.3	-0.1
	QQ SAAR							-1.9	5.6	2.3	-0.4	-0.2	-1.3	0.9	0.4
Fixed Investment	YY	-0.8	12.3	16.0				-8.2	-3.7	1.4	8.2	9.7	11.0	12.5	15.9
	QQ SAAR							4.2	13.6	9.9	5.5	9.8	19.3	16.1	18.8
-- Business Investment	YY	-1.0	13.5	17.2				-6.8	-3.6	-1.2	8.3	10.6	12.4	13.5	17.1
	QQ SAAR							11.8	3.1	12.6	6.2	21.4	10.0	17.1	20.2
-- Construction of Private Dwellings	YY	4.5	12.9	18.8				-6.7	5.7	9.4	10.4	13.2	8.4	12.6	17.2
	QQ SAAR							0.8	35.0	3.6	5.4	11.3	13.5	20.7	23.8
Stocks (Contrib. to YY GDP Growth)		0.2	-0.5	0.1				1.0	-0.1	0.8	-0.3	0.1	-0.1	-1.3	-0.9
Exports of Goods and Services	YY	0.5	2.2	4.8				0.2	4.0	-2.0	0.0	0.5	-1.0	4.3	4.8
	QQ SAAR							-2.4	9.9	-9.9	3.5	-0.3	3.5	11.0	5.4
Imports of Goods and Services	YY	0.2	1.4	7.5				-0.6	0.5	1.2	-0.2	0.9	-0.2	0.8	4.0
	QQ SAAR							-8.7	9.7	4.6	-5.2	-4.6	5.0	8.6	7.4
Net Exports (Contrib. to YY GDP Growth)		0.1	0.3	-0.8				-0.1	0.8	-1.0	0.1	-0.2	-0.1	1.3	0.4
Consumer Prices	YY	2.6	1.7	2.0				2.8	2.7	2.7	2.1	1.8	1.7	1.7	1.8
Retail Prices	YY	3.0	2.6	3.7				3.3	3.1	3.2	2.6	2.6	2.5	2.4	2.7
RPIX - Ex Mortgages	YY	3.1	2.6	3.2				3.2	3.1	3.2	2.7	2.7	2.6	2.5	2.7
Average Earnings YY	YY	1.2	1.3	3.2				0.4	2.4	0.8	1.3	1.9	-0.2	1.6	1.9
Employment Growth	YY	1.3	2.8	2.5				1.5	1.0	1.3	1.3	2.4	3.0	2.9	2.9
Unemployment Rate	%	7.6	6.3	5.2				7.8	7.8	7.6	7.2	6.8	6.4	6.2	5.9
Claimant Count Unemployment Rate	%	4.2	3.1	2.5											
Industrial Production	YY	-0.4	2.2	2.0				-2.5	-0.8	-0.4	2.2	2.4	2.2	2.1	2.0
Manufacturing Output	YY	-0.7	3.1	1.9				-2.9	-1.1	-0.8	1.8	3.6	3.2	2.9	2.7
Current Account Balance	£ bn	-72.8	-64.2	-74.2				-17.6	-7.7	-23.9	-23.5	-18.5	-16.7	-13.8	-15.1
	% GDP	-4.5	-3.8	-4.1				-4.4	-1.9	-5.9	-5.7	-4.4	-4.0	-3.2	-3.4
Public Sector Net Borrowing	£ bn FY	106.8	84.5	54.2											
	% GDP	-6.5	-4.8	-2.9											
General Government Balance	% GDP	-7.1	-5.3	-3.4											
Government Primary Balance	% GDP	-3.5	-1.8	0.3											
General Government Debt	£ bn	1,529.0	1,654.6	1,728.9											
	% GDP	94.5	95.1	93.7											
Gross Non Oil Trading Profits	YY	4.6	15.2	6.4				7.7	4.2	2.5	3.5	2.2	19.6	21.4	17.0
Base Rate (Period Average)	%	0.50	0.54	1.67				0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.67
Ten-year Gilt Yield (Period Averages)	%	2.34	2.81	3.19				2.02	1.92	2.73	2.79	2.78	2.67	2.75	3.05
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.85	0.79	0.78				0.84	0.86	0.84	0.83	0.83	0.79	0.78	0.77
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.56	1.70	1.74				1.52	1.52	1.62	1.66	1.67	1.72	1.71	1.72

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

Switzerland

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The Swiss economy continues to perform well, with solid real growth and stable prices. With strong trends in the PMI and Kof surveys, we estimate that Q2 GDP rose by about 0.7% QQ and continue to look for GDP growth of about 2% this year and about 2½% in 2015. Deflation is ending but inflation is close to zero. We expect no monetary policy move either way this year or in 2015. But the SNB may well hike before the ECB given Switzerland's superior growth rate.

Figure 16. Switzerland – Economic Forecasts, 2013-15F

		History			Forecast			History				Forecast			
		2013	2014	2015				1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	2.0	2.1	2.6				1.6	2.3	2.1	1.9	1.7	1.9	2.0	2.6
Final Domestic Demand	YY	2.3	2.4	2.9				1.6	2.4	2.4	2.7	2.2	2.2	2.7	2.5
Private Consumption	YY	2.3	1.7	1.9				2.3	2.7	2.2	2.0	1.5	1.5	2.1	1.9
Public Consumption	YY	3.0	0.1	0.7				3.6	3.0	2.9	2.5	0.6	0.5	-0.2	-0.3
Fixed Investment	YY	1.8	5.4	6.7				-1.5	1.4	2.7	4.7	5.4	5.1	5.7	5.5
Exports of Goods and Services	YY	2.0	5.3	6.1				1.9	2.7	2.0	1.3	4.4	4.5	5.9	6.4
Imports of Goods and Services	YY	1.8	3.3	6.7				1.2	2.5	0.2	3.4	2.0	2.4	5.1	3.6
Consumer Prices	YY	-0.2	0.0	0.9				-0.4	-0.4	0.0	0.0	0.0	0.1	-0.3	0.2
Unemployment Rate	%	3.1	2.7	2.0				3.1	3.2	3.2	2.9	2.8	2.8	2.9	2.4
Current Account Balance	Sfr bn	72.2	68.4	64.2				20.7	20.2	19.7	11.7	18.2	19.1	18.0	13.1
	% GDP	12.0	11.1	10.2				13.8	13.4	13.0	7.7	11.9	12.4	11.7	8.5
General Government Balance	% GDP	0.2	0.7	1.1											
General Government Debt	% GDP	48.2	46.3	44.8											
SNB Rate (Annual Avge, then qtr-end)	%	0.00	0.00	0.00				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	0.82	0.95	1.06				0.64	0.65	1.07	1.00	0.98	0.95	0.95	0.95
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.23	1.22	1.25				1.22	1.23	1.22	1.23	1.22	1.22	1.22	1.23
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.93	0.90	0.93				0.95	0.94	0.90	0.89	0.88	0.89	0.92	0.93

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

Sweden

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The Swedish economy returned to growth in 2Q, but GDP was up by a weaker-than-expected 0.2% QQ. With a 0.1% QQ drop in 1Q, the economy nearly stagnated in 1H. Meanwhile, one should not draw any hasty conclusions as the 2Q GDP flash estimate is based on a smaller data set than other quarters (the 2Q flash estimate is published early to provide information to the government as it prepares its autumn budget bill). Although we reckon that the 2Q flash estimate underestimates the strength of the economy, and is likely to be revised up at a later stage, we still see some downside risks to our full-year 2014 GDP forecast of 2.2% YY. We also note that the trend in sentiment indicators lately is slightly down, putting into question the expected acceleration in GDP growth going into 2015.

At the July monetary policy meeting, the Riksbank confirmed a shift in its reaction function – with a greater focus on preventing a further inflation undershoot and less worry about upside inflation risks or risks that ultra-low rates will further boost the already-high level of household debt – by cutting by a larger-than-expected 50bp to 0.25% and revising its conditional interest rate path substantially lower. The path maintains a slight downside bias (12% probability of another rate cut in Sep) and the timing of initial tightening was postponed by about half a year to late-2015. According to our model, inflation will likely stay slightly above the Riksbank's forecasts for the remainder of the year – which the substantial upside surprise in inflation in June also supports – and we confirm our view of stable rates until the turn of the year 2015/16, when we see a first rate hike.

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

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

		History		Forecast			
		2013	2014	2015	2016	2017	2018
Real GDP	YY	1.6	2.2	2.8	2.8	2.9	2.7
Final Domestic Demand	YY	1.4	2.6	2.3			
Private Consumption	YY	2.1	2.3	2.6			
Public Consumption	YY	1.9	1.0	0.8			
Fixed Investment	YY	-1.0	6.0	3.8			
Exports of Goods & Services	YY	-0.3	3.1	4.6			
Imports of Goods & Services	YY	-0.7	4.4	3.7			
Consumer Prices	YY	0.0	-0.1	1.1	2.4	2.3	2.2
Unemployment Rate	%	8.0	8.0	7.6			
Current Account Balance	SEK bn	234.8	233.5	233.2	248.3	256.9	268.3
	% GDP	6.4	6.3	6.0	6.1	6.0	6.0
General Government Balance	SEK bn	-49.0	-59.9	-31.5	-11.4	21.3	54.4
	% GDP	-1.3	-1.6	-0.8	-0.3	0.5	1.2
General Government Debt	% GDP	39.0	39.8	39.1	37.5	35.1	32.3
Riksbank Rate (Annual Average)	%	0.99	0.52	0.26	0.92	1.68	2.30
Ten-year Yield (Period Average)	%	2.10	2.01	2.14	2.40	2.55	2.80
EUR-SEK FX Rate (Annual Average)		8.65	9.10	9.08	8.98	8.82	8.66
USD-SEK FX Rate (Annual Average)		6.51	6.74	6.72	6.39	6.22	6.07

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

Denmark

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

While public finances seem robust this year, the outlook for 2015 is somewhat worrying, not least as the next general election has to be held no later than autumn-2015. With the lapse of temporary tax receipts (from the capital pension tax reform), the public budget deficit could end up close to the budget-act limits. Hence, should economic growth fail to rebound, or the notoriously volatile pension tax receipts turn out much lower than expected, this could force the government to impose tightening measures at a critical point in the recovery.

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

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.4	1.4	1.7	1.8	1.8	2.0
Final Domestic Demand	YY	0.4	1.3	1.8			
Private Consumption	YY	0.1	1.3	2.0			
Public Consumption	YY	0.7	0.8	0.9			
Fixed Investment	YY	0.5	2.3	2.4			
Exports of Goods & Services	YY	1.0	4.1	3.3			
Imports of Goods & Services	YY	1.4	4.6	3.6			
Consumer Prices	YY	0.8	0.7	1.2	1.6	1.9	2.0
Unemployment Rate	%	7.0	6.7	6.5			
Current Account Balance	DKK bn	133.4	126.6	110.0	108.1	114.2	118.0
	% GDP	7.2	6.7	5.6	5.4	5.5	5.4
General Government Balance	% GDP	-1.0	-1.3	-2.7	-1.7	-1.0	-0.9
General Government Debt	% GDP	44.5	44.7	46.0	46.2	45.5	44.7
DNB Bank Rate (Annual Average)	%	0.20	0.20	0.20	0.25	0.55	1.10
Ten-year Yield (Period Average)	%	1.73	1.53	1.68	1.95	2.30	2.55

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

Norway

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Growth in the mainland economy (ex. oil/gas and shipping) remains moderate. Private consumption and non-oil exports should continue to add growth, while slowing oil investment trends and ongoing erosion in competitiveness imply that mainland GDP will grow at a below trend rate pace in coming years. Both fiscal and monetary policy will remain expansive to support economic recovery. Full-year growth in the Norwegian economy downshifted quite sharply in 2013 (to 2.0% YY from 3.4% YY in 2012), but underlying momentum picked up in 2H. In 1Q14, the mainland economy expanded by an expected below-trend 0.5% QQ, an unchanged pace from the previous two quarters. Overall GDP expanded by a weaker-than-expected 0.3% QQ, but this can largely be explained by a substantial drag from the inventory component.

Easing labour market pressures point to somewhat lower wage growth this year of around 3.5% YY, down from last year's 3.9% YY, and pay growth could well decelerate further next year. After having risen substantially in recent quarters, core inflation moderated to 2.4% YY in June. At the June monetary policy meeting, Norges Bank left the key policy rate unchanged at 1.50%, but revised its conditional interest rate path substantially lower, postponing initial tightening by a year to mid-2016, and even opening the door for a near-term rate cut should the economic outlook deteriorate further. Considering the broadly unchanged economic forecast, the size of the downgrade – explained fully by lower interest rate expectations abroad and oil investment – appears large. However, taking Norges Bank's unwillingness to hike ahead of peers on board (as it wants to avoid NOK appreciation), initial tightening is unlikely to commence until 2016. Despite its dovish bias, a rate cut is not in our base case scenario, but risks have clearly increased should the economic outlook deteriorate further.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP - Mainland	YY	2.0	2.0	2.2	2.5	2.9	2.9
Final Domestic Demand	YY	2.5	1.8	2.2			
Private Consumption	YY	2.2	2.1	2.5			
Public Consumption	YY	1.8	2.2	2.3			
Fixed Investment	YY	4.5	0.1	1.1			
Exports of Goods & Services	YY	0.8	1.2	2.8			
Imports of Goods & Services	YY	2.9	1.2	2.9			
Consumer Prices	YY	2.1	2.0	2.1	2.1	2.2	2.4
Unemployment Rate	%	3.5	3.6	3.8			
Current Account Balance	NOK bn	333.6	357.5	382.5	411.0	434.3	472.5
	% GDP	11.1	11.4	11.7	12.0	12.1	12.5
General Government Balance	% GDP	10.9	11.0	11.0	10.0	10.0	9.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Avg)	%	1.50	1.50	1.50	1.80	2.49	3.09
Ten-year Yield (Period Average)	%	2.57	2.66	2.49	2.65	2.90	3.15
EUR-NOK FX Rate (Annual Average)		7.81	8.28	8.01	7.74	7.49	7.24
USD-NOK FX Rate (Annual Average)		5.88	6.12	5.93	5.51	5.28	5.08

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

Long-Term Forecasts

Figure 20. Long-Term Forecasts – GDP, CPI and Current Balance, 2013-18F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-0.4	1.1	1.7	1.9	1.9	1.8	1.4	0.5	0.9	1.2	1.5	1.7	2.4	2.9	3.0	2.9	2.8	2.6
Germany	0.5	2.0	2.4	2.5	2.4	2.2	1.5	1.2	2.0	2.2	2.3	2.4	7.6	7.0	6.9	6.3	6.0	5.7
France	0.4	0.7	1.3	1.7	2.0	1.9	1.0	0.7	1.2	1.3	1.4	1.5	-1.4	-0.7	-0.1	0.4	0.1	-0.1
Italy	-1.8	0.1	1.1	1.2	0.9	0.7	1.3	0.2	-0.2	0.2	0.8	1.2	1.0	1.7	1.8	1.9	1.9	1.8
Spain	-1.2	1.3	1.9	2.2	1.9	1.8	1.5	0.0	0.2	0.5	0.6	0.8	0.8	0.6	0.5	0.5	0.5	0.6
Greece	-3.9	0.3	1.3	1.4	1.5	1.6	-0.9	-1.5	-1.5	-1.0	-0.2	1.0	0.8	2.1	2.4	2.4	2.4	2.3
Ireland	0.2	6.1	3.9	3.8	3.9	4.0	1.0	0.3	1.0	1.1	1.6	1.7	4.4	4.3	5.2	5.0	5.1	5.1
Portugal	-1.4	1.1	2.0	1.9	1.9	2.0	0.4	-0.3	-0.6	-0.2	0.3	0.8	0.5	0.5	0.7	0.9	1.3	1.5
Netherlands	-0.7	0.6	1.4	1.7	2.0	2.1	2.6	0.4	1.2	1.5	1.6	1.8	10.8	10.6	10.1	9.7	9.2	8.8
Belgium	0.2	1.3	1.5	1.6	2.0	2.1	1.2	0.7	1.1	1.8	1.6	1.9	-1.9	-0.3	0.4	0.6	0.5	0.2
Slovakia	0.9	2.2	2.7	3.1	3.1	3.0	1.4	0.0	1.0	1.9	2.3	2.5	2.1	1.5	2.7	3.0	3.1	3.4
Slovenia	-0.9	1.0	1.4	2.3	2.9	3.2	1.8	0.4	0.9	0.8	0.7	0.8	6.0	3.3	3.5	4.0	4.6	5.2
Austria*	0.4	1.7	1.7	1.6	1.4	1.4	2.1	1.8	1.7	1.7	1.7	1.7	3.0	3.5	3.5	3.5	3.6	3.7
Cyprus*	-6.0	-4.8	0.9	1.9	2.3	2.2	0.4	0.4	1.4	1.7	1.7	1.8	-1.5	0.1	0.3	0.6	0.5	0.0
Estonia*	0.8	2.4	3.2	3.5	3.6	3.7	3.5	3.2	2.8	2.5	2.4	2.3	-1.0	-1.3	-1.5	-1.4	-0.8	-0.4
Finland*	-1.4	0.4	1.1	1.5	1.6	1.8	2.2	1.7	1.5	1.7	1.9	2.0	-0.8	-0.3	0.2	0.4	0.6	0.5
Latvia*	4.1	3.8	4.4	4.2	4.1	4.0	0.0	1.5	2.5	2.3	2.3	2.3	-0.8	-1.6	-1.9	-2.0	-2.0	-2.0
Luxembourg*	2.0	2.1	1.9	2.0	2.2	2.2	1.7	1.6	1.8	1.8	1.8	1.9	6.7	6.7	5.5	5.5	5.2	5.1
Malta*	2.4	1.8	1.8	1.7	1.6	1.6	1.0	1.2	2.6	2.0	1.8	1.8	0.9	1.4	1.4	1.3	1.4	1.2
Denmark	0.4	1.4	1.7	1.8	1.8	2.0	0.8	0.7	1.2	1.6	1.9	2.0	7.2	6.7	5.6	5.4	5.5	5.4
Norway	2.0	2.0	2.2	2.5	2.9	2.9	2.1	2.0	2.1	2.1	2.2	2.4	11.1	11.4	11.7	12.0	12.1	12.5
Sweden	1.6	2.2	2.8	2.8	2.9	2.7	0.0	-0.1	1.1	2.4	2.3	2.2	6.4	6.3	6.0	6.1	6.0	6.0
Switzerland	2.0	2.1	2.6	2.7	2.3	2.0	-0.2	0.0	0.9	1.1	1.2	1.2	12.0	11.1	10.2	9.9	10.5	10.5
United Kingdom	1.8	3.4	3.7	2.7	2.3	2.5	2.6	1.7	2.0	2.0	1.9	2.0	-4.5	-3.8	-4.1	-4.3	-4.0	-3.8

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

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

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-3.0	-2.7	-2.4	-1.8	-1.4	-1.0	-0.1	0.3	0.6	1.1	1.6	1.9	95.0	97.0	96.9	96.0	94.5	92.9
Germany	0.0	0.2	0.2	0.0	0.0	-0.1	2.2	2.2	2.1	1.8	1.7	1.6	78.4	77.1	74.1	71.4	69.1	66.5
France	-4.3	-4.2	-3.6	-2.8	-1.9	-1.1	-2.0	-1.9	-1.3	-0.5	0.4	1.2	93.5	96.9	98.2	98.2	96.8	94.7
Italy	-2.8	-3.0	-2.9	-2.2	-1.7	-1.3	2.2	1.8	1.9	2.4	2.7	2.9	132.6	137.6	139.0	138.8	138.7	137.4
Spain	-7.1	-5.7	-4.9	-3.8	-3.2	-2.6	-3.7	-2.3	-1.6	-0.7	-0.1	0.3	93.9	98.8	101.3	102.0	102.3	102.1
Greece	-12.7	-2.0	-2.2	-1.5	-1.1	-0.5	-8.7	2.4	2.3	3.1	3.5	3.9	175.1	179.5	181.3	180.6	178.4	174.3
Ireland	-6.7	-1.8	0.8	1.9	2.9	4.1	-2.6	2.9	5.4	6.4	7.2	8.0	123.3	114.2	108.2	102.3	94.0	84.7
Portugal	-5.0	-4.2	-3.2	-2.6	-2.2	-1.7	-0.6	0.3	1.5	2.0	2.3	2.7	128.9	136.0	133.5	131.5	129.7	128.3
Netherlands	-2.4	-2.8	-2.3	-1.8	-1.3	-1.0	-0.7	-1.1	-0.5	0.0	0.4	0.7	73.5	75.0	74.9	74.4	73.1	71.4
Belgium	-2.7	-2.5	-2.0	-1.3	-0.5	0.4	0.6	0.7	1.2	1.8	2.5	3.3	101.2	102.1	101.4	99.5	96.4	92.3
Slovakia	-2.8	-3.0	-2.6	-2.2	-1.8	-1.7	-1.5	-1.7	-1.3	-0.9	-0.6	-	55.4	56.3	55.7	55.0	54.2	53.2
Slovenia	-14.7	-4.0	-3.5	-3.3	-1.7	-1.4	-12.1	-1.1	-0.7	-0.3	1.2	1.4	71.7	81.3	82.7	83.1	81.4	79.2
Austria*	-1.8	-3.0	-1.5	-1.3	-1.1	-1.0	0.2	-1.0	0.6	0.8	1.0	1.0	74.2	79.1	78.2	77.5	76.1	74.8
Cyprus*	-4.7	-5.2	-5.2	-2.0	-1.0	-0.2	-1.8	-1.8	-2.1	NA	NA	NA	112.0	121.5	125.8	122.5	116.1	111.6
Estonia*	-0.4	-0.4	0.2	0.6	0.8	1.1	-0.4	-0.4	0.2	0.6	0.9	1.2	11.3	10.9	10.3	9.6	8.9	8.2
Finland*	-2.6	-2.6	-1.9	-1.7	-1.6	-1.6	-2.6	-2.7	-2.1	-2.0	-1.9	-1.7	57.0	60.2	62.1	62.0	61.9	62.1
Latvia*	-1.3	-1.1	1.3	-1.6	-0.3	-0.5	-0.1	0.4	2.2	-0.6	0.7	0.5	32.1	32.7	29.3	31.3	30.5	28.4
Luxembourg*	0.0	0.1	-2.4	-2.4	-2.8	-3.0	0.4	0.5	-2.0	-2.2	-2.8	-3.2	22.9	24.1	27.0	29.8	32.9	35.8
Malta*	-2.9	-3.1	-3.3	-2.9	-2.9	-2.9	0.1	0.3	0.2	NA	NA	NA	71.7	72.5	72.6	72.6	72.9	73.1
Denmark	-1.0	-1.3	-2.7	-1.7	-1.0	-0.9							44.5	44.7	46.0	46.2	45.5	44.7
Norway	10.9	11.0	11.0	10.0	10.0	9.0							NA	NA	NA	NA	NA	NA
Sweden	-1.3	-1.6	-0.8	-0.3	0.5	1.2							39.0	39.8	39.1	37.5	35.1	32.3
Switzerland	0.2	0.7	1.1	1.7	1.8	0.9							48.2	46.3	44.8	43.7	42.4	44.5
United Kingdom	-7.1	-5.3	-3.4	-1.2	-0.4	0.6	-3.5	-1.8	0.3	2.5	3.5	4.4	94.5	95.1	93.7	91.5	88.9	85.2

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

Change in Forecasts from Prior Month

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

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Euro Area		-0.1	-0.1		-0.1			0.1	0.2		-0.1	-0.1
Germany		-0.2	-0.1			0.2		0.1	0.3		0.1	
France												
Italy		-0.1			-0.1			-0.2	-0.2			-0.1
Spain					0.2	0.2						
Greece		0.9	0.1		0.1	0.1					0.4	0.5
Ireland	0.5	3.3	0.5	0.6	-0.5		-2.2	-5.3	-5.1	0.5	3.3	3.3
Portugal		-0.1				0.1						-0.2
Netherlands	0.1				0.1	0.1		-0.3	-0.2			-0.1
Belgium					0.1		-0.3	-1.3	-1.3		-0.1	-0.1
Slovakia					-0.1			-0.1				
Slovenia							-0.3					
Denmark		0.1	0.1		-0.3	-0.3	-0.1	-0.1	-0.1			
Norway												
Sweden		-0.2	0.1			0.1						
Switzerland					0.2	0.1						
United Kingdom	0.1	-0.1	0.1		0.1	0.1	-0.1	0.2	-0.1		0.3	0.3

Source: Citi Research

Economic Forecasts Compared

Figure 23. Euro Area Countries – Economic Forecasts Compared, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Euro Area - Citi Forecast	30-Jul-14	-0.4	1.1	1.7	-3.0	-2.7	-2.4	95.0	97.0	96.9
OECD Economic Outlook	06-May-14	-0.4	1.2	1.7	-3.0	-2.5	-1.8	95.1	96.0	95.2
EU Commission Forecast	05-May-14	-0.4	1.2	1.7	-3.0	-2.5	-2.3	95.0	96.0	95.4
IMF WEO Forecast	08-Apr-14	-0.4*	1.1	1.5*	-3.0	-2.6	-2.0	95.2	95.6	94.5
ECB Forecast - mid-point	06-Mar-14	-0.4	1.2	1.5	-3.2	-2.7	-2.5	92.9	93.5	93.2
Germany - Citi Forecast	30-Jul-14	0.5	2.0	2.4	0.0	0.2	0.2	78.4	77.1	74.1
OECD Economic Outlook	19-Nov-13	0.5	1.9	2.1	0.0	-0.2	0.2	78.3	76.3	72.3
EU Commission Forecast	05-May-14	0.4	1.8	2.0	0.0	0.0	-0.1	78.4	76.0	73.6
IMF WEO Forecast	08-Apr-14	0.5	1.9*	1.7*	0.0	0.0	-0.1	78.1	74.6	70.8
France - Citi Forecast	30-Jul-14	0.4	0.7	1.3	-4.3	-4.2	-3.6	93.5	96.9	98.2
OECD Economic Outlook	06-May-14	0.3	0.9	1.5	-4.3	-3.8	-3.1	93.4	95.9	96.9
EU Commission Forecast	05-May-14	0.2	1.0	1.5	-4.3	-3.9	-3.4	93.5	95.6	96.6
IMF WEO Forecast	08-Apr-14	0.3	0.7*	1.4*	-4.2	-3.7	-3.0	93.9	95.8	96.1
Italy - Citi Forecast	03-Jul-14	-1.8	0.1	1.1	-2.8	-3.0	-2.9	132.6	137.6	139.0
OECD Economic Outlook	06-May-14	-1.8	0.5	1.1	-2.8	-2.7	-2.1	132.6	134.3	134.5
EU Commission Forecast	05-May-14	-1.9	0.6	1.2	-3.0	-2.6	-2.2	132.6	135.2	133.9
IMF WEO Forecast	08-Apr-14	-1.9	0.3*	1.1	-3.0	-2.7	-1.8	132.5	134.5	133.1
Spain - Citi Forecast	30-Jul-14	-1.2	1.3	1.9	-7.1	-5.7	-4.9	93.9	98.8	101.3
OECD Economic Outlook	06-May-14	-1.2	1.0	1.5	-7.1	-5.5	-4.5	93.9	98.3	101.4
EU Commission Forecast	05-May-14	-1.2	1.1	2.1	-7.1	-5.6	-6.1	93.9	100.2	103.8
IMF WEO Forecast	08-Apr-14	-1.2	1.2*	1.6*	-7.1	-5.9	-4.9	93.9	98.8	102.0
Greece - Citi Forecast	30-Jul-14	-3.9	0.3	1.3	-12.7	-2.0	-2.2	175.1	179.5	181.3
OECD Economic Outlook	06-May-14	-3.9	-0.3	1.9	-12.7	-2.5	-1.4	175.1	177.7	177.2
EU Commission Forecast	05-May-14	-3.9	0.6	2.9	-12.7	-1.6	-1.0	175.1	177.2	172.4
IMF WEO Forecast	08-Apr-14	-3.9	0.6	2.9	-2.5	-2.7	-1.9	173.8	174.7	171.3
Ireland - Citi Forecast	30-Jul-14	0.2	6.1	3.9	-6.7	-1.8	0.8	123.3	114.2	108.2
OECD Economic Outlook	06-May-14	-0.3	1.9	2.2	-7.0	-4.7	-3.1	123.7	121.9	121.1
EU Commission Forecast	05-May-14	-0.3	1.7	3.0	-7.2	-4.8	-4.2	123.7	121.0	120.4
IMF WEO Forecast	08-Apr-14	-0.3	1.7	2.5	-7.4	-5.1	-3.0	122.8	123.7	122.7
Portugal - Citi Forecast	30-Jul-14	-1.4	1.1	2.0	-5.0	-4.2	-3.2	128.9	136.0	133.5
OECD Economic Outlook	06-May-14	-1.4	1.1	1.4	-5.0	-4.0	-2.4	129.0	130.8	131.8
EU Commission Forecast	05-May-14	-1.4	1.2	1.5	-4.9	-4.0	-2.5	129.0	126.7	124.8
IMF WEO Forecast	08-Apr-14	-1.4	1.2	1.5	-4.9	-4.0	-2.5	128.8	126.7	124.8
Netherlands - Citi Forecast	30-Jul-14	-0.7	0.6	1.4	-2.4	-2.8	-2.3	73.5	75.0	74.9
OECD Economic Outlook	06-May-14	-0.8	1.0	1.3	-2.4	-2.7	-2.0	73.4	74.7	74.9
EU Commission Forecast	05-May-14	-0.8	1.2	1.4	-2.5	-2.8	-1.8	73.5	73.8	73.4
IMF WEO Forecast	08-Apr-14	-0.8	0.8	1.6	-3.1	-3.0	-2.0	74.9	75.0	74.4
Belgium - Citi Forecast	30-Jul-14	0.2	1.3	1.5	-2.7	-2.5	-2.0	101.2	102.1	101.4
OECD Economic Outlook	06-May-14	0.2	1.5	1.9	-2.7	-2.1	-1.2	101.6	101.7	100.3
EU Commission Forecast	05-May-14	0.2	1.4	1.6	-2.6	-2.6	-2.8	101.5	101.7	101.5
IMF WEO Forecast	08-Apr-14	0.2	1.2	1.2	-2.8	-2.5	-2.1	99.8	99.8	99.6
Slovakia - Citi Forecast	30-Jul-14	0.9	2.2	2.7	-2.8	-3.0	-2.6	55.4	56.3	55.7
OECD Economic Outlook	06-May-14	0.9	2.0	2.9	-2.8	-2.7	-2.6	55.4	55.2	56.2
EU Commission Forecast	05-May-14	0.9	2.2	3.1	-2.8	-2.9	-2.8	55.4	56.3	57.8
IMF WEO Forecast	08-Apr-14	0.9	2.3	3.0	-3.0	-3.8	-3.8	54.9	58.6	59.8
Slovenia - Citi Forecast	30-Jul-14	-0.9	1.0	1.4	-14.7	-4.0	-3.5	71.7	81.3	82.7
OECD Economic Outlook	06-May-14	-1.1	0.3	1.2	-14.7	-4.1	-2.6	71.7	77.2	80.9
EU Commission Forecast	05-May-14	-1.1	0.8	1.4	-14.7	-4.3	-3.1	71.7	80.4	81.3
IMF WEO Forecast	08-Apr-14	-1.1	0.3	0.9	-14.2	-5.5	-4.1	73.0	74.9	77.9

*IMF WEO update, 24 July 2014. Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*. Sources: ECB, EU Commission, IMF, OECD and Citi Research forecasts

Figure 24. Euro Area Countries – Economic Forecasts Compared, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	0.4	1.5	2.1	-1.5	-2.8	-1.3	74.6	81.2	80.7
EU Commission Forecast	05-May-14	0.4	1.6	1.8	-1.5	-2.8	-1.5	74.5	80.3	79.2
IMF WEO Forecast	08-Apr-14	0.4	1.7	1.7	-1.8	-3.0	-1.5	74.2	79.1	78.2
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-May-14	-5.4	-4.8	0.9	-5.4	-5.8	-6.1	111.7	122.2	126.4
IMF WEO Forecast	08-Apr-14	-6.0	-4.8	0.9	-4.7	-5.2	-5.2	112.0	121.5	125.8
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	0.8	1.2	3.1	-0.2	-0.2	-0.1	10.0	9.9	9.7
EU Commission Forecast	05-May-14	0.8	1.9	3.0	-0.2	-0.5	-0.6	10.0	9.8	9.6
IMF WEO Forecast	08-Oct-13	0.8	2.4	3.2	-0.4	-0.4	0.2	11.4	10.9	10.3
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	-1.4	0.2	1.1	-2.5	-2.2	-0.9	57.0	59.9	60.7
EU Commission Forecast	05-May-14	-1.4	0.2	1.0	-2.1	-2.3	-1.3	57.0	59.9	61.2
IMF WEO Forecast	08-Apr-14	-1.4	0.4	1.1	-2.6	-2.6	-1.9	57.0	60.2	62.1
Latvia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EC Commission Forecast	05-May-14	4.1	3.8	4.1	-1.0	-1.0	-1.1	38.1	39.5	33.4
IMF WEO Forecast	08-Apr-14	4.1	3.8	4.4	-1.3	-1.1	1.3	32.1	32.7	29.3
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	2.1	2.8	2.5	0.1	0.3	-0.9	23.1	24.4	26.3
EU Commission Forecast	05-May-14	2.1	2.6	2.7	0.1	-0.2	-1.4	23.1	23.4	25.5
IMF WEO Forecast	08-Apr-14	2.0	2.1	1.9	0.0	0.1	-2.4	22.9	24.1	27.0
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	06-May-14	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-May-14	2.4	2.3	2.3	-2.8	-2.5	-2.5	73.0	72.5	71.1
IMF WEO Forecast	08-Apr-14	2.4	1.8	1.8	-2.9	-3.1	-3.3	71.7	72.5	72.6

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

Figure 25. Selected European Countries – Economic Forecasts Compared, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Denmark - Citi Forecast	30-Jul-14	0.4	1.4	1.7	-1.0	-1.3	-2.7	44.5	44.7	46.0
OECD Economic Outlook	06-May-14	0.4	1.4	1.8	-0.9	-1.5	-3.0	44.5	45.8	48.6
EU Commission Forecast	05-May-14	0.4	1.5	1.9	-0.8	-1.2	-2.7	44.5	43.5	44.9
IMF WEO Forecast	08-Apr-14	0.4	1.5	1.7	-0.4	-1.4	-2.7	45.2	45.6	46.7
Norway - Citi Forecast	30-Jul-14	2.0	2.0	2.2	10.9	11.0	11.0	NA	NA	NA
OECD Economic Outlook	06-May-14	0.6	2.0	2.4	11.1	10.7	10.2	35.6	36.7	39.6
IMF WEO Forecast	05-May-14	0.8	1.8	1.9	11.1	11.2	9.9	29.5	29.5	29.5
Sweden - Citi Forecast	30-Jul-14	1.6	2.2	2.8	-1.3	-1.6	-0.8	39.0	39.8	39.1
OECD Economic Outlook	06-May-14	1.5	2.8	3.1	-1.3	-1.5	-0.8	40.5	42.0	41.7
EU Commission Forecast	05-May-14	1.5	2.8	3.0	-1.1	-1.8	-0.8	40.6	41.6	40.4
IMF WEO Forecast	08-Apr-14	1.5	2.8	2.6	-1.0	-1.3	-0.5	41.4	41.5	40.0
Switzerland - Citi Forecast	30-Jul-14	2.0	2.1	2.6	0.2	0.7	1.1	48.2	46.3	44.8
OECD Economic Outlook	06-May-14	2.0	2.0	2.5	0.1	0.1	0.3	46.2	45.9	45.3
IMF WEO Forecast	08-Apr-14	2.0	2.1	2.2	0.0	-0.2	0.4	49.4	48.1	47.3
UK - Citi Forecast	30-Jul-14	1.8	3.4	3.7	-7.1	-5.3	-3.4	94.5	95.1	93.7
OECD Economic Outlook	06-May-14	1.4	3.2	2.7	-5.9	-5.3	-4.1	90.6	91.5	93.1
EU Commission Forecast	05-May-14	1.7	2.7	2.5	-5.8	-5.1	-4.1	90.6	91.8	92.7
IMF WEO Forecast	08-Apr-14	1.7	3.2*	2.7*	-5.8	-5.3	-4.1	90.1	91.5	92.7
OBR	19-Mar-14	1.8	2.7	2.3	-6.6	-5.5	-4.2	90.5	91.9	85.8

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

Appendix A-1

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