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Europe

Euro Economics Weekly

Some Deserved Fiscal Leeway for Portugal

- Portugal negotiated an extension of its deficit targets this week and it is also likely to get a maturity lengthening of its bailout loans together with Ireland in coming weeks. Portugal has shown a remarkable commitment towards its bailout programme, delivering sizable fiscal consolidation efforts so far. However, these have not translated into equally-sized declines in the fiscal deficit (still at 6% of GDP in 2012), due to underperforming tax revenues.

- A higher fiscal deficit profile will add to a debt-to-GDP ratio, which has probably already exceeded the 120% mark at the end of last year. Persistent weakness in GDP (real and nominal) due to the ongoing deleveraging process and risks of new contingent liabilities being recorded in the government balance sheet still leave concerns about the sustainability of Portuguese public debt, about half of which is now in official hands (Giada Giani, see page 2).

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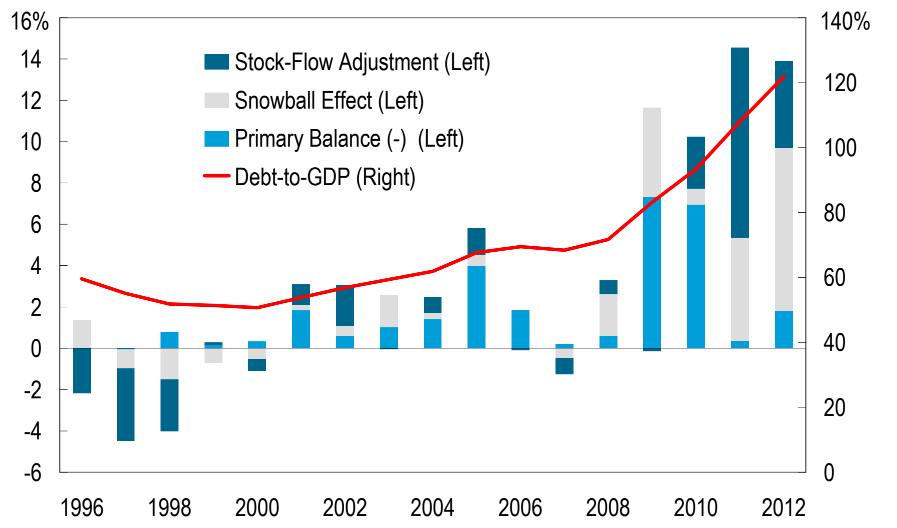
Figure 1. Citi Market Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	U.K. Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vs Bunds
2Q13	1.33	0.50	1.40	0.87	0.50	71	8.36	1.00	7.33	1.50	1.25	0.00	-78
1Q14	1.31	0.25	1.35	0.88	0.50	96	8.44	0.75	7.29	1.75	1.26	0.00	-86

Source: Citi Research

Figure 2. Portugal – Decomposition of Public Debt Accumulation (pp of GDP), 1996-2012F



Sources: EU Commission, IMF and Citi Research

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

Some Deserved Fiscal Leeway for Portugal

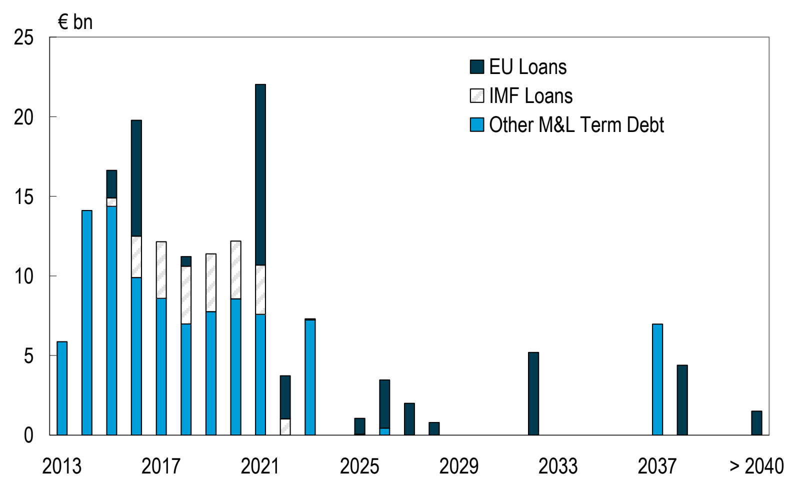
Portugal won some deficit targets relaxation this week, amid a worsening growth outlook

With the economic situation somewhat gloomier than was generally expected a few months ago — GDP down by 1.8.% QQ and unemployment up to 16.9% in Q4 12 — and with rising discontent against the austerity-centered adjustment programme, Portugal is asking for some softening of its bailout terms. Together with Ireland, it is calling for a smoother and back-loaded principal repayment profile of the EFSF/EFSM loans and perhaps a reduction in the interest rate charged, similar to the concessions made to Greece in December. In addition, the Portuguese government (one of many in the eurozone) obtained an extra year (until 2015) to meet its budget deficit target of 3% of GDP. Given the more flexible stance adopted by European creditors on compliant debtor countries, Portugal is looking well-placed to obtain these concessions. However, with growth unlikely to pick up soon and a private sector deleveraging process still well away from completion, we think the sustainability of Portuguese public debt remains questionable.

Portugal faces two refinancing humps on official loans in 2016 and 2021…

The Portuguese aid package agreed in May 2011 amounted to €78bn of loans equally divided between IMF, EU Commission (EC) funding facility (EFSM) and EFSF. The original 7.5 years average maturity of the European loans has already been extended once and currently stands at 12.4 years on EFSM loans and 14.4 years on EFSF loans. The IMF loans still have an average maturity of 7.3 years (see Figure 3). Despite a reasonably long average maturity, the redemption profile of the European loans shows two major humps, one in 2016 (€7.3bn of which €2.5bn to the EFSF) and another in 2021 (€11.35bn, of which €4.6bn to the EFSF).

Figure 3. Portugal – Government Debt Redemption Profile (€bn)



Sources: Portugal Debt Management Office (IGCP) and Citi Research

…which are likely to be smoother out by a likely maturity extension granted on official EFSF/EFSM loans

The Portuguese government, alongside Ireland, had hinted at a possible extension of all loan maturities by 15 years, but recent statements have suggested a more likely scenario would be a postponement of the shortest maturities, aimed at smoothing the redemption profile of the next decade. The extension for EFSF and EFSM loans will require the approval of the Eurogroup (euro area finance ministers) and the Ecofin (EU 27 finance ministers), respectively. Given that no additional funding is involved in the decision and given that the Portuguese government remains committed to the aid programme, we think Portugal will likely see its request approved. Also, note that Greece has already obtained an even longer extension of its maturities just a few months ago. Spreading evenly the redemption of the loans maturing in 2016 and 2021 beyond 2022 — when refinancing needs drop significantly — looks to us a likely outcome.

Interest rate reduction on official loans less likely to occur

On the other hand, a further reduction in the cost of funding seems less likely. The overall cost of debt on the EFSF/EFSM loans — at around 3% — is already incorporating effectively no surcharges on top of the funding costs for the EFSF and EFSM themselves (see Figure 4). Also, the average cost is already well below Portugal's current average cost of debt (just below 4% in 2012). This means that, even if left unchanged, the current interest rate charges will contribute to reducing the average cost of debt in the next few years (official EFSF/EFSM loans at present account for about 20% of total public debt).

Figure 4. Portugal – Bailout Loans

	Nominal Value Of Loan (€Bn)	All In Cost	Average Maturity
EFSM	22.1	3.00%	12.4
EFSF	20.3	3.00%	14.4
IMF	22.2	3.90%	7.3
Total	**64.5**	**3.30%**	**11.2**

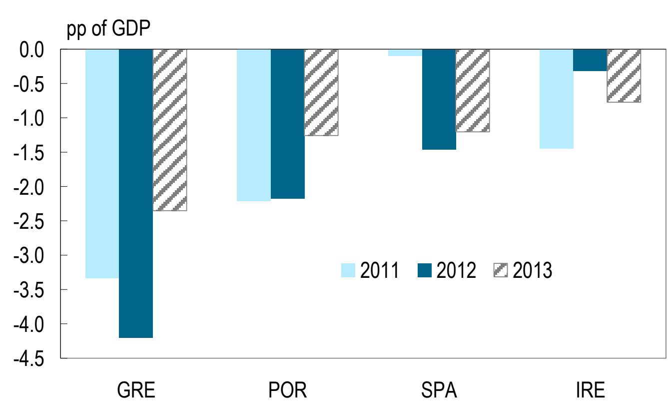
Sources: Portugal Debt Management Office (IGCP) and Citi Research

Portugal this week also won new concessions in terms of fiscal targets, in the form of an extra year to meet the 3% deficit-to-GDP target. EU Commission President Barroso argued this week that any budget deviation from the targets was mostly due to weaker growth around Europe rather than a lack of fiscal consolidation efforts from Portugal. As we argued last week[1], Portugal will be just one of several eurozone members requesting (and probably obtaining) one extra year to bring the deficit ratio below 3% of GDP, starting from a deficit of 6% in 2012. Under the old assumptions, Portugal was expected to meet the 3% target by 2014 compared to Ireland's 2015 deadline. Now the deficit targets have been revised upwards to 5.5% in 2013 (from 4.5% previously), 4.0% for 2014 (from the previous target of 2.5%) and 2.5% in 2015 (from 2.0% previously). Note that in the initial bailout programme in 2011, Portugal was expected to bring down its budget deficit ratio to 3% by 2013.

Fiscal consolidation efforts in Portugal have been significant so far

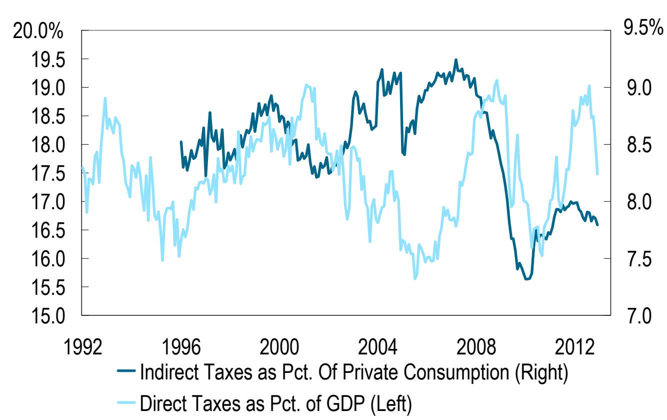
Arguments in favour of some leeway on fiscal austerity for Portugal are plentiful. Since the inception of the programme, the Portuguese government has already delivered an outstanding improvement in the structural budget deficit worth 4.5-5.0pp of GDP — and an even larger improvement of about 6pp for the primary structural balance. An additional 1¼-to-1¾ pp of GDP reduction in the structural deficit is expected in 2013 (see Figure 5). Moreover, the narrowing in the structural deficit has been achieved by adopting even larger fiscal consolidation measures — about 4.3pp of GDP in 2011 and 6pp in 2012, according to EC estimates. The 2013 Budget envisages additional deficit-cutting measures of close to 4pp of GDP in 2013, while the agreement reached with the troika over 2013-15 envisages additional spending cuts for 2.4% of GDP (€4bn). To add to the list of achievements, Portugal is on track with its privatisation target (€5bn or 3% of GDP by the end of the programme).

Figure 5. Selected Euro Area Countries – Change in the Structural Fiscal Deficit (pp of GDP), 2011-2013F



Sources: EU Commission Winter Forecasts and Citi Research

Figure 6. Portugal – Tax Revenues, 1992-2012



Sources: Bank of Portugal and Citi Research

[1] See "Euro Economics Weekly: Fiscal Compact: A Structural Straight-Jacket", 8 March 2013, Citi

Headline deficit targets have been missed (net of one off measures) because of weaker tax revenues

Yet, despite these efforts headline deficit targets were missed both in 2011 and in 2012 (if one excludes the one-off measure worth 3.5pp of GDP from the transfer in 2011 of banks' pension funds to the public social security system). Portugal has been one of the clearest examples of how fiscal austerity has failed to yield the expected budget improvements as the economic recession (which largely matched initial expectations) has had a much larger-than-expected negative impact on tax revenues and boosted social security spending. A shift in the composition of GDP growth away from tax-rich domestic demand towards exports and the reduction in personal income with the move towards lower tax brackets have generated a weaker-than-projected tax performance. In fact, to account for this the IMF has recently increased the fiscal multiplier used in its forecasts for Portugal from 0.5 to 0.8[2].

Revenue growth has decelerated further in recent months

The weakness in tax revenues has become even more pronounced in the second half of 2012: direct taxes were down by 9.5% YY on average in 2012, but fell by 16% YY in H2 12, probably reflecting renewed deterioration in domestic demand (which contracted by 2.5% QQ in Q4 12) (see Figure 6). The weakness is likely to extend into 2013 as we think domestic demand weakness will persist, suggesting that achieving the previous deficit target of 4.5% of GDP would have required sizable additional fiscal tightening.

Rising unemployment makes additional austerity much less acceptable

In addition to deficit over-shoots, the recession has produced a much bigger deterioration in the labour market than previously anticipated. In autumn 2011 the EU Commission estimated the unemployment rate would peak in Portugal at 13.7% in 2013, while recent data show it has risen to 16.9% already at the end of 2012 and probably remains on an upward path. The acceleration in the pace of job losses is probably a major reason behind voters' increasing discontent with the government's austerity strategy. Additional austerity could back-fire in that it may further undermine the still-relatively supportive political environment towards the adjustment programme seen so far in Portugal.

What would these changes do to Portugal's public debt sustainability?

Higher deficits will probably be financed still via official external assistance

The extension of the loan maturities — *de facto* a form of OSI — will reduce liquidity risks and the NPV of the debt, but will leave unchanged its face value. In contrast, the larger budget deficit figures — anticipated by 1.0pp in 2012, 1.0pp in 2013, 1.5pp in 2014 and 0.5pp in 2015 — will push the debt ratio higher by some 5pp of GDP by 2015 (even taking into account some less negative growth developments). The financing of the extra deficit should be covered by the fact that Portugal will receive financial assistance under the current programme until mid-2014 and, if necessary, it should also be able to access additional external help (perhaps in the form of a precautionary credit line) thereafter.

Higher fiscal deficits are pushing an already-high debt-to-GDP ratio well above the 120% threshold

While an increase in the debt ratio by 5pp hardly changes the medium-term fiscal sustainability outlook, the Portuguese public debt ratio has already jumped by 14.5pp of GDP in 2011 and probably by another 13-14pp in 2012, getting above the 120% threshold (probably around 122% of GDP). Similarly to other eurozone countries (eg. Italy), the key driver behind this increase has not been a large fiscal deficit, but rather (a) negative GDP growth (i.e., negative "snowball effect" – capturing the gap between nominal GDP growth and average cost of debt) and (b) large "stock-flow" adjustments. Debt-increasing flows due to government financial support to domestic banks and, in the case of Portugal, to the recognition of

[2] See IMF "Portugal: Fifth Review Under the Extended Arrangement", Country Report No 12/292, October 2012.

government's contingent liabilities have been the main drivers behind the rise in the debt ratio in the past couple of years (see Figure 2 on the front page).

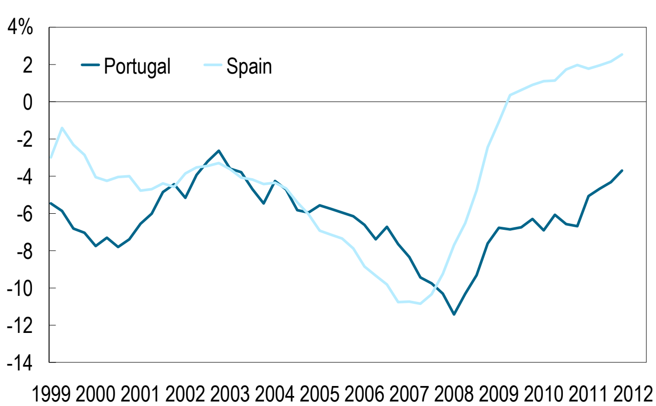
2013 GDP growth has been revised down for the second time in two months, to -2.3%

We think these factors will continue to be the main risks for public debt sustainability in Portugal. This week, at the end of the troika negotiations, the government has announced a new downward revision in its 2013 real GDP forecast to -2.3%, from -1.9%, just revised lower from -1.0% in January. The new revision takes into account the much weaker-than-expected GDP result in Q4 12 (-1.8% QQ), and an even weaker result for final domestic demand (-2.5% QQ). Moreover, negative wage growth and shrinking profits mean that the GDP deflator has now moved into negative territory (-0.4% YY in Q4 12), implying that nominal GDP is falling even faster than real GDP. Despite the relatively low cost of debt, the snowball effect in the debt dynamic calculation is likely to continue pushing the debt ratio significantly higher both in 2013 and in 2014.

Corporate sector deleveraging still has a long way to go

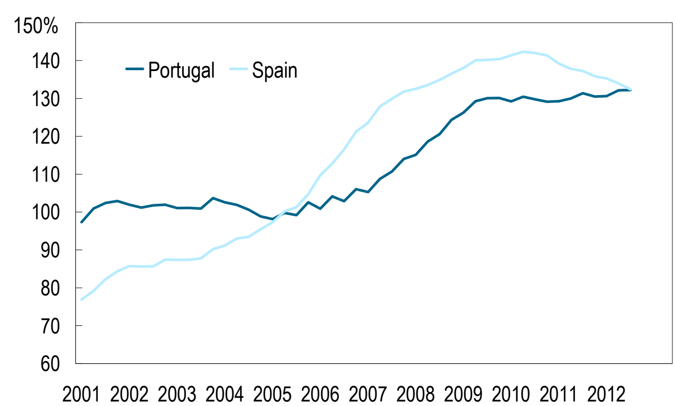
The huge task of deleveraging the private sector — the corporate sector is the most indebted part of the economy — will weigh heavily on Portugal's economic prospects for the next few years. The financial balance of the corporate sector remains well in deficit (4% of GDP in the four quarters ending in Q3 12), as opposed to a surplus of 2.5% of GDP in Spain (see Figure 7). As a result, the debt of non-financial corporations as a percentage of GDP is still rising in Portugal, in contrast to Spain, where it peaked at a higher level, but is now falling (see Figure 8). It is no surprise therefore that lending conditions in Portugal remain very restrictive: Portuguese banks charge the highest corporate lending rates in the euro area after Greece and Cyprus (6.7% in January 2013 for new corporate loans up to €1 mln).

Figure 7. Portugal and Spain – Non-Financial Corporations Financial Balance (Pct. of GDP)



Sources: Haver Analytics and Citi Research

Figure 8. Portugal and Spain – Non-Financial Corporations Debt (Pct. of GDP)



Sources: Haver Analytics and Citi Research

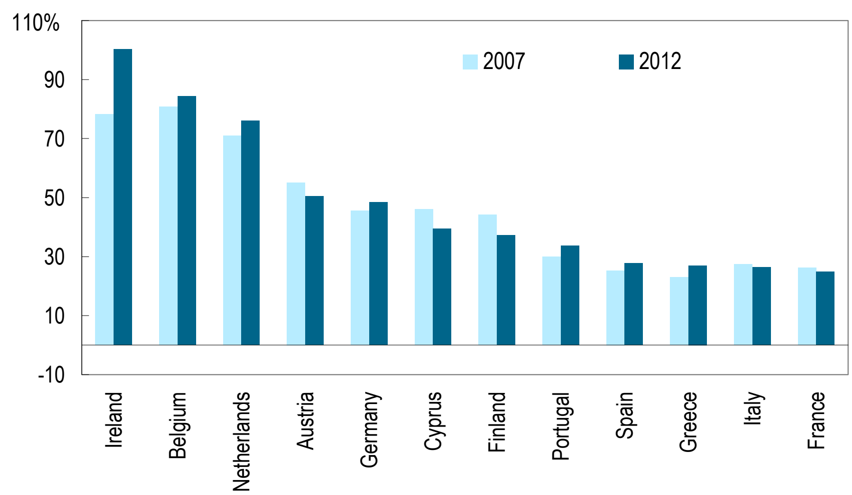
Corporate debt remains high, risks of contingent liabilities lifting the public debt ratio still high

The still high level of leverage of the corporate sector — which includes both private and semi-private companies (i.e., private-public-partnerships, PPPs and state-owned enterprises, SOEs which benefit from sizable government guarantees) — remains one of the major sources of risks for financial stability in the country, we reckon. Progress has been made in the past couple of years on improving the profitability of PPPs and SOEs, for example, by renegotiating road concessions and rising tariffs, therefore reducing the upward risks on the government budget. However, the debt overhang of SOEs (IMF had estimated contingent liabilities from SOEs at 10% of GDP in 2010) and the PPPs' future liabilities still represent major source of risk for public debt sustainability.

Portugal cannot benefit as much as Ireland from positive export growth

In clear contrast to Ireland, Portugal cannot rely just on exports to return to positive GDP growth. The share of exports in GDP has been improving in the past three years, but at 34% in 2012 still remains much lower than Ireland (100%) and actually also lower than other similar-sized euro area countries (eg, Belgium or Austria) (see Figure 9). This means that while the exporting sectors may be growing faster than the rest of the economy thanks to improved competitiveness (which is indeed happening), they are still not large enough to lift the overall economy and offset the negative drags from a shrinking domestic demand.

Figure 9. Euro Area – Exports of Goods and Services (Pct. of GDP)



Sources: Eurostat and Citi Research

Debt sustainability still questionable, although a high share of debt held in official hands makes the need of PSI more debatable

The recent increased flexibility with respect to fiscal targets is probably beneficial in the short term to help retain the government's commitment to the fiscal and financial consolidation paths, and the likely maturity extension of the official loans will improve its liquidity situation. However, we think doubts remain on the ultimate sustainability of Portuguese debt. The relaxation of the fiscal targets will lift a debt ratio that is already above 120% (getting close to Italy) and will probably rise fast because of a shrinking nominal GDP. Whether concerns on debt sustainability will lead to some form of debt restructuring (similar to the Greek PSI) remains debatable. Around 45% of the public debt is now held in official hands — including the EU/IMF official loans (€63bn disbursed so far) and the government securities bought by the ECB under the SMP (€22.8bn) — making additional OSI quite a powerful tool to reduce the debt burden if creditors and debtor countries can agree on it. However, before creditors agree to take losses, we think the risks of some form of private sector involvement — perhaps via maturity extensions and/or coupon reductions — remain considerable, in our view.

Key Economic Indicators (18 March – 22 March 2013)

		Forecast	Last
Monday 18 March		**Forecast**	**Last**
06:45	Switzerland: SECO Spring Economic Forecasts		
09:00	Italy: Trade Balance, Jan		
10:00	Euro Area: Trade Balance, Jan		
Tuesday 19 March		**Forecast**	**Last**
07:00	EU-27: New Car Registrations, Feb		
09:00	Italy: Industrial Production, Jan	0.0% MM, -4.8% YY	0.4% MM, -6.6% YY
09:30	UK: Producer Input Prices, Feb	2.1% MM, 1.3% YY	1.3% MM, 1.8% YY
09:30	UK: Producer Output Prices, Feb	0.3% MM, 1.7% YY	0.2% MM, 2.0% YY
	Excluding Food, Drink, Tobacco, Energy, Feb	0.2% MM, 1.1% YY	0.2% MM, 1.4% YY
09:30	UK: Consumer Prices, Feb	0.8% MM, 2.9% YY	-0.5% MM, 2.7% YY
	CPI Ex Food, Drink, Tobacco, Energy, Feb	0.6% MM, 2.3% YY	-0.9% MM, 2.3% YY
	Retail Prices, Feb	0.8% MM, 3.3% YY	-0.4% MM, 3.3% YY
10:00	Germany: ZEW Economic Expectations, Mar	60.0	48.2
10:00	Italy: Current Account, Jan		
10:00	Euro Area: Construction Output, Jan		
14:00	Belgium: Consumer Confidence, Mar		
Wednesday 20 March		**Forecast**	**Last**
07:00	Germany: Producer Prices, Feb	0.3% MM, 1.5% YY	0.8% MM, 1.7% YY
08:30	Netherlands: Consumer Confidence, Mar		
09:00	Euro Area: Balance of Payments, Jan		
09:30	UK: Claimant Count Unemployment, Feb	-5,000 MM, 4.7% Rate	-12,500 MM, 4.7% Rate
	LFS Unemployment, Nov-Jan	-29,000 QQ, 7.8% Rate	-14,000 QQ, 7.8% Rate
09:30	UK: MPC Minutes (Mar 6)		
09:30	UK: BoE Agents' Summary of Business Conditions, Mar		
c. 12:30	UK: 2013 Budget		
15:00	Euro Area: Consumer Confidence, Mar Flash	-23.0	-23.6
16:30	US: FOMC Outcome		
Thursday 21 March		**Forecast**	**Last**
08:30	Netherlands: Unemployment, Feb		
09:00	Euro area: Manufacturing PMIs, Mar Flash	48.5	47.9
	Services PMI, Mar Flash	48.0	47.9
	Composite PMI, Mar Flash	48.3	47.9
09:30	UK: Retail Sales Volumes, Feb	0.8% MM, 0.8% YY	-0.6% MM, -0.6% YY
09:30	UK: Public Sector Net Borrowing – PSNB ex, Feb		
11:00	UK: CBI Industrial Trends Survey, Mar		
11:00	Ireland: GDP, 4Q		
11:00	Ireland: Balance of Payments, 4Q		
	Greece: Current Account, Jan		
Friday 22 March		**Forecast**	**Last**
07:45	France: Business Confidence, Mar	89	90
	Personal Production Outlook, Mar	-5	2
09:00	Norway: Registered Unemployment Rate, Mar	2.7%	2.7%
08:30	Netherlands: Consumer Spending, Jan		
08:30	Netherlands: Producer Confidence, Mar		
09:00	Germany: ifo Business Climate, Mar	109.0	107.4
14:00	Belgium: Business Confidence, Mar		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area			
Mar 20 15:00 London Time	***Consumer Confidence, Mar Flash***	**Forecast: -23.0**	**Prior: -23.6**
	With ongoing high unemployment, we expect consumer sentiment to remain weak for a prolonged period.		
Mar 21 09:00 London Time	***Manufacturing PMI, Mar Flash*** ***Services PMI, Mar Flash*** ***Composite PMI, Mar Flash***	**Forecast: 48.5** **Forecast: 48.0** **Forecast: 48.3**	**Prior: 47.9** **Prior: 47.9** **Prior: 47.9**
	We expect an increase in the manufacturing PMI, with the services PMI remaining largely unchanged. Overall we expect the composite PMI to stay in the sub-50 contraction territory, being around 1 standard deviation below its long-term average.		
Germany			
Mar 19 10:00 London Time	***ZEW Economic Expectations, Mar***	**Forecast: 60.0**	**Prior: 48.2**
	We expect a fourth consecutive increase in the business expectations of financial experts (the survey participants), although with a smaller gain than in the prior three months.		
Mar 20 07:00 London Time	***Producer Prices, Feb***	**Forecast: +0.3% MM, 1.5% YY**	**Prior: +0.8% MM, 1.7% YY**
	Following a higher-than-expected January reading, we expect that benign base effects will contribute to a reduction in the YY rate of producer prices, which have been in a range between 1.4% and 1.7% since August 2012.		
Mar 22 09:00 London Time	***Ifo Business Climate, Mar***	**Forecast: 109.0**	**Prior: 107.4**
	We expect a further increase in the headline ifo sentiment reading in March. If our forecast is correct, this would be the highest reading since April 2012.		
France			
Mar 22 07:45 London Time	***Business Confidence, Mar*** ***Personal Production Outlook, Mar***	**Forecast: 89** **Forecast: -5**	**Prior: 90** **Prior: 2**
	Business confidence rose by three points to 90 in February, an improvement of three points on the 4Q-12 average with sizeable gains in personal output perspectives (+16 pts) and order books. Although the government launched the €20bn business tax credit scheme to boost firms' competitiveness on Mar 11, we doubt that the improvement in confidence can be sustained and forecast a one-point drop in March to 89 (-1.2sd). Note that the gap with the manufacturing PMI (one point below its 4Q average) remains sizeable and that this measure has often been a leading indicator of the INSEE survey.		
Italy			
Mar 19 09:00 London Time	***Industrial Production, Jan***	**Forecast: 0.0% MM, -4.8% YY**	**Prior: 0.4% MM, -6.6 YY**
	Industrial output probably stayed flat in January, after a modest increase in December. The improvement in the survey-based indicators at the end of last year suggests the underlying trend in industrial output may not be negative any more, although a new drop in the PMI in February indicates that weakness may resurface soon.		
Norway			
Mar 22 09:00 London Time	***Registered Unemployment Rate, Mar***	**Forecast: 2.7%**	**Prior: 2.7%**
	The Nov-Jan (referred to as Dec) LFS unemployment data suggested that the labour market deteriorated sharply towards yearend/early-2013. The surprisingly sharp jump in unemployment was the result on an unfavourable mix of a rising labour force and decreasing employment. However, the marked jump in unemployment is not supported by indicators and should prove temporary, in our view. The registered unemployment rate jumped 0.3pp to 2.7% in January (stayed here in Feb), but this development was in line with the seasonal pattern. In other words, the Mar registered unemployment data will give an important perspective on labour market developments as the data also includes non-permanent residents and hence is more closely watched by Norges Bank.		
United Kingdom			
Mar 19 09:30 London Time	***Consumer Prices, Feb*** ***CPI Ex Food, Drink, Tobacco, Energy, Feb*** ***Retail Prices, Feb*** ***RPIX – Excludes Mortgages, Feb***	**Forecast: 0.8% MM, 2.9% YY** **Forecast: 0.6% MM, 2.3% YY** **Forecast: 0.8% MM, 3.3% YY** **Forecast: 0.9% MM, 3.3% YY**	**Prior: -0.5% MM, 2.7% YY** **Prior: -0.9% MM, 2.3% YY** **Prior: -0.4% MM, 3.3% YY** **Prior: -0.4% MM, 3.3% YY**
	We expect that the recent sharp rise in petrol prices will push CPI inflation higher again, after four consecutive readings of 2.7% YY. The AA report that petrol prices rose by 4.4% MM in February, the biggest MM rise since Jan-11 (when the VAT hike lifted petrol prices by 5.1% MM). Looking ahead, we currently expect that CPI inflation will rise to a peak of about 3.4% YY in the middle of this year, although this path clearly is sensitive to any indirect tax measures in the Budget.		
Mar 19 09:30 London Time	***Producer Input Prices, Feb***	**Forecast: 2.1% MM, 1.3% YY**	**Prior: 1.3% MM, 1.8% YY**
	We expect that gains in oil prices and the weaker pound will push input prices higher again, and indeed our forecast implies the biggest MM rise in input prices for a year.		

Economic Indicators

United Kingdom continued			
Mar 19	***Producer Output Prices, Feb***	**Forecast: 0.3% MM, 1.7% YY**	**Prior: 0.2% MM, 2.0% YY**
09:30	***Output Prices Ex Tax, Feb***	**Forecast: 0.3% MM, 1.4% YY**	**Prior: 0.2% MM, 1.8% YY**
London Time	***Excluding Food, Drink, Tobacco, Energy, Feb***	**Forecast: 0.2% MM, 1.1% YY**	**Prior: 0.2% MM, 1.4% YY**
	We expect that base effects from the relatively strong rise in output prices a year earlier (prices ex tax rose 0.6% MM in Feb-12) will pull the YY rate lower in February. However, we are rather nervous about this forecast, because the recent CBI surveys suggest that manufacturing firms intend to hike prices more rapidly. Hence, the risks to our forecast probably lie to the upside.		
Mar 20	***Claimant Count Unemployment, Feb***	**Forecast: -5,000 MM, 4.7% Rate**	**Prior: -12,500 MM, 4.7% Rate**
09:30	***LFS Unemployment, Nov-Jan***	**Forecast: -29,000 QQ, 7.8% Rate**	**Prior: -14,000 QQ, 7.8% Rate**
London Time			
	We expect that the LFS total will show a slight decline in unemployment over the past three months as the relatively high October figure drops out of the latest three months. The data are likely to show a continued mix of solid gains in employment, concentrated in particular among the over 50s, accompanied by rapid growth in the workforce and falling real wages.		
Mar 21	***Retail Sales Volumes, Feb***	**Forecast: 0.8% MM, 0.8% YY**	**Prior: -0.6% MM, -0.6% YY**
09:30			
London Time	Retail sales volumes have fallen for four consecutive months, the longest run of declines since 1990. Although surveys suggest that the retail sector is sluggish, they do not point to a continued run of declines and hence we expect some payback with a rise in volumes this month. However, we are conscious that weather effects again were adverse, with the average temperature in England and Wales matching 1994 as the third lowest for any February of the last 20 years. That may have been an adverse factor for sales.		

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

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Source: Citi Research

Key Economic Indicators (25 March – 29 March 2013)

During The Week		**Forecast**	**Last**
07:00	Germany: Retail Sales, Feb (by Mar 28)		
07:00	Germany: Import Prices, Feb (by Mar 28)		
08:00	UK: Nationwide House Prices, Mar		
Monday 25 March		**Forecast**	**Last**
08:00	Spain: Producer Prices, Feb		
09:00	Italy: Consumer Confidence, Mar		
09:30	UK: BBA Mortgage Advances, Feb		
Tuesday 26 March		**Forecast**	**Last**
07:45	France: Consumer Confidence, Mar		
08:30	Sweden: Producer Prices, Feb		
11:00	UK: CBI Retail Survey, Mar		
17:00	France: Jobseekers, Feb		
	Spain: Budget Balance, Feb		
Wednesday 27 March		**Forecast**	**Last**
07:45	France: GDP Details, 4Q		
08:00	Switzerland: KOF Economic Barometer, Mar		
08:00	Sweden: Business & Consumer Surveys, Mar		
08:00	Spain: Retail Sales, Mar		
08:00	Spain: HICP, Mar Flash		
08:30	Sweden: Trade Balance, Feb		
08:30	Sweden: Household Lending, Feb		
08:30	Sweden: Retail Sales, Feb		
09:00	Italy: Industrial Orders, Jan		
09:30	UK: Balance of Payments, 4Q		
09:30	UK: GDP Details, 4Q (3rd Release)		
10:00	Italy: Retail Sales, Jan		
10:00	Euro Area: Business & Consumer Surveys, Mar		
	Spain: Current Account, Jan		
Thursday 28 March		**Forecast**	**Last**
08:55	Germany: Unemployment, Mar		
09:00	Euro Area: M3, Feb		
09:00	Italy: Business Confidence, Mar		
09:30	UK: Service Sector Output, Jan		
09:30	UK: Labour Productivity, 4Q		
Friday 29 March		**Forecast**	**Last**
07:45	France: Public Sector Debt (Maastricht measure), 4Q		
07:45	France: Consumer Spending, Feb		
07:45	France: Producer Prices, Feb		
08:30	Netherlands: GDP Details, 4Q		
09:00	Italy: Producer Prices, Feb		
10:00	Italy: Consumer Prices, Mar Preliminary		

Sources: National statistical offices, central banks and Citi Research

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area: Sovereign Debt Crisis Update	Jürgen Michels	Mar 15, 2013
ECB - Room, But No Certainty of an April Rate Cut	Jürgen Michels	Mar 7, 2013
European Economic Forecast Highlights - February 2013	Ann O'Kelly	Feb 28, 2013
ECB - Tolerating the Irish Promissory Note Transaction	Jürgen Michels	Feb 8, 2013
ECB - Against Premature Tightening in Monetary Conditions	Jürgen Michels	Feb 7, 2013
Euro Economics Weekly		
Fiscal Compact: A Structural Straight-Jacket	Jürgen Michels and Guillaume Menuet	Mar 8, 2013
Italian Worries and ECB Challenges	Giada Giani	Mar 1, 2013
Netherlands — In the Triple Dip Recession Club	Guillaume Menuet and Jürgen Michels	Feb 22, 2013
Ireland — Steps Back to Fiscal Sustainability	Michael Saunders	Feb 15, 2013
Spain — It's All About The Lack of Growth	Giada Giani	Feb 8, 2013
ECB Is Likely to Turn More Cautious	Jürgen Michels	Feb 1, 2013
Chief Economist Publications		
Global Economic Outlook and Strategy - February 2013	Willem Buiter	Feb 27, 2013
Global Economics View - More Expansionary Monetary Policy Weakens the Currency: Get Used to It	Willem Buiter and Ebrahim Rahbari	Feb 15, 2013
Global Economics View - New and old risks in the Euro Area	Willem Buiter and Ebrahim Rahbari	Feb 6, 2013
Italy		
Italian Election - Risks of Political Instability Have Increased	Giada Giani	Feb 15, 2013
Greece		
Greece - Recession Not Showing Signs of Easing	Giada Giani	Mar 11, 2013
Ireland		
Ireland - Better Data, Mostly	Michael Saunders	Feb 5, 2013
Norway		
Scandi Economics Update	Tina Mortensen	Mar 15, 2013
Norway - Norges Bank: No Change, But Very Dovish Report	Tina Mortensen	Mar 14, 2013
Norway - Core Inflation Eases Further, Undershoots Norges Bank Forecast	Tina Mortensen	Mar 11, 2013
Sweden		
Sweden - Headline CPI Falls below Zero (again) in February	Tina Mortensen	Mar 12, 2013
Sweden - Industrial Production in Deep Fall in January	Tina Mortensen	Mar 8, 2013
Switzerland		
Switzerland - Economy Continues to Outperform EMU	Michael Saunders	Nov 29, 2012
UK		
UK - Poor Start To Q1 Activity	Michael Saunders	Mar 12, 2013
UK - Weak Construction, High Inflation Expectations	Michael Saunders	Mar 8, 2013
UK - MPC Leave Policy on Hold	Michael Saunders	Mar 7, 2013
UK - Press Reports on Possible Changes to MPC Remit	Michael Saunders	Mar 7, 2013
UK Economics Weekly		
More QE and Looser MPC Remit Likely	Michael Saunders	Mar 8, 2013
More Stimulus On the Way	Michael Saunders	Mar 1, 2013
The Looming Budget Dilemma	Michael Saunders	Feb 22, 2013
2% Inflation Target Probably Out of Reach	Michael Saunders	Feb 15, 2013
Using the "Flex" in Flexible Inflation Targeting	Michael Saunders	Feb 8, 2013

Source: Citi Research

Notes

Appendix A-1

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