

European Economic Forecast Highlights

June 2013

- This document is a companion piece to [Global Economic Outlook and Strategy - June 2013](#). It contains **detailed quarterly economic forecasts** for the main European countries to end 2014.
- **Tables 20 and 21 give annual forecasts to 2017** for GDP growth, CPI inflation, short-term interest rates, current balance, fiscal balance and government debt.
- **Table 22 shows the change in our forecasts** from last month.
- **Figures 23-25** compare the current economic forecasts for each country.
- **The ECB is likely to cut the refi rate again**, most likely in 4Q12, but we doubt that this will provide much stimulus. The ECB's subsequent step if the economy remains weak might be forward guidance on interest rates. We doubt the ECB will implement wider unconventional policies (eg negative deposit rate or large-scale asset purchases) unless deflation is occurring or imminent, or the euro appreciates sharply.

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

	History	Forecast				
	2012	2013	2014	2015	2016	2017
Euro Area	0.88	0.50	0.25	0.25	0.31	0.75
Denmark	0.43	0.10	0.20	0.40	0.60	1.00
Norway	1.55	1.50	1.61	2.00	2.51	3.08
Sweden	1.45	0.89	0.75	1.07	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	0.50	0.50	1.04

Source: Citi Research

Figure 2. Euro Area – Economic Forecasts Compared (Percent), 2012-14F

	Date of Forecast	GDP Growth (YY %)			HICP Inflation (YY %)		
		2012	2013F	2014F	2012	2013F	2014F
Euro Area - Citi Forecast	19-Jun-13	-0.5	-0.8	0.0	2.5	1.4	1.2
ECB Forecast - mid-point	06-Jun-13	-0.5	-0.6	1.1	2.5	1.4	1.3
OECD Economic Outlook	29-May-13	-0.5	-0.6	1.1	2.5	1.5	1.2
EU Commission Forecast	03-May-13	-0.6	-0.4	1.2	2.5	1.6	1.5
IMF WEO Forecast	16-Apr-13	-0.6	-0.3	1.1	2.5	1.7	1.5
Consensus Economics	10-Jun-13		-0.6	0.8		1.5	1.5

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

Ann O'Kelly

+44-20-7986-3297

ann.okelly@citi.com

Michael Saunders

+44-20-7986-3299

michael.saunders@citi.com

Guillaume Menuet

+44-20-7986-1314

guillaume.menuet@citi.com

Giada Giani

+44-20-7986-3281

giada.giani@citi.com

Tina Mortensen

+44-20-7986-3284

tina.mortensen@citi.com

Jaromir Sindel

+420-2-3306-1485

jaromir.sindel@citi.com

Antonio Montilla

+44-20-7986-3282

antonio.montilla@citi.com

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

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Euro Area

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

We leave our euro area GDP forecasts largely unchanged in June, with a marginal downward revision of our 2013 estimate to -0.8% from -0.7% in May. Activity is expected to be marginally negative or flat for the next four quarters. Despite some suggestions of relaxation in fiscal consolidation, member states are still required to show sizeable structural budget deficit-reduction efforts against a backdrop of well-below-average confidence and rising jobless rates. We doubt that more supportive inflation dynamics will lead to much recovery in consumer spending. The euro area crisis is by no means over: deleveraging will dominate the landscape for some time to come, and regaining competitiveness will require some additional and lasting efforts by the majority of member states, dampening domestic demand.

In the meantime, the ECB argues that there are no reasons to adjust its monetary policy stance further, indicating that it will remain “*accommodative for as long as necessary*”. We continue to believe that a likely delay in the ECB’s 2H recovery scenario and muted price developments leave the door open to another small 25bp rate cut later in the year, most likely in 4Q.

Core EMU ratings: Many of our longer-term rating expectations were predicated on a stress scenario of EMU exit by Greece. We removed that from our base case a month ago. As such, we no longer expect downgrades in core countries over the next 2-5yrs (especially ones which currently have a Stable outlook). Specifically, we expect Germany, Austria and Finland to maintain their current ratings in both the near and long term. For country-specific reasons, we do not rule out a downgrade of sovereigns such as France, Belgium and the Netherlands over the very long term – and such sovereigns have a Negative Outlook from both Moody’s and S&P.

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

		History			Forecast			History				Forecast			
		2012	2013	2014	2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	-0.5	-0.8	0.0				-0.1	-0.5	-0.7	-1.0	-1.1	-0.9	-0.7	-0.2
	QQ SAAR							-0.2	-0.8	-0.5	-2.3	-0.8	0.1	0.1	-0.3
Final Domestic Demand	YY	-1.7	-1.2	-0.1				-1.2	-1.6	-1.9	-2.0	-1.9	-1.3	-1.0	-0.5
Private Consumption	YY	-1.3	-0.7	-0.2				-1.1	-1.1	-1.6	-1.5	-1.2	-0.8	-0.7	-0.2
Public Consumption	YY	-0.4	-0.4	-0.3				-0.1	-0.4	-0.5	-0.5	-0.6	-0.3	-0.1	-0.5
Fixed Investment	YY	-4.2	-3.6	0.6				-2.7	-4.1	-4.5	-5.3	-5.5	-4.0	-3.1	-1.5
– Business Equipment	YY	-3.4	-3.9	2.1				-1.1	-3.0	-4.4	-5.3	-5.6	-4.6	-3.6	-1.8
– Construction	YY	-4.8	-3.8	-1.4				-4.1	-5.0	-4.6	-5.4	-5.5	-3.9	-3.6	-2.4
Stocks (Contrib. to YY GDP Growth)		-0.3	0.0	0.0				-0.3	-0.5	-0.3	0.0	0.0	-0.1	0.1	0.0
Exports of Goods and Services	YY	2.9	0.7	2.5				2.6	3.7	3.2	2.3	0.7	0.4	0.2	1.5
Imports of Goods and Services	YY	-0.7	-0.9	1.7				-1.0	-0.5	-0.8	-0.6	-1.6	-1.2	-1.0	0.3
Consumer Prices	YY	2.5	1.4	1.2				2.7	2.5	2.5	2.3	1.9	1.4	1.4	1.1
Core CPI	YY	1.5	1.2	0.9				1.5	1.6	1.6	1.5	1.4	1.1	1.3	1.0
CPI Ex Energy and Unprocessed Food	YY	1.8	1.3	1.0				1.9	1.8	1.7	1.6	1.5	1.3	1.3	1.1
Unemployment Rate	YY	11.4	12.2	12.4				10.9	11.3	11.5	11.8	12.0	12.1	12.2	12.3
Current Account Balance	€ bn	118.3	242.2	224.2											
	% GDP	1.2	2.5	2.3											
General Government Balance	€ bn	-352.7	-296.0	-253.7											
	% GDP	-3.7	-3.1	-2.6											
Primary Balance	% GDP	-0.4	0.3	0.6											
General Government Debt	€ bn	8598.0	9209.6	9531.9											
	% GDP	90.6	96.1	97.9											
Gross Operating Surplus	YY	-0.3	-0.1	0.2											
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.88	0.50	0.25				1.00	0.75	0.75	0.75	0.75	0.50	0.50	0.25
Ten-year Bund yield (Period Avg.)	%	1.57	1.47	1.53				1.88	1.49	1.41	1.43	1.51	1.36	1.50	1.50
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.29	1.34	1.37				1.33	1.26	1.29	1.32	1.28	1.35	1.37	1.36

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

Germany

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

We forecast a 0.6% QQ gain in 2Q GDP after a disappointing weather-related soft 1Q figure (0.1% QQ). We are confident in the ability of the German economy to outperform its peers in the foreseeable future, given the small amount of budget stimulus pencilled in for 2013, together with 3%-equivalent pay hike for 20 months secured by the industrial metal workers' union in late May. From a euro area standpoint, this will be music to the ears of many periphery member states which have been calling on Germany to do more to support its domestic demand to help struggling member states in rebalancing their economy towards exports. Despite the unpopularity of bailouts, German Vox Populi risk appears limited: we expect Chancellor Merkel to be re-elected.

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

		History			Forecast				History				Forecast			
		2012	2013	2014					1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP	YY	0.9	0.3	1.5					1.3	1.0	0.9	0.3	-0.3	0.2	0.3	1.2
	QQ SAAR								2.5	0.7	0.9	-2.7	0.3	2.4	1.2	0.9
Final Domestic Demand	YY	0.3	0.4	1.7					1.0	0.8	-0.1	-0.5	-0.5	0.3	0.4	1.3
	QQ SAAR								0.6	-1.5	0.3	-1.5	0.7	1.6	1.0	1.8
Private Consumption	YY	0.7	0.9	0.9					0.9	1.5	0.3	0.2	0.6	0.8	0.9	1.5
	QQ SAAR								1.5	0.5	0.3	-1.3	3.1	1.1	0.6	1.0
Public Consumption	YY	1.2	0.4	0.9					1.8	0.8	1.2	0.9	0.2	0.9	0.3	0.3
	QQ SAAR								2.1	-1.7	2.7	0.6	-0.6	0.8	0.4	0.4
Fixed Investment	YY	-2.0	-1.5	5.3					0.6	-1.6	-2.6	-4.3	-4.8	-2.1	-0.8	1.8
	QQ SAAR								-3.5	-7.4	-2.2	-4.2	-5.5	3.8	3.1	6.1
-- Business Equipment	YY	-4.1	-2.6	7.9					1.3	-2.8	-6.5	-8.1	-7.6	-4.2	-1.3	3.1
	QQ SAAR								-4.5	-11.6	-8.6	-7.5	-2.5	2.0	3.3	9.8
-- Construction	YY	-0.9	-1.3	3.0					-0.2	-1.2	0.0	-2.2	-3.6	-1.3	-1.0	0.6
	QQ SAAR								-2.5	-5.4	2.2	-2.9	-8.1	4.2	3.1	3.8
Stocks (Contrib. to YY GDP Growth)		-0.5	0.2	-0.1					-0.2	-0.1	-0.3	0.4	-0.1	0.1	0.2	-0.2
Exports of Goods and Services	YY	4.5	-0.2	3.4					3.4	6.0	5.3	3.2	0.1	-0.9	-1.5	1.4
	QQ SAAR								4.9	12.9	5.7	-9.3	-7.0	8.3	3.0	2.0
Imports of Goods and Services	YY	2.6	0.0	3.9					3.3	3.4	2.3	1.4	-0.6	-0.8	-0.3	1.7
	QQ SAAR								-0.7	9.4	2.5	-5.2	-8.2	8.6	4.7	2.5
Net Exports (Contrib. to YY GDP Growth)		1.1	-0.1	0.0					0.7	0.6	0.4	-0.7	0.0	0.1	-0.1	0.0
Consumer Prices	YY	2.0	1.5	2.2					2.1	1.9	2.0	2.0	1.5	1.4	1.6	1.2
Compensation per Employee	YY	2.8	3.2	3.1					2.6	2.7	2.9	3.1	3.4	3.3	3.2	3.1
Employment Growth	YY	1.1	0.3	0.3					1.4	1.2	1.0	0.9	0.5	0.3	0.2	0.3
Unemployment Rate (ILO)	%	5.5	5.5	5.5					5.5	5.5	5.4	5.4	5.4	5.6	5.6	5.4
Current Account Balance	€ bn	185.4	181.4	151.4												
	% GDP	7.0	6.7	5.4												
General Government Balance	€ bn	4.1	-14.5	0.7												
	% GDP	0.2	-0.5	0.0												
Primary Balance	% GDP	2.6	2.0	2.5												
General Government Debt	€ bn	2166.3	2196.9	2182.2												
	% GDP	81.9	81.4	78.5												
Gross Trading Profits	YY	0.1	-0.1	-0.2					4.1	2.2	-1.9	-3.9	-7.7	-4.9	2.2	10.9

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

France

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

Our French 2013 GDP forecast is unchanged, showing a likely fall in economic activity of 0.3%. The tentative improvement in surveys since the start of the second quarter argues in favour of some stabilisation in GDP during the second half compared to an average annualised contraction of 0.7% in 4Q-12 and 1Q-13. While the government is still pushing its modest reform agenda, opinion polls suggest that households would be willing to accept more radical changes, particularly with respect to their pensions and various entitlements but also labour market laws, in exchange for greater clarity with respect to the overall level of taxation. Key risks going forward are the persistence of subdued profitability dynamics, together with negative business investment as firms struggle with weak domestic demand. We expect that the challenging growth picture will mean the government will only meet its revised 3% of GDP budget deficit target in 2016, rather than in 2015.

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
Real GDP	YY	0.0	-0.3	0.4				0.3	0.1	0.0	-0.3	-0.4	-0.4	-0.4	-0.2	0.1	0.4	0.5	0.7
	QQ SAAR							0.0	-0.7	0.3	-0.8	-0.7	-0.3	0.2	0.2	0.5	0.6	0.8	0.9
Final Domestic Demand	YY	-0.1	-0.3	0.2				-0.2	0.2	-0.1	-0.2	-0.4	-0.3	-0.3	-0.3	-0.1	0.1	0.3	0.5
	QQ SAAR							0.1	-0.6	-0.2	-0.2	-0.5	-0.5	-0.2	0.0	0.3	0.4	0.5	0.7
Private Consumption	YY	-0.3	-0.2	0.2				-0.7	-0.2	-0.4	-0.1	-0.4	-0.1	-0.1	-0.2	-0.1	0.2	0.3	0.4
	QQ SAAR							1.0	-1.6	0.1	0.1	-0.3	-0.4	0.0	0.0	0.2	0.4	0.4	0.6
Public Consumption	YY	1.4	0.9	0.4				1.0	1.5	1.6	1.7	1.4	1.1	0.7	0.4	0.3	0.3	0.5	0.6
	QQ SAAR							2.3	1.9	1.3	1.3	1.3	0.4	0.0	0.0	0.6	0.6	0.6	0.6
Fixed Investment	YY	-1.2	-2.3	-0.1				-0.2	-0.5	-1.1	-3.0	-2.5	-2.8	-2.3	-1.6	-0.7	-0.2	0.2	0.5
	QQ SAAR							-5.4	-0.7	-2.8	-3.0	-3.5	-1.9	-0.9	-0.2	0.0	0.1	0.9	0.9
-- Businesses	YY	-1.9	-2.3	0.0				-1.7	-1.0	-1.2	-3.6	-2.6	-2.9	-2.2	-1.5	-0.7	-0.2	0.3	0.6
	QQ SAAR							-7.2	-0.7	-3.7	-2.9	-3.2	-2.0	-0.8	0.0	0.0	0.0	1.2	1.2
-- Households	YY	-0.4	-2.8	-0.2				1.3	0.1	-0.9	-2.0	-2.6	-3.1	-3.1	-2.4	-1.1	-0.3	0.2	0.5
	QQ SAAR							-2.9	-0.9	-1.2	-3.2	-5.2	-2.8	-1.2	-0.4	0.0	0.4	0.8	0.8
Stocks (Contrib. to YY GDP Growth)		-0.8	-0.2	0.0				0.2	-0.2	0.0	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	2.5	0.0	1.8				3.2	2.9	3.2	0.8	0.2	-0.4	-0.5	0.6	1.5	1.7	1.9	2.1
	QQ SAAR							0.5	3.7	1.9	-2.9	-1.9	1.2	1.6	1.6	1.6	2.0	2.4	2.4
Imports of Goods and Services	YY	-0.9	-0.6	1.0				-2.6	-0.5	-0.5	-0.1	-0.8	-1.0	-0.9	0.5	0.6	0.8	1.1	1.3
	QQ SAAR							3.5	1.0	0.3	-5.1	0.6	0.4	0.4	0.8	0.8	1.2	1.6	1.6
Net Exports (Contrib. to YY GDP Growth)		1.0	0.2	0.2				-0.2	0.2	0.1	0.2	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	2.0	1.0	1.6				2.3	2.0	2.0	1.5	1.1	0.8	0.9	0.9	1.4	1.5	1.6	1.6
Average Monthly Wages	YY	2.0	1.3	2.0															
Employment Growth (Private-Sector)	YY	-0.2	-0.4	0.7															
Unemployment Rate	%	9.9	10.7	10.9				9.6	9.8	9.9	10.1	10.4	10.7	10.9	10.9	10.8	10.9	10.9	10.8
Current Account Balance	€ bn	-46.7	-35.6	-20.0															
	% GDP	-2.3	-1.7	-1.0															
General Government Balance	€ bn	-98.2	-78.5	-72.4															
	% GDP	-4.8	-3.8	-3.6															
Primary Balance	% GDP	-2.3	-1.2	-0.9															
General Government Debt	€ bn	1833.8	1924.4	2005.9															
	% GDP	90.2	94.1	96.1															
Gross Trading Profits	YY	-0.9	0.0	1.0															

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

Italy

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Data revisions have suggested that GDP fell more sharply at the turn of the year. Due to this and to lack of yet clear signs of the recession easing, we have revised down by 0.1pp our 2013 GDP growth. Although fiscal tightening is less severe than in 2012, credit conditions remain extremely tight in our view due to banks' weak capital and asset quality deterioration. Calls for some additional relaxation of the fiscal stance are mounting, but fiscal room is limited and we think the deficit target for 2013 (2.9%) is already likely to be missed. This, together with falling GDP, will likely drive the debt ratio close to 140% in 2014. Some form of debt restructuring (in the form of maturity extension or interest rate reduction) may be likely in coming years.

Figure 6. Italy – 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
Real GDP	YY	-2.4	-2.0	-0.6				-1.7	-2.5	-2.6	-2.8	-2.4	-2.2	-2.1	-1.3	-0.9	-0.6	-0.5	-0.5
	QQ SAAR							-4.0	-2.5	-1.0	-3.6	-2.6	-1.7	-0.4	-0.6	-0.8	-0.5	-0.1	-0.5
Final Domestic Demand	YY	-4.7	-2.8	-1.2				-4.1	-4.7	-5.0	-4.9	-3.6	-3.2	-2.4	-1.8	-1.2	-1.1	-1.1	-1.2
	QQ SAAR							-8.4	-3.6	-4.2	-3.2	-3.5	-1.9	-1.2	-0.7	-1.1	-1.3	-1.3	-0.9
Private Consumption	YY	-4.3	-2.5	-0.9				-3.4	-4.2	-4.8	-4.7	-3.4	-3.0	-2.1	-1.5	-1.2	-0.9	-0.8	-0.8
	QQ SAAR							-7.0	-3.4	-4.8	-3.3	-1.9	-2.0	-1.2	-0.8	-0.8	-0.8	-0.8	-0.8
Public Consumption	YY	-2.9	-0.1	-1.0				-2.9	-3.0	-2.8	-2.9	-0.8	-0.2	0.3	0.2	-0.3	-0.8	-1.2	-1.7
	QQ SAAR							-7.9	-2.2	-1.7	0.5	0.3	0.1	0.2	0.2	-1.7	-1.7	-1.7	-1.7
Fixed Investment	YY	-8.0	-6.7	-2.2				-7.6	-8.3	-8.2	-7.8	-7.5	-7.2	-6.8	-5.4	-2.6	-2.3	-2.2	-1.8
	QQ SAAR							-13.6	-5.6	-4.8	-7.0	-12.7	-3.9	-3.2	-1.6	-1.6	-2.8	-2.8	0.0
-- Business Equipment	YY	-9.6	-6.4	-0.7				-8.4	-10.6	-10.3	-8.9	-8.1	-7.1	-6.4	-4.1	-1.1	-0.5	-0.3	-0.7
	QQ SAAR							-13.7	-8.2	-5.1	-8.5	-10.5	-3.9	-2.3	0.9	0.9	-1.6	-1.6	-0.4
-- Construction	YY	-6.4	-7.0	-3.7				-6.8	-6.0	-6.1	-6.7	-7.0	-7.2	-7.1	-6.7	-3.9	-3.9	-3.9	-2.9
	QQ SAAR							-13.5	-3.0	-4.4	-5.5	-14.7	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	0.4
Exports of Goods and Services	YY	2.2	-0.4	1.0				2.1	2.5	2.5	1.8	-0.2	0.5	-0.4	-1.4	0.6	0.4	1.2	1.9
	QQ SAAR							0.0	2.4	4.5	0.2	-7.3	5.2	0.8	-3.9	0.7	4.3	3.9	-1.1
Imports of Goods and Services	YY	-7.8	-4.1	-0.6				-8.9	-7.5	-8.1	-6.7	-5.2	-4.4	-3.6	-3.3	-1.4	-1.0	-0.1	0.2
	QQ SAAR							-12.4	-2.9	-6.9	-4.4	-6.4	0.2	-3.6	-3.5	1.3	2.0	0.0	-2.5
Net Exports (Contrib. to YY GDP Growth)		2.8	1.0	0.5				3.2	2.8	3.0	2.4	1.4	1.3	0.8	0.4	0.6	0.4	0.4	0.5
Consumer Prices	YY	3.3	1.5	1.2				3.6	3.6	3.4	2.6	2.1	1.3	1.3	1.4	1.2	1.5	1.2	1.0
Compensation per Employee	NA	NA	NA																
Employment Growth		-0.3	-1.5	-0.7															
Unemployment Rate	%	10.7	12.4	12.8															
Current Account Balance	€ bn	-8.4	24.6	33.7															
	% GDP	-0.5	1.6	2.2															
General Government Balance	€ bn	-47.6	-50.0	-47.3															
	% GDP	-3.0	-3.2	-3.0															
Primary Balance	% GDP	2.5	2.2	2.2															
General Government Debt	€ bn	1989	2073	2145															
	% GDP	127.0	133.1	137.7															

Note: We assume sovereign debt restructuring in 2015. Percentage changes unless indicated. Annual data are period averages.
Sources: Bank of Italy, ECB, Eurostat, ISTAT and Citi Research forecasts

Spain

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

Antonio Montilla
(44-20) 7986-3282
antonio.montilla@citi.com

We still expect the recession to continue in 2013 and 2014, reflecting a still large fiscal drag, tight financing conditions, ongoing private deleveraging and housing adjustment. Recent slightly less negative developments of some indicators (e.g. PMIs and retail sales) do not suggest positive economic growth any time soon. Domestic demand is likely to remain weak and continue to offset a fairly positive export performance. We see the fiscal deficit narrowing only marginally to 6.5% of GDP in 2013, while extra bank recap needs (given rising NPLs and shortfalls in loan loss provisions) may emerge after the upcoming asset quality review. The debt ratio is expected to continue to rise rapidly and we think that some form of debt restructuring (maturity extensions/coupon reductions) may be likely eventually.

See also [Euro Economics Weekly - Spain's External Rebalancing](#), 14 June 2013, Citi.

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

		History			Forecast											
		2012	2013	2014	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	-1.4	-1.9	-1.2	-0.7	-1.4	-1.6	-1.9	-2.0	-2.0	-2.0	-1.4	-1.2	-1.2	-1.2	-1.2
	QQ SAAR				-1.7	-1.6	-1.3	-3.2	-2.1	-1.5	-1.2	-0.8	-1.3	-1.3	-1.1	-0.9
Final Domestic Demand	YY	-4.0	-4.1	-2.4	-3.2	-3.8	-4.2	-4.8	-5.0	-4.4	-3.9	-2.9	-2.8	-2.6	-2.4	-1.9
	QQ SAAR				-1.8	-5.3	-4.3	-7.7	-2.8	-2.8	-2.4	-3.6	-2.1	-2.0	-1.7	-1.7
Private Consumption	YY	-2.2	-3.0	-1.4	-1.3	-2.2	-2.1	-3.0	-3.9	-3.3	-3.2	-1.5	-1.7	-1.6	-1.2	-1.0
	QQ SAAR				2.1	-4.3	-2.1	-7.6	-1.5	-1.8	-1.8	-1.1	-2.3	-1.2	-0.2	-0.5
Public Consumption	YY	-3.7	-3.6	-2.9	-3.8	-2.8	-4.0	-4.1	-4.3	-4.2	-2.1	-4.0	-3.2	-3.3	-3.5	-1.7
	QQ SAAR				-4.2	-1.2	-9.8	-1.0	-4.7	-1.2	-1.3	-8.5	-1.6	-1.6	-2.0	-1.6
Fixed Investment	YY	-9.1	-7.7	-4.8	-7.4	-9.2	-9.7	-10.3	-9.0	-7.9	-8.0	-5.7	-5.2	-4.6	-4.7	-4.7
	QQ SAAR				-9.4	-11.9	-4.9	-14.6	-4.4	-7.3	-5.5	-5.7	-2.4	-4.9	-5.7	-5.5
-- Business Equipment	YY	-4.5	-5.9	-4.9	-3.2	-4.4	-4.4	-6.2	-4.8	-6.1	-8.3	-4.5	-5.9	-4.3	-4.8	-4.6
	QQ SAAR				-0.5	-6.1	4.7	-20.8	5.4	-11.1	-4.7	-7.0	-0.5	-4.9	-6.5	-6.4
-- Construction	YY	-11.5	-8.6	-4.7	-9.5	-11.6	-12.5	-12.4	-11.3	-8.8	-7.9	-6.4	-4.8	-4.8	-4.6	-4.7
	QQ SAAR				-13.8	-14.8	-9.8	-10.9	-9.5	-5.0	-5.9	-5.0	-3.4	-4.9	-5.3	-5.1
Exports of Goods and Services	YY	3.0	2.6	3.4	2.1	2.7	4.2	3.2	4.5	3.3	0.0	2.7	4.5	4.1	2.9	2.2
	QQ SAAR				-9.9	7.3	21.8	-3.7	-5.2	2.2	7.2	6.9	1.7	0.6	2.4	4.0
Imports of Goods and Services	YY	-5.0	-4.1	-0.1	-5.9	-5.2	-3.4	-5.4	-5.1	-4.0	-5.7	-1.5	0.0	-0.2	-0.8	0.3
	QQ SAAR				-7.7	-5.2	11.3	-17.9	-6.5	-0.8	3.8	-2.1	-0.8	-1.4	1.2	2.4
Net Exports (Contrib. to YY GDP Growth)		2.4	2.0	1.1	2.4	2.3	2.3	2.6	2.8	2.2	1.7	1.3	1.4	1.3	1.2	0.6
Consumer Prices	YY	2.4	1.6	0.8	1.9	1.9	2.8	3.2	2.8	1.7	1.3	0.7	0.7	0.8	0.8	0.8
Compensation per Employee	YY	0.3	-0.1	NA												
Employment Growth	YY	-4.5	-4.2	-3.3	-3.9	-4.9	-4.6	-4.8	-4.6	-4.4	-4.2	-3.6	-3.5	-3.4	-3.2	-3.2
Unemployment Rate	%	25.0	27.1	28.8	24.4	24.6	25.0	26.0	27.2	27.0	26.8	27.6	28.7	28.6	28.5	29.4
Current Account Balance	€ bn	-11.3	11.3	21.1												
	% GDP	-1.1	1.1	2.0												
General Government Balance	€ bn	-111.6	-67.1	-61.0												
	% GDP	-10.6	-6.5	-5.9												
Primary Balance	% GDP	-7.7	-3.1	-2.3												
General Government Debt	€ bn	883.9	977.8	1083.1												
	% GDP	84.2	94.1	104.5												

Note: We assume sovereign debt restructuring in 2015. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€33.5bn). Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Greece

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

We don't think the recession is going to end any time soon, contrary to official forecasts. But the fiscal dynamics have improved slightly recently and this should result in another small reduction in the fiscal deficit in 2013. However, the debt ratio keeps rising and we think a major debt relief from official lenders (which hold 80% of public debt) will eventually occur if sustainability is to be restored. Although we still consider risks of "Grexit" as quite high, we no longer have it in our baseline scenario. However, the ongoing political turmoil around the closure of the public broadcaster shows the still-elevated fragility of the governing coalition.

See also [Euro Economics Weekly - Removing Grexit from the Baseline Scenario](#), 24 May 2013, Citi.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-6.4	-5.5	-4.5	-2.3	0.6	1.3
Final Domestic Demand	YY	-9.7	-7.5	-5.9	-4.3	-0.6	0.5
Private Consumption	YY	-9.1	-7.7	-6.1	-4.7	-1.0	0.6
Fixed Investment	YY	-19.0	-12.3	-7.1	-3.1	0.5	1.3
Exports of Goods and Services	YY	-2.0	0.5	1.3	2.0	2.9	3.0
Imports of Goods and Services	YY	-9.3	-4.2	-4.1	-4.8	-1.2	0.4
Consumer Prices	YY	1.0	-0.5	-1.0	-0.6	0.2	0.3
Unemployment Rate	%	24.1	28.7	32.0	34.4	35.0	34.7
Current Account Balance	€ bn	-6.5	-0.8	1.2	2.2	6.2	8.2
	% GDP	-3.4	-0.4	0.7	1.4	3.9	5.1
General Government Balance	€ bn	-19.4	-9.1	-6.7	-4.1	-2.0	0.2
	% GDP	-10.0	-5.1	-4.1	-2.6	-1.3	0.2
Primary Balance	% GDP	-5.0	-0.3	0.4	0.9	2.4	3.9
General Government Debt	€ bn	303.9	321.9	329.3	336.1	341.6	344.9
	% GDP	156.9	181.5	198.6	210.2	213.1	212.9

Note: We no longer expect Grexit in 2014. We assume sovereign debt restructuring in 2017.

Percentage changes unless indicated. Annual data are period averages.

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

Portugal

Giada Giani
(44-20) 7986-3281
giada.giani@citi.com

GDP is likely to keep falling this year and in 2014, despite improving export growth, as domestic demand is likely to remain a major drag. Fiscal austerity will remain quite large also post-2014. Return to full market funding after the bailout expires in mid-2014 is unlikely, in our view, and some precautionary credit line and/or OMT activation are likely in the post-bailout period. With about half of the debt in official hands, we think some further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may be eventually required to restore sustainability.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-3.2	-3.1	-1.6	0.1	1.0	1.0
Final Domestic Demand	YY	-6.9	-4.6	-2.7	-0.8	0.6	0.8
Private Consumption	YY	-5.6	-3.9	-2.0	-0.2	0.7	0.8
Fixed Investment	YY	-14.5	-10.0	-4.7	-3.0	0.0	1.2
Exports	YY	3.3	1.2	0.9	3.2	3.5	3.1
Imports	YY	-6.6	-4.1	-2.1	1.0	2.7	2.8
Consumer Prices	YY	2.8	0.9	0.2	0.3	0.5	0.6
Unemployment Rate	%	15.7	18.1	19.6	19.4	18.4	17.4
Current Account Balance	€ bn	-2.6	1.6	4.7	5.4	5.5	6.1
	% GDP	-1.5	1.0	3.0	3.4	3.4	3.7
General Government Balance	€ bn	-10.6	-9.0	-8.1	-6.0	-5.1	-5.1
	% GDP	-6.4	-5.6	-5.1	-3.8	-3.1	-3.1
Primary Balance	% GDP	-2.0	-1.1	-0.7	0.6	1.3	1.6
General Government Debt	€ bn	204.5	217.3	227.9	233.9	238.9	244.0
	% GDP	123.6	134.7	144.0	147.2	148.1	148.8

Note: We assume sovereign debt restructuring in 2015.
Percentage changes unless indicated. Annual data are period averages.
Sources: BdP, INE and Citi Research forecasts

Ireland

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

We are raising our 2013 growth forecast to 1.0% from 0.6% last month. Available data suggest that Q1 GDP was roughly flat or perhaps up only marginally. Early signs suggest that Q2 GDP is up by about 0.8% QoQ, although this estimate may well be revised as more details for Q2 become available. The public debt/GDP ratio probably will go on rising this year but, provided the economy does not weaken sharply, may begin to edge down in 2014. We still expect further restructuring of the public debt in official hands to improve Ireland's fiscal sustainability.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	0.9	1.0	2.3	2.6	2.8	2.8
Real GNP	YY	3.4	0.7	1.7	2.0	2.2	2.2
Final Domestic Demand	YY	-1.2	0.2	-0.8	-0.8	-0.6	-0.5
Private Consumption	YY	-0.9	1.4	-0.1	-0.3	-0.3	-0.2
Fixed Investment	YY	1.1	-1.5	-3.7	-3.8	-3.5	-3.3
Government Consumption	YY	-3.8	-2.5	-1.3	-0.5	0.0	0.0
Exports of Goods and Services	YY	2.9	2.2	4.5	5.9	6.0	5.7
Imports of Goods and Services	YY	0.3	1.5	2.2	4.5	4.4	4.2
Net Trade		2.4	0.5	3.3	3.0	3.5	3.3
GDP Deflator	YY	1.9	1.3	1.4	1.6	1.6	1.6
Nominal GDP	YY	2.9	2.3	3.7	4.2	4.5	4.4
House Prices	YY	-12.8	-1.7	0.6	1.0	1.0	2.1
Unemployment Rate	%	14.7	13.9	13.7	13.5	13.3	13.3
Employment	YY	-0.6	0.6	-0.1	-0.3	-0.2	0.0
Current Account Balance	€ bn	7.3	8.1	10.2	11.7	13.6	15.1
	% GDP	4.4	4.9	5.9	6.5	7.2	7.6
General Government Balance	€ bn	-12.0	-12.2	-7.5	-3.7	-2.4	-1.6
	% GDP	-7.3	-7.3	-4.3	-2.1	-1.3	-0.8
Primary Balance	% GDP	-3.4	-1.7	0.7	2.9	3.5	3.8
General Government Debt	€ bn	192.0	203.8	207.9	209.7	212.7	214.4
	% GDP	117.4	121.7	119.7	115.8	112.4	108.5

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

Netherlands

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

We made no changes to our Dutch 2013 GDP forecast this month, expecting a contraction of 1% for the second successive year and a very modest 0.1% gain in 2014. We expect the recession to last until the start of next year as the fiscal tightening effort remains substantial (the government announced additional civil servant reductions in May), with the residential market correction also likely to continue over the next four to six quarters. Yet, with household confidence recovering for the last three successive months, we remain hopeful of some stabilisation in private sector expenditure toward the end of 2013.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-1.0	-1.0	0.1	0.9	1.2	1.6
Final Domestic Demand	YY	-1.6	-2.6	-0.4	0.3	0.4	0.8
Public Consumption	YY	0.0	-1.5	-0.7	0.0	0.3	0.7
Private Consumption	YY	-1.4	-1.1	-0.3	0.4	0.5	0.8
Fixed Investment (ex Stocks)	YY	-4.6	-8.4	0.1	0.4	0.7	1.1
Stocks (Contrib. to YY GDP Growth)		0.1	-0.4	-0.1	0.1	0.1	0.1
Exports of Goods and Services	YY	3.3	1.9	1.3	2.4	3.1	3.5
Imports of Goods and Services	YY	3.1	-0.7	0.8	2.0	2.7	3.1
Net Exports (Contrib. to YY GDP Growth)		0.4	2.1	0.6	0.6	0.7	0.8
Consumer Prices	YY	2.8	2.7	1.8	1.6	1.8	1.8
Unemployment Rate	%	6.4	8.2	8.8	8.9	8.3	7.2
Current Account Balance	€ bn	60.5	57.0	55.0	60.0	62.0	65.0
	% GDP	10.1	9.4	8.9	9.4	9.5	9.6
General Government Balance	€ bn	-24.4	-22.0	-20.1	-17.0	-13.9	-8.4
	% GDP	-4.1	-3.6	-3.2	-2.7	-2.1	-1.2
Primary Balance	% GDP	-2.2	-1.7	-1.3	-0.7	-0.1	0.7
General Government Debt	€ bn	427.5	452.9	469.9	483.7	497.6	506.0
	% GDP	71.2	74.4	75.8	76.0	75.9	74.7

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

Belgium

Guillaume Menuet
(44-20) 7986-1314
guillaume.menuet@citi.com

Revised data suggest that the economy flat-lined in 1Q 2013 compared to a preliminary estimate of a 0.1% QQ gain, marking the fourth quarter of contraction or stagnation since 1Q 2012. Nevertheless, we leave our 2013 GDP forecast of a 0.3% contraction unchanged. Belgium is being watched very carefully by the European Commission, having been required to submit new budget plans by October, including its reform measures, to comply with a minimum amount of structural budget deficit reduction to meet its EU requirements or risk a fine. More efforts will have to be delivered in a delicate period politically, ahead of the legislative elections scheduled for the spring of 2014.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.3	-0.3	0.2	1.0	1.5	1.6
Final Domestic Demand	YY	-0.5	-0.7	0.0	0.8	1.3	1.6
Public Consumption	YY	0.4	0.2	0.3	0.7	1.1	1.5
Private Consumption	YY	-0.3	-0.2	-0.2	0.5	0.9	1.1
Fixed Investment (ex Stocks)	YY	-0.6	-2.8	0.1	2.0	2.6	3.0
Exports of Goods and Services	YY	0.7	-0.9	2.2	3.5	3.9	4.3
Imports of Goods and Services	YY	0.5	-1.4	2.2	3.8	3.8	4.2
Consumer Prices	YY	2.8	1.1	2.0	2.0	2.0	2.1
Unemployment Rate	%	7.6	8.4	8.7	8.5	7.9	7.1
Current Account Balance	€ bn	-5.2	-5.1	-4.4	-2.7	-0.4	2.0
	% GDP	-1.4	-1.3	-1.1	-0.7	-0.1	0.5
General Government Balance	€ bn	-14.9	-12.8	-12.5	-9.7	-7.6	-7.2
	% GDP	-3.9	-3.4	-3.2	-2.4	-1.8	-1.7
Primary Balance	% GDP	-0.5	0.2	0.4	1.2	1.7	1.8
General Government Debt	€ bn	375.4	390.3	404.0	413.7	421.3	428.5
	% GDP	99.8	102.9	104.3	103.7	101.9	99.9

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

Sources: BNB, Belgostat and Citi Research forecasts

Slovakia

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

Our decision to cut our 2013 growth forecast to 0.5% YY reflects weaker GDP in 1Q13, accompanied by a larger drop in investment activity, and another large drop in industrial production. Domestic demand fell by 3.4% YY in 1Q13, of which the largest drop was fixed investment (-11.8% YY). This was accompanied by a 1% fall in private consumption. While employment dropped by 0.9% YY in 1Q13, it actually slightly increased by 0.1% YY if we take into account short-term employment abroad that together with longer employment increased the inflow of employees' compensation (in the current account) to 2% of GDP. The worse employment data were partly offset by better real wage data, that - owing to inflation moderating to 2.2% YY in 1Q13 from 3.5% in 4Q12 - accelerated to 0.3% YY. While total confidence deteriorated in May, which suggests the economic recovery will struggle, industrial orders improved. While the quarter-to-date data suggests the economy is bottoming out, a more detailed reading of the confidence survey is less optimistic, given slightly lower industrial confidence on the back of weaker expectations. By contrast, this risk is limited by a further improvement in order books to levels last seen in March 2012. All in all, we expect GDP to increase by 0.5% YY in 2013 due to weaker investments and exports, but the downside risks are limited by better order-books and higher capacity utilization. We expect milder recovery of 1.7% in 2014 (MinFin: 2.2%) due to relatively weaker foreign demand and likely fiscal tightening. The IMF expects Slovak GDP to decelerate to 0.6% YY in 2013 and return to 2% growth, seen in 2012, next year before it resumes its potential growth of 3%-3.5% over medium term.

The central government deficit narrowed to 4.5% of GDP in May, the lowest ratio since end-2009. However, weaker economic growth is also reflected in lower revenue growth that fell by 3.7% (-1.4% a year ago). Having said this, May data confirmed a development from previous months pointing to some improvement after the 12m cumulative deficit remained on average above 5% of GDP in the first four months of this year. However, the government has to maintain focus on the consolidation process as the seasonal pattern suggests a wider deficit of around 5.5% of GDP in 2013 instead of the planned 4.1% (above €4bn vs. plan of €3.1bn). The IMF sees the possibility that the 3% fiscal deficit will be met this year owing to the strong commitment of government. However, the IMF urges finding other - sustainable - sources for fiscal consolidation for coming years (2% of GDP in 2014-16).

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	2.0	0.5	1.7	2.4	2.9	3.4
Final Domestic Demand	YY	-1.4	-1.5	1.6	2.5	3.4	3.6
Public Consumption		-0.6	0.2	0.1	1.5	2.0	2.0
Private Consumption	YY	-0.6	-0.3	0.8	1.8	2.7	3.0
Fixed Investment	YY	-3.7	-5.4	4.3	5.1	6.0	6.0
Exports	YY	8.6	1.5	2.7	4.5	5.6	6.5
Imports	YY	2.8	-0.4	2.2	4.8	6.4	7.5
Consumer Prices	YY	3.6	1.7	2.0	2.7	2.7	2.7
Unemployment Rate	%	13.6	14.5	14.7	14.0	13.2	13.2
Current Account Balance	% GDP	2.2	3.3	3.0	2.0	0.7	-0.7
General Government Balance	% GDP	-4.3	-3.4	-3.2	-2.6	-2.1	-1.8
Government Primary Balance	% GDP	-2.9	-2.0	-1.8	-1.1	-0.7	-0.3
General Government Debt	% GDP	52.1	55.6	56.5	56.6	56.3	55.8

Sources: National sources and Citi Research forecasts

Slovenia

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

Ongoing weakness in domestic demand in 1Q13 was limited by improved fixed investment and stronger exports, but short-term indicators suggest a milder recession ahead. We do not change our forecasts much and expect GDP to fall by 2.2% YY in 2013 (-1.9% previously) after -2.2% in 2012, followed by ongoing mild contraction of 0.3% YY in 2014 (previously -0.2%) before the economy starts to recover by 1.1% in 2015. GDP contracted for the seventh quarter in a row in 1Q13, when it fell 0.7% QQ (the cumulative contraction reached 4.6% compared to mid-2011). This resulted in a stronger YY contraction of 3.3% in 1Q13 after -2.8% in 4Q12 owing to the benign base effect. Household consumption has continued to contract by 1.3% QQ in 1Q13, only a slightly slower pace than the average -1.5% between 2Q-4Q12. This was accompanied by renewed mild contraction in government consumption, while fixed investment activity surged 1.1% QQ in 1Q13, which is the first increase since 1Q11 (it cumulatively decreased by 15% between these periods). While fiscal policy has not helped the economy to recover, exports increased by 2.4% QQ, the strongest growth since early 2011. However, high demand for imports and recovery in investment activity resulted in a stronger increase in imports (3.6% QQ). Slovenian manufacturing confidence improved in May accompanied by an improved order-book. The improvement in the foreign order-book suggests that exports will accelerate to above 7% YY in June after 1.5% in May, though in our view a milder recovery is likely. Our forecast of ongoing, though modest (below consensus), recovery in external demand and the relatively large openness of the Slovenian economy (share of exports of goods and services was 75% of GDP in 2012) are likely to support the economy, which will likely help investments in transportation and manufacturing equipment to recover owing to a slightly higher utilization of production capacity (this has already increased two quarters in a row in April 2013).

We think recapitalization in state-owned banks is likely to exceed the initial estimate of the Slovenian central bank, while the mix of realized transfer of bad loans into a bad bank and banks' privatization will be key in this issue. For more see [Sovereign Debt Crisis Update](#).

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

		History		Forecast			
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-2.2	-2.2	-0.3	1.1	2.1	2.9
Final Domestic Demand	YY	-3.8	-2.9	0.1	1.5	1.8	2.1
Public Consumption		-1.6	-0.5	-0.6	0.8	1.1	1.2
Private Consumption	YY	-2.8	-4.2	-0.1	1.2	1.7	2.0
Fixed Investment	YY	-9.1	-2.1	1.4	3.0	2.8	3.2
Exports	YY	1.3	2.9	2.1	3.4	5.4	6.7
Imports	YY	-4.3	2.6	2.6	3.8	5.7	6.7
Consumer Prices	YY	2.6	1.5	1.7	2.0	1.8	1.8
Unemployment Rate	%	8.9	10.1	11.1	11.9	12.4	12.0
Current Account Balance	% GDP	2.3	2.2	3.4	3.1	3.5	4.1
General Government Balance	% GDP	-4.0	-9.1	-6.0	-2.9	-2.4	-1.5
Government Primary Balance	% GDP	-1.9	-6.9	-3.7	-0.6	0.0	0.9
General Government Debt	% GDP	54.1	63.6	70.5	70.6	69.8	68.4

Sources: National sources and Citi Research forecasts

United Kingdom

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

We again lift our growth forecasts and expect growth of 1.0% in 2013 and 1.2% in 2014, versus 0.7% and 0.8% respectively last month. Recent data have been a bit better than expected, with gains in industrial production and housing, while surveys suggest that Q2 GDP growth is about 0.5% QQ (non-annualised). Note that upcoming GDP revisions (end-June) may alter the overall growth rate in recent years. Although CPI inflation remains a little above target, the overshoot is likely to be small – and more than accounted for by regulatory-driven gains in utility prices and university tuition fees.

BoE-Governor Designate Mark Carney's comments make clear that he strongly supports the use of forward guidance. We expect the BoE will introduce Fed-style guidance – committing to not tighten via Bank Rate or QE at least until a specified threshold has been hit (most likely a jobless rate of 6.5%-7% or 4%-6% nominal GDP growth), subject to an inflation knockout set above the 2% inflation target.

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	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	0.3	1.0	1.2				0.5	0.0	0.4	0.2	0.6	1.5	0.6	1.3	1.1	0.9	1.2	1.5				
	QQ SAAR							0.0	-1.5	4.0	-1.5	1.6	1.9	0.6	1.0	0.9	1.1	1.8	2.1				
Final Domestic Demand	YY	1.5	0.7	1.1				1.1	1.4	1.6	1.7	0.7	0.6	0.7	0.7	1.0	1.0	1.2	1.3				
	QQ SAAR							3.8	1.0	0.6	1.2	-0.2	0.9	0.8	1.2	1.2	1.0	1.4	1.7				
Private Consumption	YY	1.2	1.3	1.9				0.3	1.2	1.7	1.6	1.3	1.2	1.4	1.4	1.7	1.8	1.9	2.2				
	QQ SAAR							1.6	1.9	1.3	1.5	0.5	1.2	2.3	1.6	1.9	1.6	2.6	2.6				
Public Consumption	YY	2.2	0.4	-0.6				3.6	1.4	1.8	2.0	-0.8	1.2	0.9	0.4	0.1	-0.5	-1.1	-1.2				
	QQ SAAR							12.0	-6.6	1.4	2.2	0.1	1.0	0.5	0.0	-0.9	-1.4	-1.9	-0.5				
Fixed Investment	YY	1.5	-1.4	0.6				0.7	2.5	1.5	1.5	0.2	-1.6	-2.4	-2.0	-0.8	-0.1	1.6	1.7				
	QQ SAAR							2.1	6.8	-1.8	-0.8	-3.0	-0.6	-5.1	1.1	1.6	2.4	1.5	1.3				
-- Business Investment	YY	4.9	-1.9	0.0				9.2	6.0	4.0	0.8	0.7	-1.9	-3.6	-2.9	-2.0	-0.2	1.4	1.0				
	QQ SAAR							0.9	-6.8	10.7	-2.7	-0.8	-4.4	-6.1	-0.4	2.0	3.2	0.3	-1.9				
-- Construction of Private Dwellings	YY	-5.4	-1.9	-1.7				-12.1	-1.0	-4.0	-3.9	2.1	-6.1	-3.1	-0.1	-4.9	-3.4	0.2	1.3				
	QQ SAAR							-6.0	29.7	-22.2	-10.1	19.8	-7.1	-11.9	1.7	-1.6	-1.1	2.0	6.2				
Stocks (Contrib. to YY GDP Growth)		-0.1	0.2	0.0				0.2	0.0	-0.5	-0.1	0.6	0.3	-0.2	0.3	-0.1	0.0	0.1	0.0				
Exports of Goods and Services	YY	-0.2	0.3	4.8				-0.5	0.2	2.2	-2.5	-1.8	0.2	-0.1	2.8	4.6	4.8	4.8	5.1				
	QQ SAAR							-5.9	-4.4	7.3	-6.4	-3.1	3.7	5.8	4.9	4.1	4.5	5.7	6.1				
Imports of Goods and Services	YY	2.7	0.0	4.4				1.9	3.9	3.7	1.2	0.1	-1.4	-0.6	1.8	3.5	4.9	4.7	4.5				
	QQ SAAR							2.3	5.2	1.4	-3.8	-2.0	-1.2	4.9	5.9	4.7	4.2	4.2	4.8				
Net Exports (Contrib. to YY GDP Growth)		-1.1	0.1	0.1				-0.8	-1.4	-0.7	-1.4	-0.7	0.5	0.1	0.4	0.3	-0.1	0.0	0.1				
Consumer Prices	YY	2.8	2.7	2.3				3.5	2.7	2.4	2.7	2.8	2.6	2.7	2.5	2.3	2.3	2.2	2.2				
Average Earnings YY	YY	1.4	0.5	1.5				0.7	1.7	1.9	1.3	0.5	0.4	0.3	0.8	1.6	1.3	1.4	1.6				
Employment Growth	YY	1.2	0.8	1.0				0.2	0.9	1.8	2.1	1.4	0.8	0.5	0.3	0.7	0.9	1.2	1.3				
Unemployment Rate	%	7.9	7.9	7.8				8.2	8.0	7.8	7.8	7.8	7.9	8.1	7.9	7.9	7.9	7.7	7.5				
Current Account Balance	£ bn	-57.7	-44.7	-47.3				-11.9	-16.7	-15.1	-14.0	-12.2	-10.4	-10.7	-11.4	-11.8	-12.0	-11.8	-11.7				
	% GDP	-3.7	-2.8	-2.9				-3.1	-4.4	-3.9	-3.6	-3.1	-2.6	-2.7	-2.8	-2.9	-2.9	-2.9	-2.8				
Public Sector Net Borrowing	£ bn FY	88.3	109.2	104.6																			
	% GDP	-5.7	-6.8	-6.3																			
General Government Balance	% GDP	-6.3	-7.4	-6.9																			
Government Primary Balance	% GDP	-2.6	-3.6	-3.1																			
General Government Debt	£ bn	1387.4	1509.1	1644.5																			
	% GDP	89.5	93.5	99.1																			
Gross Non Oil Trading Profits	YY	3.6	10.5	5.6				0.0	3.7	1.4	8.2	15.8	11.0	5.6	10.6	8.2	5.7	4.7	3.8				
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				
Ten-year Gilt Yield (Period Averages)	%	1.85	2.00	2.35				2.12	1.80	1.65	1.82	2.02	2.01	2.10	2.15	2.25	2.35	2.40	2.50				
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.81	0.85	0.86				0.83	0.81	0.80	0.81	0.85	0.85	0.85	0.86	0.86	0.86	0.86	0.86				
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.58	1.58	1.60				1.60	1.57	1.61	1.63	1.52	1.59	1.60	1.59	1.58	1.59	1.60	1.61				

Note: Forecasts do not include GDP data released 27 Feb 2013. Percentage changes unless indicated. Annual data are period averages. Sources: BoE, ONS, Citi Research forecasts

Switzerland

Michael Saunders
(44-20) 7986-3299
michael.saunders@citi.com

We expect the SNB to keep policy stable for some time, with the Libor target band at 0-0.25% and (as since late-2011) capping the currency at CHF1.20/€. The economy is a little stronger than the SNB had expected, while CPI inflation is a little weaker. But, at the same time, there is no evidence that the Swiss economy is sinking into a deflationary trap. We suspect the SNB will remain reluctant to fine-tune the FX cap, on the grounds that frequent changes could fuel destabilising capital flows in anticipation of further changes. Hence, the FX cap is only likely to be changed if there is a solid case to move it substantially (or scrap it).

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

		History				Forecast											
		2012	2013	2014		History				Forecast							
						1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Real GDP	YY	1.0	1.5	1.2		1.0	0.4	1.3	1.2	1.4	1.8	1.4	1.4	1.2	1.1	1.2	1.3
Final Domestic Demand	YY	1.7	1.6	1.3		1.5	1.8	1.7	1.7	1.6	1.8	2.1	1.1	1.3	1.1	1.2	1.7
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
Private Consumption	YY	2.5	2.4	1.6		2.4	2.4	2.5	2.8	2.5	2.5	2.8	1.7	1.5	1.6	1.4	2.0
Fixed Investment	YY	-0.2	0.0	0.4		-1.0	1.0	0.1	-0.7	-0.9	0.1	0.7	-0.1	0.6	-0.4	0.5	1.1
Exports of Goods and Services	YY	1.1	1.6	2.9		-0.6	0.0	1.7	3.4	1.6	2.1	2.0	0.8	2.8	2.6	3.0	3.4
Imports of Goods and Services	YY	2.1	0.8	3.7		2.5	2.0	1.3	2.6	0.0	1.1	1.5	0.7	3.6	3.0	3.5	4.8
Consumer Prices	YY	-0.7	-0.5	-0.2		-0.9	-1.0	-0.5	-0.3	-0.4	-0.5	-0.8	-0.3	-0.5	-0.2	0.0	0.1
Unemployment Rate	%	2.6	1.9	2.0		3.1	3.2	2.3	1.8	1.9	1.9	2.0	1.8	1.8	2.0	2.2	1.9
Current Account Balance	Sfr bn	75.9	78.0	77.4		17.6	21.7	19.1	17.5	17.4	21.9	19.4	19.3	19.1	21.0	18.3	19.0
	% GDP	12.8	12.8	12.4		12.0	14.7	12.8	11.8	11.6	14.4	12.7	12.5	12.4	13.5	11.7	12.1
General Government Balance	% GDP	0.5	0.6	0.6													
General Government Debt	% GDP	46.7	45.4	43.6													
SNB Rate (Annual Avge, then qtr-end)	%	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Yield (Period Average)	%	0.64	0.75	0.64		0.71	0.59	0.53	0.47	0.64	0.61	0.75	0.75	0.60	0.60	0.65	0.70
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.20	1.22	1.27		1.20	1.20	1.21	1.21	1.22	1.22	1.22	1.24	1.25	1.26	1.27	1.28
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.94	0.91	0.92		0.90	0.95	0.94	0.91	0.95	0.90	0.89	0.91	0.92	0.92	0.92	0.93

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

Sweden

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

After stagnating in 4Q12, economic activity recovered in early 2013, although 1Q GDP showed signs of weakness (rising inventories). Economic recovery is likely to be weak in a historical perspective; exports should stay weak, household deleveraging risks are increasing and ongoing fiscal erosion limits the size of fiscal easing.

Exports are likely to stay weak this and next year given the poor outlook for core euro area countries and we reckon domestic demand in Sweden will have to be more of a growth driver in the initial stages of this upturn than in previous recoveries. This could clearly hamper a quick recovery. Although there is a continued need to replenish/replace production capacity, combined with an increasing need to build more houses to address the supply-demand gap, companies remain very cautious, which clearly holds back capital spending. For the household sector, the recovery has been stronger: households are buoyed by strong income growth and high savings. Most indications are that consumption will continue to rise gradually at about the same rate as during 2012. Employment weakened late last year, but short-term indicators are now showing a stabilisation. Despite job growth, unemployment has risen since mid-2012, largely due to increasing labour supply – partly reflecting government measures to reduce sick leave and early retirement, and partly enhanced incentives to work (due to the earned income deduction). In addition, labour force participation by people above the official retirement age of 65 has risen. Inflation pressure continues to be very low, with CPI inflation slightly negative and underlying CPIF inflation (CPI excluding interest rates) at 0.7% YY. Most indications are that inflation will remain low during the next 1-2 years. The Riksbank is weighing low inflation and capacity utilization against financial stability considerations (high household debt burden and rising house prices). We reiterate our view of a 25bp interest rate cut at the July meeting, though it is a close call. Thereafter we estimate the repo rate will be left unchanged during all of 2014. With well below trend GDP growth and rising unemployment, the government announced total fiscal stimulus of around SEK 25bn (0.7% of GDP) this year. With a general election scheduled for 2014, we look for additional reforms of the same magnitude next year, which should generate a budget deficit of around 1.5% of GDP in 2013-14. These are small in an international comparison, and public debt is likely to stay around 40% of GDP.

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

		History		Forecast				
		2012	2013	2014	2015	2016	2017	
Real GDP	YY	1.1	1.2	2.0	2.5	2.5	2.9	
Final Domestic Demand	YY	1.9	0.4	1.7				
Public Consumption	YY	1.1	0.8	0.7				
Private Consumption	YY	1.6	2.0	2.0				
Fixed Investment	YY	3.9	-4.1	2.6				
Exports of Goods & Services	YY	1.3	-1.5	2.5				
Imports of Goods & Services	YY	0.5	-2.6	1.9				
Consumer Prices	YY	0.9	0.1	1.0	1.8	2.2	2.3	
Unemployment Rate	%	8.0	8.3	8.2				
Current Account Balance	% GDP	6.9	7.1	7.0	6.7	6.8	6.7	
General Government Balance	% GDP	-0.7	-1.4	-1.5	-0.4	0.7	1.5	
General Government Debt	% GDP	38.5	39.5	39.9	38.6	36.2	32.9	
Riksbank Rate (Annual Average)	%	1.45	0.89	0.75	1.07	1.73	2.29	
Ten-year Yield (Period Average)	%	1.59	1.85	1.88	2.10	2.25	2.75	
EUR-SEK FX Rate (Annual Average)		8.63	8.69	8.70	8.57	8.43	8.29	
USD-SEK FX Rate (Annual Average)		6.77	6.48	6.33	6.13	6.02	5.92	

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

Denmark

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

Given the substantial setback in 4Q12 (-0.9%/-0.7% in quarterly/annual terms), the economy entered 2013 at a lower level than previously assumed. Coupled with very weak exports and stagnant domestic spending, this indicates barely any growth this year. Our forecast assumes that economic activity gradually will improve, driven by stronger domestic demand. However, recovery will be weak as households continue to deleverage/save on the back of the housing bust, and risks are substantial and tilted to the downside. They largely relate to a further slowdown in major trade partners, in particular the euro area. In turn, we have cut our 2014 GDP forecast by 0.4pp to 1.1% YY.

The government has implemented economic reforms to boost domestic demand (increased government investment and lower income taxes) and to improve the supply side of the economy (labour market reforms, changes to the unemployment and social security benefit system, lower corporate tax and indirect company tax cuts). So far, these appear to have had little material effect. However, government estimates suggest that recent years' initiatives will boost economic growth by 0.3pp this year, while having a slightly tightening effect in 2014. The fiscal measures led to a substantial weakening of public finances in 2012 (a 4.1% of GDP general government budget deficit), however, already this year the deficit should shrink markedly, as the temporary stimuli ceases and the bringing forward of the tax on capital pension schemes should boost fiscal revenues.

The Danish National Bank only partly shadowed ECB action in May, cutting the lending rate by 10bp to 0.20%, while keeping its other interest rates unchanged. This reflected a reasonably stable development in EUR/DKK with the Danish krone trading only marginally stronger than the central parity, at the same time as the lending rate already was close to the zero prior to the rate announcement. The DNB had also said that *"With low monetary policy rates, the room for further reduction of Denmark's Nationalbank's lending rate is limited. The lending rate will remain positive"*. In other words, the Bank is saving some of its ammunition. The DNB did not intervene in the foreign-exchange market in May, as was also the case in Feb-Apr, suggesting that the currency is trading around satisfactory levels versus the euro, and that the next independent interest rate move is unlikely to happen in the very short term. Ahead, we do not expect DNB to fully shadow ECB action (we have another ECB 25bp rate cut in 4Q-13); we expect the lending rate to trough at 0.1% in 4Q this year, and then gradually to move higher hereafter.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	-0.5	0.2	1.1	1.6	1.6	1.7
Final Domestic Demand	YY	0.3	0.5	1.3			
Public Consumption	YY	0.2	0.2	0.6			
Private Consumption	YY	0.6	0.4	1.2			
Fixed Investment	YY	0.0	1.1	2.6			
Exports of Goods & Services	YY	0.9	-1.4	2.3			
Imports of Goods & Services	YY	1.8	2.0	2.7			
Consumer Prices	YY	2.4	1.1	1.5	1.9	2.0	1.9
Unemployment Rate	%	7.5	7.5	7.4			
Current Account Balance	% GDP	5.8	5.3	4.6	4.2	4.0	3.8
General Government Balance	% GDP	-4.1	-2.0	-1.2	-1.0	0.5	1.0
General Government Debt	% GDP	45.8	47.2	47.2	46.6	44.3	41.6
DNB Bank Rate (Annual Average)	%	0.43	0.10	0.20	0.40	0.60	1.00
Ten-year Yield (Period Average)	%	1.51	1.62	1.65	1.95	2.25	2.75

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

Norway

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

Mainland GDP (excl. oil/gas and shipping) expanded at a trend-like pace of 0.7% QQ in 1Q, about the same pace as in 1-3Q 2012, but markedly up from the meagre 0.2% QQ gain in 4Q12. With survey indicators pointing to a near-term slowdown, we expect to see slightly below-trend growth this year. Activity continues strongest among suppliers to the petroleum sector, benefitting the economy both directly via increased activity and indirectly via strong income growth. Demand for labour in oil-related industries is offsetting decline in more traditional industries. However, there are clear signs of labour market weakening; the pick-up in employment has stopped amid sustained labour supply growth (helped by strong immigration flows), and the LFS jobless rate stood at 3.6% in 1Q, up from 3.1% YY in 3Q12 – a substantial increase by Norwegian standards. Meanwhile, the less volatile registered unemployment measure shows a more modest gain to 3.1%, suggesting that the increase in the LFS measure is somewhat exaggerated.

With below-target inflation in the foreseeable future (wage growth below pace compatible with 2.5% inflation target, moderating economic activity and higher unemployment), this could justify additional monetary policy easing. However, worries over a renewed pick-up in house prices and household indebtedness are likely to keep rates steady at 1.50%, absent new lows in I-44. We expect a cautious hiking cycle with one 25bp hike to start in 2H14 and see a policy rate at a below-neutral level of 2.25% in late-2015.

The government's spring budget seemed more expansionary than the original 2013 budget called for, but the stronger fiscal stimulus mostly reflected revisions to the 2012 outcome. The government refrained from pouring even more oil money into the economy to improve its chances for re-election in September. The latest opinion polls show a marked lead for the opposition Conservative Party, and should they win the election this would likely imply increased spending of oil money, and in turn an even easier fiscal policy stance. According to the spring budget, spending of oil revenues was estimated to correspond to 3.3% of the GPFG, i.e. below the 4% fiscal policy rule. The 'undershooting' is not a result of active budget measures, but rather higher-than-expected oil prices, which in turn have implied a higher-than-expected value of the GPFG.

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

		History	Forecast				
		2012	2013	2014	2015	2016	2017
Real GDP	YY	3.3	2.4	2.7	2.9	2.7	2.7
Final Domestic Demand	YY	2.8	2.7	3.0			
Public Consumption	YY	1.6	2.1	2.0			
Private Consumption	YY	3.1	3.0	3.1			
Fixed Investment	YY	3.8	2.8	4.1			
Exports of Goods & Services	YY	3.4	2.1	2.5			
Imports of Goods & Services	YY	4.2	1.9	3.9			
Consumer Prices	YY	0.7	1.7	1.7	2.0	2.1	2.5
Unemployment Rate	%	3.2	3.4	3.4			
Current Account Balance	% GDP	14.2	14.5	14.9	15.2	15.4	15.0
General Government Balance	% GDP	13.8	13.1	13.0	14.0	15.5	15.0
General Government Debt	% GDP	NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%	1.55	1.50	1.61	2.00	2.51	3.08
Ten-year Yield (Period Average)	%	2.15	2.27	2.33	2.55	2.75	3.25
EUR-NOK FX Rate (Annual Average)		7.48	7.72	7.58	7.34	7.22	7.11
USD-NOK FX Rate (Annual Average)		5.82	5.76	5.52	5.25	5.16	5.08

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	-0.5	-0.8	0	0.7	1.1	1.4	2.5	1.4	1.2	1.2	1.3	1.3	1.2	2.5	2.3	2.3	2.3	2.3	2.3
Germany	0.9	0.3	1.5	2.0	1.9	2.0	2.0	1.5	2.2	2.1	2.0	1.8	7.0	6.7	5.4	5.3	5.2	5.2	
France	0.0	-0.3	0.4	0.9	1.4	1.9	2.0	1.0	1.6	1.3	1.6	1.4	-2.3	-1.7	-1.0	-0.3	0.2	-0.1	
Italy	-2.4	-2.0	-0.6	0.2	0.5	0.8	3.3	1.5	1.2	0.8	0.3	0.4	-0.5	1.6	2.2	2.2	2.3	2.3	
Spain	-1.4	-1.9	-1.2	0.0	1.2	1.3	2.4	1.6	0.8	0.6	0.5	0.5	-1.1	1.1	2.0	3.4	4.1	3.9	
Greece	-6.4	-5.5	-4.5	-2.3	0.6	1.3	1.0	-0.5	-1.0	-0.6	0.2	0.3	-3.4	-0.4	0.7	1.4	3.9	5.1	
Ireland	0.9	1.0	2.3	2.6	2.8	2.8	1.9	1.3	1.4	1.6	1.6	1.6	4.4	4.9	5.9	6.5	7.2	7.6	
Portugal	-3.2	-3.1	-1.6	0.1	1.0	1.0	2.8	0.9	0.2	0.3	0.5	0.6	-1.5	1.0	3.0	3.4	3.4	3.7	
Netherlands	-1.0	-1.0	0.1	0.9	1.2	1.6	2.8	2.7	1.8	1.6	1.8	1.8	10.1	9.4	8.9	9.4	9.5	9.6	
Belgium	-0.3	-0.3	0.2	1.0	1.5	1.6	2.8	1.1	2.0	2.0	2.0	2.1	-1.4	-1.3	-1.1	-0.7	-0.1	0.5	
Slovakia	2.0	0.5	1.7	2.4	2.9	3.4	3.6	1.7	2.0	2.7	2.7	2.7	2.2	3.3	3.0	2.0	0.7	-0.7	
Slovenia	-2.2	-2.2	-0.3	1.1	2.1	2.9	2.6	1.5	1.7	2.0	1.8	1.8	2.3	2.2	3.4	3.1	3.5	4.1	
Austria*	0.8	0.5	1.7				2.6	2.0	1.5				1.8	2.4	2.9				
Cyprus**	-2.4	NA	NA				3.1	NA	NA				-4.9	NA	NA				
Estonia*	3.2	1.5	3.6				4.2	3.4	2.9				-1.2	-3.0	-2.6				
Finland*	-0.2	0.0	1.7				3.2	2.6	2.4				-1.9	-1.6	-0.9				
Luxembourg*	0.3	0.8	1.7				2.9	1.8	1.7				5.6	4.1	5.5				
Denmark	-0.5	0.2	1.1	1.6	1.6	1.7	2.4	1.1	1.5	1.9	2.0	1.9	5.8	5.3	4.6	4.2	4.0	3.8	
Norway	3.3	2.4	2.7	2.9	2.7	2.7	0.7	1.7	1.7	2.0	2.1	2.5	14.2	14.5	14.9	15.2	15.4	15.0	
Sweden	1.1	1.2	2.0	2.5	2.5	2.9	0.9	0.1	1.0	1.8	2.2	2.3	6.9	7.1	7.0	6.7	6.8	6.7	
Switzerland	1.0	1.5	1.2	1.7	1.8	1.5	-0.7	-0.5	-0.2	1.0	1.0	1.0	12.8	12.8	12.4	12.4	13.7	14.0	
United Kingdom	0.3	1.0	1.2	1.8	1.7	1.8	2.8	2.7	2.3	2.2	2.3	2.3	-3.7	-2.8	-2.9	-2.7	-2.6	-2.5	

Note: All forecasts are Citi forecasts except those marked with an asterisk. *OECD *Economic Outlook*, 29 May 2013. **IMF WEO 16 April 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
Euro Area	-3.7	-3.1	-2.6	-2.0	-1.6	-0.8	-0.4	0.3	0.6	1.2	1.6	2.7	90.6	96.1	97.9	97.8	97.1	95.4
Germany	0.2	-0.5	0.0	0.8	1.0	2.2	2.6	2.0	2.5	3.1	3.2	4.4	81.9	81.5	78.5	74.7	71.4	66.9
France	-4.8	-3.8	-3.6	-3.5	-3.1	-2.5	-2.3	-1.2	-0.9	-0.9	-0.4	0.2	90.2	94.1	96.1	97.5	97.7	97.1
Italy	-3.0	-3.2	-3.0	-2.9	-2.7	-2.4	2.5	2.2	2.2	2.5	2.7	2.9	127.0	133.1	137.7	139.6	140.9	141.4
Spain	-10.6	-6.5	-5.9	-5.4	-4.8	-4.5	-7.7	-3.1	-2.3	-1.4	-0.8	-0.3	84.2	94.1	104.5	109.2	111.9	114.1
Greece	-10.0	-5.1	-4.1	-2.6	-1.3	0.2	-5.0	-0.3	0.4	0.9	2.4	3.9	156.9	181.5	198.6	210.2	213.1	212.9
Ireland	-7.3	-7.3	-4.3	-2.1	-1.3	-0.8	-3.4	-1.7	0.7	2.9	3.5	3.8	117.4	121.7	119.7	115.8	112.4	108.5
Portugal	-6.4	-5.6	-5.1	-3.8	-3.1	-3.1	-2.0	-1.1	-0.7	0.6	1.4	1.6	123.6	134.7	144.0	147.2	148.1	148.8
Netherlands	-4.1	-3.6	-3.2	-2.7	-2.1	-1.2	-2.2	-1.7	-1.3	-0.7	-0.1	0.7	71.2	74.4	75.8	76.0	75.9	74.7
Belgium	-3.9	-3.4	-3.2	-2.4	-1.8	-1.7	-0.5	0.2	0.4	1.2	1.7	1.8	99.8	102.9	104.3	103.7	101.9	99.9
Slovakia	-4.3	-3.4	-3.2	-2.6	-2.1	-1.8	-2.9	-2.0	-1.8	-1.1	-0.7	-0.3	52.1	55.6	56.5	56.6	56.3	55.8
Slovenia	-4.0	-9.1	-6.0	-2.9	-2.4	-1.5	-1.9	-6.9	-3.7	-0.6	0.0	0.9	54.1	63.6	70.5	70.6	69.8	68.4
Austria*	-2.5	-2.3	-1.7				-0.3	-0.2	0.3				73.5	75.3	75.5			
Cyprus**	-5.6	NA	NA				NA	NA	NA				86.2	NA	NA			
Estonia*	-0.3	0.0	0.3				1.2	0.9	1.0				10.1	11.4	10.8			
Finland*	-2.3	-2.3	-1.8				-2.5	-2.6	-2.1				53.1	56.0	59.7			
Luxembourg*	-0.8	-0.7	-0.6				-1.1	-1.0	-0.9				20.8	22.8	24.4			
Denmark	-4.1	-2.0	-1.2	-1.0	0.5	1.0							45.8	47.2	47.2	46.6	44.3	41.6
Norway	13.8	13.1	13.0	14.0	15.5	15.0							NA	NA	NA	NA	NA	NA
Sweden	-0.7	-1.4	-1.5	-0.4	0.7	1.5							38.5	39.5	39.9	38.6	36.2	32.9
Switzerland	0.5	0.6	0.6	0.6	0.5	-0.6							46.7	45.4	43.6	42.9	42.8	42.9
United Kingdom	-6.3	-7.4	-6.9	-6.5	-5.3	-4.6	-2.6	-3.6	-3.1	-2.4	-0.9	0.0	89.5	93.5	99.1	103.3	106.2	107.9

Note: All forecasts are Citi forecasts except those marked with an asterisk. *OECD *Economic Outlook*, 29 May 2013. **IMF WEO 16 April 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	-0.1					-0.2	-0.1
Germany			0.2		0.1			-0.1	-0.1		-0.4	0.3
France							0.1		-0.1			-0.1
Italy		-0.1			-0.1	-0.1	0.2	0.7	0.1			-0.3
Spain		0.1				0.1		-0.6	-0.7		-0.2	-0.8
Greece					0.1	0.1		1.5	2.4			-0.1
Ireland		0.4	0.3					0.4	0.7		0.1	0.3
Portugal	0.1				0.3	-0.2	2	1	1			0.1
Netherlands					0.1	0.1	0.2	0.1	0.1			
Belgium	-0.1				-0.1						-0.1	
Slovakia		-0.3	-0.3						-0.2			-0.2
Slovenia		-0.3	-0.1		-0.1	-0.1		-0.2	0.3			
Denmark		0.1	-0.3		-0.3	-0.2	0.3	0.4	0.4			
Norway			0.1		0.1							
Sweden	-0.1	0.2					-0.3	-0.2	-0.2			
Switzerland			-0.1					-0.4	-0.2			-0.1
United Kingdom		0.3	0.4					-0.3	-0.5		0.1	0.2

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	19-Jun-13	-0.5	-0.8	0.0	-3.7	-3.1	-2.6	90.6	96.1	97.9
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	16-Apr-13	-0.6	-0.3	1.1	-3.6	-2.9	-2.6	92.9	95.0	95.3
ECB Forecast - mid-point	06-Jun-13	-0.5	-0.6	1.1						
Germany - Citi Forecast	19-Jun-13	0.9	0.3	1.5	0.2	-0.5	0.0	81.9	81.5	78.5
OECD Economic Outlook	29-May-13	0.9	0.4	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	16-Apr-13	0.9	0.6	1.5	0.2	-0.3	-0.1	82.0	80.4	78.3
France - Citi Forecast	19-Jun-13	0.0	-0.3	0.4	-4.8	-3.8	-3.6	90.2	94.1	96.1
OECD Economic Survey	29-May-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	16-Apr-13	0.0	-0.1	0.9	-4.6	-3.7	-3.5	90.3	92.7	94.0
Italy - Citi Forecast	19-Jun-13	-2.4	-2.0	-0.6	-3.0	-3.2	-3.0	127.0	132.9	137.6
OECD Economic Survey	29-May-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	16-Apr-13	-2.4	-1.5	0.5	-3.0	-2.6	-2.3	127.0	130.6	130.8
Spain - Citi Forecast	19-Jun-13	-1.4	-1.9	-1.2	-10.6	-6.5	-5.9	84.2	94.1	104.5
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	16-Apr-13	-1.4	-1.6	0.7	-10.3	-6.6	-6.9	84.1	91.8	97.6
Greece - Citi Forecast	19-Jun-13	-6.4	-5.5	-4.5	-10.0	-5.1	-4.1	156.9	181.5	198.6
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	16-Apr-13	-6.4	-4.2	0.6	-6.4	-4.6	-3.4	158.5	179.5	175.6
Ireland - Citi Forecast	19-Jun-13	0.9	1.0	2.3	-7.3	-7.3	-4.3	117.4	121.7	119.7
OECD Economic Outlook	29-May-13	0.9	1.0	1.9	-7.5	-7.5	-4.6	117.6	123.6	120.7
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	16-Apr-13	0.9	1.1	2.2	-7.7	-7.5	-4.5	117.1	122.0	120.2
Portugal - Citi Forecast	19-Jun-13	-3.2	-3.1	-1.6	-6.4	-5.6	-5.1	123.6	134.7	144.0
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	16-Apr-13	-3.2	-2.3	0.6	-4.9	-5.5	-4.0	123.0	122.3	123.7
Netherlands - Citi Forecast	19-Jun-13	-1.0	-1.0	0.1	-4.1	-3.6	-3.2	71.2	74.4	75.8
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	16-Apr-13	-0.9	-0.5	1.1	-4.1	-3.4	-3.7	71.7	74.5	75.9
Belgium - Citi Forecast	19-Jun-13	-0.3	-0.3	0.2	-3.9	-3.4	-3.2	99.8	102.9	104.3
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	16-Apr-13	-0.2	0.2	1.2	-4.0	-2.6	-2.1	99.6	100.3	99.8
Slovakia - Citi Forecast	19-Jun-13	2.0	0.5	1.7	-4.3	-3.4	-3.2	52.1	55.6	56.5
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	16-Apr-13	2.0	1.4	2.7	-4.9	-3.2	-3.0	52.3	55.3	56.4
Slovenia - Citi Forecast	19-Jun-13	-2.2	-2.2	-0.3	-4.0	-9.1	-6.0	54.1	63.6	70.5
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	16-Apr-13	-2.3	-2.0	1.5	-3.2	-6.9	-4.3	52.6	68.8	71.7

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	16-Apr-13	0.8	0.8	1.6	-2.5	-2.2	-1.5	73.7	74.2	73.7
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	16-Apr-13	-2.4	--	--	-5.6	--	--	86.2	--	--
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	16-Apr-13	3.2	3.0	3.2	-0.2	0.4	0.4	8.5	9.7	9.1
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	16-Apr-13	-0.2	0.5	1.2	-1.7	-2.0	-1.3	53.3	56.9	58.4
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	16-Apr-13	0.1	0.1	1.3	-1.9	-1.0	-1.3	21.1	23.3	25.7
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	16-Apr-13	0.8	1.3	1.8	-3.0	-2.9	-2.9	72.5	73.3	73.0

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

Figure 25. Selected 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	19-Jun-13	-0.5	0.2	1.1	-4.1	-2.0	-1.2	45.8	47.2	47.2
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	16-Apr-13	-0.6	0.8	1.3	-4.4	-2.8	-2.3	50.1	51.8	52.4
Norway - Citi Forecast	19-Jun-13	3.3	2.4	2.7	13.8	13.1	13.0	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	16-Apr-13	3.0	2.5	2.2	13.8	12.3	11.1	34.1	34.1	34.1
Sweden - Citi Forecast	19-Jun-13	1.1	1.2	2.0	-0.7	-1.4	-1.5	38.5	39.5	39.9
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	16-Apr-13	1.2	1.0	2.2	-0.4	-0.8	-0.5	38.0	37.7	36.5
Switzerland - Citi Forecast	19-Jun-13	1.0	1.5	1.2	0.5	0.6	0.6	46.7	45.4	43.6
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	16-Apr-13	1.0	1.3	1.8	0.3	0.2	0.5	49.1	48.3	46.7
UK - Citi Forecast	19-Jun-13	0.3	1.0	1.2	-6.3	-7.4	-6.9	89.5	93.5	99.1
OECD Economic Outlook	29-May-13	0.3	0.8	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	16-Apr-13	0.2	0.7	1.5	-8.3	-7.0	-6.4	90.3	93.6	97.1
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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