

European Economic Forecast Highlights

October 2013

- This companion to *Global Economic Outlook and Strategy* gives detailed quarterly forecasts for the main European countries to end 2014. Figures 20-21 give annual forecasts to 2017 for growth, inflation, current balance, fiscal balance, primary balance and government debt. Figure 22 shows the change in our forecasts from last month. Figures 23-25 compare current forecasts for each country.
- **Growth Forecasts:** We make a marginal (0.1pp) upward revision to our 2014 euro-area growth forecast (the fourth consecutive monthly upgrade), reflecting better data and the prospect of reduced fiscal tightening in periphery countries.
- In 2Q, the **ratio of general government gross debt/GDP** hit 169.1% in Greece, 133.3% in Italy, 131.3% in Portugal, 125.7% in Ireland, 98.3% in Cyprus and 92.3% in Spain.
- **Banking Union:** While there has been some progress on the Single Supervisory Mechanism, no agreement appears on the cards for the Single Resolution Mechanism. The ambitious target of agreeing a centralised mechanism (authority and fund) by year-end is uncertain at best. The extent to which the Asset Quality Review will be judged wholly credible — removing doubt over the capital health of EU banks — is likely to be limited without clear means of meeting any capital needs that might be uncovered. As with the successive EBA stress tests, incentives to apply a less-than-credible test would be all too clear.

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

	History	Forecast				
	2012	2013	2014	2015	2016	2017
Euro Area	0.88	0.56	0.50	0.50	0.56	0.81
Denmark	0.43	0.20	0.28	0.50	0.80	1.00
Norway	1.55	1.50	1.51	1.89	2.28	2.83
Sweden	1.45	1.00	1.00	1.31	1.73	2.29
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.54	1.29	2.29

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2013F	2014F	2013F	2014F
Euro Area - Citi Forecast	23-Oct-13	-0.3	0.8	1.4	1.3
OECD Economic Outlook	29-May-13	-0.6	1.1	1.5	1.2
EU Commission Forecast	03-May-13	-0.4	1.2	1.6	1.5
IMF WEO Forecast	08-Oct-13	-0.6	-0.4	1.5	1.5
ECB Forecast - mid-point	05-Sep-13	-0.4	1.0	1.5	1.3
Consensus Economics	14-Oct-13	-0.3	0.9	1.5	1.4

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

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We leave our 2013 GDP forecast unchanged at -0.3% but increase our 2014 GDP by 0.1ppt to +0.8%. October survey indicators suggest that economic activity continues to grow in 4Q, while the headline inflation rate fell to 1.1% YY in September, its lowest level since Feb 2010. ECB's Coeuré has highlighted the existence of a symmetric inflation target, illustrating the need for the monetary policy stance to be very accommodative, leaving the door open to a cut in the refi rate.

On Oct 23, the ECB gave details of its upcoming Comprehensive Assessment (CA) of major euro area banks, more commonly referred to as the Asset Quality Review. The communication of capital shortfall estimates in the autumn of 2014 is meant to be the euro area's 'TARP moment': a credible recapitalisation exercise that would leave clean balance sheets, loosen the bank-sovereign nexus, reduce financial fragmentation, and allow the ECB to become the single supervisor of the major euro area banks. While we believe the CA will be more transparent, consistent and stringent than previous EU stress tests, we believe that it will likely fall short of its ambitious objectives – see [ECB AQR: More Detail, but not on Public Backstop](#).

Turning to banking union, in our view the most important objective for the euro area in the short term, there was some progress with respect to the Single Supervisory Mechanism (SSM) after it obtained Ecofin sign-off. However, no agreement appears on the cards for the Single Resolution Mechanism (SRM), suggesting that the ambitious target of creating a centralised mechanism in the form of an authority and fund by year-end is uncertain at best. We doubt that a common European direct bank recapitalisation facility will play much of a role if any, in filling any potential capital shortfalls found.

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

		History			Forecast		History								Forecast							
		2012	2013	2014				1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15		
Real GDP	YY	-0.6	-0.3	0.8			-0.2	-0.5	-0.7	-1.0	-1.0	-0.5	-0.2	0.6	0.9	0.8	0.8	0.8	0.8	0.8		
	QQ SAAR						-0.4	-1.1	-0.4	-1.9	-0.6	1.2	0.8	0.9	0.8	0.7	0.8	0.8	1.1			
Final Domestic Demand	YY	-1.7	-0.9	0.5			-1.3	-1.7	-1.9	-1.9	-1.9	-0.9	-0.7	-0.1	0.5	0.4	0.5	0.5	0.5			
Private Consumption	YY	-1.4	-0.5	0.5			-1.3	-1.3	-1.7	-1.5	-1.3	-0.6	-0.4	0.1	0.5	0.4	0.5	0.5	0.6			
Public Consumption	YY	-0.6	0.2	0.0			-0.3	-0.7	-0.6	-0.7	-0.4	0.3	0.5	0.4	0.4	-0.1	-0.1	-0.2	-0.1			
Fixed Investment	YY	-3.7	-3.5	1.0			-2.6	-3.7	-3.9	-4.5	-5.6	-3.5	-3.1	-1.6	0.9	0.9	1.2	1.2	1.2			
Stocks (Contrib. to YY GDP Growth)		-0.5	0.1	0.0			-0.4	-0.7	-0.6	-0.4	0.0	-0.1	0.2	0.4	0.0	0.1	0.0	0.0	0.0			
Exports of Goods and Services	YY	2.7	0.7	2.6			2.6	3.4	2.8	2.0	0.1	0.7	0.5	1.5	3.1	2.1	2.5	2.6	2.7			
Imports of Goods and Services	YY	-1.0	-0.4	2.1			-0.9	-0.8	-1.2	-0.9	-1.9	-0.4	-0.3	0.9	2.5	1.7	2.0	2.2	2.2			
Consumer Prices	YY	2.5	1.4	1.3			2.7	2.5	2.5	2.3	1.9	1.4	1.3	1.2	1.2	1.4	1.3	1.4	1.4			
Core CPI (ex Food, Energy, Tobacco)	YY	1.5	1.1	1.0			1.6	1.6	1.5	1.5	1.5	1.2	1.0	0.9	0.8	0.9	1.0	1.0	1.1			
CPI Ex Energy and Unprocessed Food	YY	1.8	1.3	1.2			1.9	1.8	1.7	1.6	1.5	1.3	1.3	1.2	1.1	1.2	1.2	1.3	1.3			
Unemployment Rate	YY	11.4	12.2	12.3			10.9	11.3	11.5	11.8	12.0	12.1	12.2	12.3	12.3	12.3	12.3	12.3	12.2			
Current Account Balance	€ bn	125.7	245.5	248.9																		
	% GDP	1.3	2.6	2.5																		
General Government Balance	€ bn	-352.7	-272.4	-223.8																		
	% GDP	-3.7	-2.8	-2.3																		
Primary Balance	% GDP	-0.6	0.2	0.7																		
General Government Debt	€ bn	8794.6	9211.4	9524.0																		
	% GDP	92.7	95.7	96.5																		
Gross Operating Surplus	YY	-0.4	1.7	1.0																		
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.88	0.56	0.50			1.00	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50			
Ten-year Bund yield (Period Avg.)	%	1.57	1.62	1.83			1.88	1.49	1.41	1.43	1.51	1.73	1.88	1.80	1.80	1.80	1.80	1.90	2.00			
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.28	1.33	1.40			1.33	1.26	1.29	1.32	1.28	1.30	1.35	1.38	1.39	1.40	1.40	1.40	1.40			
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Germany

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Growth remains around trend. We expect Q3 GDP growth to be 0.4% QQ after the 0.7% QQ gain in Q2. Industrial production has been quite strong recently (up in July-August relative to Q2) and so are a wide range of business and consumer sentiment indicators, but other Q3 data have been mixed — with retail sales only slightly up in July-August versus Q2 and a slight drop in exports. Meanwhile, negotiations continue over the formation of the next German government. A Grand Coalition is likely to be formed eventually (possibly by end-November), and we expect such a government to put in place policies that are modestly supportive of domestic demand, while remaining reserved on the European dimension.

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

		History			Forecast			History								Forecast				
		2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15			
Real GDP	YY	0.9	0.6	1.9	1.3	1.1	0.9	0.3	-0.3	0.5	0.7	1.6	2.1	1.8	1.8	1.8	1.9			
Final Domestic Demand	QQ SAAR				2.7	-0.3	0.8	-1.8	0.0	2.9	1.8	1.7	2.1	1.8	1.5	1.9	0.0			
	YY	0.4	0.6	2.2	0.9	0.7	0.1	-0.2	-0.5	0.8	0.9	1.4	2.3	2.1	2.1	2.1	2.2			
Private Consumption	QQ SAAR				0.0	-1.9	1.2	-0.2	-0.9	3.0	1.8	1.8	2.6	2.1	2.1	1.9	0.0			
	YY	0.7	1.1	1.9	0.7	1.5	0.4	0.3	0.6	1.1	1.1	1.5	1.9	1.8	1.9	1.9	1.9			
Public Consumption	QQ SAAR				0.0	0.0	1.1	0.2	0.9	1.9	1.5	1.5	2.6	1.7	1.9	1.5	0.0			
	YY	1.0	1.0	1.3	1.8	0.5	1.1	0.5	0.2	1.3	1.0	1.2	1.5	1.2	1.2	1.2	1.3			
Fixed Investment	QQ SAAR				1.4	-2.0	2.4	0.3	0.3	2.3	1.2	1.2	1.2	1.2	1.2	1.2	0.0			
	YY	-1.4	-1.0	4.0	0.4	-1.3	-1.9	-2.9	-4.5	-0.8	0.0	1.4	4.6	3.8	3.8	3.9	4.0			
-- Business Equipment	QQ SAAR				-1.6	-7.8	0.3	-2.2	-8.1	7.4	3.4	3.5	4.3	4.0	3.6	3.6	0.0			
	YY	-3.3	-2.4	3.4	0.6	-3.0	-5.7	-4.9	-6.6	-2.2	-0.7	0.3	3.4	3.4	3.3	3.4	3.4			
-- Construction	QQ SAAR				-1.4	-14.0	-2.6	-1.1	-8.3	3.7	3.2	2.9	3.7	3.7	2.9	3.3	0.0			
	YY	-0.5	-0.5	3.9	0.0	-0.6	0.6	-2.1	-3.8	-0.3	0.2	2.0	5.4	3.5	3.3	3.3	3.9			
Stocks (Contrib. to YY GDP Growth)	QQ SAAR				-2.0	-4.0	1.9	-4.0	-8.7	10.7	3.9	3.2	4.0	2.9	3.3	3.2	0.0			
		-0.5	0.4	0.2	-0.1	-0.1	-0.3	0.1	0.4	-0.1	0.2	0.0	0.1	0.1	-0.1	0.0	0.2			
Exports of Goods and Services	YY	3.8	0.3	1.9	3.9	5.4	4.0	2.0	-0.4	0.3	-0.3	1.7	2.8	1.0	1.8	2.2	1.9			
	QQ SAAR				7.0	5.9	2.0	-6.3	-2.9	9.0	-0.2	1.3	1.2	1.7	2.7	3.0	0.0			
Imports of Goods and Services	YY	1.8	0.9	2.6	3.5	2.6	1.1	0.0	-0.5	0.8	1.0	2.2	3.3	1.9	2.4	2.8	2.6			
	QQ SAAR				0.6	2.9	0.2	-3.4	-1.6	8.4	1.0	1.3	2.7	2.7	2.9	3.1	0.0			
Net Exports (Contrib. to YY GDP Growth)		1.1	-0.2	-0.2	0.8	0.4	0.2	-0.5	-0.2	0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0	-0.2			
Consumer Prices	YY	2.0	1.5	1.6	2.1	1.9	2.0	2.0	1.5	1.5	1.6	1.4	1.5	1.6	1.7	1.7	1.4			
Compensation per Employee	YY	3.0	2.4	2.3	2.7	3.0	3.1	3.2	2.6	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3			
Employment Growth	YY	1.1	0.4	0.7	1.4	1.2	1.1	0.9	0.6	0.6	-0.1	0.3	0.4	0.5	0.9	0.8	0.7			
Unemployment Rate (ILO)	%	5.5	5.3	5.3	5.5	5.5	5.4	5.4	5.4	5.3	5.3	5.4	5.3	5.3	5.3	5.3	5.2			
Current Account Balance	€ bn	187.7	189.1	168.6																
	% GDP	7.0	6.9	6.0																
General Government Balance	€ bn	4.1	0.4	4.9																
	% GDP	0.2	0.0	0.2																
Primary Balance	% GDP	2.6	2.4	2.4																
General Government Debt	€ bn	2166.3	2182.1	2162.9																
	% GDP	81.2	79.4	75.9																
Gross Trading Profits	YY	-1.4	3.3	4.0	1.2	-1.1	-2.5	-3.2	-4.7	2.6	6.0	9.8	5.3	5.7	2.4	2.8	3.2			
Note: Percentage changes unless indicated. Annual data are period averages. Sources: ECB, Eurostat, Destatis and Citi Research forecasts																				

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Recent surveys are consistent with our baseline view of a modest GDP recovery, and suggest that upside risks to 2014 growth remain limited. The 2014 budget debate in the lower house is unlikely to yield many changes to the draft plan, with fiscal consolidation focused on expenditure savings (80%) rather than tax increases (20%). But the January 2014 VAT rate hike will likely cap any rebound in household expenditure at a time of high unemployment and still-absent private sector job creation. If there was more confidence in the administration's ability to deliver faster GDP growth and jobs, then pent-up demand could be unleashed. For now though, the government's popularity remains at a record low.

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

		History			Forecast			History								Forecast				
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Real GDP	YY	0.0	0.2	0.8				0.4	0.1	0.0	-0.3	-0.5	0.4	0.3	0.7	1.1	0.7	0.8	0.8	0.8
	QQ SAAR							0.1	-1.3	0.6	-0.6	-0.6	2.1	0.3	1.0	0.9	0.6	0.8	0.9	0.8
Final Domestic Demand	YY	-0.1	0.1	0.4				-0.2	0.1	-0.1	-0.1	-0.3	0.3	0.2	0.3	0.5	0.2	0.4	0.5	0.5
	QQ SAAR							0.1	-1.0	0.3	0.0	-0.5	1.3	-0.2	0.4	0.3	0.4	0.5	0.7	0.6
Private Consumption	YY	-0.3	0.3	0.5				-0.7	-0.3	-0.4	0.0	-0.3	0.6	0.5	0.6	0.7	0.4	0.5	0.4	0.5
	QQ SAAR							1.0	-2.0	0.6	0.4	-0.3	1.7	0.0	0.8	0.2	0.4	0.4	0.6	0.6
Public Consumption	YY	1.4	1.4	0.6				1.0	1.4	1.6	1.7	1.5	1.8	1.4	1.0	0.8	0.3	0.5	0.6	0.5
	QQ SAAR							2.2	1.7	1.5	1.6	1.2	2.8	0.0	0.0	0.6	0.6	0.6	0.6	0.0
Fixed Investment	YY	-1.2	-2.3	-0.1				-0.2	-0.5	-1.1	-3.0	-2.6	-2.7	-2.4	-1.6	-0.7	-0.2	0.2	0.5	0.8
	QQ SAAR							-5.3	-1.3	-2.3	-3.1	-3.8	-1.6	-0.9	-0.2	0.0	0.1	0.9	0.9	1.2
-- Businesses	YY	-1.9	-2.1	0.1				-1.7	-1.1	-1.2	-3.7	-2.9	-2.4	-1.9	-1.2	-0.2	-0.2	0.3	0.6	1.0
	QQ SAAR							-6.9	-1.9	-2.7	-3.1	-3.8	0.0	-0.8	0.0	0.0	0.0	1.2	1.2	1.6
-- Households	YY	-0.4	-3.7	-0.4				1.3	0.2	-0.9	-2.1	-2.8	-4.4	-4.3	-3.5	-2.1	-0.3	0.2	0.5	0.7
	QQ SAAR							-3.2	-0.2	-1.4	-3.6	-5.7	-6.6	-1.2	-0.4	0.0	0.4	0.8	0.8	0.8
Stocks (Contrib. to YY GDP Growth)		-0.8	0.0	0.2				0.1	-0.1	0.0	-0.3	0.2	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	2.5	1.1	2.2				3.6	3.1	3.0	0.4	-0.4	1.3	1.3	2.3	3.2	1.7	1.9	2.1	2.4
	QQ SAAR							1.3	1.1	1.5	-2.2	-1.9	8.1	1.6	1.6	1.6	2.0	2.4	2.4	2.8
Imports of Goods and Services	YY	-0.9	0.7	1.4				-2.5	-0.4	-0.7	-0.2	-0.8	0.7	0.8	2.1	2.2	0.8	1.1	1.3	1.6
	QQ SAAR							3.1	0.6	0.1	-4.4	0.4	7.1	0.4	0.8	0.8	1.2	1.6	1.6	2.0
Net Exports (Contrib. to YY GDP Growth)		1.0	0.1	0.2				-0.1	0.0	0.1	0.2	-0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	2.2	1.1	1.7				2.6	2.3	2.3	1.7	1.2	0.9	1.1	1.2	1.6	1.7	1.6	1.6	1.4
Average Monthly Wages	YY	2.1	1.9	2.0																
Employment Growth (Private-Sector)	YY	-0.2	-0.5	0.6																
Unemployment Rate	%	9.8	10.6	10.7				9.5	9.8	9.9	10.1	10.4	10.5	10.7	10.7	10.7	10.8	10.7	10.7	10.5
Current Account Balance	€ bn	-45.0	-32.3	-16.7																
	% GDP	-2.2	-1.6	-0.8																
General Government Balance	€ bn	-98.2	-83.2	-73.2																
	% GDP	-4.8	-4.0	-3.5																
Primary Balance	% GDP	-2.3	-1.4	-0.8																
General Government Debt	€ bn	1833.8	1929.1	2009.6																
	% GDP	90.2	93.8	95.5																
Gross Trading Profits	YY	-1.5	0.0	2.5																

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

Italy

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Q3 activity data remained subdued, with industrial output likely to post another quarterly fall. On a quarter-on-quarter basis, GDP was probably flat in Q3, with some growth acceleration expected for Q4 and Q1 14, mainly thanks to repayment of government arrears. The 2014 Budget envisages a slight fiscal loosening in 2014 (0.2% of GDP), but we think that poor credit availability (unlikely to alleviate ahead of potentially-challenging AQR and stress tests) and export weakness will keep 2014 GDP broadly flat. A mini budget has been approved to bring the 2013 fiscal deficit-to-GDP ratio to the 3% target. Little progress on public spending cuts and risks of political instability suggest that risks for further rating actions and renewed market tensions remain high. We do not expect the public debt ratio will enter a downtrend in coming years, and we suspect that some form of debt restructuring (maturity lengthening and/or coupon reductions) may be likely eventually.

For further background on Italy, see Euro Economics Weekly of 4 October [Italy – Political and Banking Fragility](#).

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

		History		Forecast		History								Forecast					
		2012	2013	2014		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	
Real GDP	YY	-2.4	-1.7	0.1		-1.7	-2.4	-2.6	-2.8	-2.4	-2.1	-1.8	-0.6	-0.1	0.2	0.3	-0.1	0.0	
	QQ SAAR					-4.1	-2.2	-1.2	-3.7	-2.4	-1.2	0.3	1.0	-0.3	0.1	0.4	-0.4	0.0	
Final Domestic Demand	YY	-4.7	-2.4	-0.4		-4.1	-4.6	-5.0	-4.9	-3.5	-3.0	-2.0	-0.9	-0.3	-0.2	-0.3	-0.7	-0.6	
	QQ SAAR					-8.6	-3.1	-4.5	-3.5	-3.1	-1.2	-0.4	0.9	-0.4	-0.9	-0.9	-0.7	0.1	
Private Consumption	YY	-4.3	-2.5	-0.7		-3.5	-4.0	-4.8	-4.8	-3.4	-3.3	-2.1	-1.2	-0.9	-0.6	-0.5	-0.6	-0.5	
	QQ SAAR					-7.2	-2.5	-5.5	-3.9	-1.9	-1.8	-0.8	-0.4	-0.6	-0.6	-0.6	-0.6	-0.4	
Public Consumption	YY	-2.9	-0.1	-1.1		-2.9	-3.0	-2.8	-2.9	-0.7	0.0	0.3	0.2	-0.4	-0.9	-1.2	-1.7	-1.3	
	QQ SAAR					-7.9	-2.3	-1.6	0.5	0.5	0.5	-0.4	0.2	-1.7	-1.7	-1.7	-1.7	-0.1	
Fixed Investment	YY	-8.0	-4.7	1.5		-7.6	-8.3	-8.1	-7.9	-7.1	-5.9	-4.5	-1.4	2.0	2.1	1.6	0.1	0.1	
	QQ SAAR					-13.8	-6.0	-4.4	-6.9	-11.0	-1.1	1.2	6.1	2.0	-0.8	-0.8	0.0	2.0	
-- Business Equipment	YY	-9.6	-2.5	4.9		-8.4	-10.7	-10.3	-8.9	-6.9	-4.2	-2.2	3.3	6.6	6.2	5.2	1.5	0.9	
	QQ SAAR					-14.4	-8.9	-4.3	-7.8	-6.5	2.0	4.1	14.8	6.0	0.3	0.3	-0.4	3.5	
-- Construction	YY	-6.4	-6.8	-1.9		-6.8	-5.9	-6.0	-6.8	-7.3	-7.5	-6.8	-5.8	-2.4	-1.9	-2.0	-1.4	-0.8	
	QQ SAAR					-13.3	-3.2	-4.4	-6.0	-15.0	-4.0	-1.6	-2.0	-2.0	-2.0	-2.0	0.4	0.4	
Exports of Goods and Services	YY	2.2	0.0	3.7		2.1	2.5	2.5	1.7	-0.4	0.2	0.1	0.1	3.3	3.7	4.0	4.0	3.0	
	QQ SAAR					0.1	2.0	4.5	0.4	-8.2	4.8	4.0	0.5	3.8	6.4	5.4	0.3	0.2	
Imports of Goods and Services	YY	-7.8	-2.8	3.0		-8.9	-7.5	-8.1	-6.8	-5.0	-4.6	-1.5	0.0	2.7	3.9	3.0	2.3	1.2	
	QQ SAAR					-12.6	-2.4	-7.3	-4.4	-5.6	-1.0	5.4	1.6	4.9	3.8	1.7	-0.9	0.4	
Net Exports (Contrib. to YY GDP Growth)		2.8	0.8	0.3		3.2	2.8	3.0	2.4	1.2	1.3	0.4	0.0	0.3	0.1	0.4	0.6	0.6	
Consumer Prices	YY	3.3	1.4	0.9		3.6	3.6	3.4	2.6	2.1	1.3	1.1	1.2	0.9	1.1	0.9	0.8	0.8	
Compensation per Employee		NA	NA	NA															
Employment Growth		-0.4	-1.7	-0.5															
Unemployment Rate	%	10.7	12.2	12.4															
Current Account Balance	€ bn	-8.3	17.6	21.9															
	% GDP	-0.5	1.1	1.4															
General Government Balance	€ bn	-47.6	-48.0	-43.3															
	% GDP	-3.0	-3.1	-2.8															
Primary Balance	% GDP	2.5	2.3	2.5															
General Government Debt	€ bn	1989	2067	2137															
	% GDP	127.0	132.4	135.8															

Note: We assume sovereign debt restructuring in 2017. 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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We keep our growth forecast for 2013 at -1.3% but lift our 2014 forecast by 0.3ppts to 0.1% to reflect upside swings in private consumption, reduced fiscal drag and better exports. Recent data (e.g. retail sales, industrial production) suggest the recession ended in Q3, and we expect momentum will be maintained in Q4. The recent upward revision to the household saving rate (now in line with its long-run average) suggests private consumption dynamics are likely to be somewhat better than we had expected. Together with smaller budget deficit cuts and strengthening exports, this should allow small positive real GDP growth in 2014.

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

		History			Forecast			History				History				
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	
Real GDP	YY	-1.6	-1.3	0.1				-1.2	-1.6	-1.7	-2.1	-2.0	-1.6	-1.2	-0.3	0.1
	QQ SAAR							-1.7	-2.0	-1.5	-3.1	-1.5	-0.4	0.4	0.3	0.0
Final Domestic Demand	YY	-4.2	-3.3	-0.6				-3.4	-4.2	-4.3	-4.7	-4.7	-3.7	-3.2	-1.4	-1.0
	QQ SAAR							-2.4	-5.3	-4.0	-7.1	-2.4	-1.1	-2.0	-0.3	-0.6
Private Consumption	YY	-2.8	-2.5	0.2				-1.8	-3.1	-2.8	-3.5	-4.2	-3.1	-2.3	-0.3	0.1
	QQ SAAR							1.0	-4.4	-2.8	-7.6	-1.8	-0.1	0.6	0.2	-0.1
Government Consumption	YY	-4.8	-1.6	-1.2				-4.9	-4.4	-4.9	-5.0	-3.3	-2.4	-0.4	0.0	-0.4
	QQ SAAR							-7.0	-0.1	-11.5	-1.1	-0.2	3.6	-3.8	0.5	-1.6
Fixed Investment	YY	-7.0	-7.0	-2.1				-6.0	-6.9	-7.5	-7.7	-7.5	-6.4	-8.2	-6.0	-4.7
	QQ SAAR							-6.6	-12.6	0.6	-11.5	-6.0	-8.3	-7.1	-2.5	-0.9
-- Business Equipment	YY	-2.2	-0.5	3.3				-1.2	-2.6	-1.5	-3.4	-2.8	0.5	-3.0	3.5	2.4
	QQ SAAR							6.7	-6.8	10.8	-20.8	9.0	6.6	-3.5	2.3	4.8
-- Construction	YY	-9.7	-10.9	-5.7				-8.6	-9.3	-10.9	-10.0	-10.2	-10.5	-11.5	-11.6	-9.3
	QQ SAAR							-13.5	-15.8	-5.1	-5.3	-14.1	-16.8	-9.4	-5.6	-4.7
Exports of Goods and Services	YY	2.1	5.2	5.0				0.1	0.5	3.3	4.4	3.6	9.2	3.6	4.3	9.4
	QQ SAAR							-12.0	2.2	28.5	2.5	-14.5	26.3	4.0	5.4	3.4
Imports of Goods and Services	YY	-5.7	-0.6	3.3				-6.9	-7.7	-4.6	-3.5	-4.8	3.1	-2.2	1.3	6.5
	QQ SAAR							-12.5	-8.4	19.8	-9.8	-16.9	25.8	-2.7	3.5	1.6
Net Exports (Contrib. to YY GDP Growth)		2.4	1.8	0.7				2.2	2.5	2.4	2.4	2.5	1.9	1.8	1.0	1.1
Consumer Prices	YY	2.4	1.7	0.9				1.9	1.9	2.8	3.2	2.8	1.8	1.3	0.8	0.7
Compensation per Employee	YY	0.3	-0.8	NA												
Employment Growth	YY	-4.5	-3.4	-1.7				-3.9	-4.9	-4.6	-4.8	-4.6	-3.7	-3.0	-2.2	-1.7
Unemployment Rate	%	25.0	26.6	27.1				24.4	24.6	25.0	26.0	27.2	26.3	26.0	26.7	27.6
Current Account Balance	€ bn	-11.5	11.6	19.1												
	% GDP	-1.1	1.1	1.8												
General Government Balance	€ bn	-111.6	-69.9	-60.6												
	% GDP	-10.8	-6.8	-5.9												
Primary Balance	% GDP	-7.8	-3.4	-2.2												
General Government Debt	€ bn	883.9	962.7	1067.5												
	% GDP	84.2	93.8	103.3												

Note: We assume sovereign debt restructuring in 2017. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.1bn), 2012 (€39.1bn) and 2013 (€2.8bn). 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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Recent data suggest that GDP was roughly flat in Q3 or perhaps up slightly, after the surprisingly positive Q2 print. Upcoming bank stress tests in December will come under the spotlight, while the fiscal gap in 2014 will shortly require a new round of tough negotiations with the troika. Discussions on further debt-relieving measures are being delayed until spring 2014: a large debt relief from official lenders would probably be the only viable (but politically painful) option to restore fiscal sustainability.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-3.8	-2.9	-1.4	0.9	1.3
Final Domestic Demand	YY	-9.7	-6.6	-4.2	-3.0	-0.1	0.5
Private Consumption	YY	-9.1	-6.2	-3.6	-2.7	-0.2	0.6
Public Consumption	YY	-4.0	-5.2	-4.6	-3.8	-0.2	0.1
Fixed Investment	YY	-19.0	-10.9	-6.3	-3.1	0.5	1.3
Exports of Goods and Services	YY	-2.0	1.8	2.3	2.0	2.9	3.0
Imports of Goods and Services	YY	-9.3	-8.5	-4.0	-3.6	-0.8	0.4
Consumer Prices	YY	1.0	-0.6	-1.2	-0.5	0.2	0.3
Unemployment Rate	%	24.1	28.0	30.5	32.4	32.8	32.5
Current Account Balance	€ bn	-6.5	-0.7	1.3	2.3	6.3	8.3
	% GDP	-3.4	-0.4	0.8	1.4	3.7	4.9
General Government Balance	€ bn	-19.4	-8.5	-6.9	-4.8	-2.7	-2.1
	% GDP	-10.0	-4.7	-4.0	-2.8	-1.6	-1.2
Primary Balance	% GDP	-5.0	-0.5	0.1	0.5	1.9	2.3
General Government Debt	€ bn	303.9	322.7	330.4	337.2	341.9	346.0
	% GDP	156.9	178.0	192.2	201.2	203.2	203.7

Note: We assume some government debt restructuring each year to 2017.

Percentage changes unless indicated. Annual data are period averages.

Sources: Bank of Greece, ECB, Eurostat and Citi Research forecasts

Ireland

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Recent data suggest that the economy grew slightly in Q3, but we are pulling down our 2014 growth forecast to 1.4% from 2.7% last month: our prior forecast probably understated the lasting effects of the “patent cliff” effects on industrial production. With very low inflation, nominal GDP growth probably will continue to undershoot official forecasts, keeping the public debt/GDP ratio roughly stable in 2014-15 — in contrast to official hopes for a falling debt ratio in 2014.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	0.1	-0.5	1.4	1.6	2.7	3.0
Real GNP	YY	1.8	2.5	0.6	1.0	2.1	2.3
Final Domestic Demand	YY	-1.1	-2.5	-0.5	-1.0	-0.7	-0.6
Private Consumption	YY	-0.3	-1.3	0.7	-0.2	-0.5	-0.4
Public Consumption	YY	-3.8	-1.3	-2.8	-2.5	0.3	0.0
Fixed Investment	YY	-0.7	-9.9	-3.0	-3.2	-3.5	-3.3
Exports of Goods and Services	YY	1.6	0.8	5.2	4.2	5.5	5.7
Imports of Goods and Services	YY	0.0	0.9	3.5	2.7	3.6	3.8
Net Trade		1.7	1.5	2.4	2.6	3.3	3.6
GDP Deflator	YY	0.7	-0.3	0.5	1.0	1.5	1.5
Nominal GDP	YY	0.8	-0.8	1.9	2.6	4.2	4.5
House Prices	YY	-12.8	-0.2	1.8	1.0	1.0	2.1
Unemployment Rate	%	14.7	13.6	13.2	13.0	13.0	13.0
Employment	YY	-0.6	1.6	0.5	-0.3	-0.5	0.1
Current Account Balance	€ bn	7.3	14.0	16.7	17.7	19.9	22.3
	% GDP	4.4	8.6	10.1	10.4	11.2	12.0
General Government Balance	€ bn	-12.2	-11.5	-9.2	-6.8	-6.0	-6.5
	% GDP	-7.5	-7.1	-5.6	-4.0	-3.4	-3.5
Primary Balance	% GDP	-4.5	-2.7	-1.1	0.5	1.3	1.3
General Government Debt	€ bn	192.5	205.9	208.7	215.9	224.0	230.5
	% GDP	117.7	126.9	126.2	127.2	126.6	124.7

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

Sources: Central Bank of Ireland, CSO, ECB, Eurostat and Citi Research forecasts

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Portugal

GDP growth probably remained marginally positive in Q3 (after +1.1% QQ in Q2). Reduced fiscal drag and the large fall in inflation probably are helping to support growth. The new 2014 Budget aims at raising again the size of fiscal tightening in 2014, to 1pp of GDP, but risks remain that some measures will be rejected by the Constitutional Court.

The Portuguese bailout programme ends in June 2014 and it remains uncertain if Portugal will require additional help. Given the fiscal tightening still to come, on-going private deleveraging and ensuing poor nominal GDP growth prospects, doubts still exist about the sustainability of the Portuguese public debt in our view. Government financing needs over the 2014-2016 period are large, therefore we anticipate a precautionary credit line for Portugal will be agreed before June 2014. However, a second full bailout programme remains a clear risk in the event of market sentiment deteriorating. In any case, we think a Greek-style public debt restructuring unlikely in the near future, but a restructuring of some government contingent liabilities is still possible. For more, see [Euro Economics Weekly - Portugal – What After June 2014?](#), 18 October 2013

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-1.7	-0.6	0.0	1.0	1.1
Final Domestic Demand	YY	-6.8	-3.1	-1.9	-0.9	0.6	0.8
Private Consumption	YY	-5.4	-2.2	-1.0	-0.2	0.7	0.8
Public Consumption	YY	-4.8	-1.7	-2.3	-1.1	0.6	0.4
Fixed Investment	YY	-14.3	-8.4	-4.9	-3.6	0.0	1.2
Exports	YY	3.2	6.1	3.6	2.7	3.6	3.6
Imports	YY	-6.5	2.6	0.8	0.6	2.8	3.1
Consumer Prices	YY	2.8	0.5	-0.1	-0.3	0.4	0.7
Unemployment Rate	%	15.7	16.8	17.2	18.3	18.4	18.3
Current Account Balance	€ bn	-2.6	2.1	5.4	6.0	6.1	6.7
	% GDP	-1.5	1.3	3.3	3.7	3.7	4.0
General Government Balance	€ bn	-10.6	-9.8	-8.1	-7.3	-6.1	-5.3
	% GDP	-6.4	-6.0	-5.0	-4.5	-3.7	-3.2
Primary Balance	% GDP	-2.0	-1.5	-0.8	-0.3	0.5	1.1
General Government Debt	€ bn	204.5	213.0	235.5	242.8	248.9	254.2
	% GDP	123.8	129.6	144.3	148.8	150.5	151.4

Note: We assume sovereign debt restructuring in 2017.

Percentage changes unless indicated. Annual data are period averages.

Sources: BdP, INE and Citi Research forecasts

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Netherlands

The Dutch economy remains weak, as evidenced by the very small rebound in economic sentiment measures in 3Q-13 to -1std from -1.2std in 2Q-13. Although we raise our 2013 GDP forecast by 0.1ppt to -1.2%, the 2014 GDP outlook remains at 0.3%. Politics have been in the spotlight this month, but PM Rutte eventually won the support of two small Christian parties — the Christian Union and the conservative SGP — as well as the right-of-centre Democrats 66, to trim an additional €6bn in government spending from the 2014 Budget. Dutch Central Bank Governor Knot warned about the damage of restrictive lending practices to the economy.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-1.3	-1.2	0.3	0.9	1.2	1.6
Final Domestic Demand	YY	-1.8	-2.8	-0.2	0.3	0.4	0.8
Private Consumption	YY	-1.6	-1.9	-0.3	0.4	0.5	0.8
Public Consumption	YY	-0.7	-1.1	-0.6	0.0	0.3	0.7
Fixed Investment (ex Stocks)	YY	-4.0	-7.8	0.6	0.4	0.7	1.1
Stocks (Contrib. to YY GDP Growth)		0.2	-0.3	0.1	0.1	0.1	0.1
Exports of Goods and Services	YY	3.2	2.2	1.7	2.4	3.1	3.5
Imports of Goods and Services	YY	3.3	-0.3	1.2	2.0	2.7	3.1
Net Exports (Contrib. to YY GDP Growth)		0.2	2.1	0.6	0.6	0.7	0.8
Consumer Prices	YY	2.8	2.7	1.4	1.5	1.8	1.6
Unemployment Rate	%	6.4	8.4	9.0	9.1	8.5	7.4
Current Account Balance	€ bn	56.5	57.0	55.0	60.0	62.0	65.0
	% GDP	9.4	9.4	8.9	9.5	9.5	9.7
General Government Balance	€ bn	-24.4	-23.0	-20.2	-17.2	-14.1	-8.7
	% GDP	-4.1	-3.8	-3.3	-2.7	-2.2	-1.3
Primary Balance	% GDP	-2.2	-1.9	-1.3	-0.7	-0.1	0.7
General Government Debt	€ bn	427.5	453.9	471.1	485.1	499.2	507.9
	% GDP	71.3	75.1	76.6	77.1	77.0	75.9

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

Sources: DNB, CBS and Citi Research forecasts

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Belgium

We make no changes to our forecasts. PM Elio Di Rupo has indicated that his government will continue to implement a strategy of mixing budgetary savings and policies to support businesses and the purchasing power of consumers as part of the 2014 budget targeting a deficit of 2.15% of GDP. A key assumption is that fiscal receipts will grow by more than 5%, versus official forecast of 1.1% GDP growth. The implied elasticity of revenues to GDP growth seems high to us, highlighting some risks that the deficit target will be missed unless extra savings are found.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.3	0.0	0.5	1.0	1.5	1.6
Final Domestic Demand	YY	-0.5	-0.4	0.2	0.9	1.3	1.6
Private Consumption	YY	-0.3	0.3	0.0	0.5	0.9	1.1
Public Consumption	YY	0.4	0.3	0.3	0.7	1.1	1.5
Fixed Investment (ex Stocks)	YY	-0.6	-2.9	0.4	2.0	2.6	3.0
Exports of Goods and Services	YY	0.7	-0.3	2.4	3.5	3.9	4.3
Imports of Goods and Services	YY	0.5	-0.9	2.5	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.2	1.7	1.8	1.9	1.9
Unemployment Rate	%	7.6	8.6	9.2	9.2	8.8	8.2
Current Account Balance	€ bn	-7.6	-13.8	-12.4	-10.2	-7.3	-4.4
	% GDP	-2.0	-3.6	-3.2	-2.5	-1.8	-1.0
General Government Balance	€ bn	-14.9	-11.6	-10.2	-7.3	-5.0	-4.4
	% GDP	-3.9	-3.0	-2.6	-1.8	-1.2	-1.0
Primary Balance	% GDP	-0.5	0.5	1.0	1.7	2.3	2.4
General Government Debt	€ bn	375.4	389.0	400.5	407.8	412.8	417.2
	% GDP	99.8	102.0	102.7	101.7	99.3	96.9

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

Sources: BNB, Belgostat and Citi Research forecasts

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We slightly raise our forecast for 3Q13 Slovak GDP growth to 0.2% QQ (0.1% initially) after 0.3% in 2Q13, followed by 0.2% in 4Q14. This, however, does not change our full year forecasts for 0.8% YY GDP growth in 2013 and 1.8% in 2014 before a further acceleration to average 2.7% in 2015-16. This reflects a better outlook for foreign demand, but limited by more fiscal tightening to avoid an enforced fiscal balanced budget (which is a possibility owing to the debt brake rule). Our monthly index of real economic activity suggests a mild acceleration in YY GDP growth. There was solid 0.7% MM growth in industrial production in August, which together with better industrial confidence in September (based on better expectations and improved order-books) points to stable production growth of around 3% YY for the rest of 2013 (though there will be likely a surge in December due to base effects) before an expected acceleration to average 3.6% YY in 2014. However, exports, construction output and retail sales worsened slightly in August. There is a prospect of low inflation next year reflecting a milder increase in core prices and food prices and only negligible increases in regulated prices. The disinflation seen in 3Q13 suggests total CPI growth of 1.6% YY in 2013 after 3.6% in 2012. We expect 2014 inflation to remain at 1.6% YY before a mild acceleration to 2.1% in 2015.

The 12m cumulative central government cash deficit worsened slightly to 4.4% of GDP in September, but recent trends (particularly on the spending side) limit risks of a deficit overshoot for the full year to only about 0.1% of GDP (compared to the planned 4.2% figure). However, the government plans to continue fiscal consolidation due to a large output gap. The government targets for the general government deficit are -2.9% of GDP in 2014, -2.57% in 2015 and -1.5% in 2016 (owing to a positive output gap). The government is desperately seeking revenues to avoid an enforced shift to a balanced budget, which is a risk if government debt exceeds 57% of GDP at year-end according to the debt brake rule.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	1.8	0.8	1.8	2.4	2.9	3.4
Final Domestic Demand	YY	-3.0	-1.3	1.3	2.4	3.2	3.4
Private Consumption	YY	-0.2	0.2	0.9	1.7	2.7	3.0
Public Consumption		-1.1	-0.1	0.1	1.6	2.0	2.0
Fixed Investment	YY	-10.5	-5.9	3.3	4.6	5.5	5.5
Exports	YY	9.9	4.5	5.8	6.2	6.0	6.5
Imports	YY	3.3	2.3	5.6	5.6	6.4	7.5
Consumer Prices	YY	3.6	1.6	1.6	2.1	2.1	2.1
Unemployment Rate	%	13.6	14.3	14.3	13.7	12.9	12.9
Current Account Balance	% GDP	2.2	3.9	3.6	3.2	2.2	0.7
General Government Balance	% GDP	-4.5	-3.4	-3.2	-2.6	-2.1	-1.8
Government Primary Balance	% GDP	-3.1	-2.0	-1.7	-1.1	-0.6	-0.3
General Government Debt	% GDP	52.1	55.2	56.7	56.1	55.5	55.1

Sources: National sources and Citi Research forecasts

Slovenia

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Industrial production increased by 0.3% MM in August, which, however, did not prevent a larger 3% YY contraction due to an adverse base effect, which will be offset next month. Thus we expect September industrial production to post its first positive YY growth in six months, with exports up by about 4% YY. The prospect of better foreign demand could support a mild recovery in industrial production, which we expect to accelerate to 1.2% YY swda in 4Q13 from -0.8% in 3Q13.

Nonperforming claims (NPC: arrears greater than 90 days) increased to €7.9bn in July (23% of GDP), which increased their ratio to 17.1% from 13% a year ago. A linear extrapolation of the structure of NPC from the National Reform Program (NRP) would suggest that NPC in the state-owned and small local banks increased to €6.7bn, of which €5.5bn in the three largest state-owned banks, which would point to a transfer value for bad assets from the three largest banks of around €1.3bn compared with an assumed €1.15bn in the NRP. Though the volume of NPC is important for the expected size of the “bad bank” BAMC, the level of the transfer prices is key, in our view, as it will indicate the immediate government need for recapitalization cash as the lower the transfer prices, the larger the recapitalization needs will be, as we showed in [Trip Notes: Slovenian Hopes Lag](#), 25 September 2013. Finance Minister Cufer said that Slovenia plans to tap €3bn from international markets in 2014 and that the government had over €3bn on its current account, according to Slovenia Press Agency (4 October). We estimate the central government borrowing requirements at €3.1bn in 2014, which includes a likely fiscal deficit of €1.3bn and bond and t-bill redemptions of €2bn. This assumes bond redemptions of €1.5bn due in April 2014 and rollover of most t-bills (only 80% of the €1.1bn t-bill issued in April 2013 assumed to be rolled over). However, although cash reserves likely amount to €3bn, €1.2bn of this sum is deposited in the three largest (state-owned) banks for recapitalisation purposes. Hence, the government has to tap at least €1.3bn for its own financing in 2014, which would rise to €3bn should the bank recapitalisation costs amount to c.€3bn.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-2.4	-2.2	-0.5	1.1	2.1	2.9
Final Domestic Demand	YY	-4.5	-2.7	-0.2	1.3	1.8	2.1
Private Consumption	YY	-4.5	-2.9	-0.2	1.0	1.7	2.0
Public Consumption		-1.2	-2.4	-1.4	0.8	1.1	1.2
Fixed Investment	YY	-7.7	-2.5	1.2	2.5	2.8	3.2
Exports	YY	1.6	1.9	3.5	5.5	6.1	6.7
Imports	YY	-4.7	1.3	3.9	5.9	6.4	6.7
Consumer Prices	YY	2.6	2.3	2.8	1.8	1.7	1.7
Unemployment Rate	%	8.9	10.5	11.4	12.2	12.8	12.4
Current Account Balance	% GDP	3.3	2.9	4.0	3.7	4.1	4.6
General Government Balance	% GDP	-3.8	-6.9	-7.9	-4.1	-2.5	-1.7
Government Primary Balance	% GDP	-1.7	-4.2	-5.0	-1.3	0.5	1.2
General Government Debt	% GDP	54.4	61.6	68.3	70.2	69.7	67.8

Sources: National sources and Citi Research forecasts

UK

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We continue to look for growth of 1.4% in 2013 and 3.0% in 2014, well above the consensus (2.2% for 2014). Key drivers are: looser monetary and credit conditions, with the low pound, low lending rates plus the "Help to Buy" scheme; reduced headwinds from household deleveraging, the EMU crisis and fiscal drag; plus pent-up demand for housing and cars. At present, the upturn is led by consumer spending and housebuilding: export volumes (goods and services) surged 3.0% QQ in Q2 but fell back in Jul-Aug, while business investment remains weak. However, there are signs that recovery will broaden, with marked gains in export orders and investment intentions in recent surveys. As a result, we are edging up our business investment forecasts to 5.8% and 8.6% for 2014 and 2015 respectively (with overall investment, boosted by a surge in house-building, rising by about 10% YY in both years). We expect that the combination of strong economic growth and falling real wages will help pull the jobless rate down to the MPC's 7% threshold around end-2014. Markets are likely to price in a sizeable premium for uncertainties over the post-guidance rate outlook for 2015 onwards. As growth picks up, stronger revenue gains are likely to cause sizeable undershoots in the fiscal deficit.

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

		History			Forecast			History								Forecast				
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Real GDP	YY	0.1	1.4	3.0				0.6	0.0	0.0	-0.2	0.2	1.4	1.5	2.5	2.8	2.9	3.1	3.4	3.4
	QQ SAAR							0.0	-2.0	2.4	-1.2	1.6	2.8	2.7	2.9	2.8	3.1	3.8	3.8	2.9
Final Domestic Demand	YY	1.3	1.3	3.3				2.2	1.0	1.2	0.8	-0.2	0.3	2.1	2.9	3.1	3.7	3.0	3.3	3.4
	QQ SAAR							5.6	-0.6	-1.1	-0.6	1.6	1.3	6.1	2.7	2.2	3.7	3.5	3.7	2.7
Private Consumption	YY	1.2	2.1	2.4				0.7	1.1	1.4	1.5	1.7	1.8	2.4	2.3	2.2	2.7	2.4	2.4	2.7
	QQ SAAR							1.4	0.9	0.8	3.0	2.3	1.1	3.2	2.6	2.0	2.9	2.3	2.5	3.0
Public Consumption	YY	1.7	2.0	0.9				2.6	1.0	1.7	1.5	-1.1	0.8	4.3	3.8	3.4	2.6	-1.2	-1.1	-0.3
	QQ SAAR							10.1	-5.5	1.0	1.1	-0.8	2.1	15.8	-1.0	-2.4	-0.9	-0.5	-0.5	0.5
Fixed Investment	YY	0.9	-2.5	11.1				7.8	0.5	-0.9	-3.5	-6.8	-5.3	-1.8	4.5	7.1	10.0	12.7	14.2	12.6
	QQ SAAR							15.3	-3.2	-9.3	-14.5	0.6	3.1	4.9	9.5	11.2	14.8	15.6	15.5	4.7
-- Business Investment	YY	2.6	-5.5	5.8				14.1	-0.8	1.8	-3.7	-8.2	-8.5	-5.9	1.0	0.9	6.4	7.0	8.9	9.6
	QQ SAAR							29.4	-9.2	-3.8	-23.9	6.8	-10.3	7.6	0.9	6.1	11.1	10.1	8.5	8.9
-- Construction of Private Dwellings	YY	-2.9	10.0	25.7				5.6	0.8	-8.4	-8.1	3.8	5.1	12.6	18.5	21.3	25.3	27.4	28.2	21.7
	QQ SAAR							-30.8	5.6	-7.5	5.6	12.5	11.2	21.7	29.4	23.8	26.3	30.4	32.4	0.7
Stocks (Contrib. to YY GDP Growth)		-0.3	0.2	-0.3				-0.4	-0.5	-1.0	0.5	0.6	0.4	0.2	-0.5	-0.1	-0.4	-0.7	0.0	0.0
Exports of Goods and Services	YY	1.0	1.2	5.5				-1.5	3.5	4.5	-2.0	-0.1	3.3	-2.0	3.5	4.9	2.9	8.3	6.0	5.9
	QQ SAAR							-7.0	-1.8	8.4	-6.8	0.3	12.6	-12.4	16.2	5.7	4.0	7.8	6.6	5.2
Imports of Goods and Services	YY	3.1	1.9	5.2				2.0	4.3	4.1	1.9	0.5	1.9	1.5	3.8	5.6	4.1	5.4	5.6	5.9
	QQ SAAR							2.6	5.9	3.2	-3.7	-3.2	12.0	1.6	5.3	3.8	5.6	6.7	6.3	4.9
Net Exports (Contrib. to YY GDP Growth)		-0.9	-0.1	0.1				-1.3	-0.5	-0.2	-1.5	-0.2	0.7	-0.8	0.1	-0.1	-0.4	0.8	0.1	0.0
Consumer Prices	YY	2.8	2.6	2.2				3.5	2.7	2.4	2.7	2.8	2.7	2.7	2.4	2.2	2.2	2.2	2.3	2.2
Average Earnings YY	YY	1.4	1.3	1.5				0.9	1.3	1.9	1.3	0.6	2.4	0.6	1.4	1.8	0.5	1.7	1.8	2.3
Employment Growth	YY	1.4	1.0	1.1				0.3	1.5	1.7	2.0	1.5	0.9	0.9	0.7	0.8	0.8	1.2	1.6	1.9
Unemployment Rate	%	8.0	7.7	7.3				8.1	8.1	7.8	7.8	7.8	7.7	7.7	7.7	7.7	7.6	7.3	6.9	6.7
Current Account Balance	£ bn	-57.7	-61.0	-48.8				-11.9	-16.7	-15.1	-14.0	-21.8	-13.0	-14.8	-11.4	-11.6	-12.5	-12.3	-12.4	0.0
	% GDP	-3.7	-3.8	-2.9				-3.0	-4.3	-3.8	-3.6	-5.5	-3.2	-3.7	-2.8	-2.8	-3.0	-2.9	-2.8	0.0
Public Sector Net Borrowing	£ bn FY	115.7	109.2	90.6																
	% GDP	-7.4	-6.7	-5.2																
General Government Balance	% GDP	-6.1	-6.9	-5.6																
Government Primary Balance	% GDP	-4.3	-3.6	-2.2																
General Government Debt	£ bn	1387.8	1501.5	1617.1																
	% GDP	88.7	93.4	95.9																
Gross Non Oil Trading Profits	YY	4.3	4.8	9.7				1.8	1.5	3.8	8.6	12.4	3.2	0.1	4.5	2.1	16.0	13.2	9.5	7.2
Base Rate (Period Average)	%	0.50	0.50	0.50				0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Ten-year Gilt Yield (Period Averages)	%	1.85	2.34	3.08				2.12	1.80	1.65	1.82	2.02	2.40	2.87	2.80	2.85	3.05	3.15	3.25	3.40
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.81	0.84	0.82				0.83	0.81	0.80	0.81	0.85	0.86	0.88	0.83	0.82	0.82	0.82	0.81	0.81
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.58	1.58	1.71				1.60	1.57	1.61	1.63	1.52	1.52	1.52	1.67	1.69	1.70	1.71	1.72	1.73

Note: Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS, Citi Research forecasts

Switzerland

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We are leaving our forecasts unchanged this month. The economy is growing at a modest pace, supported by loose domestic monetary conditions, but may face some headwinds if EM tensions hit exports. With inflation close to zero and subdued inflation prospects, the SNB is likely to keep policy on hold for some time.

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

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

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

Sweden

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Lead indicators are somewhat mixed, but continue to show signs of impending recovery. Meanwhile, this has not shown up in hard data, with continued sluggish industrial production and merchandise exports being weak up to August. On balance, this points to weak GDP growth again in 3Q (albeit not negative). The labour market continues to be stronger than suggested by GDP, with growing employment and stable unemployment. Combined with a loose fiscal policy stance, low inflation and increasing house prices, this should support private spending ahead. However, with increasing deleveraging risks (from a high household debt burden) and still weak export markets, our base case remains that economic recovery likely will be weak in a historical context.

With well-below trend GDP growth and high unemployment, the government announced total fiscal stimulus of SEK 24.2bn (0.7% of GDP) for the election year 2014. Ahead, we reckon stimulus will moderate in 2015, amounting to around SEK 10-15bn. This is likely to generate budget deficits of around 1.5% of GDP in coming years. This is small – roughly in line with those that arose during the 2001-04 slowdown – in an international comparison, and Sweden should continue to outperform. Hence, we see no threat to public finances; public debt is likely to stay around 40% of GDP.

Inflation pressure continues to be very low, with CPI inflation around zero and underlying CPIF inflation (CPI excluding interest rates) at 0.9% YY. Most indications are that inflation will remain low during the next 1-2 years; high unemployment, modest wage growth and a steady decline in import prices support this view. The Riksbank is weighing low inflation and capacity utilization plus ongoing expansionary policies from international central banks against financial stability considerations. Although the Central Bank remains concerned about high household debt, accelerating credit growth and a renewed pick-up in house prices, we reckon that, once the new macro prudential measures become operational, this should leave room for the bank to use the repo rate more actively to get inflation back up to target. Meanwhile, weak growth and a lower output gap also support keeping interest rates low for longer.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	1.3	0.6	2.2	2.6	2.5	2.9
Final Domestic Demand	YY	1.9	0.6	2.0			
Private Consumption	YY	1.7	1.7	2.1			
Public Consumption	YY	1.1	1.0	1.2			
Fixed Investment	YY	3.7	-3.0	3.0			
Exports of Goods & Services	YY	1.1	-1.6	2.5			
Imports of Goods & Services	YY	0.0	-1.1	2.2			
Consumer Prices	YY	0.9	0.0	1.2	1.9	2.2	2.3
Unemployment Rate	%	8.0	8.0	7.9			
Current Account Balance	% GDP	6.0	5.9	5.6	5.3	5.3	5.0
General Government Balance	% GDP	-0.6	-1.4	-1.6	-0.7	0.7	1.5
General Government Debt	% GDP	38.4	39.5	39.7	38.7	36.3	33.0
Riksbank Rate (Annual Average)	%	1.45	1.00	1.00	1.31	1.73	2.29
Ten-year Yield (Period Average)	%	1.59	2.14	2.33	2.70	2.85	3.00
EUR-SEK FX Rate (Annual Average)		8.63	8.66	8.91	8.78	8.57	8.36
USD-SEK FX Rate (Annual Average)		6.77	6.51	6.38	6.27	6.12	5.97

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

Denmark

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After being stagnant for the past three years, the Danish economy expanded by a stronger-than-expected 0.6% QQ in 2Q. The economy, however, still on average contracted in 1H. Hence, although we expect the economy to maintain momentum in 2H, the weak starting point implies growth of a meagre 0.3% YY for full-year 2013. Ahead, our forecast assumes moderately accelerating growth, driven by rising domestic demand, but also supported by growing exports now the euro area has exited recessionary territory. 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 and the incipient recovery in the housing market. The full effect of the government's investment window (which raises deductions for investments in machinery and transport equipment this year) should kick in already in 2H, supporting business investment activity. Several years of crisis and nil growth implies that there currently is plenty of spare capacity in the economy. Economic activity is around 4% lower than in a normal economic situation, which largely reflects a lower-than-normal employment level. The weak growth outlook for coming years should only just help turn the labour market around and slowly start closing the sizeable output gap.

Inflation will probably end at a historically low level this year, driven primarily by a substantial cut in excise duties this year. As these temporary factors fade, inflation is expected to return to 1.5% YY during 2014. This is still a weak pace, which reflects low inflationary pressures in the Danish economy; wage growth is modest, and modest employment gains next year are unlikely to alter this situation in any significant way. The benign outlook for Danish inflation also reflects low inflation in Europe as a result of low capacity pressures and international price falls, particularly on food.

As the economy continues to improve, interest rates will go up gradually. Following five years of crisis, the European money market seems to be normalizing; euro area money market rates have risen and widen the spread versus equivalent Danish rates. This adds pressure on the fixed exchange rate policy in Denmark, suggesting that the Danish National Bank will be forced to raise interest rates independently in coming years. In turn, this should bring the policy (lending) rate in Denmark closer to the ECB refi rate, and put an end to the period of negative rates in Denmark.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.4	0.3	1.2	1.4	1.5	1.7
Final Domestic Demand	YY	0.4	0.2	1.0	1.0		
Private Consumption	YY	0.5	0.3	1.0	1.2		
Public Consumption	YY	0.7	-0.1	0.6	0.5		
Fixed Investment	YY	-0.1	0.5	1.6	1.4		
Exports of Goods & Services	YY	0.3	0.9	2.3	2.1		
Imports of Goods & Services	YY	1.0	1.6	1.7	1.5		
Consumer Prices	YY	2.4	0.8	1.5	1.7	1.8	1.9
Unemployment Rate	%	7.5	6.8	6.7			
Current Account Balance	% GDP	6.0	5.4	5.1	4.2	4.0	3.8
General Government Balance	% GDP	-4.3	-2.0	-1.5	-1.0	0.5	1.0
General Government Debt	% GDP	45.8	47.4	47.8	47.4	45.4	42.9
DNB Bank Rate (Annual Average)	%	0.43	0.20	0.28	0.50	0.80	1.00
Ten-year Yield (Period Average)	%	1.51	1.76	1.93	2.15	2.50	2.75

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

Sources: DNB, national statistical office and Citi Research forecasts

Norway

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The Norwegian economy is heading towards a more moderate growth phase, the labour market has weakened and the housing market cooled. Combined with weaker oil investment trends, the business sector – increasingly dependent on the oil industry – will be unable to lean on impulses from the oil (and housing) sector to the same extent as before. Ongoing erosion in competitiveness suggests that Norway may not be able to benefit fully from global recovery. Meanwhile, an expansionary fiscal policy stance and ongoing low policy rates – we now expect Norges Bank to be on hold until late-2014 – should ensure a soft landing rather than an abrupt halt to economic activity. The result is likely to be sub-consensus growth of around 2-3% YY in coming years. Core inflation was higher than expected during spring and summer, but undershot Norges Bank's forecast by 0.5pp in September, indicating downside risks to the bank's near-term inflation forecasts. With one inflation release ahead of the Dec MPR, the outcome will be important for the Bank's inflation projections and conditional interest rate path. Downside risks to the short end of the rate path prevail, in our view: we do not expect a rate cut, but rather that initial tightening will be postponed further. However, a weaker-than-expected NOK and a substantial downward revision of the Bank's mainland GDP forecasts in Sep should act partly as an offset. The Norges Bank's Sep MPR indicated an initial rate hike around summer next year. The rate path, though, pointed to very cautious monetary tightening, with only a 25bp hike pencilled in for next year. This mirrored a substantial downshift in the Board's view on growth/capacity utilisation and the outlook for the domestic economy. According to the 2014 budget, the departing Red-Green government proposed fiscal easing equivalent to 0.3pp of mainland trend-GDP next year (or NOK 135bn). According to the fiscal policy rule, the amount spent could have been higher (around NOK 55bn). Hence, "under-spending" of petroleum income relative to the fiscal policy rule leaves plenty of leeway for the new non-socialist minority government (of Conservatives and Progress Party). Meanwhile, there seems political consensus that this is too large an impulse to be fed into the economy, since crowding out of the private sector and pressure on Norges Bank to hike the policy rate could be a consequence. In turn, the 2014 budget proposes to use "only" 2.9% of the oil fund's value next year. The current slowdown of the economy, though, could argue for a slightly easier fiscal stance, and we expect the supplementary budget (out early-Nov) to be slightly more expansionary.

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

		History		Forecast			
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	1.8	2.2	2.5	2.7	2.7
Final Domestic Demand	YY	2.8	2.4	2.3			
Private Consumption	YY	3.1	2.4	2.4			
Public Consumption	YY	1.7	2.5	2.6			
Fixed Investment	YY	3.8	2.2	1.6			
Exports of Goods & Services	YY	3.4	1.1	2.2			
Imports of Goods & Services	YY	4.2	1.1	2.9			
Consumer Prices	YY	0.7	2.1	1.6	2.0	2.0	2.3
Unemployment Rate	%	3.2	3.6	3.8			
Current Account Balance	% GDP	14.2	12.8	13.1	13.4	13.8	14.0
General Government Balance	% GDP	14.4	12.1	11.8	12.8	13.0	13.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.55	1.50	1.51	1.89	2.28	2.83
Ten-year Yield (Period Average)	%	2.15	2.58	2.83	2.90	3.00	3.25
EUR-NOK FX Rate (Annual Average)		7.48	7.90	7.95	7.58	7.36	7.19
USD-NOK FX Rate (Annual Average)		5.82	5.94	5.69	5.42	5.26	5.14

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

Sources: Norges Bank, Statistics Norway and Citi Research forecasts

Figure 20. Long-Term Forecasts – GDP, CPI and Current Balance, 2012-17F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Euro Area	-0.6	-0.3	0.8	1.0	1.3	1.5	2.5	1.4	1.3	1.4	1.4	1.4	1.3	2.6	2.5	2.5	2.5	2.5
Germany	0.9	0.6	1.9	1.7	1.7	1.5	2.0	1.5	1.6	1.8	2.0	2.1	7.0	6.9	5.9	5.2	4.8	4.5
France	0.0	0.2	0.8	0.9	1.4	1.9	2.2	1.1	1.7	1.4	1.7	1.2	-2.2	-1.6	-0.8	-0.2	0.3	0.1
Italy	-2.4	-1.7	0.1	0.0	0.2	0.6	3.3	1.4	0.9	0.6	0.2	0.3	-0.5	1.1	1.4	1.4	1.4	1.4
Spain	-1.6	-1.3	0.1	0.7	1.2	1.3	2.4	1.7	0.9	0.8	0.7	0.7	-1.1	1.1	1.8	2.3	2.7	3.0
Greece	-6.4	-3.8	-2.9	-1.4	0.9	1.3	1.0	-0.6	-1.2	-0.5	0.2	0.3	-3.4	-0.4	0.8	1.4	3.7	4.9
Ireland	0.1	-0.5	1.4	1.6	2.7	3.0	0.7	-0.3	0.5	1.0	1.5	1.5	4.4	8.6	10.1	10.4	11.2	12.0
Portugal	-3.2	-1.7	-0.6	0.0	1.0	1.1	2.8	0.5	-0.1	-0.3	0.4	0.7	-1.5	1.3	3.3	3.7	3.7	4.0
Netherlands	-1.3	-1.2	0.3	0.9	1.2	1.6	2.8	2.7	1.4	1.5	1.8	1.6	9.4	9.4	8.9	9.5	9.6	9.7
Belgium	-0.3	0.0	0.5	1.0	1.5	1.6	2.8	1.2	1.7	1.8	1.9	1.9	-2.0	-3.6	-3.2	-2.5	-1.8	-1.0
Slovakia	1.8	0.8	1.8	2.4	2.9	3.4	3.6	1.6	1.6	2.1	2.1	2.1	2.2	3.9	3.6	3.2	2.2	0.7
Slovenia	-2.4	-2.2	-0.5	1.1	2.1	2.9	2.6	2.3	2.8	1.8	1.7	1.7	3.3	2.9	4.0	3.7	4.1	4.6
<i>Austria*</i>	0.8	0.4	1.6	1.8	1.7	1.5	2.6	2.2	1.8	1.8	1.8	1.8	1.8	2.8	2.4	2.4	2.3	2.3
<i>Cyprus*</i>	-2.4	-8.7	-3.9	1.1	1.9	2.3	3.1	1.0	1.2	1.6	1.7	1.7	-6.4	-2.0	-0.6	-0.9	-1.0	-1.3
<i>Estonia*</i>	3.9	1.5	2.5	3.5	3.6	3.7	4.2	3.5	2.8	2.5	2.5	2.5	-1.8	-0.7	-0.2	0.3	0.5	0.5
<i>Finland*</i>	-0.8	-0.6	1.1	1.4	2.0	2.0	3.2	2.4	2.4	2.2	2.0	2.0	-1.8	-1.6	-1.8	-1.7	-1.5	-1.4
<i>Luxembourg*</i>	0.3	0.5	1.3	1.6	1.9	2.2	2.9	1.8	1.9	2.8	2.5	2.2	5.7	6.0	6.6	5.7	6.2	6.3
Denmark	-0.4	0.3	1.2	1.4	1.5	1.7	2.4	0.8	1.5	1.7	1.8	1.9	6.0	5.4	5.1	4.2	4.0	3.8
Norway	3.3	1.8	2.2	2.5	2.7	2.7	0.7	2.1	1.6	2.0	2.0	2.3	14.2	12.8	13.1	13.4	13.8	14.0
Sweden	1.3	0.6	2.2	2.6	2.5	2.9	0.9	0.0	1.2	1.9	2.2	2.3	6.0	5.9	5.6	5.3	5.3	5.0
Switzerland	1.0	1.7	1.5	1.7	1.8	1.5	-0.7	-0.2	0.3	1.2	1.2	1.0	12.8	12.9	13.0	12.9	14.0	14.0
United Kingdom	0.1	1.4	3.0	3.2	2.7	2.2	2.8	2.6	2.2	2.2	2.1	2.0	-3.7	-3.8	-2.9	-2.9	-2.8	-2.5

Note: All forecasts are Citi forecasts except those marked with an asterisk. *IMF WEO 8 October 2013.

Sources: OECD and Citi Research forecasts

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

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Euro Area	-3.7	-2.8	-2.3	-1.8	-1.4	-0.9	-0.6	0.2	0.7	1.2	1.6	2.1	92.7	95.7	96.5	96.3	95.7	93.9
Germany	0.2	0.0	0.2	0.2	0.1	0.2	2.6	2.4	2.4	2.4	2.2	2.1	81.2	79.4	75.9	73.1	70.8	68.7
France	-4.8	-4.0	-3.5	-3.1	-2.7	-2.1	-2.3	-1.4	-0.8	-0.5	0.0	0.5	90.2	93.8	95.5	96.6	96.4	95.7
Italy	-3.0	-3.1	-2.8	-2.8	-2.9	-2.7	2.5	2.3	2.5	2.8	2.9	3.1	127.0	132.4	135.8	138.1	140.0	140.9
Spain	-10.8	-6.8	-5.9	-4.9	-3.8	-3.1	-7.8	-3.4	-2.2	-0.7	0.7	1.3	84.2	93.8	103.3	106.9	108.5	109.2
Greece	-10.0	-4.7	-4.0	-2.8	-1.6	-1.2	-5.0	-0.5	0.1	0.5	1.9	2.3	156.9	178.0	192.2	201.2	203.2	203.7
Ireland	-7.5	-7.1	-5.6	-4.0	-3.4	-3.5	-4.5	-2.7	-1.1	0.5	1.3	1.3	117.7	126.9	126.2	127.2	126.6	124.7
Portugal	-6.4	-6.0	-5.0	-4.5	-3.7	-3.2	-2.0	-1.5	-0.8	-0.3	0.5	1.1	123.8	129.6	144.3	148.8	150.5	151.4
Netherlands	-4.1	-3.9	-3.4	-2.8	-2.3	-1.4	-2.2	-1.9	-1.4	-0.8	-0.3	0.6	71.3	75.2	76.6	77.1	77.2	76.2
Belgium	-3.9	-3.0	-2.6	-1.8	-1.2	-1.0	-0.5	0.5	1.0	1.7	2.3	2.4	99.8	102.0	102.6	101.5	99.2	96.8
Slovakia	-4.5	-3.4	-3.2	-2.6	-2.1	-1.8	-3.1	-2.0	-1.7	-1.1	-0.6	-0.3	52.1	55.2	56.7	56.1	55.5	55.1
Slovenia	-3.8	-6.9	-7.9	-4.1	-2.5	-1.7	-1.7	-4.2	-5.0	-1.3	0.5	1.2	54.4	61.6	68.3	70.2	69.7	67.8
<i>Austria*</i>	-2.5	-2.6	-2.4	-1.9	-1.5	-1.4	-0.3	-0.6	-0.5	0.1	0.4	0.5	74.1	74.4	74.8	74.2	73.6	72.6
<i>Cyprus*</i>	-6.3	-6.7	-7.5	-5.3	-2.3	-0.7	-3.5	NA	NA	NA	NA	NA	85.8	114.1	123.0	125.7	121.7	115.9
<i>Estonia*</i>	-0.2	0.3	0.2	0.1	0.1	0.1	-0.2	0.3	0.3	0.3	0.2	0.2	9.7	11.0	10.4	9.8	9.2	8.6
<i>Finland*</i>	-2.3	-2.8	-2.1	-1.6	-1.3	-1.0	-2.3	-2.7	-2.1	-1.8	-1.5	-1.4	53.6	58.0	59.8	60.5	59.8	59.1
<i>Luxembourg*</i>	-0.8	-0.7	-0.9	-1.6	-2.1	-2.1	-1.1	-0.4	-0.8	-1.8	-2.6	-2.8	20.8	22.9	24.6	28.6	29.0	31.3
Denmark	-4.3	-2.0	-1.5	-1.0	0.5	1.0							45.8	47.4	47.8	47.4	45.4	42.9
Norway	14.4	12.1	11.8	12.8	13.0	13.0							NA	NA	NA	NA	NA	NA
Sweden	-0.6	-1.4	-1.6	-0.7	0.7	1.5							38.4	39.5	39.7	38.7	36.3	33.0
Switzerland	0.5	0.7	0.9	0.8	0.8	-0.6							46.7	45.3	43.2	42.2	41.8	41.5
United Kingdom	-6.1	-6.9	-5.6	-4.5	-2.9	-2.1	-4.3	-3.6	-2.2	-0.9	1.1	2.3	88.7	93.4	95.9	97.0	96.6	96.0

Note: All forecasts are Citi forecasts except those marked with an asterisk. *IMF WEO 8 October 2013.

Sources: OECD and Citi Research forecasts

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

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Euro Area			0.1		-0.1	-0.2	0.1	0.1	0.2		0.1	0.2
Germany			0.1		-0.1	-0.4		0.1				0.1
France								-0.1			0.1	
Italy					-0.2	-0.4					0.5	
Spain			0.3		-0.1			-0.2	-0.1			0.1
Greece					-0.1	-0.1						
Ireland			-1.3		0.3	-0.9		-0.2	-1.1	0.1	1.5	
Portugal		0.2	0.2					0.1	0.1			0.4
Netherlands		0.1			-0.2	-0.3						
Belgium						-0.1	-0.4	-1.6	-1.6			
Slovakia	-0.2				-0.1	-0.3		-0.1	0.1	-0.2	0.1	
Slovenia	-0.2						1.1	0.1	0.1	0.2	2.3	-1.3
Denmark		0.1	0.3		0.1		0.1	-0.2	0.2			
Norway		-0.1	-0.2						-0.1	0.6	-1.0	-1.2
Sweden					-0.2	0.1						-0.1
Switzerland												
United Kingdom						0.2		-0.6	-0.1	0.2	-0.5	-0.5

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Euro Area - Citi Forecast	23-Oct-13	-0.6	-0.3	0.8	-3.7	-2.8	-2.3	92.7	96.0	97.2
OECD Economic Outlook	29-May-13	-0.5	-0.6	1.1	-3.7	-3.0	-2.5	92.8	95.4	96.3
EU Commission Forecast	03-May-13	-0.6	-0.4	1.2	-3.7	-2.9	-2.8	92.7	95.5	96.0
IMF WEO Forecast	08-Oct-13	-0.6	-0.4	1.0	-3.7	-3.1	-2.5	93.0	95.7	96.1
ECB Forecast - mid-point	05-Sep-13	-0.6	-0.4	1.0						
Germany - Citi Forecast	23-Oct-13	0.9	0.6	1.9	0.2	0.0	0.2	81.2	79.5	76.0
OECD	03-Sep-13	0.9	0.7	1.9	0.2	-0.2	0.0	81.9	80.6	77.8
EU Commission Forecast	03-May-13	0.7	0.4	1.8	0.2	-0.2	0.0	81.9	81.1	78.6
IMF WEO Forecast	08-Oct-13	0.9	0.5	1.4	0.1	-0.4	-0.1	81.9	80.4	78.1
France - Citi Forecast	23-Oct-13	0.0	0.2	0.8	-4.8	-4.0	-3.5	90.2	93.9	95.5
OECD Economic Survey	03-Sep-13	0.0	0.3	0.8	-4.9	-4.0	-3.5	90.7	94.5	97.2
EU Commission Forecast	03-May-13	0.0	-0.1	1.1	-4.8	-3.9	-4.2	90.2	94.0	96.2
IMF WEO Forecast	08-Oct-13	0.0	0.2	1.0	-4.9	-4.0	-3.5	90.2	93.5	94.8
Italy - Citi Forecast	23-Oct-13	-2.4	-1.7	0.1	-3.0	-3.1	-2.8	127.0	133.0	136.4
OECD	03-Sep-13	-2.4	-1.8	0.4	-2.9	-3.0	-2.3	127.0	131.7	134.3
EU Commission Forecast	03-May-13	-2.4	-1.3	0.7	-3.0	-2.9	-2.5	127.0	131.4	132.2
IMF WEO Forecast	08-Oct-13	-2.4	-1.8	0.7	-2.9	-3.2	-2.1	127.0	132.3	133.1
Spain - Citi Forecast	23-Oct-13	-1.6	-1.3	0.1	-10.8	-5.9	-4.9	84.2	94.0	104.0
OECD Economic Outlook	29-May-13	-1.4	-1.7	0.4	-10.6	-6.9	-6.4	84.1	91.4	97.0
EU Commission Forecast	03-May-13	-1.4	-1.5	0.9	-10.6	-6.5	-7.0	84.2	91.3	96.8
IMF WEO Forecast	08-Oct-13	-1.6	-1.3	0.2	-10.8	-6.7	-5.8	85.9	93.7	99.1
Greece - Citi Forecast	23-Oct-13	-6.4	-3.8	-2.9	-10.0	-4.7	-4.0	156.9	177.6	191.5
OECD Economic Outlook	29-May-13	-6.4	-4.8	-1.2	-10.0	-4.1	-3.5	157.0	175.1	180.6
EU Commission Forecast	03-May-13	-6.4	-4.2	0.6	-10.0	-3.8	-2.6	156.9	175.2	175.0
IMF WEO Forecast	08-Oct-13	-6.4	-4.2	0.6	-6.3	-4.1	-3.3	156.9	175.7	174.0
Ireland - Citi Forecast	23-Oct-13	0.1	-0.5	1.4	-7.5	-7.1	-5.6	118.6	126.0	123.5
OECD Country Survey	12-Sep-13	0.1	0.0	1.9	-7.5	-7.5	-4.6	117.4	122.4	120.0
EU Commission Forecast	03-May-13	0.9	1.1	2.2	-7.6	-7.5	-4.3	117.6	123.3	119.5
IMF WEO Forecast	08-Oct-13	0.2	0.6	1.8	-7.6	-7.6	-5.0	117.4	123.3	121.0
Portugal - Citi Forecast	23-Oct-13	-3.2	-1.7	-0.6	-6.4	-6.0	-5.0	123.8	133.4	150.4
OECD Economic Outlook	29-May-13	-3.2	-2.7	0.2	-6.4	-6.4	-5.6	123.6	127.7	132.1
EU Commission Forecast	03-May-13	-3.2	-2.3	0.6	-6.4	-5.5	-4.0	123.6	123.0	124.3
IMF WEO Forecast	08-Oct-13	-3.2	-1.8	0.8	-6.4	-5.5	-4.0	123.8	123.6	125.3
Netherlands - Citi Forecast	23-Oct-13	-1.3	-1.2	0.3	-4.1	-3.9	-3.4	71.3	75.1	76.6
OECD Economic Outlook	29-May-13	-1.0	-0.9	0.7	-4.0	-3.7	-3.6	71.1	72.8	74.2
EU Commission Forecast	03-May-13	-1.0	-0.8	0.9	-4.1	-3.6	-3.6	71.2	74.6	75.8
IMF WEO Forecast	08-Oct-13	-1.2	-1.3	0.3	-4.1	-3.0	-3.2	71.3	74.4	75.6
Belgium - Citi Forecast	23-Oct-13	-0.3	0.0	0.5	-3.9	-3.0	-2.6	99.8	102.0	102.6
OECD Economic Survey	29-May-13	-0.3	0.0	1.1	-4.0	-2.6	-2.3	99.8	100.4	100.2
EU Commission Forecast	03-May-13	-0.2	0.0	1.2	-3.9	-2.9	-3.1	99.6	101.4	102.1
IMF WEO Forecast	08-Oct-13	-0.3	0.1	1.0	-4.0	-2.8	-2.5	99.8	100.9	101.2
Slovakia - Citi Forecast	23-Oct-13	1.8	0.8	1.8	-4.3	-3.5	-3.2	52.1	56.8	57.4
OECD Economic Outlook	29-May-13	2.0	0.8	2.0	-4.3	-2.6	-2.2	52.1	54.4	55.8
EU Commission Forecast	03-May-13	2.0	1.0	2.8	-4.3	-3.0	-3.1	52.1	54.6	56.7
IMF WEO Forecast	08-Oct-13	2.0	0.8	2.3	-4.3	-3.0	-3.8	52.1	55.3	57.5
Slovenia - Citi Forecast	23-Oct-13	-2.4	-2.2	-0.5	-4.0	-9.1	-6.6	54.1	63.4	68.8
OECD Economic Survey	29-May-13	-2.3	-2.3	0.1	-4.0	-7.8	-3.4	54.1	63.8	68.1
EU Commission Forecast	03-May-13	-2.3	-2.0	-0.1	4.0	-5.3	-4.9	54.1	61.0	66.5
IMF WEO Forecast	08-Oct-13	-2.5	-2.6	-1.4	-3.2	-7.0	-3.8	52.5	71.5	75.3

Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*

Sources: ECB, EU Commission, IMF, OECD and Citi Research forecasts

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	0.8	0.5	1.7	-2.5	-2.3	-1.7	73.5	75.3	75.5
EU Commission Forecast	03-May-13	0.8	0.6	1.8	-2.5	-2.2	-1.8	73.4	73.8	73.7
IMF WEO Forecast	08-Oct-13	0.9	0.4	1.6	-2.5	-2.6	-2.4	74.1	74.4	74.8
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	-2.4	-8.7	-3.9	-6.3	-6.5	-8.4	85.8	109.5	124.0
IMF WEO Forecast	08-Oct-13	-2.4	-8.7	-3.9	-6.3	-6.7	-7.5	85.8	114.1	123.0
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	3.2	1.5	3.6	-0.3	0.0	0.3	10.1	11.4	10.8
EU Commission Forecast	03-May-13	3.2	3.0	4.0	-0.3	-0.3	0.2	10.1	10.2	9.6
IMF WEO Forecast	08-Oct-13	3.9	1.5	2.5	-0.2	0.3	0.2	9.7	11.0	10.4
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	-0.2	0.0	1.7	-2.3	-2.3	-1.8	53.1	56.0	59.7
EU Commission Forecast	03-May-13	-0.2	0.3	1.0	-1.9	-1.8	-1.5	53.0	56.2	57.7
IMF WEO Forecast	08-Oct-13	-0.8	-0.6	1.1	-2.3	-2.8	-2.1	53.6	58.0	59.8
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	0.3	0.8	1.7	-0.8	-0.7	-0.6	20.8	22.8	24.4
EU Commission Forecast	03-May-13	0.3	0.8	1.6	-0.8	-0.2	-0.4	20.8	23.4	25.2
IMF WEO Forecast	08-Oct-13	0.3	0.5	1.3	-0.8	-0.7	-0.9	20.8	22.9	24.6
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	29-May-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	03-May-13	0.8	1.4	1.8	-3.3	-3.7	-3.6	72.1	73.9	74.9
IMF WEO Forecast	08-Oct-13	1.0	1.1	1.8	-3.3	-3.5	-3.6	71.6	73.4	74.0

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

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Denmark - Citi Forecast	23-Oct-13	-0.4	0.3	1.2	-4.3	-2.0	-1.5	45.8	47.4	47.8
OECD Economic Outlook	29-May-13	-0.5	0.4	1.7	-4.1	-1.8	-1.8	45.7	45.5	45.2
EU Commission Forecast	03-May-13	-0.5	0.7	1.7	-4.0	-1.7	-2.7	45.8	45.0	46.4
IMF WEO Forecast	08-Oct-13	-0.4	0.1	1.2	-4.2	-1.7	-2.0	45.6	47.1	47.8
Norway - Citi Forecast	23-Oct-13	3.3	1.8	2.2	14.4	12.1	11.8	NA	NA	NA
OECD Economic Outlook	29-May-13	3.2	1.3	3.0	13.9	12.3	11.8	34.6	41.3	53.2
IMF WEO Forecast	08-Oct-13	3.0	1.6	2.3	13.8	12.4	11.6	34.1	34.1	34.1
Sweden - Citi Forecast	23-Oct-13	1.3	0.6	2.2	-0.6	-1.4	-1.6	38.4	39.3	39.6
OECD Economic Outlook	29-May-13	1.2	1.3	2.5	-0.7	-1.6	-1.1	38.2	42.1	42.1
EU Commission Forecast	03-May-13	0.8	1.5	2.5	-0.5	-1.1	-0.4	38.2	40.7	39.0
IMF WEO Forecast	08-Oct-13	1.0	0.9	2.3	-0.7	-1.4	-1.5	38.3	42.2	42.2
Switzerland - Citi Forecast	23-Oct-13	1.0	1.7	1.5	0.5	0.7	0.9	46.7	45.3	43.3
OECD Economic Outlook	29-May-13	1.0	1.4	2.0	0.7	0.7	0.6	43.8	43.1	42.3
IMF WEO Forecast	08-Oct-13	1.0	1.7	1.8	0.3	0.2	0.5	49.2	48.2	46.6
UK - Citi Forecast	23-Oct-13	0.1	1.4	3.0	-6.1	-6.9	-5.6	89.5	93.1	95.3
OECD	03-Sep-13	0.2	1.5	1.5	-6.5	-7.1	-6.5	90.0	93.9	97.9
EU Commission Forecast	03-May-13	0.3	0.6	1.7	-6.3	-6.8	-6.3	90.0	95.5	98.7
IMF WEO Forecast	08-Oct-13	0.2	1.4	1.9	-7.9	-6.1	-5.8	88.8	92.1	95.3
OBR	20-Mar-13	0.2	0.6	1.8	-6.0	-5.2	-4.3	75.9	79.2	82.6

Note: Negative fiscal balances imply deficit. WEO *World Economic Outlook*.

Sources: EU Commission, IMF, OECD and Citi Research forecasts

Notes

Notes

Appendix A-1

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