

## Euro Economics Weekly

### Public Debt Sustainability: Has It Really Been Restored?

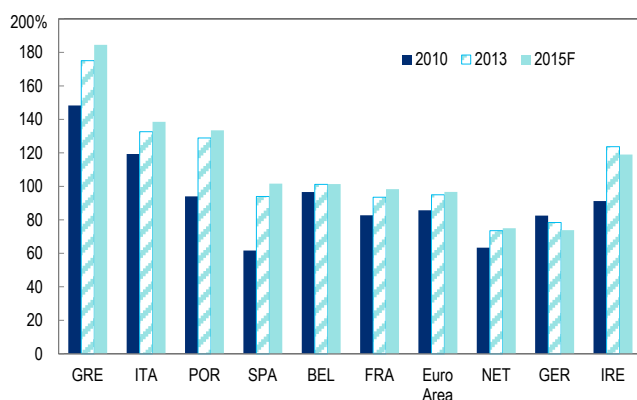
- Public debt sustainability is still far from guaranteed in several periphery, and perhaps also some soft-core, euro area countries, despite record-low yields and unprecedented fiscal austerity in the recent past. Public debt ratios are still rising in all euro area countries, except Germany and probably Ireland.
- Better real GDP growth and improved primary balances compared with the sovereign debt crisis escalation in 2011 make sustainability somewhat better today than three years ago. However, these factors alone are not likely to be enough to set debt-to-GDP ratios on clear downward trends in some countries without further fiscal efforts and/or growth-enhancing reforms. Cyclical improvements in the budgetary positions may be more limited than generally thought.
- Concerns around public debt sustainability may resurface if (i) nominal GDP growth fails to accelerate from the current still very subdued pace, and/or (ii) if the achievements in structural primary balances start being reversed.

Figure 1. Citi Forecasts

	\$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-Yr Gilt Bund
4Q 14	1.36	0.15	1.50	0.77	0.75	157
2Q 15	1.36	0.15	1.55	0.77	1.25	162

Source: Citi Research

Figure 2. Euro Area -- Gross Government Debt (Pct. of GDP), 2010-2015F



Note: 2015 are Citi forecasts

Sources: Haver Analytics, Eurostat and Citi Research

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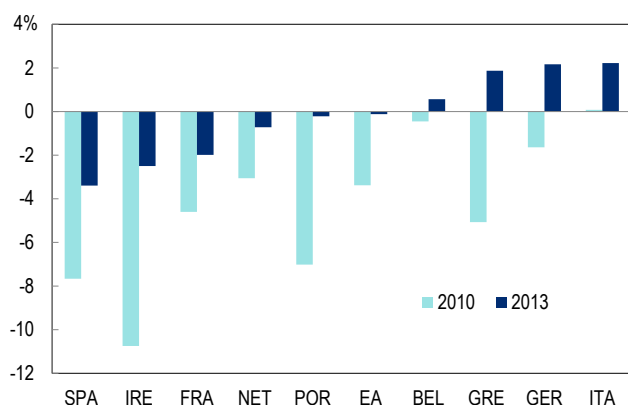
# Public Debt Sustainability: Has It Really Been Restored?

**Concerns around the sustainability of public finances in several euro area countries have largely abated since summer 2012.** Despite temporary turbulences in European sovereign debt markets (like the one recently generated by one troubled Portuguese lender), government bond spreads have compressed to four-year lows. In addition to Draghi's OMT pledge, three years of unprecedented fiscal consolidation (from 2011 to 2013) and the nascent (albeit modest) economic recovery, especially in the periphery, have helped calm market concerns about sovereign debt sustainability. In turn, yields at record-low levels reduce governments' cost of funding, reinforcing the more positive perceptions around public finances. Yet, 2013 public debt-to-GDP ratios still rose in all euro area countries except Germany, and we forecast them to continue rising in all countries, except Germany and Ireland, also in 2014. We argue that the recent recovery in real growth and improved primary balances are not likely to be enough to set public debt ratios on a clear downward trend in all euro area countries. In particular we think concerns around debt sustainability may resurface if nominal GDP growth fails to accelerate and/or if achievements in structural primary balances start being reversed.

## What matters for public debt sustainability?

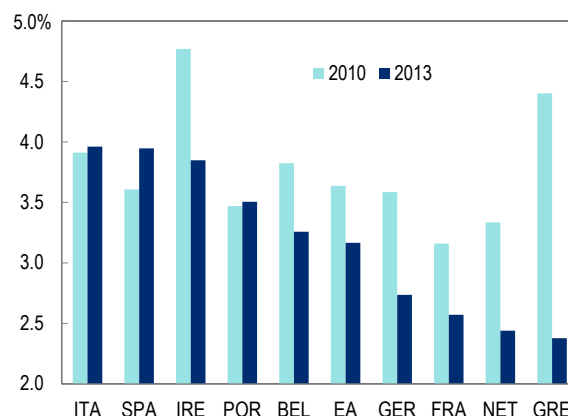
**Primary balances are better now than in 2010...** Primary balances (i.e. government budget balances net of interest spending) and real GDP growth are only two of the five key variables that enter into the debt-to-GDP calculations. The average cost of debt (i.e. total interest payments divided by the stock of debt in the previous period), the stock of debt itself at time t-1 and nominal GDP growth – that is real growth plus growth in the GDP deflator – are the other three key inputs. Compared with the period preceding the outbreak of the sovereign debt crisis, only primary balances look clearly better (i.e. narrower deficits or wider surpluses) today than in 2010 in all nine euro area countries we cover. For the euro area average, the 2013 primary deficit was 3.3pp of GDP smaller than in 2010, with improvements of 7-8pp of GDP in Portugal, Greece and Ireland (see Figure 3). The average cost of debt was lower in 2013 than in 2010 in several EA countries, although not in Spain, Italy and Portugal. In these countries the spike in yields in 2011-13 is still being reflected into higher average cost of debt, but it should be expected to recede in 2014 and 2015 (see Figure 4). The average cost of debt was significantly lower for Greece than in 2010 thanks to the debt restructuring actions undertaken in 2012.

Figure 3. Euro Area – Fiscal Primary Balance (Pct. of GDP), 2010-2013



Sources: Haver Analytics, Eurostat and Citi Research

Figure 4. Euro Area – Government Average Cost of Debt (%), 2010-2013



Sources: Haver Analytics, Eurostat and Citi Research

**...but debt ratios are higher.** On the other hand, debt ratios are higher than in 2010 across all euro area countries, with the exception of Germany; the euro area aggregate figure is expected to end 2014 more than 10pp of GDP higher than four years ago (see Figure 2 on the front page). Part of the increase was due to the large costs of bank recapitalisation, but a large part of the rise in debt ratios was driven by a collapse in the denominator, i.e. in nominal GDP. The comparison with the year of the crisis outbreak shows little improvement in nominal GDP growth. Projected euro area nominal GDP for 2014 (Citi: 1.9%) is well below the realised pace in 2011 (of 2.8%), although nominal growth is expected to be stronger than in 2011 in the periphery (namely in Spain, Portugal, Ireland and Greece). In general, however, inflation measured by the GDP deflator is now lower in most euro area countries compared with 2011, probably with the exception of only Germany and Ireland (in the latter, the internal devaluation adjustment happened faster and earlier than in the rest of the periphery).

### Not much cyclical progress should be expected in fiscal balances

**Headline fiscal balances are expected to keep improving along with the economic cycle.** The lack of a more vigorous recovery in real and nominal GDP growth is in our view one of the two main risks that could prevent public debt ratios from declining in the next few years in several periphery, and possibly some soft-core, countries. The other crucial factor to watch out for is the dynamic of primary balances. Government headline and primary balances are expected to continue improving in nominal terms over the next few years reflecting the cyclical improvement in the economy. The euro area output gap is estimated to be highly negative still in 2014 (we think at around 3% of potential output, similar to the EU Commission's most recent estimate of 2.7%). Using the usual estimated budgetary elasticities, this implies that around 1.5pp of GDP of the estimated 2.5%-of-GDP fiscal deficit for 2014 is due to cyclical factors and should be absorbed along with the narrowing of the output gap. For any 1pp narrowing of the output gap, the government balance should progress by roughly 0.5pp of GDP.

Figure 5. Euro Area – Proxy for Central Government Budget Deficit (EUR bn), 2004-May 14



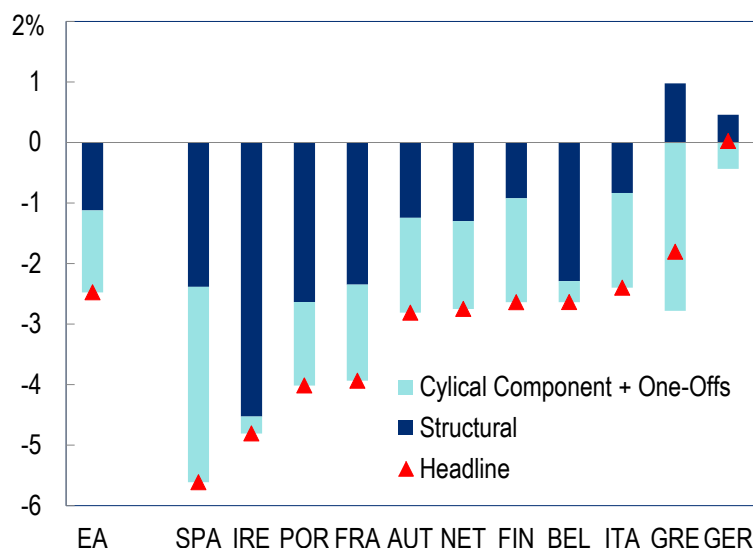
Note: Our Euro Area Proxy includes data from Germany, France, Italy, Spain, Netherlands, Portugal, Greece and Ireland.

Sources: Haver Analytics and Citi Research

**Indeed, YTD monthly data suggest some cyclical improvements in the budgetary positions are underway.** Data on central government (cash-basis) budget balances show signs of progress since the start of this year in most euro countries. Our euro area proxy, which aggregates monthly data on 12-month sums of central government cash deficits across the eight largest euro area members, has been subsiding since January. In May it stood at around €40bn, or 15%, below the relatively flat central government deficit of around €255bn prevailing between mid-2012 and end-2013 (see Figure 5). Since we (together with the IMF and the EU Commission) estimate that [the fiscal stance in 2014 is broadly neutral](#) at the euro area aggregate level, the progress in the nominal deficit should be attributed mainly to cyclical improvements.

**However, the potential for cyclical improvements may not be as large as the EU Commission estimates suggest.** Figure 6 shows the decomposition of nominal deficits into structural (i.e. net of cyclical and one-off effects) and non-structural components, as per the latest EU Commission estimates. It stands out how for some countries (more prominently, Greece, Italy, Spain and Finland) the cyclical component exceeds by a large degree the structural component in determining the 2014 overall fiscal balance. Unless governments again step up their structural fiscal efforts (unlikely in our view), we believe these structural budget estimates lead to misleading conclusions on the extent to which fiscal deficits can narrow over the coming years.

**Figure 6. Euro Area – Fiscal Balance: Structural and Cyclical Components (Pct. of GDP), 2014F**



Sources: EU Commission AMECO database and Citi Research

**For Spain and Greece the estimated cyclical component of the budget is as large as 3pp of GDP.** We doubt that such a sizeable improvement in the fiscal balance can be obtained by letting automatic stabilisers work their way through the economy. While we tend to agree with the EU Commission that the output gap in Spain (and even more so in Greece) remains very large, we think that the sensitivity of the fiscal balance to the economic recovery may be smaller than estimated based on past data. For both countries this is likely due to the different composition of GDP growth towards less tax-rich items, a different tax base (lower tax-intensive housing activity) and zero or negative price and wage inflation.

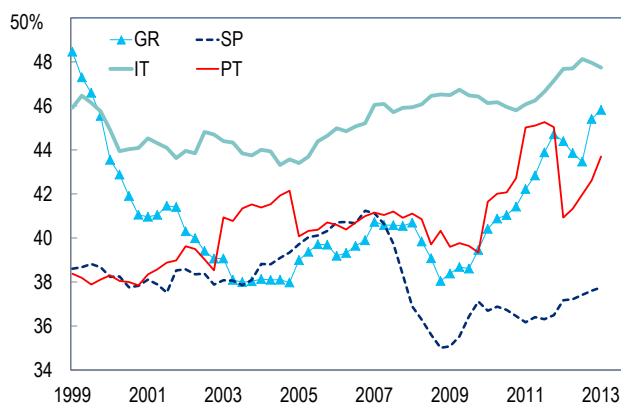
**In Spain, tax revenues as a percentage of GDP have already moved back to the level prevailing in pre-housing bubble years (1999-2004), leaving little scope for large further increases (see Figure 7).** The recently-announced fiscal reform, envisaging a reduction in the tax burden equal to 0.5% of GDP over 2015-16, will further limit the potential for a pick-up in the revenue-to-GDP ratio. Equally, on the expenditure side, spending on social benefits is 5pp of GDP higher than in 2007; only the gradual reduction in the unemployment rate will help driving this spending item lower probably only over the next decade (see Figure 8).

**In Greece,** the government is reportedly asking the troika of international lenders to allow, in the next programme review, a reduction in the tax burden to support the nascent recovery.

**In Italy, where the fiscal deficit is already below 3% of GDP, incentives to compress it further are rather limited.** We reckon Italy is the most obvious example in this respect. If allowed to operate, automatic stabilisers would reduce the Italian deficit to below 3% of GDP in 2014/2015 (the deficit stood at 2.8% of GDP in 2013), but the Renzi government has embarked into a modest fiscal expansion which we think will effectively keep the headline government balance just below 3% of GDP. With clarity lacking on promised future spending cuts, the extent to which the actual fiscal loosening will bring along better GDP growth, high enough to compensate for the negative effects on public debt, remains uncertain.

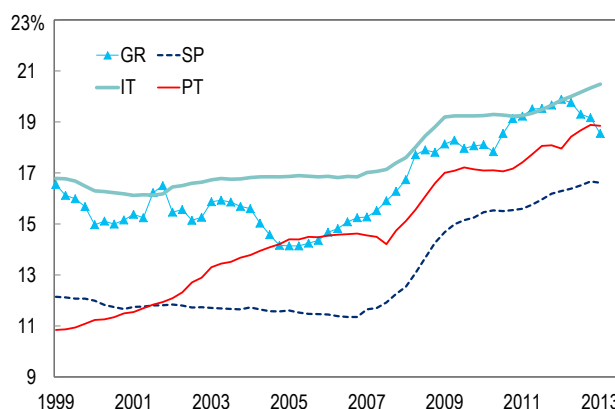
Overall, **we remain sceptical that fiscal deficits in the periphery will continue to narrow as much as they have been doing in the recent past**, partly because we reckon that the cyclical improvement may not be large and also because the recent shift towards more growth-friendly economic policies raises risks of unwinding some of the fiscal consolidation achievements obtained so far.

**Figure 7. Selected Euro Area Countries – Total Government Revenues (Pct of GDP), 1999-Q4 2013**



Sources: Haver Analytics, Eurostat and Citi Research

**Figure 8. Selected Euro Area Countries – Government Expenditure on Social Benefits (Pct of GDP), 1999-Q4 2013**



Note: Social benefits correspond to the AMECO series of "Social benefits other than social transfers in kind".

Sources: Haver Analytics, Eurostat and Citi Research

### What nominal GDP growth is necessary for debt sustainability?

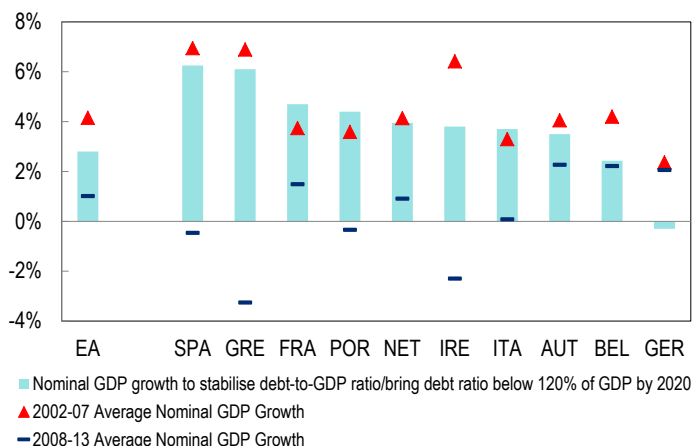
**This implies that higher nominal GDP growth is crucial for restoring fiscal sustainability.** If limited room is left in terms of further improvements in primary balances or further compression in average cost of debt, debt sustainability is heavily dependent on nominal GDP growth. We run a simple simulation exercise across a group of euro area countries to gauge what pace of nominal GDP growth

would be necessary to restore debt sustainability. We arbitrarily define debt sustainability as either (i) a debt-to-GDP ratio stabilising at 2013 levels (for countries where this ratio is already below 120% of GDP), or (ii) falling below 120% by 2020 (for countries in excess of this threshold, that is Greece, Italy, Portugal and Ireland). For the sake of simplicity, we assume that in each country the primary balance (as a % of GDP) and the average cost of debt remain unchanged at the estimated 2014 levels. We compare the calculated debt-stabilising growth with the growth performance in pre-crisis years (2002-2007) and in the last five years. Results are shown in Figure 9.

**The nominal growth required to restore fiscal sustainability is higher in countries with higher public debt/worse primary balances.** Greece and Spain stand out as they would have to experience nominal GDP growth in excess of 6% per annum to stabilise the debt ratio at 2013 levels in the case of Spain, or to drive it below 120% of GDP by 2020 in the case of Greece. This assumes that Spain's primary deficit will remain unchanged at 2.3% of GDP and Greece will maintain a primary surplus of 2.0% of GDP (average cost of debt kept at 3.7% and 2.5%, for Spain and Greece respectively).

**Nominal GDP growth required to ensure debt sustainability is much higher than realised growth over the past five years** in all countries, with the exception of Germany and Belgium. On the other hand, in most countries, including Greece and Spain, the estimated targeted nominal GDP growth was attained and surpassed in the pre-crisis years (2002-2007), possibly suggesting that this target is not completely out of reach. On the other hand, in Italy, France and Portugal the required nominal growth rate to restore debt sustainability is higher even than the average annual growth rate recorded in 2002-2007. For all three countries this calls for more efforts to lift real and nominal GDP growth in the future.

**Figure 9. Euro Area – Annual Average Nominal GDP Growth Required for Public Debt Sustainability, Average Nominal GDP Growth in Pre-Crisis Years and since 2008**



Note: the bars represent the annual nominal GDP growth required to stabilise the debt-to-GDP ratios at 2013 levels or to bring them to 120% by 2020 in countries where it exceeds this threshold (Italy, Portugal, Greece and Ireland). Sources: Haver Analytics, EU Commission AMECO Database and Citi Research

**Nominal GDP growth required to just stabilise the debt ratios in Italy and Greece is much lower than elsewhere.** The above exercise is a simplification, is subject to many arbitrary assumptions and is aimed at providing one metric of comparing fiscal sustainability across countries rather than providing economic forecasts. For example, by defining sustainability just as public debt-to-GDP stabilising at current levels (irrespective of whether the debt ratio is above or below

120% of GDP), it would require much lower nominal growth rates for high-debt countries such as Italy or Greece (of 2.3% instead of 3.7% for Italy and 1.3% instead of 6.1% for Greece).

**Assuming unchanged cost of debt may also be an unrealistic assumption.**

One may argue that if nominal GDP were to accelerate to the levels required by the simulation to achieve debt sustainability, government bond yields would not remain at the current subdued levels. However, if our expectations of QE and loose monetary policy for an extended period of time are correct, yields could well remain low for an extended period even in an environment of accelerating GDP. Moreover, periphery yields spreads relative to Germany could compress further (potentially returning close to pre-2008 levels) and this could offset some of the increase in German yields in the countries where debt sustainability is still most at risk.

**Assuming an unchanged primary balance relative to 2014 may be a too-pessimistic assumption,** given that some (albeit small) cyclical improvements may still happen. However, this could be counterbalanced by governments' decisions to loosen the fiscal stance.

**Fiscal sustainability can also be restored via debt restructurings.** Our analysis does not take into account that other factors could change the stock of public debt. Privatisations are the most notable example which could also reduce the debt burden, although the scope for selling state assets is not very large in many countries. Conversely, further bank recap costs could still push public debt higher. Finally, in the case of programme countries like Greece, Portugal and Ireland, where a large share of the government debt is held in official loans, debt restructuring of the official loans also remains a possibility, which could reduce the average cost of debt and, potentially, also its stock via outright haircuts. In fact, we still expect some debt relief to be agreed for Greece later on this year in the form of interest rate reduction/maturity extensions.

## Conclusions

**We project public debt-to-GDP ratios to peak at some point over the next three to four years...** Our analysis suggests that fiscal sustainability may still not be guaranteed in several periphery euro area countries and perhaps also in some of the soft-core. In our forecasts we assume that further fiscal efforts will be implemented in some countries over the coming years to comply with the EU fiscal rules and this should lead to further improvements in primary balances. With yields expected to remain low, we project the debt to GDP ratios to peak at some point in the next three or four years in most periphery countries (in 2014 in Portugal, in Ireland we estimate the debt ratio will start declining already this year).

**...but risks around debt sustainability remain.** While government budgetary positions are stronger than they were in 2010, risks remain that the cyclical recovery will not translate into further reductions in the fiscal deficits. Risks also seem to be increasing in some countries like Italy, Spain and Greece that the consolidation achievements undertaken so far may start to be partly reversed. Finally, and more crucially, we believe public debt sustainability depends on the future evolution of nominal GDP growth relative to the average cost of financing the debt. This depends to a large extent on the ECB's ability to lift average inflation back to its medium-term target and at the same time to keep yields at relatively compressed levels, in our view.

**Key Economic Indicators (21 July – 25 July 2014)**

<b>Monday 21 July</b>		<b>Forecast</b>	<b>Last</b>
07:00	Germany: Producer Prices, Jun	-0.2% MM, -0.9% YY	-0.2% MM, -0.8% YY
09:00	Italy: Industrial Orders, May		
	Greece: Current Account, May		
	Portugal: Current Account, May		
<b>Tuesday 22 July</b>		<b>Forecast</b>	<b>Last</b>
07:00	Switzerland: Trade Balance, Jun		
09:30	UK: Public Sector Net Borrowing (Ex RM, APF & Fin. Interventions), Jun	£11.0 Billion Deficit	Year Ago: £11.6 Billion Deficit
	Fiscal Year To Date, Apr-Jun	£35.2 Billion Deficit	Year Ago: £33.8 Billion Deficit
10:00	Euro Area: Government Debt, 1Q		
11:00	UK: CBI Quarterly industrial Confidence, Jul	+28%	Apr: +33%
	CBI Monthly Output Expectations, Jul	+30%	Jun: +32%
	CBI Monthly Order Books, Jul	+10%	Jun: +11%
	CBI Monthly Selling Prices, Jul	0%	Jun: +3%
<b>Wednesday 23 July</b>		<b>Forecast</b>	<b>Last</b>
07:45	France: Manufacturing Confidence, Jul	99	98
	Own-Company Production Outlook, Jul	6	4
08:30	Netherlands: Consumer Spending, May		
09:30	UK: MPC Minutes of July 10 Meeting		
09:30	UK: BBA Mortgage Advances, Jun		
10:00	Euro Area: Government Deficit, 1Q		
11:00	UK: CBI Retail Survey, Jul		
15:00	Euro Area: Consumer Confidence, Jul Flash	-7.2	-7.5
<b>Thursday 24 July</b>		<b>Forecast</b>	<b>Last</b>
08:00	Spain: Unemployment Rate, 2Q	24.9%	25.9%
08:30	Sweden: LFS Unemployment Rate, Jun	8.6% NSA, 7.6% SA	8.0% NSA, 7.8% SA
08:30	Sweden: Producer Prices, Jun		
09:00	Italy: Retail Sales, May		
09:00	Euro Area: Manufacturing PMI, Jul Flash	51.6	51.8
	Services PMI, Jul Flash	53.2	52.8
	Composite PMI, Jul Flash	52.9	52.8
09:30	UK: Retail Sales Volumes, Jun	0.6% MM, 4.2% YY	-0.5% MM, 3.9% YY
10:00	Italy: Consumer Confidence, Jul	106.5	105.7
11:00	Ireland: Residential Property Prices, Jun		
<b>Friday 25 July</b>		<b>Forecast</b>	<b>Last</b>
07:00	Germany: GfK Consumer Confidence, Aug		
08:00	Spain: Producer Prices, Jun		
08:30	Netherlands: Producer Confidence, Jul		
08:30	Sweden: Retail Sales, Jun	0.4% MM	-0.7% MM
08:30	Sweden: Household Lending, Jun	5.3% YY	5.3% YY
08:30	Sweden: Trade Balance, Jun		
09:00	Germany: ifo Business Climate, Jul	108.7	109.7
09:00	Italy: Contractual Wages, Jun		
09:00	Euro Area: M3, Jun	1.2% YY, 1.0% 3-M YY	1.0% YY, 0.9% 3-M YY
09:30	UK: Service Sector Output, May	0.4% MM, 3.4% YY	0.3% MM, 3.1% YY
09:30	UK: GDP, 1Q Preliminary Estimate	0.9% QQ, 3.2% YY	0.8% QQ, 3.0% YY
14:00	Belgium: Business Confidence, Jul	-7.0	-6.2
17:00	France: Jobseekers – Net Change, Jun	18.0K	24.8K
	Total Jobseekers, Jun	3,406.9K	3,388.9K

Sources: National statistical offices, central banks and Citi Research

## Economic Indicators – Comments: Euro Area, Germany, France, Belgium and Italy

### Euro Area

Jul 23 15:00 London Time	<b>Consumer Confidence, Jul</b>	<b>Forecast: -7.2</b>	<b>Prior: -7.5</b>
	We expect a partial reversal in July of the decline in consumer sentiment recorded last month, with the index stabilising around 0.7sd above its long-term average and at its highest level since mid-2010.		
Jul 24 09:00 London Time	<b>Manufacturing PMI, Jul Flash</b>	<b>Forecast: 51.6</b>	<b>Prior: 51.8</b>
	<b>Services PMI, Jul Flash</b>	<b>Forecast: 53.2</b>	<b>Prior: 52.8</b>
	<b>Composite PMI, Jul Flash</b>	<b>Forecast: 52.9</b>	<b>Prior: 525.8</b>
	We forecast a broadly unchanged composite PMI in July, on the back of a projected further drop in the manufacturing PMI (the third consecutive monthly setback and the sixth in the past seven months) to the lowest level since last November, but a gain in the service sector. At these levels, the composite PMI is still consistent with GDP growth of around 0.3%-0.4% QQ in Q3.		
Jul 25 09:00 London Time	<b>M3, Jun</b>	<b>Forecast: 1.2% YY, 1.0% 3-M YY</b>	<b>Prior: 1.0% YY, 0.9% 3-M YY</b>
	M3 annual growth has stabilised at around 1.0% in the first five months of the year, and we do not expect much of a departure from this trend in June, still reflecting the ongoing shrinking of banks' balance sheets. Annual growth in loans to the private sector probably became slightly less negative at -1.2% YY (from -1.4% YY in May). Flows of credit to non-financial corporations likely remained negative, but perhaps continuing the trend seen in the past few months of diminishing contractions in credit flows (€-7bn on average in the past six months).		

### Germany

Jul 21 07:00 London Time	<b>Producer Prices, Jun</b>	<b>Forecast: -0.2% MM, -0.9% YY</b>	<b>Prior: -0.2% MM, -0.8% YY</b>
	We expect producer prices to be lower in June on a monthly basis and remain roughly 1% lower than a year before. As in previous months, we suspect energy prices and the exchange rate to be the main driver of the downward pressure on prices, but it is worth noting that the rate of contraction in the PPI has stabilised since the beginning of the year.		
Jul 25 09:00 London Time	<b>Ifo Business Climate, Jul</b>	<b>Forecast: 108.7</b>	<b>Prior: 109.7</b>
	After two consecutive monthly falls, we expect the ifo business climate index to register another small decline in July. Recent data have generally been weak in Germany, including for industrial production, retail sales and industrial orders. Even though we think that these readings do not reflect the underlying growth momentum of the economy, they suggest that at least the current situation and perhaps also the expectations component of the ifo index could decline. In general, the components and the business climate index remain more than 1 std above their long-term averages, consistent with robust growth momentum in Germany.		

### France

Jul 23 07:45 London Time	<b>Manufacturing Confidence, Jul</b>	<b>Forecast: 99</b>	<b>Prior: 98</b>
	<b>Own-Company Production Outlook, Jul</b>	<b>Forecast: 6</b>	<b>Prior: 4</b>
	We expect that manufacturing confidence continued to remain below its long-term average, but likely improved by one point to -0.1 standard deviations. We estimate that the weakening of the euro since the ECB's measures in early June, combined with confirmation of the government's intention of proceeding with expenditure cuts, will push confidence higher for the first time since March 2014. Failure of confidence to rebound around the start of the second half would likely imply a downward bias for our baseline of a 0.7% increase in GDP growth in 2014.		
Jul 25 17:00 London Time	<b>Jobseekers – Net Change, Jun (000s)</b>	<b>Forecast: 18.0K</b>	<b>Prior: 24.8K</b>
	<b>Jobseekers, Jun (000s)</b>	<b>Forecast: 3,406.9K</b>	<b>Prior: 3,388.9K</b>
	The total number of jobseekers is forecast to increase by 18K in June, in keeping with the average of the last four months. But we fear that the risks are slightly skewed towards a larger uptick given the sizeable fall in the total number of vacancies reported in May and indications of a modest pay-back in private sector employment expectations. We estimate that unemployment increase by nearly 50K in 2Q-14, its worst performance since 2Q-13. The government's target of stabilising the jobless rate by year-end will be very hard to achieve, in our view.		

### Belgium

Jul 25 14:00 London Time	<b>Business Confidence, Indicator, Jul</b>	<b>Forecast: -7.0</b>	<b>Prior: -6.2</b>
	Business confidence improved a little in June for the first time since February 2014, reflecting some pick-up in manufacturing confidence, and to a great extent some improvements in trade and the building industry, outweighing a drop in the business-related services sector. We expect June to show a reversal of this gain, in keeping with the trend of recent softening in demand forecasts and the weakening in price expectations. We doubt that 2H will see much improvement in the rate of economic activity in Belgium, with some of its largest neighbours not growing much at all.		

### Italy

Jul 24 10:00 London Time	<b>Consumer Confidence, Jul</b>	<b>Forecast: 106.5</b>	<b>Prior: 105.7</b>
	We expect consumer sentiment to have improved in July, after what we reckon was only a temporary setback in June (-0.5 points). If correct, this increase would take the index level to 0.3 SD above its long-term average and at its highest level since Jan 2010 (although a break in the series in June 2013 makes historical comparison somewhat misleading).		

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

## Economic Indicators – Comments: Spain, Sweden and United Kingdom

Spain			
Jul 24 08:00 London Time	Unemployment Rate, 2Q	Forecast: 24.9%	Prior: 25.9%
	Monthly data on affiliations to the social security system suggest employment (non-seasonally adjusted) may have posted a quarterly gain in 2Q (by 2.2% QQ), partly driven by seasonal factors (due to start of hiring ahead of the labour-intensive summer season) but also due to an improvement in the underlying trend (we estimate employment posted a gain of 0.4% QQ in seasonally adjusted terms, largest since Q2 2007). At the same time the labour force has probably continued to decline (by around 1%YY, partly driven by discouraged workers and partly by falling working-age population). We expect the unemployment rate (NSA) to fall to 24.9% in 2Q (25% in seasonal adjusted terms, lowest since 1Q 2012) from 25.9% in 1Q.		
Sweden			
Jul 24 08:30 London Time	LFS Unemployment Rate, Jun	Forecast: 8.6%	Prior: 8.0%
	LFS Unemployment Rate, Jun SA	Forecast: 7.6%	Prior: 7.8%
	Swedish labour market data was strong in May with unemployment declining and employment surprising on the upside. Short-term indicators point to ongoing solid growth in employment, and in turn LFS unemployment will likely decline further ahead. In line with the seasonal pattern, the registered unemployment rate rose a tad in June.		
Jul 25 08:30 London Time	Retail Sales, Jun	Forecast: 0.4% MM	Prior: -0.7% MM
	Momentum in the service sector is improving, hence offsetting weakness in manufacturing. This is well in line with indications from the services PMI, which has now been above 50 for 12 consecutive months, and with a 54.6 reading in June points to healthy growth in the sector. NIER retail sector sentiment has improved steadily since late-2011 and stood at a well-above average 109.6 in June. In other words, the decline in retail sales in May should prove temporary, and follows four consecutive (strong) monthly gains. The trend for private consumption remains positive, and continues to be supported by improving business confidence. Low consumer confidence (around the long-term average), meanwhile, is an uncertainty factor.		
Jul 25 08:30 London Time	Household Lending, Jun	Forecast: 5.3% YY	Prior: 5.3% YY
	Annual lending growth is showing signs of acceleration, although the upturn has been somewhat weaker than expected. Given ongoing gains on the housing market, we see a clear risk that household lending could pick up further ahead. Although this is well in line with the Riksbank's expectations, we reckon the board would be more comfortable with a slowdown in lending growth.		
United Kingdom			
Jul 22 09:30 London Time	Public Sector Net Borrowing, Jun (Ex RM, APF and Financial Intervention)	Forecast: £11.0 Billion Deficit, £35.2 Billion Deficit Fiscal Year To Date Year Ago: £11.6 Billion Deficit, £33.8 Billion Deficit Fiscal Year To Date	
	The fiscal deficit has risen slightly versus a year ago in the first two months of this fiscal year, chiefly reflecting disappointing revenue growth. The fiscal position may well benefit less than usual from the economic recovery because of the expansion in lower-paid jobs, which yield little tax revenue.		
Jul 22 11:00 London Time	CBI Industrial Trends Survey, Jun		
	Quarterly Industrial Confidence, Jul	Forecast: +28%	Prior (Apr): +33%
	Monthly Output Expectations Net Balance, Jul	Forecast: +30%	Prior (Jun): +32%
	Monthly Order Books Net Balance, Jul	Forecast: +10%	Prior (Jun): +11%
	Monthly Selling Prices Net Balance, Jul	Forecast: 0%	Prior (Jun): +3%
	The confidence index often weakens slightly between the April and July surveys, with an average deterioration of 9 points over the past 10 years. We expect a relatively small deterioration this time, hence implying a rise in confidence in seasonally adjusted terms. Output expectations and order books are likely to remain far above average.		
Jul 24 09:30 London Time	Retail Sales Volumes, Jun	Forecast: 0.6% MM, 4.2% YY	Prior: -0.5% MM, 3.9% YY
	We expect retail sales to regain the ground lost in May (which largely reflected a drop in sales by food retailers). A figure in line with our forecast would put 2Q volumes up by 1.8% QQ, the strongest gain since Q1-2004. With consumer confidence at the highest for many years, retail sales growth is likely to remain strong in 3Q.		
Jul 25 09:30 London Time	Service Sector Output, May	Forecast: 0.4% MM, 3.4% YY	Prior: 0.3% MM, 3.1% YY
	Surveys suggest that service sector output is still expanding rapidly, and we expect these figures will show continued solid growth. A figure in line with our forecast would put the YY pace at the highest since early 2008.		
Jul 25 09:30 London Time	GDP, 2Q Preliminary Estimate	Forecast: 0.9% QQ, 3.2% YY	Prior: 0.8% QQ, 3.0% YY
	Available data and surveys suggest that the economy continued to grow rapidly in 2Q and a figure in line with our forecast would put the YY pace at the highest since late-2007, while also finally putting the level of GDP above the pre-crisis peak.		

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

## Key Economic Indicators (28 July – 1 August 2014)

During The Week		Forecast	Last
07:00	Germany: Import Prices, Jun (by Jul 29)		
07:00	Germany: Retail Sales, Jun (by Jul 31)		
07:00	UK: Nationwide House Prices, Jul		
Monday 28 July		Forecast	Last
09:00	Italy: Business Confidence, Jul	99.4	100.0
Tuesday 29 July		Forecast	Last
08:00	Spain: Retail Sales, Jun	1.1% YY	0.7% YY
09:30	UK: Mortgage Approvals, Jun		
	Spain: Budget Balance, Jun YTD	€-31 Billion	Year Ago: €-32.4 Billion
Wednesday 30 July		Forecast	Last
07:45	France: Consumer Confidence, Jul		
08:00	Switzerland: KOF Economic Barometer, Jul		
08:00	Sweden: Business & Consumer Surveys, Jul		
08:00	Spain: GDP, 2Q Flash	0.5% QQ	0.4% QQ
08:00	Spain: HICP, Jul Flash	-0.2% YY	0.0% YY
08:30	Sweden: GDP, 2Q Flash		
09:00	Norway: LFS Unemployment Rate, May		
10:00	Euro Area: Economic Sentiment, Jul	101.8	102.0
13:00	Germany: Consumer Prices, Jul Flash		
14:00	Belgium: GDP, 2Q Flash		
Thursday 31 July		Forecast	Last
00:01	UK: GfK Consumer Confidence, Jul		
07:45	France: Consumer Spending, Jun		
07:45	France: Producer Prices, Jun		
08:55	Germany: Unemployment, Jul		
09:00	Norway: Norges Bank Daily FX Purchases, Aug		
09:00	Italy: Unemployment Rate, Jun	12.6%	12.6%
10:00	Italy: HICP, Jul Flash	0.0% YY	0.2% YY
10:00	Greece: Retail Sales, May		
10:00	Euro Area: HICP, Jul Flash	0.3% YY	0.5% YY
10:00	Euro Area: Unemployment Rate, Jun	11.6%	11.6%
	Spain: Current Account, May		
Friday 1 August		Forecast	Last
07:30	Sweden: Manufacturing PMI, Jul		
0800	Norway: Manufacturing PMI, Jul		
09:00	Norway: Unemployment Rate, Jul		
09:00	Euro Area: Manufacturing PMI, Jul Final		
09:30	UK: Manufacturing PMI, Jul		
	Italy: Budget Balance, Jul		

Source: Citi Research

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EU Summit: No Deal on Top Jobs, More Sanctions on Russia;	European Economics Team	Jul 17, 2014
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Source: Citi Research

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