

European Economic Forecast Highlights

January 2014

- This companion to *Global Economic Outlook and Strategy - January 2014* gives detailed quarterly forecasts for the main European countries to end 2015. Figures 20-21 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt. Figure 22 shows the change in our forecasts from last month. Figures 23-25 compare current forecasts for each country.
- **Euro Area:** We revise up our 2014 and 2015 GDP forecasts by 0.2pp to 1.1%, and 0.3pp to 1.3%, respectively, because of better dynamics in the periphery and some abating headwinds. The combination of negative private sector credit growth and extraordinarily subdued inflation illustrates the need for monetary policy to stay very accommodative. We continue to look for the ECB to cut the refi rate to 0% in June and the deposit rate to -0.1%.
- **UK:** We edge up our 2014 growth forecast to 3.3% from 3.2%, far above consensus (around 2½%). With the rapid decline in the jobless rate, we have advanced our forecast for the first rate hike (25bp) from 2Q15 to 4Q14.

Figure 1. Short-Term Interest Rates (Percent), 2014-18F

	History	Forecast				
	2013	2014	2015	2016	2017	2018
Euro Area	0.50	0.06	0.00	0.06	0.50	1.00
Denmark	0.20	0.13	0.25	0.47	0.78	1.00
Norway	1.50	1.50	1.71	2.08	2.74	3.33
Sweden	0.99	0.75	0.98	1.42	2.18	2.80
Switzerland	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	0.50	0.54	1.58	2.00	2.21	2.71

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)		HICP Inflation (YY %)	
		2014F	2015F	2014F	2015F
Euro Area - Citi Forecast	22-Jan 14	1.1	1.3	0.9	0.8
OECD Economic Outlook	19-Nov-13	1.0	1.6	1.2	1.2
EU Commission Forecast	05-Nov-13	1.1	1.7	1.5	1.4
IMF WEO Update	21-Jan-14	1.0	1.4	1.5	1.4
ECB Forecast - mid-point	05-Dec-13	1.1	1.5	1.1	1.3
Consensus Economics	13-Jan-14	1.0	1.4	1.1	1.4

Source: Citi Research

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We are lifting our euro area GDP growth forecasts by 0.2pp for 2014 and by 0.3pp for 2015, to 1.1% and 1.3% respectively. Nevertheless, recovery is likely to stay subdued by historical norms hence – amidst very low inflation – prompting the ECB to loosen further. Sentiment surveys have recovered further in Dec-Jan, business cycle dynamics are improving, but private credit growth remains negative and employment is only just about stabilising. The strong euro is acting as a headwind, but many member states (especially the periphery) have progressed in implementing ambitious strategies to cut labour costs and regain competitiveness.

The inflation picture has not changed much since early December. We look for HICP inflation to average 0.8% YY in 1Q-14 (unchanged from Q4-13), envisaging some modest increase to 1% in 2Q-14. Our base case is that the HICP will undershoot the ECB's quarterly forecasts of 0.95% and 1.15%, respectively, likely prompting further monetary easing. Note that our forecast for 0.9% 2014 core inflation (ex energy & unprocessed food) diverges significantly from the ECB's 1.3% projection. Several ECB Executive Board members have noted recently that the door is firmly open to easing to address two contingencies: higher money market rates and the materialisation of downside risks to inflation. We think that it is only a matter of time before either the lower excess liquidity situation or the lower inflation path prompt action. The former would likely need additional liquidity (new fixed-rate LTRO, reduce or suspend reserve requirements), while the latter would likely call for a rate cut. Our base case is that the ECB will lower the refi rate to 0% in June, and take the deposit rate into negative territory at -0.1%, although we would not rule out an earlier (but smaller) move in March (15bp refi cut, but stable deposit rate).

Figure 3. Euro Area – Economic Forecasts, 201315F

		History	Forecast		History			Forecast								
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-0.4	1.1	1.3	-1.2	-0.6	-0.4	0.5	1.0	1.0	1.2	1.2	1.2	1.2	1.3	1.3
	QQ SAAR				-0.8	1.2	0.3	1.1	1.2	1.1	1.2	1.2	1.2	1.3	1.4	1.3
Final Domestic Demand	YY	-0.8	0.8	1.1	-1.9	-0.9	-0.6	0.1	0.8	0.8	0.9	0.9	1.0	1.0	1.1	1.1
Private Consumption	YY	-0.5	0.7	1.1	-1.3	-0.6	-0.5	0.2	0.5	0.6	0.8	0.9	1.0	1.1	1.2	1.2
Public Consumption	YY	0.3	0.3	0.1	-0.4	0.3	0.7	0.6	0.7	0.3	0.2	0.2	0.2	0.1	0.1	0.1
Fixed Investment	YY	-3.0	1.8	2.0	-5.5	-3.5	-2.4	-0.7	1.8	1.9	1.8	1.9	1.9	2.0	2.1	2.1
-- Business Equipment	YY	-2.3	1.3	3.2	-5.1	-2.2	-1.4	-0.6	0.9	0.8	1.1	2.3	3.3	3.2	3.3	3.0
-- Construction	YY	-4.1	-0.5	2.0	-5.9	-4.5	-3.2	-2.8	-1.4	-0.7	-0.8	0.9	2.1	2.1	1.9	1.8
Stocks (Contrib. to YY GDP Growth)		0.1	0.1	0.0	-0.1	-0.2	0.2	0.4	0.2	0.3	0.0	0.1	0.0	0.0	0.0	0.0
Exports of Goods and Services	YY	0.9	3.2	3.2	0.1	0.7	0.4	2.2	3.9	3.0	3.4	2.7	2.9	3.1	3.3	3.6
Imports of Goods and Services	YY	0.2	3.2	3.1	-1.9	-0.4	0.6	2.6	4.2	3.4	2.9	2.4	2.6	2.9	3.2	3.5
Consumer Prices	YY	1.4	0.9	0.8	1.9	1.4	1.3	0.8	0.8	1.0	0.8	1.1	1.0	0.8	0.7	0.6
Core CPI (ex Food, Energy, Tobacco)	YY	1.1	0.8	0.4	1.4	1.1	1.1	0.8	0.8	0.9	0.7	0.7	0.6	0.4	0.4	0.3
CPI Ex Energy and Unprocessed Food	YY	1.3	0.9	0.6	1.5	1.3	1.3	1.0	0.9	1.0	0.8	0.8	0.7	0.5	0.5	0.5
Unemployment Rate	YY	12.1	12.0	11.7	12.0	12.1	12.1	12.2	12.1	12.1	11.9	12.0	11.9	11.7	11.6	11.6
Current Account Balance	€ bn	212.7	247.5	261.1												
	% GDP	2.2	2.5	2.6												
General Government Balance	€ bn	-275.9	-242.9	-193.5												
	% GDP	-2.9	-2.5	-2.0												
Primary Balance	% GDP	0.1	0.5	1.1												
General Government Debt	€ bn	9,209.0	9,539.3	9,752.6												
	% GDP	96.2	98.2	98.5												
Gross Operating Surplus	YY	1.2	2.1	2.2												
ECB Refi Rate (Ann Avg, then qtr-end)	%	0.50	0.06	0.00	1.00	0.75	0.50	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ten-year Bund yield (Period Avg.)	%	1.60	1.74	1.90	1.51	1.40	1.78	1.80	1.75	1.70	1.70	1.80	1.90	1.90	NA	NA
EUR-USD FX Rate (Ann Avg, then qtr-end)		1.32	1.39	1.41	1.28	1.30	1.35	1.38	1.37	1.39	1.40	1.40	1.40	1.41	1.41	1.41

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

Germany

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Germany is recovering and rebalancing. We expect German economic growth to pick up to an above-trend pace of 2.0% in 2014 and 2.1% in 2015, up from 0.5% in 2013. The 0.5% rise in 2013 GDP implies still-modest growth of 0-0.4%QQ in Q4, but we expect growth to pick up in coming quarters. The main drivers are gains in house prices and real disposable income, with reduced uncertainties. Exports are picking up, too, but as domestic demand strengthens, net exports are likely to deduct from GDP growth in 2014 and beyond. Inflation was 1.4% YY (national definition) in December and is likely to stay low. Politically, the new German government will probably continue with a cautious and reactive Eurozone policy, not least ahead of the European Parliament elections in May.

For further discussion, see also [Euro Economics Weekly - Germany 2014 Outlook: Recovery And Rebalancing](#), 10 January 2014.

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

		History	Forecast		History				Forecast							
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.5	2.0	2.1	-0.3	0.5	0.6	1.3	1.9	1.7	2.0	2.4	2.3	2.2	2.1	1.9
Final Domestic Demand	QQ SAAR				0.0	2.9	1.3	1.1	2.2	2.3	2.5	2.5	1.9	1.9	2.0	1.8
	YY	0.6	2.2	2.4	-0.4	0.7	0.9	1.4	2.1	2.1	2.2	2.4	2.4	2.5	2.5	2.4
Private Consumption	QQ SAAR				-0.6	2.5	1.8	2.0	2.1	2.4	2.5	2.6	2.3	2.5	2.4	2.3
	YY	1.0	1.7	2.3	0.6	1.2	1.1	1.2	1.4	1.3	1.8	2.2	2.3	2.4	2.3	2.2
Public Consumption	QQ SAAR				1.1	2.5	0.4	0.8	1.8	2.2	2.4	2.6	2.1	2.4	2.2	2.2
	YY	0.5	1.1	1.2	0.3	0.6	0.5	0.6	0.7	1.3	1.1	1.2	1.2	1.2	1.2	1.2
Fixed Investment	QQ SAAR				0.5	-0.8	1.9	0.8	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	YY	-0.4	5.1	4.1	-4.3	-0.8	0.6	3.0	6.1	5.5	4.9	4.1	4.1	4.2	4.2	4.1
-- Business Equipment	QQ SAAR				-7.4	6.5	6.3	7.3	4.1	4.3	4.0	4.1	4.1	4.6	4.1	3.5
	YY	-1.6	4.0	3.9	-6.1	-1.4	-0.2	1.5	4.1	3.8	4.2	3.8	3.8	3.9	4.0	4.0
-- Construction	QQ SAAR				-6.3	4.9	2.1	5.6	3.8	3.7	3.7	3.9	3.8	4.3	4.1	3.8
	YY	0.1	5.6	3.8	-3.8	-0.9	0.9	4.1	7.5	6.4	4.9	3.8	3.8	4.0	3.9	3.6
Stocks (Contrib. to YY GDP Growth)	QQ SAAR				-8.8	7.9	9.8	8.6	3.7	3.7	3.8	4.0	3.9	4.1	3.7	2.6
		0.2	0.0	0.0	0.1	-0.1	0.4	0.3	-0.1	0.1	-0.1	0.0	0.0	0.0	0.0	-0.1
Exports of Goods and Services	YY	0.6	3.6	3.1	-0.7	0.2	-0.2	3.2	4.8	3.1	3.8	2.6	2.8	3.0	3.1	3.6
	QQ SAAR				-4.1	10.1	0.3	7.0	2.2	3.1	3.2	2.0	3.0	3.9	3.5	4.0
Imports of Goods and Services	YY	1.4	4.3	3.8	-0.7	0.5	1.3	4.6	5.8	4.4	4.4	2.8	3.1	3.6	4.0	4.5
	QQ SAAR				-2.2	8.0	3.3	9.8	2.3	2.6	3.2	3.0	3.5	4.6	4.9	5.1
Net Exports (Contrib. to YY GDP Growth)		-0.3	-0.1	-0.1	-0.3	0.4	-0.3	-0.2	0.0	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Consumer Prices	YY	1.5	1.5	1.8	1.5	1.5	1.6	1.3	1.4	1.5	1.5	1.7	1.7	1.7	1.7	1.8
Compensation per Employee	YY	2.4	2.3	2.3	2.6	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.4
Employment Growth	YY	0.5	0.6	0.7	0.6	0.6	0.6	0.3	0.4	0.4	0.8	0.7	0.8	0.8	0.5	0.6
Unemployment Rate (ILO)	%	5.3	5.2	5.0	5.4	5.3	5.3	5.4	5.3	5.4	4.8	5.3	5.1	4.9	4.6	5.2
Current Account Balance	€ bn	189.6	184.0	175.3												
	% GDP	7.1	6.7	6.2												
General Government Balance	€ bn	5.8	1.4	2.0												
	% GDP	0.2	0.1	0.1												
Primary Balance	% GDP	2.6	2.3	2.2												
General Government Debt	€ bn	2,170.6	2,155.0	2,138.5												
	% GDP	78.4	76.3	73.5												
Gross Trading Profits	YY	2.6	4.7	4.7	-4.7	2.1	4.3	9.2	4.9	5.5	3.4	5.1	5.0	4.4	5.1	4.5

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

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We are lifting our French 2014 and 2015 GDP forecasts by 0.1pp and 0.2pp to 0.9% and 1.1%, reflecting the formal adoption of supply-side economics by French President François Hollande and a more [ambitious reform agenda](#). Mr. Hollande explained what his 'Responsibility Pact' entailed and increased the amount of expenditure savings over 2015-17 from €48bn (2.2% of GDP) to €53bn (2.4% of GDP). This will require much greater efforts on making central and regional/ local government more efficient, while attempting to preserve the country's social model — albeit being stricter on health spending trends. Mr. Hollande defended his strategy, arguing that there are no alternatives to deliver structural budget equilibrium and lower taxes by 2017.

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

		History			Forecast											
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.2	0.9	1.1	-0.4	0.5	0.2	0.8	1.0	0.7	1.0	0.8	0.9	1.0	1.1	1.2
	QQ SAAR				-0.2	2.3	-0.5	1.5	0.9	0.8	0.7	1.0	1.2	1.2	1.2	1.3
Final Domestic Demand	YY	0.2	0.4	0.7	-0.3	0.3	0.3	0.4	0.6	0.3	0.4	0.4	0.6	0.7	0.8	0.9
	QQ SAAR				-0.4	1.5	0.1	0.5	0.2	0.3	0.6	0.6	0.7	0.7	1.0	1.0
Private Consumption	YY	0.4	0.6	0.8	-0.4	0.6	0.5	0.8	0.9	0.6	0.6	0.4	0.6	0.7	0.9	1.0
	QQ SAAR				-0.2	1.8	0.4	1.2	0.2	0.4	0.6	0.6	0.8	0.8	1.2	1.2
Public Consumption	YY	1.6	0.5	0.1	1.6	1.9	1.7	1.3	1.0	0.4	0.3	0.4	0.3	0.2	0.1	0.0
	QQ SAAR				1.5	2.8	0.8	0.0	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Fixed Investment	YY	-2.3	-0.4	1.2	-2.6	-2.6	-2.2	-1.9	-1.0	-0.7	-0.1	0.4	0.8	1.2	1.4	1.6
	QQ SAAR				-3.3	-1.4	-1.7	-1.1	0.0	0.0	0.8	0.8	1.5	1.5	1.6	1.6
-- Businesses	YY	-1.9	-0.2	1.6	-2.7	-2.1	-1.5	-1.4	-0.6	-0.7	0.0	0.6	1.1	1.6	1.8	2.0
	QQ SAAR				-3.2	0.5	-1.6	-1.2	0.0	0.0	1.2	1.2	2.0	2.0	2.0	2.0
-- Households	YY	-3.8	-0.9	0.7	-2.8	-4.3	-4.5	-3.8	-2.6	-0.9	-0.2	0.2	0.4	0.6	0.8	1.0
	QQ SAAR				-5.0	-6.7	-2.3	-1.2	0.0	0.0	0.4	0.4	0.8	0.8	1.2	1.2
Stocks (Contrib. to YY GDP Growth)		0.2	0.4	0.1	0.2	0.1	0.5	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Exports of Goods and Services	YY	0.4	1.8	2.6	-0.3	1.3	-0.4	1.2	1.9	0.6	2.3	2.2	2.3	2.4	2.7	2.9
	QQ SAAR				-1.0	8.0	-4.9	3.3	1.8	2.6	1.7	2.6	2.5	2.6	3.0	3.3
Imports of Goods and Services	YY	1.0	1.6	1.5	-0.9	0.5	1.4	2.9	3.0	1.6	1.0	1.0	1.2	1.4	1.6	1.8
	QQ SAAR				0.5	6.2	3.7	1.2	0.8	0.8	1.2	1.2	1.6	1.6	2.0	2.0
Net Exports (Contrib. to YY GDP Growth)		-0.2	0.0	0.3	-0.1	0.1	-0.6	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	1.0	1.2	1.3	1.2	0.9	1.1	0.8	1.1	1.2	1.1	1.3	1.2	1.2	1.3	1.4
Average Monthly Wages	YY	1.9	2.0	2.0												
Employment Growth (Private-Sector)	YY	-0.8	0.3	1.5												
Unemployment Rate	%	10.5	10.6	10.3	10.4	10.4	10.5	10.6	10.6	10.7	10.6	10.6	10.5	10.3	10.3	10.1
Current Account Balance	€ bn	-31.9	-16.3	-3.1												
	% GDP	-1.6	-0.8	-0.1												
General Government Balance	€ bn	-83.8	-74.7	-65.8												
	% GDP	-4.1	-3.6	-3.1												
Primary Balance	% GDP	-1.5	-0.9	-0.4												
General Government Debt	€ bn	1,929.7	2,011.7	2,077.5												
	% GDP	93.9	96.1	97.1												
Gross Trading Profits	YY	0.9	2.6	2.8												

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

Italy

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Italy's economy has been underperforming the rest of the euro area, but we expect that GDP rose by 0.2% QoQ in Q4-13, the first positive quarter since Q2-11. We look for a modest pick-up in domestic demand, reflecting reduced fiscal austerity and falling inflation, as well as improved corporate liquidity due to the repayment of government debt arrears. However, credit conditions are likely to remain tight ahead of the ECB's AQR and EBA stress tests this year, while poor competitiveness will limit export gains. Inflation should continue to weaken and will probably turn negative in 2015, amidst ample slack and the strong euro. Political instability is likely to persist, with some material risks of early elections held in May. This will leave little scope for any progress on reforms beyond a new electoral law.

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

		History			Forecast			History								Forecast							
		2013	2014	2015				1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15				
Real GDP	YY	-1.8	0.3	0.3				-2.5	-2.2	-1.8	-0.7	0.0	0.4	0.5	0.3	0.2	0.2	0.4	0.4				
	QQ SAAR							-2.3	-1.2	-0.1	0.7	0.6	0.5	0.3	-0.2	0.2	0.7	0.8	-0.1				
Final Domestic Demand	YY	-2.4	0.2	0.3				-3.4	-3.0	-2.1	-1.1	-0.2	0.2	0.5	0.3	0.3	0.3	0.3	0.4				
	QQ SAAR							-3.2	-1.2	-0.9	1.0	0.6	0.4	0.1	0.3	0.4	0.4	0.4	0.4				
Private Consumption	YY	-2.4	-0.1	0.3				-3.2	-3.2	-2.0	-1.1	-0.5	0.0	0.2	0.0	0.1	0.2	0.3	0.4				
	QQ SAAR							-2.0	-2.1	-0.9	0.8	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4				
Public Consumption	YY	-0.1	0.1	-0.5				-0.7	-0.2	0.1	0.2	0.1	0.1	0.1	0.0	-0.2	-0.4	-0.6	-0.8				
	QQ SAAR							0.4	0.1	0.1	0.4	0.0	0.0	0.0	0.0	-0.8	-0.8	-0.8	-0.8				
Fixed Investment	YY	-5.3	1.6	1.5				-7.3	-5.8	-5.1	-2.9	0.8	1.3	2.1	1.9	1.5	1.4	1.6	1.6				
	QQ SAAR							-11.2	0.0	-2.2	2.4	3.2	2.0	0.8	1.6	1.6	1.6	1.6	1.6				
-- Business Equipment	YY	-3.8	4.5	3.2				-7.4	-3.9	-4.1	0.1	3.5	3.8	5.8	4.8	3.8	3.3	3.1	2.5				
	QQ SAAR							-7.0	3.8	-4.5	8.8	6.5	4.8	3.1	4.7	2.7	2.7	2.4	2.4				
-- Construction	YY	-6.6	-1.3	-0.2				-7.2	-7.5	-6.0	-5.7	-1.8	-1.1	-1.5	-1.0	-0.9	-0.6	0.0	0.6				
	QQ SAAR							-15.1	-3.6	0.1	-3.6	0.0	-0.8	-1.6	-1.6	0.4	0.4	0.8	0.8				
Exports of Goods and Services	YY	0.0	3.2	3.3				-0.6	0.2	0.0	0.6	2.8	3.3	3.5	3.2	3.1	3.3	3.6	3.3				
	QQ SAAR							-4.7	2.7	2.7	2.0	3.7	4.8	3.5	0.8	3.3	5.5	4.8	-0.3				
Imports of Goods and Services	YY	-2.6	2.9	3.8				-4.8	-4.7	-1.2	0.3	1.7	3.7	2.6	3.8	3.9	3.9	3.9	3.6				
	QQ SAAR							-1.9	-2.9	8.3	-2.1	3.9	5.0	3.6	2.7	4.3	4.9	3.8	1.3				
Net Exports (Contrib. to YY GDP Growth)		0.7	0.2	0.0				1.1	1.3	0.3	0.1	0.4	0.0	0.4	0.0	-0.1	0.0	0.0	0.0				
Consumer Prices	YY	1.3	0.5	-0.3				2.1	1.3	1.1	0.7	0.6	0.7	0.4	0.3	0.0	-0.2	-0.5	-0.7				
Compensation per Employee		NA	NA	NA																			
Employment Growth		-1.9	-0.8	0.0																			
Unemployment Rate	%	12.2	12.7	12.6																			
Current Account Balance	€ bn	13.6	21.0	25.6																			
	% GDP	0.9	1.3	1.6																			
General Government Balance	€ bn	-48.0	-42.9	-38.0																			
	% GDP	-3.1	-2.7	-2.4																			
Primary Balance	% GDP	2.4	2.6	2.8																			
General Government Debt	€ bn	2,079	2,148	2,186																			
	% GDP	133.4	137.2	139.5																			

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 lift our 2014 and 2015 GDP forecasts by 0.7pp and 0.3pp (to 0.9% and 1.1%) to reflect stronger exports, stronger corporate balance sheets and an improved labour market. Recent gains in business confidence reflect rising profits and falling labour costs which should allow for a stronger pickup in business investment, despite still tight credit conditions. Private consumption will likely lag behind on ongoing deleveraging pressures and a record-low saving rate. Inflation continues to subside, reflecting past labour and product market structural reforms.

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

		History			Forecast			History				Forecast							
		2013	2014	2015				1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-1.2	0.9	1.1				-2.0	-1.6	-1.1	0.0	0.6	0.9	1.0	1.0	0.8	1.0	1.1	1.3
	QQ SAAR							-1.5	-0.4	0.5	1.3	1.1	0.7	0.7	1.3	0.7	1.2	1.2	2.1
Final Domestic Demand	YY	-2.9	0.2	0.3				-4.5	-3.8	-2.5	-0.6	-0.1	0.5	0.2	0.3	0.1	0.3	0.5	0.5
	QQ SAAR							-1.5	-2.5	1.2	0.5	0.4	0.1	-0.1	0.7	-0.1	0.8	0.5	1.0
Private Consumption	YY	-2.4	0.7	0.8				-4.3	-3.3	-2.2	0.1	0.8	1.0	0.6	0.5	0.4	0.6	0.9	1.2
	QQ SAAR							-2.3	-0.1	1.6	1.4	0.5	0.7	0.0	0.6	0.1	1.7	1.4	1.5
Government Consumption	YY	-1.0	-0.3	-0.9				-2.0	-2.8	0.3	0.5	-0.9	0.0	-0.2	-0.1	-0.4	-0.8	-1.0	-1.1
	QQ SAAR							5.5	-3.5	0.5	-0.3	0.0	0.0	-0.4	0.0	-1.4	-1.4	-1.4	-0.4
Fixed Investment	YY	-5.9	-0.7	0.4				-7.5	-6.3	-6.2	-3.6	-1.9	-0.3	-0.6	0.1	0.0	0.5	0.6	0.5
	QQ SAAR							-6.1	-7.8	0.9	-1.1	0.7	-1.5	-0.4	1.5	0.5	0.4	0.0	0.9
-- Business Equipment	YY	1.4	5.3	4.2				-3.0	1.0	0.4	7.5	6.5	5.7	4.4	4.8	4.8	4.3	4.1	3.6
	QQ SAAR							8.1	9.6	8.1	4.2	4.2	6.2	2.9	5.9	4.3	4.1	2.2	3.9
-- Construction	YY	-10.3	-4.7	-2.4				-10.2	-10.6	-10.3	-10.2	-7.2	-4.3	-4.0	-3.3	-3.4	-2.3	-2.0	-2.0
	QQ SAAR							-13.9	-17.6	-3.8	-4.6	-1.8	-6.8	-2.8	-1.7	-2.3	-2.3	-1.7	-1.5
Exports of Goods and Services	YY	5.7	6.2	4.6				3.1	9.1	4.7	5.9	11.4	5.5	4.3	3.7	4.1	4.5	4.9	5.0
	QQ SAAR							-16.2	28.3	9.0	7.3	2.9	2.8	4.1	5.2	4.5	4.5	5.4	5.8
Imports of Goods and Services	YY	0.8	5.0	2.9				-4.7	2.5	0.7	4.6	9.9	5.0	2.7	2.4	2.6	2.8	3.2	3.0
	QQ SAAR							-16.7	22.5	11.5	5.2	1.5	1.9	2.4	3.8	2.1	3.1	3.8	3.0
Net Exports (Contrib. to YY GDP Growth)		1.5	0.6	0.7				2.3	2.0	1.3	0.6	0.8	0.3	0.6	0.5	0.6	0.7	0.7	0.8
Consumer Prices	YY	1.5	-0.2	-0.1				2.8	1.8	1.3	0.2	0.0	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Compensation per Employee	YY	-1.0	-0.5	0.3				-1.8	-0.6	-0.2	-0.4	-0.1	0.3	0.2	0.3	0.8	1.4	1.6	1.8
Employment Growth	YY	-3.1	0.3	0.7				-4.6	-3.7	-2.9	-1.3	-0.3	0.1	0.7	0.6	0.7	0.8	0.7	0.9
Unemployment Rate	%	26.4	25.6	24.6				27.2	26.3	26.0	26.1	26.6	25.7	24.8	25.1	25.6	24.7	23.9	24.0
Current Account Balance	€ bn	10.5	10.1	14.7															
	% GDP	1.0	1.0	1.4															
General Government Balance	€ bn	-70.6	-59.9	-50.5															
	% GDP	-6.9	-5.8	-4.8															
Primary Balance	% GDP	-3.4	-2.2	-1.1															
General Government Debt	€ bn	963.4	1032.5	1083.0															
	% GDP	93.9	99.7	103.5															

Note: For Spain, fiscal deficits include the effect of financial support for banks in 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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The contraction in GDP probably eased further in Q4, but recent surveys suggest that growth will remain negative in Q1 14. We expect the recession to continue, albeit at a slower pace, in 2014. Deflation is likely to persist over the next couple of years as part of the economic rebalancing process amid ample slack. The 2013 primary fiscal balance likely reached a surplus, but negotiations on further debt relief are stalled and they may soon raise political instability and risks of early elections in 2014. Only a haircut on official loans could restore fiscal sustainability, in our view, but this is unlikely to be agreed any time soon.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-3.4	-1.9	-0.4	1.1	1.4	1.3
Final Domestic Demand	YY	-7.0	-2.6	-1.9	0.1	0.5	0.4
Private Consumption	YY	-6.5	-1.7	-1.3	0.1	0.6	0.4
Public Consumption	YY	-4.8	-3.7	-3.8	-0.2	0.1	0.1
Fixed Investment	YY	-12.1	-6.0	-2.2	0.8	1.3	0.8
Exports of Goods and Services	YY	2.0	2.2	2.5	3.0	3.3	3.6
Imports of Goods and Services	YY	-4.6	-0.7	-2.5	-0.5	0.5	0.7
Consumer Prices	YY	-0.9	-2.7	-2.4	-1.4	-0.4	0.8
Unemployment Rate	%	27.6	28.2	27.8	26.7	24.7	22.6
Current Account Balance	€ bn	1.2	3.2	4.0	4.8	5.6	5.6
	% GDP	0.7	1.9	2.4	2.9	3.3	3.2
General Government Balance	€ bn	-6.5	-6.0	-4.0	-3.5	-2.5	-2.3
	% GDP	-3.6	-3.5	-2.4	-2.1	-1.5	-1.3
Primary Balance	% GDP	0.6	0.6	1.0	1.4	2.1	2.2
General Government Debt	€ bn	320.7	327.6	333.5	339.0	343.5	349.3
	% GDP	176.3	190.9	200.6	203.5	202.6	200.3

Percentage changes unless indicated. Annual data are period averages.

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

Ireland

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We are significantly lifting our growth forecasts in response to better data, upward revisions to earlier quarters, and buoyant business surveys. We expect real GDP growth of 2.1% for 2014 and 2.2% for 2015, up from 1.4% and 1.6% respectively, with higher growth in later years. The fiscal deficit is likely to fall quite rapidly in coming years, dropping from about 7% of GDP in 2013 to a little below 5% of GDP in 2014E and about 3% of GDP in 2015E. Job growth surged to 3.2% YoY in Q3-2013 and, with weakness in labour costs encouraging a job-rich mix of growth, the jobless rate will probably continue to fall quite rapidly. The public debt/GDP ratio will probably begin to edge down this year after peaking a little above 125% of GDP in 2013.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.0	2.1	2.2	3.5	3.9	4.0
Real GNP	YY	2.9	1.4	1.6	2.9	3.2	3.4
Final Domestic Demand	YY	-0.9	1.6	1.2	1.2	1.3	1.5
Private Consumption	YY	-1.0	2.0	1.7	1.3	1.5	1.8
Public Consumption	YY	-1.0	-2.8	-2.5	0.3	0.0	0.5
Fixed Investment	YY	-0.6	6.2	3.8	2.1	1.6	1.6
Exports of Goods and Services	YY	-0.1	5.1	4.9	6.4	6.4	6.4
Imports of Goods and Services	YY	-0.3	4.9	4.8	5.2	5.0	5.1
Net Trade		0.5	0.9	1.0	2.2	2.6	2.5
GDP Deflator	YY	0.7	0.3	0.9	1.0	1.0	1.0
Nominal GDP	YY	0.7	2.4	3.1	4.5	4.9	5.1
House Prices	YY	1.3	8.5	4.8	4.1	4.1	4.1
Unemployment Rate	%	13.1	11.1	10.1	9.4	8.5	7.5
Employment	YY	2.4	3.6	2.7	2.3	2.4	2.6
Current Account Balance	€ bn	13.8	14.6	13.6	14.6	16.1	17.3
	% GDP	8.4	8.6	7.8	8.0	8.4	8.6
General Government Balance	€ bn	-11.5	-8.0	-5.3	-4.1	-4.3	-3.3
	% GDP	-7.0	-4.7	-3.0	-2.2	-2.2	-1.7
Primary Balance	% GDP	-2.7	-0.3	1.4	2.2	2.3	2.9
General Government Debt	€ bn	205.9	207.5	213.1	219.4	223.7	227.0
	% GDP	125.0	122.9	122.5	120.6	117.2	113.2

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

Portugal

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We have raised our GDP growth forecasts for 2014 from -0.5% to 0.2% and from 0.4% to 0.8% in 2015, on stronger export performance, earlier-than-expected progress in labour market and an expected decline in the household saving rate. Fiscal tightening (2.3pp of GDP in 2014 Budget) will still limit private consumption. Further declines in inflation will likely keep nominal GDP growth subdued, preventing stabilisation in public debt-to-GDP any time soon. A precautionary credit line to be agreed in June remains our base case scenario.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.6	0.2	0.8	0.7	0.9	1.0
Final Domestic Demand	YY	-2.8	-0.4	0.4	0.9	1.0	1.2
Private Consumption	YY	-1.8	0.5	0.6	0.9	0.9	0.9
Public Consumption	YY	-2.1	-2.9	-0.2	0.3	0.4	1.0
Fixed Investment	YY	-7.5	-0.6	0.3	1.4	2.0	2.7
Exports	YY	6.1	4.6	3.8	3.6	3.9	3.9
Imports	YY	2.5	3.0	2.8	4.1	4.1	4.4
Consumer Prices	YY	0.4	-0.4	-0.9	-0.2	0.6	1.0
Unemployment Rate	%	16.3	15.0	14.2	13.5	13.2	12.6
Current Account Balance	€ bn	0.7	3.6	4.1	4.3	4.5	4.6
	% GDP	0.4	2.2	2.5	2.6	2.7	2.7
General Government Balance	€ bn	-9.9	-7.6	-6.3	-5.2	-4.5	-4.7
	% GDP	-6.0	-4.6	-3.8	-3.1	-2.7	-2.7
Primary Balance	% GDP	-1.6	0.1	0.9	1.7	2.3	2.3
General Government Debt	€ bn	213.4	228.4	234.6	239.9	244.4	249.0
	% GDP	129.4	138.2	142.0	144.7	145.6	146.1

Percentage changes unless indicated. Annual data are period averages.
Sources: BdP, INE and Citi Research forecasts

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Netherlands

The Dutch economy is recovering very slowly, underperforming the neighbouring soft core countries such as Belgium and France. The continued modest improvement in business sentiment surveys is one of the drivers behind our decision to revise up our 2014 GDP forecast by 0.1pp to 0.5%. However, we believe growth will continue to be capped by the fragility of consumer demand, fiscal drag and downward pressures on house prices. We forecast GDP to expand by 0.9% in 2015.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.0	0.5	0.9	1.2	1.6	1.9
Final Domestic Demand	YY	-2.8	-0.2	0.3	0.4	0.8	1.1
Private Consumption	YY	-2.2	-0.6	0.4	0.5	0.8	1.1
Public Consumption	YY	-1.0	-0.5	0.0	0.3	0.7	0.8
Fixed Investment (ex Stocks)	YY	-6.9	1.1	0.4	0.7	1.1	1.7
Stocks (Contrib. to YY GDP Growth)		-0.4	0.0	0.1	0.1	0.1	0.1
Exports of Goods and Services	YY	2.0	2.2	2.4	3.1	3.5	3.9
Imports of Goods and Services	YY	-0.2	2.0	2.0	2.7	3.1	3.5
Net Exports (Contrib. to YY GDP Growth)		1.8	0.4	0.6	0.7	0.8	0.9
Consumer Prices	YY	2.5	1.2	1.3	1.4	1.5	1.8
Unemployment Rate	%	8.3	8.7	8.5	7.7	6.6	5.3
Current Account Balance	€ bn	61.9	64.0	59.1	57.6	55.6	54.8
	% GDP	10.2	10.4	9.4	8.9	8.4	7.9
General Government Balance	€ bn	-21.0	-15.9	-11.9	-7.9	-1.5	7.4
	% GDP	-3.5	-2.6	-1.9	-1.2	-0.2	1.1
Primary Balance	% GDP	-1.5	-0.6	0.1	0.7	1.7	3.0
General Government Debt	€ bn	451.5	464.2	473.0	480.9	482.4	475.0
	% GDP	74.7	75.5	75.3	74.6	72.6	68.9

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

Sources: DNB, CBS and Citi Research forecasts

Belgium

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We lift our Belgian 2014 GDP growth forecast to 1.2% from 0.6% in Dec-13. Cheap financing costs, improving investment prospects and better sentiment make Belgium well positioned to gain from a pick-up in external demand. Headwinds from poor competitiveness, low employment growth and continued fiscal policy tightening are also diminishing. Looking ahead to the [May parliamentary elections](#), we believe that coalition negotiations will be less protracted than in 2010. We expect that Flemish Separatists will be at the helm of a conservative government.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.2	1.2	1.3	1.4	1.9	2.1
Final Domestic Demand	YY	-0.1	0.6	1.0	1.3	1.5	1.5
Private Consumption	YY	0.5	0.5	0.7	0.9	1.1	1.2
Public Consumption	YY	0.7	0.3	0.7	0.9	1.1	1.1
Fixed Investment (ex Stocks)	YY	-2.6	1.1	2.2	2.6	2.9	2.8
Exports of Goods and Services	YY	0.8	3.6	3.5	3.9	4.7	5.7
Imports of Goods and Services	YY	-0.1	2.7	3.8	3.8	4.2	5.3
Consumer Prices	YY	1.1	1.0	1.0	1.1	1.6	2.0
Unemployment Rate	%	8.4	8.3	8.1	7.8	7.5	7.3
Current Account Balance	€ bn	-6.6	-0.3	2.2	3.3	2.7	1.7
	% GDP	-1.7	-0.1	0.6	0.8	0.6	0.4
General Government Balance	€ bn	-11.7	-10.3	-6.2	-4.0	-2.2	0.6
	% GDP	-3.1	-2.6	-1.5	-1.0	-0.5	0.1
Primary Balance	% GDP	0.4	0.9	2.0	2.5	2.9	3.4
General Government Debt	€ bn	388.9	400.4	406.6	410.6	412.7	412.1
	% GDP	102.0	102.6	101.7	99.6	96.8	92.9

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

Sources: BNB, Belgostat and Citi Research forecasts

Slovakia

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We are slightly raising our GDP forecast by 0.1%pts to 1.9% in 2014 and 2.5% in 2015 owing to a better outlook for foreign demand, improved employment and reduced fiscal drag. December confidence remained supportive of a modest acceleration in early 2014. We think that stable industrial confidence, supported by gains in order-books, represents a solid base for further gains in industrial production. Larger carry-over effects should accelerate IP to 22% YY (wda) in December, totalling 6.1% in 2013, followed by 7.3% in 2014 and 6.2% in 2015. Exports have accelerated recently and we expect that an improved outlook remains supportive for an export-driven recovery with export gains of around 6% YY in the next two-three years. This should support gains in industrial employment. In the construction sector, output was flat YY after almost five years of contraction, but there have been modest gains in construction confidence, which point to a gain in output of 1.9% YY in 2014 after -6.5% in 2013. Retail sales were solid in 4Q14 in both quarterly and annual terms, accompanied by gains in consumer and retail confidence, which is supportive for a renewed recovery in private consumption, which has been weak in the past 3.5 years despite above par GDP growth. Inflationary pressure remains weak and recent disinflation and our forecast of a stronger EUR suggests 2014 CPI growth of 0.8% YY after 1.4% in 2013 before rising slowly to 2% in 2015 and 2.4% in 2016. Our expectation that inflation will remain low reflects a milder increase in core inflation, food prices and a negligible increase in regulated prices. The weak inflationary pressures also reflect a later improvement in the labour market, which we expect to improve in 2H14.

The better-than-expected fiscal deficit in 2013 (€2bn in 2013, €1bn narrower than planned and €1.8bn better than in 2012), solid financing reserve and the pressure from the debt-brake rule should help cap bond yields. ARDAL announced that its gross borrowing requirements will reach €6bn in 2014, 20% lower than the initial €7.5bn. As the government expects a fiscal deficit of around €3.4bn in 2014 and redemptions are around €4.1bn, the financing reserve is likely to be cut by €1.5bn in 2014. ARDAL expects 50% of these borrowing needs to be covered in 1Q14. Nevertheless, some risks remain, notably large errors in the balance of payments data, eventual renewed weakness in tax collection or hitting the debt-brake rule if ESA2010 shows higher debt. The Presidential election could influence economic policy in the long-term if PM Fico loses the election.

Figure 13. Slovakia – Economic Forecasts, 2013-18F

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.8	1.9	2.5	2.9	3.1	3.0
Final Domestic Demand	YY	-1.3	1.6	2.1	3.0	3.4	-
Private Consumption	YY	-0.1	0.9	1.8	2.7	3.0	3.0
Public Consumption		1.0	0.2	1.1	1.7	2.0	2.0
Fixed Investment	YY	-5.9	4.3	3.9	4.8	5.2	4.0
Exports	YY	4.0	6.1	6.5	6.0	6.5	6.0
Imports	YY	2.3	5.6	6.5	6.5	7.1	6.5
Consumer Prices	YY	1.4	0.8	1.6	2.4	2.9	2.9
Unemployment Rate	%	14.1	13.8	13.1	12.4	11.6	11.0
Current Account Balance	% GDP	4.2	4.4	3.7	3.1	2.5	0.8
General Government Balance	% GDP	-2.7	-3.3	-2.6	-2.1	-1.8	-1.7
Government Primary Balance	% GDP	-1.2	-1.8	-1.2	-0.7	-0.3	-
General Government Debt	% GDP	54.4	56.9	56.4	55.7	54.7	53.8

Sources: National sources and Citi Research forecasts

Slovenia

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We keep our forecast of continued recession until mid-2014, although we still look for a modest recovery thereafter. The banking sector resolution plan (transfer of bad loans, recapitalisation) has been announced and partly implemented. However, the credit crunch is not over, and restructuring of the over-indebted corporate sector remains incomplete. Business surveys point to negative GDP growth in 4Q13, although recent industrial production and construction output data generally have been somewhat supportive. We think the main risk lies in politics, in particular the privatisation programme. The PM promised a confidence vote after the government's first year, suggesting a confidence vote in March this year.

In addition, Government debt surged due to the transfer of bad loans, with upside risks if debt of other public entities is incorporated into the government sector. The "bad bank" BAMC announced that the physical transfer of documentation related to bad assets from the two lenders NLB and NKBM will be finished by end-January as it depends on collecting information about bad assets, takeover documentation and IT support. BAMC is still waiting for EU Commission approval to start the transfer of bad assets from Abanka (maybe by the start of 2Q14).

The government plans to tap the market for €7.7bn in 2014 to pre-finance 2015-16 as well. As in past years, planned government borrowing is much more than Slovenia's actual needs for the current year. This strategy has helped Slovenia avoid external help for its financing needs during the crisis. Of the planned 2014 borrowing of €7.7bn only €3.5bn is needed for 2014, while €4.2bn should be a financing reserve for 2015-16. The size of the pre-financing will be a function of: i) financing conditions in 2014 and ii) the expected situation in 2015. The difference between issuance planned to cover borrowing needs in 2014 (€3.5bn) and actual gross borrowing requirements of €4.6bn in 2014 (we assume a deficit of €1.2bn and redemptions including t-bills of €3.4bn) is covered by the current financing reserve. The Ministry of Finance announced a road show for a new USD denominated bond in late January. S&P affirmed Slovenia's A- sovereign rating with stable outlook, which is four notches above Moody's (Ba1; its review is expected to be published this Friday) and one notch above Fitch (BBB+; review on 2 May). The issues around banking sector resolution, fiscal consolidation and restructuring of the over-indebted corporate sector (due to lack of equity) are also the main challenges according to the latest IMF Article IV consultation. The IMF mentioned that additional fiscal measures of 1% of GDP may be needed to deliver a narrowing of the general government deficit to -3.5% of GDP and 3% in 2014 and 2015 respectively.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	-1.8	-0.9	0.8	2.1	2.9	3.2
Final Domestic Demand	YY	-3.6	-1.4	1.5	2.6	2.9	-
Private Consumption	YY	-3.4	-2.1	-0.1	1.1	1.4	1.2
Public Consumption		-2.9	-2.0	0.4	0.9	1.2	1.2
Fixed Investment	YY	-3.5	-0.1	1.6	2.8	3.2	3.2
Exports	YY	3.0	4.3	5.5	6.1	6.3	5.0
Imports	YY	-0.4	2.7	5.1	6.6	7.0	5.9
Consumer Prices	YY	1.8	1.6	1.5	1.3	1.4	1.4
Unemployment Rate	%	10.3	11.1	12.0	12.5	12.1	-
Current Account Balance	% GDP	4.1	4.6	4.4	4.5	4.4	4.2
General Government Balance	% GDP	-4.9	-13.4	-4.4	-3.8	-1.7	-1.5
Government Primary Balance	% GDP	-2.2	-10.5	-1.6	-0.8	1.2	1.3
General Government Debt	% GDP	59.7	72.8	75.6	76.6	74.9	72.8

Sources: National sources and Citi Research forecasts

UK

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We continue to expect strong and above-consensus economic growth, with inflation below the 2% target and below consensus. (The consensus looks for both growth and inflation to be about 2½% YY in 2014 and 2015). The economy has grown at an annualised pace of about 3% since early 2013, and business surveys point to continued strength. Strong economic growth should ensure that the fiscal deficit falls quite rapidly, but the current account deficit is likely to remain sizeable at about 3% of GDP in 2014-15. With strong GDP growth and job-rich expansion (reflecting in part the decline in real wages), the jobless rate is likely to hit the MPC's 7% threshold soon — hence terminating the current forward guidance framework — and fall below 6½% by yearend. The MPC seem reluctant to reset guidance with a lower jobless threshold. The January minutes show the MPC adopting Fed-style language that they see “*no immediate need*” to hike rates even once the jobless rate hits 7%, given the weak inflation path. Even so, with the rapid decline in the jobless rate, we are advancing our forecast for the [first rate hike \(25bp\) from Q2-15 to Q4-14](#). We expect the MPC will get real rates back to zero (ie 2% policy rates) by late 2015.

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

		History			Forecast		History								Forecast							
		2013	2014	2015			1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15				
Real GDP	YY	1.9	3.3	3.2			0.8	2.0	2.0	2.7	3.2	3.3	3.3	3.5	3.4	3.3	3.2	2.9				
	QQ SAAR						2.0	3.2	3.1	2.7	3.6	3.6	3.4	3.4	3.3	3.0	2.9	2.5				
Final Domestic Demand	YY	1.3	3.6	3.4			-0.4	0.7	1.9	2.9	3.4	3.7	3.6	3.6	3.4	3.5	3.4	3.3				
	QQ SAAR						1.8	2.6	3.8	3.4	3.9	3.7	3.4	3.2	3.4	3.8	3.1	2.7				
Private Consumption	YY	2.2	3.1	3.1			2.0	2.0	2.5	2.3	2.5	3.2	3.2	3.3	3.0	3.0	3.1	3.1				
	QQ SAAR						3.0	1.0	3.2	2.1	3.9	3.7	3.0	2.8	2.4	3.9	3.4	2.8				
Public Consumption	YY	0.7	2.1	-0.3			-1.8	0.8	1.4	2.4	3.5	2.6	2.0	0.5	0.1	-0.2	-0.6	-0.6				
	QQ SAAR						-3.2	4.5	2.8	5.6	0.9	0.9	0.5	-0.4	-0.5	-0.5	-0.9	-0.5				
Fixed Investment	YY	-2.2	8.1	10.5			-8.6	-4.3	-0.7	5.6	7.1	7.3	8.3	9.4	10.7	11.1	10.6	9.5				
	QQ SAAR						2.9	7.2	6.0	6.4	8.9	8.0	9.9	10.9	14.0	9.7	7.8	6.8				
-- Business Investment	YY	-3.9	6.3	11.4			-6.3	-6.9	-5.3	3.6	2.5	6.8	7.2	8.7	11.0	11.6	11.3	11.5				
	QQ SAAR						13.0	-9.0	8.3	3.4	8.5	7.1	10.0	9.3	17.6	9.7	9.0	10.0				
-- Construction of Private Dwellings	YY	4.9	10.5	13.5			-3.1	5.0	8.3	9.8	8.5	8.3	11.5	13.7	14.4	15.2	13.7	10.9				
	QQ SAAR						17.5	13.0	3.0	6.3	12.3	11.9	15.6	15.2	15.2	15.1	9.5	4.3				
Stocks (Contrib. to YY GDP Growth)		0.5	-0.8	0.1			1.3	0.4	1.0	-0.6	-0.7	-0.6	-1.5	-0.5	0.1	0.1	0.1	0.1				
Exports of Goods and Services	YY	0.9	4.7	5.2			-0.2	4.1	-1.8	1.6	4.2	1.8	6.4	6.5	5.3	5.4	5.2	4.8				
	QQ SAAR						-0.7	13.7	-11.3	6.3	9.9	3.6	5.9	6.7	5.0	3.9	5.3	5.0				
Imports of Goods and Services	YY	0.9	3.7	5.9			0.0	1.1	1.2	1.4	4.1	2.7	3.3	4.9	5.6	6.0	6.1	6.0				
	QQ SAAR						-6.7	10.4	2.9	-0.3	3.6	4.5	5.6	5.9	6.3	6.2	5.9	5.6				
Net Exports (Contrib. to YY GDP Growth)		0.1	0.6	-0.3			-0.2	0.9	-0.9	0.4	0.4	0.1	1.3	0.5	-0.1	-0.2	-0.3	-0.4				
Consumer Prices	YY	2.6	1.8	1.9			2.8	2.7	2.7	2.1	1.9	1.9	1.7	1.8	1.8	1.8	1.9	2.0				
Average Earnings YY	YY	1.2	1.5	3.0			0.6	2.1	0.8	1.1	1.6	0.7	1.8	2.0	2.6	2.8	3.1	3.4				
Employment Growth	YY	1.3	2.0	2.2			1.5	1.0	1.3	1.6	2.1	2.2	2.1	1.6	1.9	2.2	2.4	2.4				
Unemployment Rate	%	7.6	6.7	5.6			7.8	7.8	7.6	7.1	7.0	6.9	6.7	6.4	6.1	5.8	5.4	5.2				
Current Account Balance	£ bn	-58.4	-49.3	-55.0			-18.8	-6.2	-20.7	-12.7	-11.9	-12.6	-12.5	-12.4	-13.1	-13.8	-13.9	-14.2				
	% GDP	-3.6	-2.9	-3.1			-4.7	-1.5	-5.1	-3.1	-2.8	-2.9	-2.9	-2.8	-3.0	-3.1	-3.1	-3.1				
Public Sector Net Borrowing	£ bn FY	107.0	87.3	64.7																		
	% GDP	-6.5	-5.0	-3.6																		
General Government Balance	% GDP	-6.7	-5.3	-4.0																		
Government Primary Balance	% GDP	-3.5	-1.9	-0.2																		
General Government Debt	£ bn	1519.2	1636.8	1718.4																		
	% GDP	94.0	96.3	96.5																		
Gross Non Oil Trading Profits	YY	5.5	7.5	3.4			16.3	7.5	1.1	-1.9	-3.2	11.7	11.5	12.2	5.9	4.2	2.6	1.2				
Base Rate (Period Average)	%	0.50	0.54	1.58			0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.67	1.08	1.42	1.83	2.00				
Ten-year Gilt Yield (Period Averages)	%	2.34	3.33	3.75			2.02	1.92	2.73	2.79	3.05	3.25	3.40	3.60	3.70	3.80	NA	NA				
EUR-GBP FX Rate (Annual Avg, then qtr-end)		0.85	0.80	0.79			0.84	0.86	0.84	0.83	0.81	0.80	0.80	0.80	0.80	0.79	0.79	0.79				
GBP-USD FX Rate (Annual Avg, then qtr-end)		1.56	1.73	1.77			1.52	1.52	1.62	1.66	1.70	1.72	1.75	1.76	1.76	1.77	1.78	1.78				

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

Switzerland

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The Swiss economy continues to weather the elevated CHF surprisingly well. Real GDP grew 1.9% YoY in Q3-2013 and the Kof business survey index in December reached the highest since July-2011 (and well above its longrun average). We look for real GDP growth to stay around 2% YoY this year. The pace of deflation is easing, and core inflation has risen from -0.6% YoY at end-2012 to zero at end-13. We expect a few more months of negative inflation during 2014 but, with capacity use rising steadily, deflation will probably be over by yearend. The SNB is likely to keep policy loose for a while, but we factor in gradual tightening 2-3 years ahead.

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

		History			Forecast			History				Forecast							
		2013	2014	2015	2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	2.0	2.0	2.0				1.5	2.1	1.9	2.3	2.1	2.0	1.9	1.8	1.8	1.9	2.0	2.1
Final Domestic Demand	YY	1.9	1.3	2.1				1.5	2.3	2.2	1.6	1.5	1.0	1.2	1.5	1.9	2.2	2.2	2.3
Private Consumption	YY	2.1	1.2	1.7				2.2	2.6	2.1	1.4	1.1	0.9	1.2	1.6	1.7	1.9	1.7	1.5
Public Consumption	YY	2.2	1.2	0.7				2.7	2.0	2.3	1.8	1.6	1.7	0.7	0.7	0.7	0.7	0.7	0.7
Fixed Investment	YY	1.1	1.7	4.2				-1.3	1.4	2.1	2.2	2.7	0.9	1.5	1.9	3.0	4.0	4.4	5.4
Exports of Goods and Services	YY	2.2	3.4	4.0				2.0	2.7	2.1	2.0	3.3	3.2	3.9	3.4	3.6	3.8	4.1	4.4
Imports of Goods and Services	YY	0.4	2.3	5.0				0.9	1.6	-0.3	-0.4	1.6	1.3	2.9	3.5	4.2	5.0	5.2	5.6
Consumer Prices	YY	-0.2	-0.2	0.9				-0.4	-0.4	0.0	0.0	-0.2	0.0	-0.5	0.0	0.5	0.6	1.3	1.3
Unemployment Rate	%	3.1	2.7	2.3				3.1	3.2	3.2	2.9	2.6	2.6	2.9	2.5	2.3	2.3	2.5	2.1
Current Account Balance	Sfr bn	73.8	80.7	81.8				19.2	20.5	15.7	18.4	19.5	23.7	18.5	19.0	19.1	24.0	18.7	20.1
	% GDP	12.2	12.9	12.7				12.8	13.6	10.4	11.9	12.5	15.2	11.8	12.0	12.0	15.0	11.6	12.4
General Government Balance	Sfr bn																		
	% GDP	0.2	0.6	0.8															
General Government Debt	Sfr bn																		
	% GDP	48.2	46.3	45.1															
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)	%	0.82	0.88	1.00				0.64	0.65	1.07	1.00	1.00	0.97	0.97	1.03	1.09	1.09	NA	NA
EUR-CHF FX Rate (Annual Avge, then qtr-end)		1.23	1.24	1.28				1.22	1.23	1.22	1.23	1.23	1.24	1.25	1.26	1.26	1.27	1.28	1.29
USD-CHF FX Rate (Annual Avge, then qtr-end)		0.93	0.90	0.91				0.95	0.94	0.90	0.89	0.90	0.90	0.89	0.90	0.90	0.91	0.91	0.91

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

Sweden

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GDP growth was up a meagre 0.1% QQ in 3Q, and with a 0.1% QQ contraction in 2Q, GDP has on average been flat over the last two quarters. Sentiment indicators suggest that recovery is starting to take shape, leading us to raise our GDP growth forecasts by two-tenths for this and next year. A protracted global recovery, meanwhile, means that domestic demand will be more important than usual for Swedish growth. Strong real income growth (fuelled by low inflation and tax cuts), together with rising house prices, high household savings and improved balance sheets, should support private spending ahead. 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 to around SEK 10-15bn. This is likely to generate budget deficits of around 1.5% of GDP in coming years. This is small in an international comparison, and Sweden should continue to outperform. 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 barely positive in December and underlying CPIF inflation (CPI excluding interest rates) at 0.8% 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 the view. The Riksbank board cut the key policy rate by 25bp to 0.75% in December, arguing that *"inflation has been unexpectedly low and, despite the recovery, inflationary pressures over the coming year are expected to be much lower than in the most recent forecast in October"*. With inflation (and risks to credibility for the inflation target) back in focus, the Riksbank lowered its conditional interest rate path by 24-55bp for this year; in turn, the Bank maintained its slight near-term easing bias (signals a 16% probability of another rate cut during the first half of this year), and postponed the timing of initial tightening until 1Q15 (from Oct/Dec-14 in the Oct MPR). The decision to cut was unanimous for the first time since Apr-2010, and all board members supported the conditional interest rate path (the first time since Feb-09). Ahead, we reckon the outlook for the repo rate will be a battle between continued low inflation and recovering economic activity. Our base case is for stable rates ahead, but we acknowledge that risks are skewed to the downside.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.9	2.3	2.7	2.8	2.9	2.7
Final Domestic Demand	YY	1.1	2.1	2.2			
Private Consumption	YY	1.8	2.3	2.5			
Public Consumption	YY	1.1	1.2	0.8			
Fixed Investment	YY	-0.9	3.0	3.5			
Exports of Goods & Services	YY	-1.5	2.4	4.6			
Imports of Goods & Services	YY	-2.2	2.2	4.2			
Consumer Prices	YY	0.0	0.5	1.8	2.4	2.3	2.0
Unemployment Rate	%	8.0	7.8	7.5			
Current Account Balance	% GDP	6.2	5.9	5.6	5.6	5.4	5.3
General Government Balance	% GDP	-1.4	-1.6	-1.0	-0.3	0.5	1.2
General Government Debt	% GDP	39.5	39.9	39.2	37.6	35.2	32.4
Riksbank Rate (Annual Average)	%	0.99	0.75	0.98	1.42	2.18	2.80
Ten-year Yield (Period Average)	%	2.10	2.45	2.63	2.75	2.90	3.15
EUR-SEK FX Rate (Annual Average)		8.65	8.73	8.77	8.63	8.41	8.20
USD-SEK FX Rate (Annual Average)		6.51	6.28	6.23	6.12	5.97	5.82

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

Sources: Riksbank, Statistics Sweden and Citi Research forecasts

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Denmark

After stagnating for the past three years, the Danish economy extended its recovery in the third quarter; GDP growth was up by 0.4% QQ (0.5% YY) after a 0.6% QQ gain in 2Q. The 3Q gain was driven by surging investment activity (partly attributable to the government's investment window) and stronger exports. Despite these very positive signs, the economy barely grew in the first three quarters of the year compared to the same period last year (up by 0.1% YY). Hence, although we expect the economy to maintain momentum in the final quarter of the year, the weak starting point implies meagre growth of around 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 continue to make its impact felt in 4Q, providing a further boost to business investment activity.

Several years of crisis and nil growth implies that there is currently 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 will only just help turn the labour market around and slowly start closing the sizeable output gap.

With our ECB forecast now assuming another 25bp refi rate cut to 0% and a 10bp cut in the deposit rate to -0.1% around June 2014, we expect DNB will lower the lending rate and the CD-rate by 10bp to 0.1% and -0.20%, respectively, around mid-2014, hence, only partly shadowing ECB action. Meanwhile, were the ECB to use quantitative tools (most likely leading to renewed krone strength), we find it unlikely that the DNB would replicate this, continuing at least initially to use the interest rate (the lending rate and/or the CD-rate) to stabilize the DKK vs. the EUR. Alternatively, the DNB could also choose to counteract the appreciation pressures via the currency reserve, which would then grow further from an already high level.

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

		History	Forecast				
		2013	2014	2015	2016	2017	2018
Real GDP	YY	0.4	1.2	1.5	1.8	1.7	1.9
Final Domestic Demand	YY	0.6	1.2	1.5			
Private Consumption	YY	0.3	1.1	1.7			
Public Consumption	YY	0.3	0.6	0.7			
Fixed Investment	YY	1.9	2.4	2.2			
Exports of Goods & Services	YY	1.1	2.7	3.1			
Imports of Goods & Services	YY	2.7	3.2	3.3			
Consumer Prices	YY	0.8	1.5	1.7	1.8	1.9	2.0
Unemployment Rate	%	7.0	6.9	6.7			
Current Account Balance	% GDP	6.3	5.8	5.0	4.7	5.0	4.9
General Government Balance	% GDP	-1.2	-1.8	-1.5	-1.0	-1.0	-0.9
General Government Debt	% GDP	46.1	46.7	46.7	46.1	45.5	44.7
DNB Bank Rate (Annual Average)	%	0.20	0.13	0.25	0.47	0.78	1.00
Ten-year Yield (Period Average)	%	1.73	1.84	2.00	2.30	2.65	2.90

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

Norway

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Momentum has peaked and the Norwegian economy is heading towards a more moderate growth phase with below-trend mainland GDP growth in coming years. After growing briskly in 2012, the pace has slackened, the labour market weakened and the housing market cooled. Combined with weaker oil investment trends, the business sector – increasingly more dependent on the oil industry – will be unable to lean on impulses from the oil (and housing) sector to the same extent as before. Also ongoing erosion in competitiveness suggests that Norway will not be able to benefit fully from global recovery. Meanwhile, an expansionary fiscal policy stance and ongoing low policy rates should ensure a soft landing, resulting in sub-consensus growth of around 2% YY in coming years. The supplementary 2014 budget by the new Conservative-led government was slightly more expansionary than the previous government's budget bill. Total fiscal easing this year is estimated at 0.5% of mainland trend-GDP – a modest 0.2pp above indications in the National Budget (with extra spending used to lower taxes and boost infrastructure and education). In turn, the 2014 budget proposes to use “only” 2.9% of the oil fund's value next year. The current economic slowdown, though, could argue for a slightly easier fiscal stance, and we expect additional budget measures this spring.

Norges Bank left the key policy rate unchanged at 1.50% in December, and lowered its conditional interest rate path in the new MPR, removing any probability of a rate hike this year. The path now indicates initial tightening around summer 2015, a year later than suggested in Sep, with key drivers being weaker-than-expected inflation and wage growth, lower interest rates abroad plus a weaker domestic economic outlook, while a weaker-than-expected NOK exchange rate acted partly as an offset. Although a mid-2015 rate hike is in line with our view, we acknowledge that with indications of low rates for longer, the Bank has moved closer to a rate cut should the economic outlook deteriorate further (developments on the housing market are very important here). Thus, risks remain on the downside. In mid-Dec, the government announced that it will set the counter-cyclical capital buffer at 1% with effect from 1 July 2015. If imbalances build up, the buffer will be increased (the level will be assessed quarterly). The size of the buffer is in line with Norges Bank's advice, but the CB had recommended implementation from Jan-15. The FSA concurred with the Ministry that banks need more time to meet requirements.

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

		History		Forecast				
			2013	2014	2015	2016	2017	2018
Real GDP	YY		1.8	2.0	2.4	2.6	2.9	2.7
Final Domestic Demand	YY		2.3	2.1	2.7			
Private Consumption	YY		2.2	1.9	2.8			
Public Consumption	YY		2.1	2.6	3.0			
Fixed Investment	YY		2.8	2.2	2.0			
Exports of Goods & Services	YY		0.1	1.1	2.1			
Imports of Goods & Services	YY		2.3	2.3	2.3			
Consumer Prices	YY		2.1	2.0	2.1	2.1	2.3	2.5
Unemployment Rate	%		3.5	3.8	3.9			
Current Account Balance	% GDP		11.9	12.2	12.5	12.8	13.0	13.2
General Government Balance	% GDP		11.3	11.8	11.0	10.0	10.0	9.0
General Government Debt	% GDP		NA	NA	NA	NA	NA	NA
Norges Bank Rate (Annual Average)	%		1.50	1.50	1.71	2.08	2.74	3.33
Ten-year Yield (Period Average)	%		2.57	2.86	2.75	2.90	3.15	3.40
EUR-NOK FX Rate (Annual Average)			7.81	8.07	7.80	7.57	7.33	7.10
USD-NOK FX Rate (Annual Average)			5.88	5.81	5.55	5.37	5.20	5.03

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, 2013-18F

	GDP Growth, YY Percent Change						CPI Inflation, YY Percent Change						Current Balance, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-0.4	1.1	1.3	1.4	1.5	1.5	1.4	0.9	0.8	1.2	1.7	1.8	2.2	2.5	2.6	2.6	2.5	2.3
Germany	0.5	2.0	2.1	1.8	1.6	1.5	1.5	1.5	1.8	1.9	1.9	1.9	6.8	6.5	6.0	5.3	4.9	4.5
France	0.2	0.9	1.1	1.4	1.7	1.8	1.0	1.2	1.3	1.5	1.3	1.5	-1.6	-0.8	-0.1	0.3	0.1	-0.2
Italy	-1.8	0.3	0.3	0.4	0.5	0.6	1.3	0.5	-0.3	0.4	1.1	1.4	0.9	1.3	1.6	1.9	2.2	2.4
Spain	-1.2	0.9	1.1	1.4	1.3	1.4	1.5	-0.2	-0.1	0.1	0.5	0.8	1.0	1.0	1.4	1.5	1.7	1.8
Greece	-3.4	-1.9	-0.4	1.1	1.4	1.3	-0.9	-2.7	-2.4	-1.4	-0.4	0.8	0.7	1.9	2.4	2.9	3.3	3.2
Ireland	0.0	2.1	2.2	3.5	3.9	4.0	0.7	0.3	0.9	1.0	1.0	1.0	8.4	8.6	7.8	8.0	8.4	8.6
Portugal	-1.6	0.2	0.8	0.7	0.9	1.0	0.4	-0.4	-0.9	-0.2	0.6	1.0	0.4	2.2	2.5	2.6	2.7	2.7
Netherlands	-1.0	0.5	0.9	1.2	1.6	1.9	2.5	1.2	1.3	1.4	1.5	1.8	10.2	10.4	9.4	8.9	8.4	7.9
Belgium	0.2	1.2	1.3	1.4	1.9	2.1	1.1	1.0	1.0	1.1	1.6	2.0	-1.7	-0.1	0.6	0.8	0.6	0.4
Slovakia	0.8	1.9	2.5	2.9	3.1	3.0	1.4	0.8	1.6	2.4	2.9	2.9	4.2	4.4	3.7	3.1	2.5	0.8
Slovenia	-1.8	-0.9	0.8	2.1	2.9	3.2	1.8	1.6	1.5	1.3	1.4	1.4	4.1	4.6	4.4	4.5	4.4	4.2
Austria*	0.4	1.6	1.8	1.7	1.5	1.4	2.2	1.8	1.8	1.8	1.8	1.8	2.8	2.4	2.4	2.3	2.3	2.4
Cyprus*	-8.7	-3.9	1.1	1.9	2.3	2.2	1.0	1.2	1.6	1.7	1.7	1.8	-2.0	-0.6	-0.9	-1.0	-1.3	-1.5
Estonia*	1.5	2.5	3.5	3.6	3.7	3.7	3.5	2.8	2.5	2.5	2.5	2.5	-0.7	-0.2	0.3	0.5	0.5	0.8
Finland*	-0.6	1.1	1.4	2.0	2.0	2.0	2.4	2.4	2.2	2.0	2.0	2.0	-1.6	-1.8	-1.7	-1.5	-1.4	-1.4
Latvia*	4.0	4.2	4.2	4.0	4.0	4.0	0.7	.1	2.3	2.3	2.3	2.3	-1.1	-1.3	-1.6	-1.8	-1.9	-1.9
Luxembourg*	0.5	1.3	1.6	1.9	2.2	2.2	1.8	1.9	2.8	2.5	2.2	2.3	6.0	6.6	5.7	6.2	6.3	6.4
Malta*	1.1	1.8	2.0	2.1	1.9	1.8	2.0	2.0	2.1	2.1	2.2	2.2	1.1	0.8	0.9	0.8	0.7	0.5
Denmark	0.4	1.2	1.5	1.8	1.7	1.9	0.8	1.5	1.7	1.8	1.9	2.0	6.3	5.8	5.0	4.7	5.0	4.9
Norway	1.8	2.0	2.4	2.6	2.9	2.7	2.1	2.0	2.1	2.1	2.3	2.5	11.9	12.2	12.5	12.8	13.0	13.2
Sweden	0.9	2.3	2.7	2.8	2.9	2.7	0.0	0.5	1.8	2.4	2.3	2.0	6.2	5.9	5.6	5.6	5.4	5.3
Switzerland	2.0	2.0	2.0	2.2	2.0	2.0	-0.2	-0.2	0.9	1.1	1.2	1.2	12.2	12.9	12.7	13.7	14.0	14.0
United Kingdom	1.9	3.3	3.2	2.7	2.2	2.2	2.6	1.8	1.9	2.2	2.1	2.1	-3.6	-2.9	-3.1	-3.0	-2.7	-2.4

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, 2013-18F

	Fiscal Balance, Percent of GDP						Primary Balance, Percent of GDP						Government Debt, Percent of GDP					
	History	Forecast					History	Forecast					History	Forecast				
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Euro Area	-2.9	-2.5	-2.0	-1.6	-1.4	-1.1	0.1	0.5	1.1	1.4	1.7	1.9	96.2	98.2	98.5	98.3	97.2	96.0
Germany	0.2	0.0	0.0	0.0	0.0	-0.2	2.6	2.2	2.1	2.1	2.0	1.7	78.4	76.4	73.6	71.0	68.7	66.8
France	-4.1	-3.6	-3.1	-2.7	-2.3	-1.8	-1.5	-0.9	-0.4	-0.1	0.4	0.9	93.9	96.0	97.3	97.5	97.1	95.3
Italy	-3.1	-2.8	-2.7	-2.5	-2.6	-2.3	2.4	2.6	2.8	3.1	3.1	3.4	133.4	137.2	139.8	141.6	142.6	142.3
Spain	-6.9	-5.8	-4.8	-4.0	-3.4	-2.9	-3.4	-2.2	-1.1	-0.2	0.4	1.0	93.9	99.7	103.5	105.5	106.8	107.2
Greece	-3.6	-3.5	-2.4	-2.1	-1.5	-1.3	0.6	0.6	1.0	1.4	2.1	2.2	176.3	190.9	200.6	203.5	202.6	200.3
Ireland	-7.0	-4.7	-3.0	-2.2	-2.2	-1.7	-2.7	-0.3	1.4	2.2	2.3	2.9	125.0	122.9	122.5	120.6	117.2	113.2
Portugal	-6.0	-4.6	-3.8	-3.1	-2.7	-2.7	-1.6	0.1	0.9	1.7	2.3	2.3	129.4	138.2	142.0	144.7	145.6	146.1
Netherlands	-3.5	-2.6	-1.9	-1.2	-0.2	1.1	-1.5	-0.6	0.1	0.7	1.7	3.0	74.7	75.5	75.3	74.6	72.6	68.9
Belgium	-3.1	-2.6	-1.5	-1.0	-0.5	0.1	0.4	0.9	2.0	2.5	2.9	3.4	102.0	102.6	101.7	99.6	96.8	92.9
Slovakia	-2.7	-3.3	-2.6	-2.1	-1.8	-1.7	-1.2	-1.8	-1.2	-0.7	-0.3	NA	54.4	56.9	56.4	55.7	54.7	53.8
Slovenia	-4.9	-13.4	-4.4	-3.8	-1.7	-1.5	-2.2	-10.5	-1.6	-0.8	1.2	1.3	59.7	72.8	75.6	76.6	74.9	72.8
Austria*	-2.6	-2.4	-1.9	-1.5	-1.4	-1.4	-0.6	-0.5	0.1	0.4	0.5	0.5	74.4	74.8	74.2	73.6	72.6	71.7
Cyprus*	-6.7	-7.5	-5.3	-2.3	-0.7	0.3	NA	NA	NA	NA	NA	NA	114.1	123.0	125.7	121.7	115.9	115.9
Estonia*	0.3	0.2	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	11.0	10.4	9.8	9.2	8.6	8.1
Finland*	-2.8	-2.1	-1.6	-1.3	-1.0	-0.9	-2.7	-2.1	-1.8	-1.5	-1.4	-1.2	58.0	59.8	60.5	59.8	59.1	58.9
Latvia*	-1.4	-0.5	0.7	-0.5	-0.2	-0.3	-0.1	0.8	0.5	0.5	0.8	0.6	38.4	34.6	28.0	29.0	28.4	26.4
Luxembourg*	-0.7	-0.9	-1.6	-2.1	-2.1	-2.1	-0.4	-0.8	-1.8	-2.6	-2.8	-3.0	22.9	24.6	26.6	29.0	31.3	33.4
Malta*	-3.5	-3.6	-3.6	-3.1	-3.1	-3.1	NA	NA	NA	NA	NA	NA	73.4	74.0	74.4	74.1	74.0	73.9
Denmark	-1.2	-1.8	-1.5	-1.0	-1.0	-0.9							46.1	46.7	46.7	46.1	45.5	44.7
Norway	11.3	11.8	11.0	10.0	10.0	9.0							NA	NA	NA	NA	NA	NA
Sweden	-1.4	-1.6	-1.0	-0.3	0.5	1.2							39.5	39.9	39.2	37.6	35.2	32.4
Switzerland	0.2	0.6	0.8	1.2	1.2	0.9							48.2	46.3	45.1	44.5	43.8	44.5
United Kingdom	-6.7	-5.3	-4.0	-2.4	-1.1	0.0	-3.5	-1.9	-0.2	1.6	3.3	4.5	94.0	96.3	96.5	95.4	93.3	90.2

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

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Euro Area	0.2	0.3	0.1	0.1			-0.1			0.1	0.1	0.2
Germany	0.1	0.4	0.1			0.2		-0.3	-0.2	0.2		0.1
France	0.1	0.2					-0.1					0.1
Italy	0.1				0.3		-0.2	-0.1	0.1			
Spain	0.7	0.3	0.2		0.2	0.1	-0.1	-1.1	-1.2		0.4	0.6
Greece		0.1		-0.1	0.2		0.3	0.3	0.1	-0.7	-1.2	-0.6
Ireland	0.7	0.6	0.8	1.0	-0.2	-0.1	-0.2	-1.5	-2.6	0.1	0.9	1.0
Portugal	0.7	0.4				0.3	-0.3	-0.3	-0.3		0.4	0.6
Netherlands	0.1			-0.1	-0.1			0.4	0.8	0.1	0.3	0.3
Belgium	0.6	0.3		-0.1	-0.3	-0.1	2.2	4.0	4.5	-0.2	-0.3	
Slovakia		0.1	0.1		-0.3	-0.2	-0.1	0.4	0.3	-0.7	-0.1	
Slovenia	-0.5		-0.1	-0.1	-0.3		0.2	-0.3	-0.5	1.8	-6.6	0.2
Denmark			0.2				0.2		0.3	0.4		
Norway	-0.1					-0.1	-0.9	-0.9	-0.9			
Sweden	0.2	0.2	0.2		-0.6	-0.1						-0.3
Switzerland					-0.1			-0.1	-0.1			
United Kingdom	0.1				-0.2		0.1	0.1		0.1	-0.4	-0.3

Source: Citi Research

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Euro Area - Citi Forecast	22-Jan-14	-0.4	1.1	1.3	-2.9	-2.5	-2.0	96.2	98.2	98.5
OECD Economic Outlook	19-Nov-13	-0.4	1.0	1.6	-2.9	-2.5	-1.8	95.2	95.9	95.6
EU Commission Forecast	05-Nov-13	-0.4	1.1	1.7	-3.1	-2.5	-2.4	95.5	95.9	95.4
IMF WEO Forecast	21-Jan-14	-0.4	1.0	1.4	-3.1	-2.5	-2.1	95.7	96.1	95.3
ECB Forecast - mid-point	05-Dec-13	-0.4	1.1	1.5	-3.2	-2.6	-2.4	93.2	93.6	93.1
Germany - Citi Forecast	22-Jan-14	0.5	2.0	2.1	0.2	0.0	0.0	78.4	76.4	73.6
OECD Economic Outlook	19-Nov-13	0.5	1.7	2.0	0.1	0.2	0.6	78.8	76.1	73.6
EU Commission Forecast	05-Nov-13	0.5	1.7	1.9	0.0	0.1	0.2	79.6	77.1	74.1
IMF WEO Forecast	21-Jan-14	0.5	1.6	1.4	-0.4	-0.1	0.0	80.4	78.1	75.2
France - Citi Forecast	22-Jan-14	0.2	0.9	1.1	-4.1	-3.6	-3.1	93.9	96.0	97.3
OECD Economic Outlook	19-Nov-13	0.2	1.0	1.6	-4.2	-3.7	-3.0	94.0	96.7	97.8
EU Commission Forecast	05-Nov-13	0.2	0.9	1.7	-4.1	-3.8	-3.7	93.5	*5.3	96.0
IMF WEO Forecast	21-Jan-14	0.2	0.9	1.5	-4.0	-3.5	-2.8	93.5	94.8	94.8
Italy - Citi Forecast	22-Jan-14	-1.8	0.3	0.3	-3.1	-2.8	-2.7	133.4	137.2	139.8
OECD Economic Outlook	19-Nov-13	-1.9	0.6	1.4	-3.0	-2.8	-2.0	132.7	133.2	132.6
EU Commission Forecast	05-Nov-13	-1.8	0.7	1.2	-3.0	-2.7	-2.5	133.0	134.0	133.1
IMF WEO Forecast	21-Jan-14	-1.8	0.6	1.1	-3.2	-2.1	-1.8	132.3	133.1	131.8
Spain - Citi Forecast	22-Jan-14	-1.2	0.9	1.1	-6.9	-5.8	-4.8	93.9	99.7	103.5
OECD Economic Outlook	19-Nov-13	-1.3	0.5	1.0	-6.7	-6.1	-5.1	92.8	98.0	101.8
EU Commission Forecast	05-Nov-13	-1.3	0.5	1.7	-6.8	-5.9	-6.6	94.8	99.9	104.3
IMF WEO Forecast	21-Jan-14	-1.2	0.6	0.8	-6.7	-5.8	-5.0	93.7	99.1	102.5
Greece - Citi Forecast	22-Jan-14	-3.4	-1.9	-0.4	-3.6	-3.5	-2.4	176.3	190.9	200.6
OECD Economic Outlook	19-Nov-13	-3.5	-0.4	1.8	-2.4	-2.2	-1.4	176.6	181.2	183.0
EU Commission Forecast	05-Nov-13	-4.0	0.6	2.9	-2.9	-2.0	-1.1	176.2	175.9	170.9
IMF WEO Forecast	08-Oct-13	-4.2	0.6	2.9	-4.1	-3.3	-2.1	175.7	174.0	168.6
Ireland - Citi Forecast	22-Jan-14	0.0	2.1	2.2	-7.0	-4.7	-3.0	125.0	122.9	122.5
OECD Economic Outlook	19-Nov-13	0.1	1.9	2.2	-7.4	-5.0	-3.1	122.2	120.7	118.5
EU Commission Forecast	05-Nov-13	0.3	1.7	2.5	-7.4	-5.0	-3.0	124.4	120.8	119.1
IMF WEO Forecast	08-Oct-13	0.6	1.8	2.5	-7.6	-5.0	-2.9	123.3	121.0	118.3
Portugal - Citi Forecast	22-Jan-14	-1.6	0.2	0.8	-6.0	-4.6	-3.8	129.4	138.2	142.0
OECD Economic Outlook	19-Nov-13	-1.7	0.4	1.1	-5.7	-4.6	-3.6	124.9	127.4	129.5
EU Commission Forecast	05-Nov-13	-1.8	0.8	1.5	-5.9	-4.0	-2.4	127.8	126.7	125.7
IMF WEO Forecast	08-Oct-13	-1.8	0.8	1.5	-5.5	-4.0	-2.5	123.6	125.3	124.2
Netherlands - Citi Forecast	22-Jan-14	-1.0	0.5	0.9	-3.5	-2.6	-1.9	74.7	75.5	75.3
OECD Economic Outlook	19-Nov-13	-1.1	-0.1	0.9	-3.0	-3.0	-2.3	75.4	77.0	77.5
EU Commission Forecast	05-Nov-13	-1.0	0.2	1.2	-3.3	-3.3	-3.0	74.8	76.4	76.9
IMF WEO Forecast	08-Oct-13	-1.3	0.3	1.6	-3.0	-3.2	-4.8	74.4	75.6	76.7
Belgium - Citi Forecast	22-Jan-14	0.2	1.2	1.3	-3.1	-2.6	-1.5	102.0	102.6	101.7
OECD Economic Outlook	19-Nov-13	0.1	1.1	1.5	-2.7	-2.4	-1.1	100.2	100.4	98.5
EU Commission Forecast	05-Nov-13	0.1	1.1	1.4	-2.8	-2.6	-2.5	100.4	101.3	101.0
IMF WEO Forecast	08-Oct-13	0.1	1.0	1.3	-2.8	-2.5	-1.5	100.9	101.2	100.2
Slovakia - Citi Forecast	22-Jan-14	0.8	1.9	2.5	-2.7	-3.3	-2.6	55.4	56.9	56.4
OECD Economic Outlook	19-Nov-13	0.8	1.9	2.9	-3.0	-2.8	-2.6	54.6	56.9	56.4
EU Commission Forecast	05-Nov-13	0.9	2.1	2.9	-3.0	-3.2	-3.8	54.3	57.2	58.1
IMF WEO Forecast	08-Oct-13	0.8	2.3	2.8	-3.0	-3.8	-3.2	55.3	57.5	58.2
Slovenia - Citi Forecast	22-Jan-14	-1.8	-0.9	0.8	-4.9	-13.4	-4.4	59.7	72.8	75.6
OECD Economic Outlook	19-Nov-13	-2.3	-0.9	0.6	-7.1	-5.9	-2.9	63.1	70.5	74.7
EU Commission Forecast	05-Nov-13	-2.7	-1.0	0.7	-5.8	-7.1	-3.8	63.2	70.1	74.2
IMF WEO Forecast	08-Oct-13	-2.6	-1.4	0.9	-7.0	-3.8	-3.9	71.5	75.3	77.6

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

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

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

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Austria - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	0.4	1.7	2.2	-2.3	-1.9	-1.2	75.7	76.1	75.5
EU Commission Forecast	05-Nov-13	0.4	1.6	1.8	-2.5	-1.9	-1.5	74.8	74.5	73.5
IMF WEO Forecast	08-Oct-13	0.4	1.6	1.8	-2.6	-2.4	-1.9	74.4	74.8	74.2
Cyprus - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-Nov-13	-8.7	-3.9	1.1	-8.3	-8.4	-6.3	116.0	124.4	127.4
IMF WEO Forecast	08-Oct-13	-8.7	-3.9	1.1	-6.7	-7.5	-5.3	114.1	123.0	125.7
Estonia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.0	2.4	4.0	-0.1	-0.1	0.0	9.5	9.3	9.0
EU Commission Forecast	05-Nov-13	1.3	3.0	3.9	-0.4	-0.1	0.1	10.0	9.7	9.1
IMF WEO Forecast	08-Oct-13	1.5	2.5	3.5	0.3	0.2	0.1	11.0	10.4	9.8
Finland - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	-1.0	1.3	1.9	-2.5	-2.3	-1.8	56.4	60.0	62.7
EU Commission Forecast	05-Nov-13	-0.6	0.6	1.6	-2.2	-2.3	-2.0	58.4	61.0	62.5
IMF WEO Forecast	08-Oct-13	-0.6	1.1	1.4	-2.8	-2.1	-1.6	58.0	59.8	60.5
Latvia - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook		NA	NA	NA	NA	NA	NA	NA	NA	NA
EC Commission Forecast	05-Nov-13	4.0	4.1	4.2	-1.4	-1.0	-1.0	42.5	39.3	33.4
IMF WEO Forecast	08-Oct-13	4.0	4.2	4.2	-1.4	-0.5	-0.7	38.4	34.6	28.0
Luxembourg - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.8	2.3	2.3	-0.3	-0.3	-1.1	24.4	26.1	28.2
EU Commission Forecast	05-Nov-13	1.9	1.8	1.1	-0.9	-1.0	-2.7	24.5	25.7	28.7
IMF WEO Forecast	08-Oct-13	0.5	1.3	1.6	-0.7	-0.9	-1.6	22.9	24.6	26.6
Malta - Citi Forecast		NA	NA	NA	NA	NA	NA	NA	NA	NA
OECD Economic Outlook	19-Nov-13	NA	NA	NA	NA	NA	NA	NA	NA	NA
EU Commission Forecast	05-Nov-13	1.8	1.9	2.0	-3.4	-3.4	-3.5	72.6	73.3	74.1
IMF WEO Forecast	08-Oct-13	1.1	1.8	2.0	-3.5	-3.6	-3.6	73.4	74.0	74.4

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, 2013-15F

	Date of Forecast	GDP Growth (YY %)			Fiscal Balance (% of GDP)			Debt (% of GDP)		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Denmark - Citi Forecast	22-Jan-14	0.4	1.2	1.5	-1.2	-1.8	-1.5	46.1	46.7	46.7
OECD Economic Outlook	19-Nov-13	0.3	1.6	1.9	-4.1	-1.8	-1.8	44.8	46.0	47.5
EU Commission Forecast	05-Nov-13	0.3	1.7	1.8	-1.7	-1.7	-2.7	44.3	43.7	45.1
IMF WEO Forecast	08-Oct-13	0.1	1.2	1.5	-1.7	-2.0	-2.9	47.1	47.8	49.2
Norway - Citi Forecast	22-Jan-14	1.8	2.0	2.4	11.3	11.8	11.0	NA	NA	NA
OECD Economic Outlook	19-Nov-13	1.2	2.8	3.1	13.9	12.3	11.8	34.2	35.5	37.9
IMF WEO Forecast	08-Oct-13	1.6	2.3	2.3	12.4	11.6	10.2	34.1	34.1	34.1
Sweden - Citi Forecast	22-Jan-14	0.9	2.3	2.7	-1.4	-1.6	-1.0	39.5	39.9	39.2
OECD Economic Outlook	19-Nov-13	0.7	2.3	3.0	-0.7	-1.6	-1.1	41.4	42.9	42.8
EU Commission Forecast	05-Nov-13	1.1	2.8	3.5	-0.9	-1.2	-0.5	41.3	41.9	41.0
IMF WEO Forecast	08-Oct-13	0.9	2.3	2.3	-1.4	-1.5	-0.5	42.2	42.2	40.5
Switzerland - Citi Forecast	22-Jan-14	2.0	2.0	2.0	0.2	0.6	0.8	48.2	46.3	45.1
OECD Economic Outlook	19-Nov-13	1.9	2.2	2.7	0.7	0.7	0.6	42.3	42.1	41.9
IMF WEO Forecast	08-Oct-13	1.7	1.8	1.9	0.2	0.5	0.7	48.2	46.6	45.6
UK - Citi Forecast	22-Jan-14	1.9	3.3	3.2	-6.7	-5.3	-4.0	94.0	96.3	96.5
OECD Economic Outlook	19-Nov-13	1.4	2.4	2.5	-6.5	-7.1	-6.5	91.8	95.2	98.5
EU Commission Forecast	05-Nov-13	1.3	2.2	2.4	-6.4	-5.3	-4.3	94.3	96.9	98.6
IMF WEO Forecast	21-Jan-14	1.7	2.4	2.2	-6.1	-5.8	-4.9	92.1	95.3	97.9
OBR	05-Dec-13	1.4	2.4	2.2	-6.0	-4.9	-4.0	75.5	78.3	80.0

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

Appendix A-1

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