

## Euro Economics Weekly

### Private Deleveraging: Picking Up, but Hurting Less

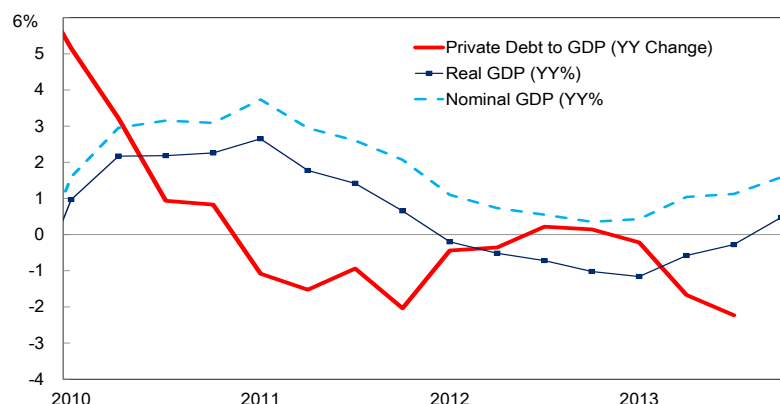
- Private deleveraging in the euro area has been slow and late, compared to the US, UK and Japan. The reductions of households' and non-financial corporations' debt-to-GDP ratios in the euro area have further to run amid still-high debt levels, modest growth prospects and neutral financial conditions. At the same time, private debt has fallen more sharply recently in Ireland and Spain, the Eurozone private sector has built up liquid assets, its net worth has risen, and interest burdens remain low.
- The pace of reductions in private debt-to-GDP ratios is now picking up in the euro area, but high private sector financial surpluses, loose monetary policy, fading fiscal austerity and perhaps some debt write-offs should allow the euro area to have both higher growth *and* faster debt reduction in coming years. The main risk to the deleveraging trajectory lies in lower-than-expected nominal GDP growth, in our view. The ECB should address this risk via further monetary easing and we expect it to do so in coming months through rate cuts and initiating an asset purchase programme.

Figure 1. Citi Forecasts

		Euro	10-yr		UK	10-Yr	SEK		NOK		CHF	CHF
	\$/€	Repo	Bunds	£/€	Bank	Gilt-	Policy	NOK/€	Policy	SFR/€	Policy	Spread
					Rate	Bund	Rate		Rate		Rate	vsBunds
3Q 14	1.39	0.10	1.70	0.82	0.50	158	8.83	0.75	8.20	1.50	1.24	0.00
1Q 15	1.40	0.10	1.90	0.81	1.25	163	8.79	0.75	8.01	1.50	1.26	0.00
												-70
												-80

Source: Citi Research

Figure 2. Euro Area — YY Change in Private Gross Debt (pp of GDP) and Real and Nominal GDP (%), 2010-2013



Note: Private debt is debt of households and non-financial corporates.  
Source: Eurostat and Citi Research

#### Ebrahim Rahbari

+44-20-7986-6522  
ebrahim.rahbari@citi.com

#### Guillaume Menuet

+44-20-7986-1314  
guillaume.menuet@citi.com

#### Giada Giani

+44-20-7986-3281  
giada.giani@citi.com

#### Michael Saunders

+44-20-7986-3299  
michael.saunders@citi.com

#### Antonio Montilla

+44-20-7986-3282  
antonio.montilla@citi.com

#### Ann O'Kelly

+44-20-7986-3297  
ann.okelly@citi.com

For all distribution enquiries regarding

Citi Economics research, including

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contact michael.saunders@citi.com

or jan.maguire@citi.com

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Ebrahim Rahbari



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## Private Deleveraging Is Hurting Less

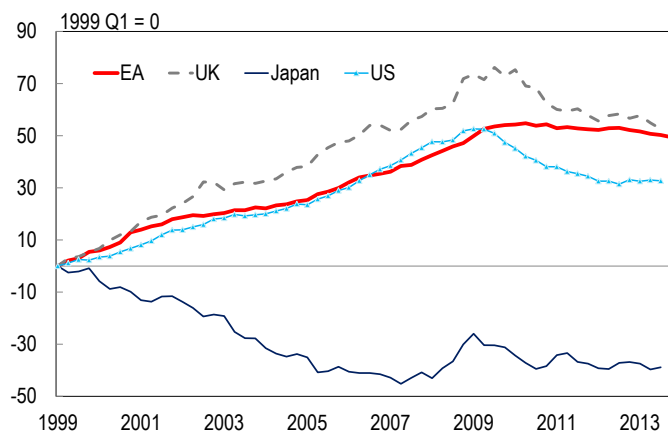
After years of slow private deleveraging, its pace is picking up in the Eurozone

...but we expect its drag on growth to become smaller, not larger:

The Eurozone should be able to have both faster private deleveraging and faster growth in coming years

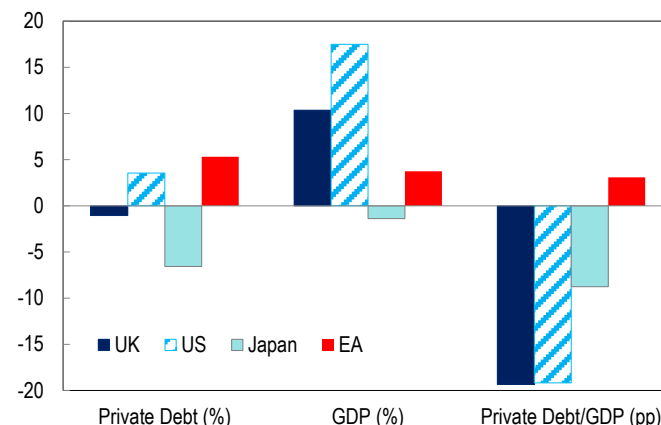
In previous years, we had highlighted private deleveraging pressures — along with fiscal austerity and a weak banking system — as major drivers of low growth in the euro area (EA).<sup>1</sup> Private deleveraging in the EA has proceeded quite slowly since the global financial crisis, hampered by weak nominal GDP growth and few debt write-offs. The latest data suggest that the gross unconsolidated debt of EA households (HHs) and non-financial corporations (NFCs) is only 5pp of GDP lower than at the peak, compared to 20-25pp in the UK or US (see Figure 3). While these figures probably understate the amount of progress in private balance sheet repair in the EA (as the private sector has also increased its liquid assets) and interest burdens remain low, private deleveraging probably has further to run, in our view. In fact, the pace of EA private deleveraging relative to GDP has recently picked up and we expect it to pick up further over the next 1-2 years. But high private sector surpluses and loose monetary conditions should allow the EA to both deleverage more and have higher (real and nominal) GDP growth. Faster (non-credit-driven) growth and in particular less fiscal austerity should also make it easier to reduce debt, including by lessening 'paradox of thrift'-type challenges.

Figure 3. Selected Countries — Change in Household and Non-Financial Corporate Gross Debt to GDP Ratio Since Q1 1999 (pp), 1999-2013 Q3



Sources: BIS, BEA, ONS, Eurostat, Cabinet Office and Citi Research

Figure 4. Selected Countries — Cumulative Change in Nominal Gross Private Debt (%), Nominal GDP (%) and Private Gross Debt to GDP Ratio (pp) Between end-2008 and Q3 2013



Note: Private debt is debt of households and non-financial corporations.  
Sources: BIS, BEA, ONS, Eurostat, Cabinet Office and Citi Research

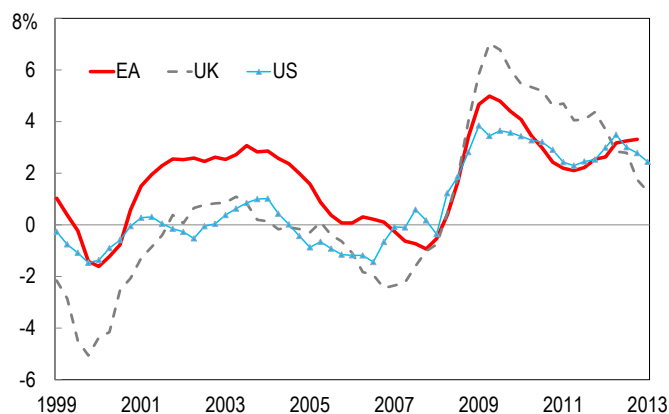
Household and non-financial corporate gross debt have fallen 5pp of GDP from the peak in the euro area, compared to 20-25pp in the UK or US

### Private deleveraging in the Eurozone has been slow

Private deleveraging in the Eurozone started later and has progressed less than in the other major advanced economies (AEs). According to BIS data, the ratio of EA household and non-financial corporate (henceforth 'private') gross debt to GDP peaked in Q2 2010, about a year after the UK and US (in Japan, private debt ratios have fallen since 2000). From the peak, private gross debt in the EA had fallen 4.5pp by Q3 2013, vs 20pp in the US and 24pp in the UK. In fact, the private gross debt-to-GDP ratio in the Eurozone is still higher than it was at the end of 2008. HH deleveraging in particular has been slower in the EA than in the other major AEs. For NFCs, the debt-GDP ratios have fallen about as much as in the US, even though that is due partly to recent 're-leveraging' there, and NFC debt reductions in the EA were still much smaller than in the UK or Japan.

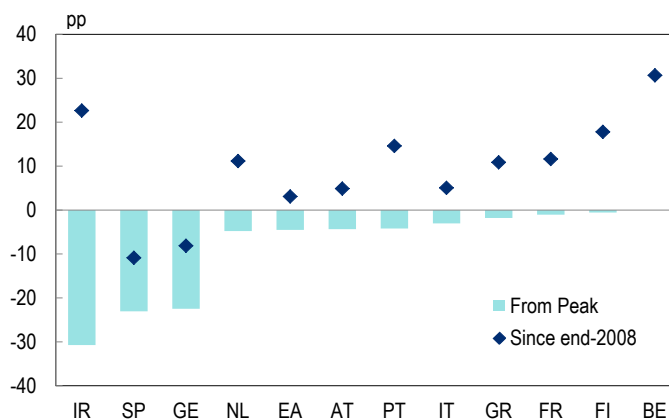
<sup>1</sup>See [Citi GPS: DEBT OF NATIONS - Mr Micawber's Vindication: Causes & Consequences of Excessive Debt](#), Willem Buiter and Ebrahim Rahbari, Nov 2012, Citi Research and [Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2014 and Beyond](#), Willem Buiter et al, Dec 2013, Citi Research

**Figure 5. Selected Countries — Private Sector Financial Surplus (4Q Sum, % of GDP), 1999-2013**



Sources: Fed, Bank of England, Eurostat and Citi Research

**Figure 6. Selected Countries — Change in Household and Non-Financial Corporate Gross Debt (pp of GDP)**

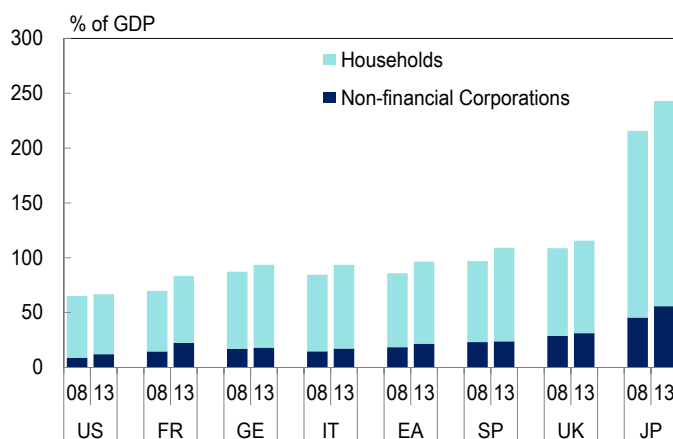


Sources: BIS, Eurostat and Citi Research

**Weak nominal income growth and fewer writedowns have hampered private deleveraging in the euro area**

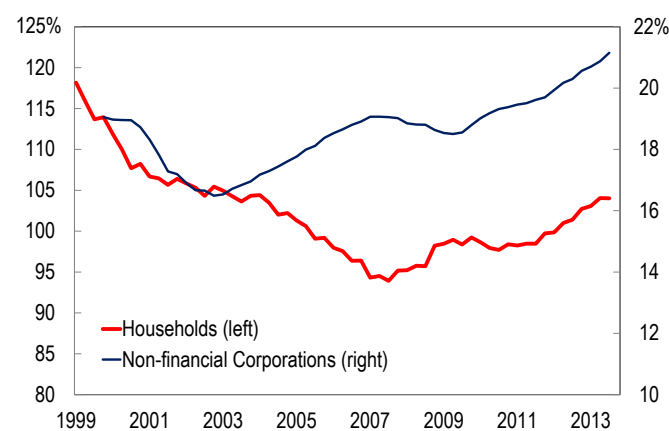
A major reason why private deleveraging has proceeded more slowly in the EA is that nominal GDP and income growth have been weak (see Figure 4). Cumulative growth in EA nominal GDP since end-2008 was less than 4% up to Q4 2013 vs 10% in the UK and 17% in the US (even though in Japan, private deleveraging has been much larger despite average nominal GDP growth being negative). Nominal debt levels grew faster in the EA over this period, too, but the difference vs. the UK and US has been less pronounced. One reason that debt *has* grown faster in the Eurozone is that there have been fewer writedowns. EA private sector financial surpluses are now above UK and US levels (see Figure 5).

**Figure 7. Selected Countries — Holdings of Currency and Deposits (% of GDP), 2008 Q4-2013 Q4**



Sources: Fed, ONS, Eurostat, Bank of Japan and Citi Research

**Figure 8. Euro Area — Ratio of Currency and Deposits to Gross Debt (%), 1999-2013 Q3**



Sources: BIS, Eurostat and Citi Research

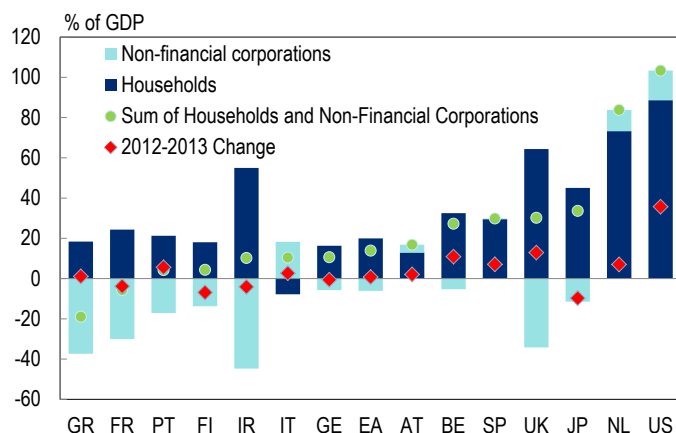
**Falls in gross debt-GDP ratios may understate progress in balance sheet repair**

Private deleveraging in the EA has not universally been slow. In Ireland (fall of 30pp of GDP from the peak) and Spain (23pp of GDP), private debt reductions have been quite large recently.<sup>2</sup> Moreover, the EA private sector has built up liquid assets at the same time (see Figure 6). The amount of currency and deposits held by EA HHS and NFCs jointly rose by 11pp of GDP between end-2008 and Q4 2013, compared to 7pp in the UK and 2pp in the US (see Figure 7). The liquidity ratio (currency and

<sup>2</sup> In Germany, private gross debt has also fallen substantially (23pp of GDP) from the peak, but the peak was already reached in 2000.

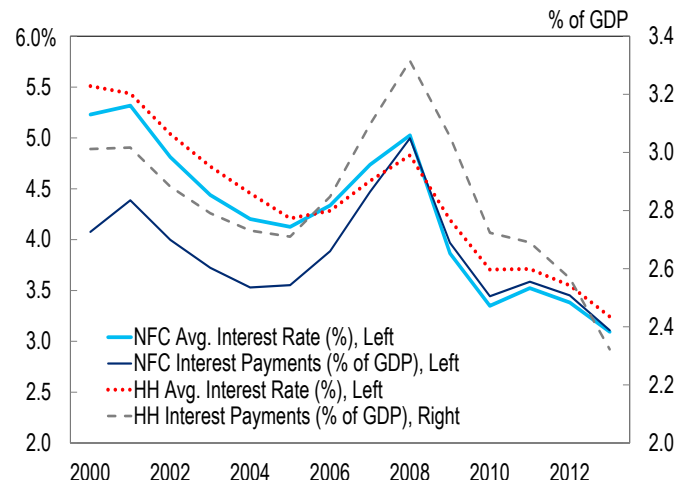
deposits divided by gross debt) of Eurozone NFCs is at the highest level since 1999 (Figure 8). Moreover, private financial net worth in the Eurozone has also increased by almost 15pp of GDP since end-2008, and more in a number of individual EA countries (Figure 9). Actual interest burdens are also still fairly low in the EA currently despite high levels of debt (Figure 10). We estimate that interest payments relative to GDP are at their lows since at least 2000 for both EA households and non-financial corporations, due mostly to lower average interest rates.<sup>3</sup>

**Figure 9. Selected Countries — Change in Household and Non-Financial Corporate Financial Net Worth (pp of GDP), Q4 2008–Q3 2013**



Sources: Eurostat, National Sources and Citi Research

**Figure 10. Euro Area — Household and Non-Financial Corporate Average Interest Rate (%) and Interest Payments (% of GDP), 2000-2013**



Sources: ECB, Eurostat, and Citi Research

## Eurozone to have faster deleveraging *and* higher growth

**Private deleveraging in the Eurozone should continue for years to come**

**Its pace is picking up recently to more than 2pp pa compared to 0.6pp in 2010 to mid-2013**

**Faster private deleveraging should not prevent a modest pickup in EA growth**

**In fact, faster growth and less fiscal tightening facilitate more debt reduction**

In our view, private deleveraging in the EA is likely to continue for some time, amid still relatively high debt levels in a number of countries, modest growth prospects and still only neutral financial conditions. Private debt-to-GDP ratios in the Eurozone are still 50pp higher than in Q1 1999, a much larger rise than in the US (32pp) or Japan (-39pp), even though it is a similar increase as in the UK (53pp). The *level* of EA private gross debt in Q3 2013 at 165% of GDP was very similar to Japan, but a little higher than in the US (156%) even though still lower than in the UK (185%). Private deleveraging in fact seems to be accelerating in the EA currently. Nominal private debt levels were falling by 0.5% YY in Q3 2013, while nominal GDP growth (4Q sum) picked up to 1.0% YY, and debt-to-GDP ratios fell by 2.2pp year-on-year in Q3 compared to 0.6pp pa on average in 2010-13 Q2.

However, in our view, the Eurozone should be able to have both faster deleveraging *and* faster growth in coming years – we expect nominal GDP growth of around 2% in 2014-15 (and 3% in 2016-18) and private gross debt to GDP reductions of around 3-4pp pa. Continuing deleveraging is likely to exert *some* toll on growth, compared to the counterfactual where deleveraging pressures were absent. But this drag should be smaller than in previous years, for a number of reasons. First, the private sector financial surplus in the EA is unusually high — a record-high outside of the acute 08-09 crisis period. Amid easier financial and monetary conditions, the EA

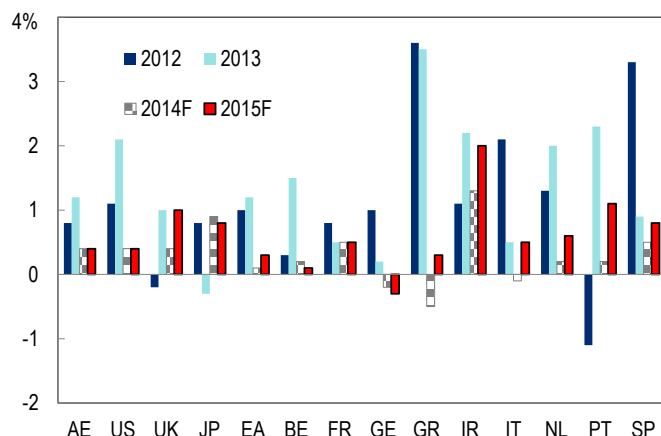
<sup>3</sup> HH and NFC interest payments before the so-called FISIM adjustment are not available from Eurostat for the EA. We estimate them for 2002-2011 by summing the interest payments for all individual EA countries. For 2012 and 2013, we assume that the change in the average interest rate (computed as interest payments divided by previous period stock of gross debt) evolves in line with the average interest rate for outstanding MFI loans to HHs and NFCs, respectively.

private sector should be able to reduce financial surpluses without increasing borrowing commensurately. Faster (non-credit-driven) growth should also facilitate debt reduction, as growing incomes leave more resources to repay debt (or consume/invest without borrowing). A major factor behind the pickup of EA growth has been the gradual fading of austerity. According to the IMF, the cyclically adjusted primary balance (CAPB) — one measure of fiscal tightening — increased by 1.2pp of GDP pa in 2011-13, but will only rise by 0.2pp of GDP pa in 2014-15 with existing policies, which may well be relaxed at the margin (see Figure 11). Private deleveraging is likely to be less costly for growth when the public sector is not trying to cut back at the same time (i.e. avoiding a 'paradox of thrift').<sup>4</sup>

**Orderly debt write-offs could be a less growth-damaging form of debt reduction**

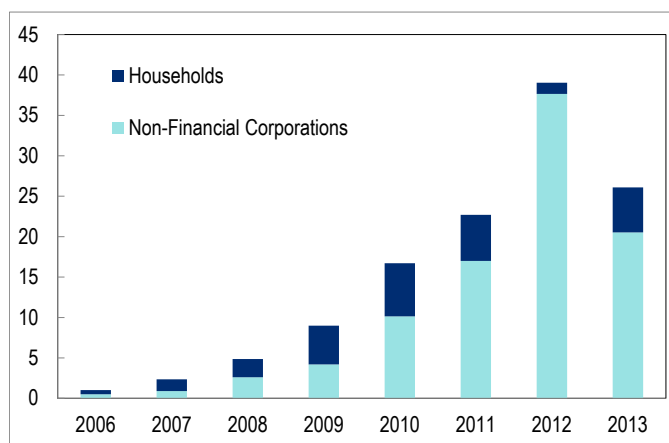
Second, the nature of deleveraging may be becoming more growth-friendly. The Bank of Spain (BoS) has noted that countries that with rapid debt reductions have tended to have higher nominal GDP growth *and larger debt write-offs*.<sup>5</sup> As it is mostly the flow of new credit (or even the change in the flow of new credit or 'credit impulse') rather than the change in the debt stock that matters for growth, orderly deleveraging through write-offs could be less costly for growth than deleveraging through cutting new borrowing.<sup>6</sup> According to BoS data, the pace of write-offs in Spain increased in recent years, driven mainly by writedowns associated with transfers of bank assets to the bad bank SAREB (see Figure 12). A number of recent initiatives in various EA countries also suggest that more write-offs could be on the way, including a law recently approved by the Spanish cabinet to overhaul bankruptcy rules to facilitate debt write-offs, maturity extensions and debt-for-equity conversions for companies, reforms of personal insolvency rules in Ireland and Spain and initiatives to establish privately funded bad banks in Italy.<sup>7</sup> However, to date reforms of personal insolvency laws to date in Ireland and Spain have had only marginal effects on the pace of writedowns of HH debt (particularly mortgages).

**Figure 11. Selected Countries — Change in Cyclically-Adjusted General Government Primary Balance (% of GDP), 2012-15F**



Sources: IMF and Citi Research

**Figure 12. Spain — Loan Write-Downs (EUR bn), 2006-2013**



Note: 'Other Changes in Volume' for loan liabilities in Financial Accounts.  
Sources: Bank of Spain and Citi Research

<sup>4</sup> See e.g. IMF "Indebtedness and deleveraging in the euro area", in IMF Country Report No 13/232, July 2013.

<sup>5</sup> Banco de España "Private Sector Deleveraging Channels: An International Comparison", Economic Bulletin November 2013.

<sup>6</sup> This is not universally true. If crystallising losses through writeoffs leaves banks either severely undercapitalised or implies entry into a bailout programme that implies excessive fiscal austerity, 'extend and pretend' may be less harmful to growth than debt writeoffs.

<sup>7</sup> See [Europe - Sovereign Debt Update](#), Guillaume Menuet et al, 10 March 2013, Citi Research.

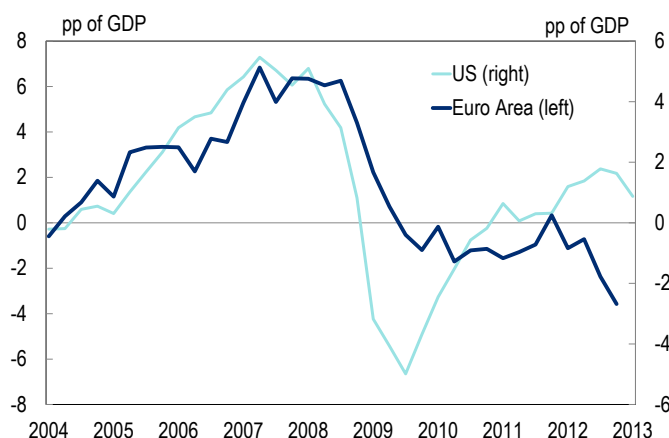
## No Signs of Re-leveraging or Credit-led Growth

**There are no signs of corporate re-leveraging or credit-led growth in the EA**

Faster growth may make debt reduction easier, but at the same time ease pressures to deleverage and eventually lead to some re-leveraging. This is what we observed for NFCs in the US, where gross debt-to-GDP ratios started rising again from Q1 2012 and nominal NFC gross debt in Q3 2013 was up 7% YY. By contrast, there are few signs of re-leveraging by EA NFCs (see Figure 13). The YY% change in NFC gross debt and net debt (gross debt minus currency and deposit assets) is negative. The ratios of gross or net debt to GDP, gross value added (GVA) or gross operational surpluses (GOS) are also falling (with slightly positive growth in GDP, GVA and GOS) and so is the ratio of debt to equity.<sup>8</sup>

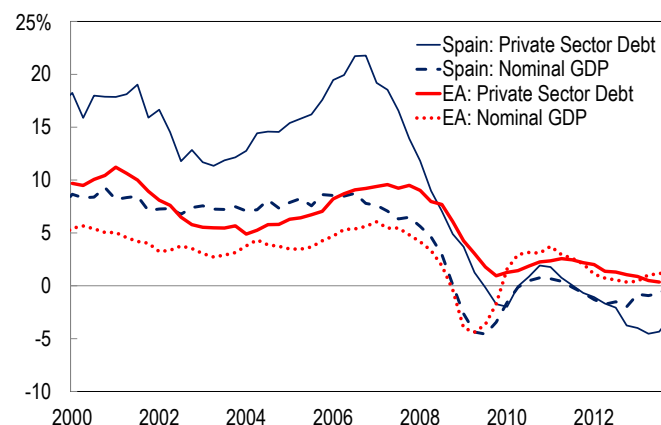
The EA is thus still pretty firmly in the midst of a mostly 'creditless recovery' with virtually no signs of credit-driven growth. YoY growth in private sector borrowing (4Q sum of new borrowing divided by stock of debt a year before) in Q3 2013 was 0.4% YY, compared to nominal GDP growth of 1.6% YY, in sharp contrast with the pre-crisis period when credit growth much outpaced GDP growth (see Figure 14). In 1999-2007, EA nominal private debt grew by 8%pa on average vs 4% pa for nominal GDP.

**Figure 13. Euro Area and US — YY Change in Non-Financial Corporate Sector Ratio of Net Debt to GDP (pp), 2004-2013**



Sources: BIS, BEA, Eurostat, and Citi Research

**Figure 14. Euro Area and Spain — Growth in Nominal Private Sector Debt and GDP (%YY), 2000-2013 Q3**



Sources: Bank of Spain, ECB, Eurostat and Citi Research

## What could upset the deleveraging trajectory?

**We expect the pace of deleveraging in the Eurozone to pick up to around 4pp of GDP pa**

We expect private deleveraging in the Eurozone to continue and even accelerate a bit in coming years. We currently expect nominal GDP growth of roughly 2% growth pa in 2014-15 and 3% in 2016-18. Assuming that nominal private debt will continue to fall by around 0.5%pa in 2014-15 (as currently), based on both low net borrowing and modest debt write-offs), and be roughly flat in 2016-18, the ratio of private sector gross debt to GDP should fall by around 4pp each year, bringing the Eurozone back to 2006-07 levels for private debt to GDP by end-2016 (see Figure 15).

In our view, the major risk to that outlook is that nominal GDP and income growth disappoint, particularly should inflation turn out to be even lower than our current

<sup>8</sup> Nominal flows of NFC borrowing continue to be marginally positive, but growth rates of borrowing flows have been falling for eight consecutive quarters. Our credit strategy colleagues have also noted that the larger EA corporates have in fact been re-leveraging. See [Corporate leverage - Should you be worried?](#)



**A 1pp lower nominal GDP growth rate or higher average interest rate would lower the pace of debt reduction by about a third, even though the effects should be larger in highly indebted EA periphery countries**

**Easy monetary policy, no additional fiscal austerity in the near term and making debt writeoffs easier would support private deleveraging.**

**We expect the ECB to interest rates further and to initiate an asset purchase programme in coming months and don't foresee any material additional fiscal austerity in the next 1-2 years.**

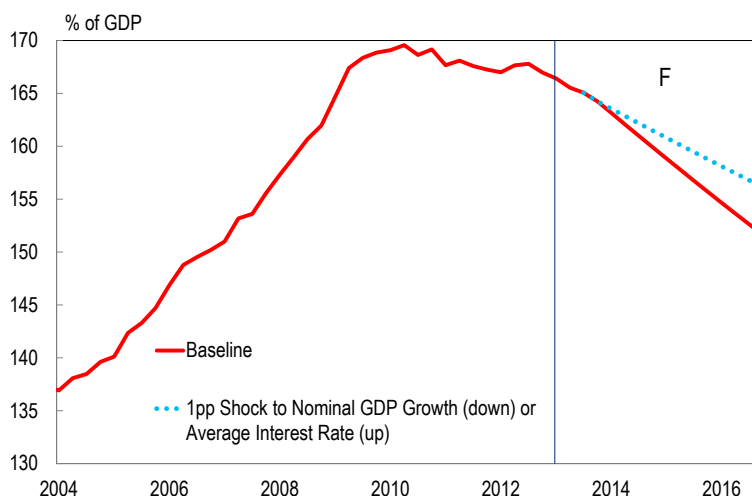
(below-consensus and below-ECB) expectations. If we assume that nominal GDP growth is 1pp pa weaker (and assuming no effect of lower growth on nominal private debt growth), private debt would fall by around 2.5pp pa — still a meaningful pickup in the pace of deleveraging compared to recent years and leaving private debt more than 10pp below current levels by end-2016E.

Another risk could stem from higher interest rates, not least as much of private debt in EA countries including Portugal and Spain is floating-rate, as market interest rates in the UK and US have begun to rise and may rise further, while concerns about debt sustainability (public and private) may return. Assuming that all EA private debt is floating-rate would imply that the impact of a 1pp increase in the average interest rate on the pace of debt reduction is equivalent to the effect of a 1pp fall in the nominal growth rate, again leaving the pace of debt reduction at about 2.5pp pa.<sup>9</sup>

Our simple simulation thus suggests that shocks of this type and size would slow but not arrest EA private deleveraging. However, this simulation probably understates risks to the deleveraging trajectory, including through the interactions between growth and financial conditions, but also because the debt arithmetic is more challenging in the more highly indebted (and low-inflation) EA periphery.

Three policy implications follow, in our view. First, the ECB should keep policy rates low for years to come and should ease policy further to ensure that inflation reverts back to target in due course, including through large-scale asset purchases. Second, making debt restructuring easier (including through streamlining insolvency and debt restructuring procedures outside insolvency for both households and businesses and through tax and other incentives for banks to write off debt) should be a priority for Eurozone governments. Third, further fiscal tightening would make it more difficult for the private sector to deleverage, at least through savings (rather than write-downs). Public debt sustainability in a number of Eurozone countries remains an issue to be addressed, but this is probably best done once the private sector has repaired its balance sheets.

**Figure 15. Euro Area — Level of Private Gross Debt (pp of GDP), 2004-2016F**



F Citi Forecast

Note: Private debt is debt of households and non-financial corporates.

Sources: Eurostat and Citi Research

<sup>9</sup> With some share of fixed rate debt, the effect of a rise in the interest rate would be somewhat smaller, as interest rate rises would only affect newly issued debt as well as existing floating-rate debt.

## Key Economic Indicators (28 April – 2 May 2014)

Monday 28 April		Forecast	Last
07:00	Germany: Import Prices, Mar	-0.6% MM, -2.3% YY	-0.1% MM, -2.8% YY
08:30	Sweden: Producer Prices, Mar		
08:30	Sweden: Retail Sales, Mar	0.2% MM	0.4% MM
09:00	Italy: Consumer Confidence, Apr	102.2	101.7
11:00	Ireland: Retail Sales, Mar		
Tuesday 29 April		Forecast	Last
07:00	Germany: GfK Consumer Confidence, May		
07:45	France: Consumer Confidence, Apr	88	88
08:00	Sweden: Consumer Confidence, Apr	101.2	99.6
	Manufacturing Confidence, Apr	99.6	99.8
08:00	Spain: Unemployment Rate, 1Q	26.1%	25.7%
08:30	Sweden: Household Lending, Mar	5.2% YY	5.1% YY
09:00	Italy: Retail Sales, Feb		
09:00	Euro Area: M3, Mar	1.7% YY, 1.6% 3-M YY	1.3% YY, 1.2% 3-M YY
09:30	UK: GDP, 1Q Preliminary Estimate	1.0% QQ, 3.3% YY	0.7% QQ, 2.7% YY
09:30	UK: Service Sector Output, Feb	0.3% MM, 2.8% YY	0.4% MM, 3.2% YY
10:00	Italy: Business Confidence, Apr	100.1	99.2
10:00	Euro Area: Economic Sentiment, Apr	102.8	102.4
13:00	Germany: HICP, Apr Flash	-0.2% MM, 1.2% YY	0.3% MM, 0.9% YY
	National CPI, Apr Flash	-0.2% MM, 1.3% YY	0.3% MM, 1.0% YY
	Spain: Budget Balance, Mar YTD	€-2.9 Billion	Jan-Mar 2013: €-10.7 Billion
Wednesday 30 April		Forecast	Last
00:01	UK: GfK Consumer Confidence, Apr		
07:00	Germany: Retail Sales, Mar	-0.6% MM, 2.6% YY	1.2% MM, 3.4% YY
07:45	France: Consumer Spending, Mar	1.1% MM, -0.2% YY	0.1% MM, -0.3% YY
07:45	France: Producer Prices, Mar		
08:00	Switzerland: KOF Economic Barometer, Apr		
08:00	Spain: GDP, 1Q Flash	0.4% QQ	0.2% QQ
08:00	Spain: HICP, Apr Flash	0.2% YY	-0.2% YY
08:00	Spain: Retail Sales, Mar	0.7% YY	-0.4% YY
08:55	Germany: Unemployment, May	-15K MM SA, -96K MM NSA	-12K MM SA, -83K MM NSA
09:00	Norway: LFS Unemployment Rate, Feb	3.4%	3.5%
09:00	Norway: Retail Sales, Mar	0.2% MM	0.6% MM
09:00	Italy: Unemployment Rate, Mar	13.0%	13.0%
10:00	Italy: HICP, Apr Flash	0.5% YY	0.3% YY
10:00	Euro Area: HICP, Apr Flash	0.8% YY	0.5% YY
10:00	Greece: Retail Sales, Feb		
11:00	Ireland: Residential Property Prices, Mar		
11:00	Ireland: Unemployment Rate, Apr		
14:00	Belgium: GDP, 1Q Flash	0.2% QQ, 1.3% YY	0.5% QQ, 1.0% YY
	Spain: Current Account, Feb		
Thursday 1 May		Forecast	Last
	<b>Holiday in many EU Countries</b>		
07:00	UK: Nationwide House Prices, Apr		
07:30	Sweden: Manufacturing PMI, Apr	54.3	56.5
08:00	Norway: Manufacturing PMI, Apr	51.5	51.9
09:30	UK: Personal Borrowing, Mar		
09:30	UK: Manufacturing PMI, Apr	55.0	55.3
Friday 2 May		Forecast	Last
09:00	Euro Area: Manufacturing PMI, Apr Final	53.3	53.0
09:30	UK: Construction PMI, Apr		
10:00	Euro Area: Unemployment Rate, Mar	11.8%	11.9%
	Italy: Budget Balance, Apr		

Sources: National statistical offices, central banks and Citi Research forecasts



## Economic Indicators

## Euro Area

Apr 29 09:00	<b>M3, Mar</b>	<b>Forecast: 1.7% YY, 1.6% 3-M YY</b>	<b>Prior: 1.3% YY, 1.2% 3-M YY</b>
London Time	Annual growth in broad money should have remained close to the recent lows in March, still reflecting the ongoing shrinking of the balance sheet of the banking sector. Credit flows to the non-financial private sector likely continued to decline, but perhaps at a slower pace than in the recent past. A contraction smaller than €10bn MM in credit flows to non-financial corporations (against €-12bn on average in the last six months) would represent an improvement.		
Apr 29 10:00	<b>Economic Sentiment, Apr</b>	<b>Forecast: 102.8</b>	<b>Prior: 102.4</b>
London Time	The overall economic sentiment indicator probably posted another rise in April, remaining for the second consecutive month above its long term average (for first time since July 2011). A rebound in confidence for the service sector and consumers has likely led the rise in April, as in the recent past these indices had been lagging behind the gains recorded by industrial sentiment. The level of the index suggests that the economic recovery is gathering some momentum in 1H14.		
Apr 30 10:00	<b>HICP, Apr P</b>	<b>Forecast: 0.8% YY</b>	<b>Prior: 0.5% YY</b>
London Time	The different timing of Easter relative to last year shaved something around 0.1pp off the headline inflation rate in March, and we estimate this effect will more than reverse and add some 0.2pp to April's YY reading. Adverse base effects in the energy component should have also contributed to lift the YY rate in April (despite a likely MM fall in electricity and gas bills), while this may have been partly offset by ongoing weakness in food prices. We see downside risks to the 0.8% YY print for April.		
May 2 09:00	<b>Manufacturing PMI, Apr F</b>	<b>Forecast: 53.3</b>	<b>Prior: 53.0</b>
London Time	The flash estimate of a small rise in the manufacturing PMI in April – the first after two monthly declines – should be confirmed in the final reading. The increase at the euro area aggregate level, taken together with mixed signals from Germany and France, suggests that Spain and Italy likely reported a fairly positive reading in April.		
May 2 10:00	<b>Unemployment Rate, Mar</b>	<b>Forecast: 11.8%</b>	<b>Prior: 11.9%</b>
London Time	The unemployment rate may have edged lower by another tenth in March, after remaining flat at 11.9% for the previous five months. The unemployment rate has stabilised since the beginning of last year, as a result of a declining trend in the periphery (-2.2pp in Portugal since Jan-13, -1.9pp in Ireland and -0.8pp in Spain) and in Germany (-0.3pp). The unemployment rate has not yet started to decline in the other larger euro area countries such as Italy, France or the Netherlands.		

## Germany

Apr 28 07:00	<b>Import Prices, Mar</b>	<b>Forecast: -0.6% MM, -2.3% YY</b>	<b>Prior: -0.1% MM, -2.8% YY</b>
London Time	German import prices continue to fall as the euro remains strong and energy prices remain subdued. In March, we expect import prices to fall once more, but base effects from a very large price fall in March 2013 would still leave the rate of price decline at -2.3%YY vs -2.8%YY in February.		
Apr 29 13:00	<b>HICP, Apr Flash</b>	<b>Forecast: -0.2% MM, 1.2% YY</b>	<b>Prior: 0.3% MM, 0.9% YY</b>
London Time	<b>National CPI, Apr Flash</b>	<b>Forecast: -0.2% MM, 1.3% YY</b>	<b>Prior: 0.3% MM, 1.0% YY</b>
	We expect the flash readings for German inflation in April to show higher inflation for both the national and the HICP definition. The main reason for the change is the later timing of Easter which should account for a rise of 0.3-0.4pp in April and therefore more than compensate for the decline in March.		
Apr 30 07:00	<b>Retail Sales, Mar</b>	<b>Forecast: -0.6% MM, 2.6% YY</b>	<b>Prior: 1.2% MM, 3.4% YY</b>
London Time	After three months of consecutive increases and a particularly strong increase in February, we expect German retail sales (excluding cars) to fall slightly in March. Even with a March decline, retail sales volumes in the Jan-Mar average would be 2.4% above the 4Q average, with YY% growth around 3%, a level Germany has not sustained for many years. Even though we don't expect this pace of increase to be sustained even now (it is partly a payback from a weak 4Q), we do expect a gradual strengthening in retail sales growth and private consumption growth during 2014, as wage growth picks up and employment growth continues.		
Apr 30 08:55	<b>Unemployment, Apr</b>	<b>Forecast: -15K MM SA, -96K MM NSA</b>	<b>Prior: -12K MM SA, -83K MM, NSA</b>
London Time	German unemployment continues to tick down by around 15K each month (SA) and we expect that trend to continue for the coming months, leaving the unemployment rate at 6.7%, which is a low since 1991.		

## France

Apr 29 07:45	<b>Consumer Confidence Indicator, Apr</b>	<b>Forecast: 88</b>	<b>Prior: 88</b>
London Time	Consumer confidence is expected to remain unchanged in April, consolidating the sizeable 3-point gain recorded in March. Unemployment worries likely increased in the last few weeks in light of another sizeable increase in the total number of registered jobless a few days before the municipal elections. At the same time, the government has announced a €5bn rebate for low-income households in terms of social security contributions. Overall, the uptrend in consumer confidence will probably resume in the second half of 2014, if the reform agenda is implemented.		
Apr 30 07:45	<b>Consumer Spending, Mar</b>	<b>Forecast: 1.1% MM, -0.2% YY</b>	<b>Prior: 0.1% MM, -0.3% YY</b>
London Time	Household spending is expected to rebound noticeably in March, benefiting from past increases in household confidence, low inflation and signs of pent-up demand being released. Anecdotal evidence showed noticeable gains in car registrations, up 4.9% MM in March after a 5% MM uptick in Feb. Retail confidence rose and the business climate measure also improved, with encouraging signals from order books and expected sales, although prices are still falling and employment prospects still disappoint. However, over 1Q-14 as a whole, spending looks set to decline, capping GDP growth.		

## Economic Indicators

Italy			
Apr 28 09:00	Consumer Confidence, Apr	Forecast: 102.2	Prior: 101.7
London Time	After a large gain in March (+0.4 sd.), probably largely driven by the new government's announcements of imminent tax cuts, we expect a smaller gain to have occurred in April, as the tax cuts have been approved and are likely to be disbursed in May.		
Apr 29 09:00	Business Confidence, Apr	Forecast: 100.1	Prior: 99.2
London Time	Business sentiment probably rose in April, after an almost unchanged reading in March, as the cyclical recovery is slowly gathering momentum. If our forecast is correct, the index would be back to its long-run average for the first time since June 2011.		
Apr 30 09:00	Unemployment Rate, Mar	Forecast: 13.0%	Prior: 13.0%
London Time	The unemployment rate probably remained unchanged in March at a record-high level of 13.0%, after a 0.3pp increase over the previous two months. Employment is still falling (-0.6% YY in Feb, -0.12% MM on average in the past six months): job creation in Italy should lag the rest of the euro area due to a large pool of idled workers (under the Cig scheme) who are included in the employment statistics, but are not working.		
Apr 30 10:00	HICP, Apr P	Forecast: 0.5% YY	Prior: 0.3% YY
London Time	The HICP YY rate should have bounced back temporarily in April, mainly due to the different timing of Easter relative to last year. In addition, despite a large decline in regulated prices for electricity (-1.1% MM) and gas (-3.8% MM), fuel prices have edged higher since last month, in contrast to a large monthly decline in April 2013, leading to an adverse base effect in the energy component. We expect headline inflation to subside further from May onwards.		
Spain			
Apr 29 08:00	Unemployment Rate, 1Q	Forecast: 26.1%	Prior: 25.7%
London Time	New data on Census 2011 released last week revised Q4 13 unemployment rate downward to 25.7%, from 26.0% previously. Monthly data on affiliations to the social security system suggest employment (non-seasonally adjusted) may have posted a quarterly decline in 1Q (by 0.6% QQ), mostly explained by seasonal factors. We estimate employment posted a gain of 0.4% QQ in seasonally adjusted terms. At the same time the labour force has probably continued to decline (by around 1%YY, partly driven by discouraged workers and partly by falling working-age population). The unemployment rate (NSA) is expected to have edged up in 1Q, on the back of seasonal factors. Adjusted by seasonality we estimate the unemployment rate fell to 25.4% in Q1, lowest since 1Q 2012.		
Apr 29	Budget Balance, Mar YTD	Forecast: €-2.9 Billion	Prior (Jan-Mar 13): €-10.7 Billion
	We project the YTD central government deficit in March to continue to show some marked improvement relative to the same period of last year. On a monthly basis, we expect the central government to post a surplus of around €3.3bn in Mar 14, down by €0.1bn relative to Mar 13, overall still suggesting a slowdown in the pace of deficit reduction relative to last year. We expect the general government is likely to meet its deficit target (of 5.8% of GDP, excluding financial sector support) for 2014, amid improved tax revenues on the back of better economic activity.		
Apr 30 08:00	GDP, 1Q P	Forecast: 0.4% QQ	Prior: 0.2% QQ
London Time	We expect real GDP to rise by 0.4% QQ (0.5% YY) in 1Q 14, highest QQ reading since 1Q 2008, amid some recovery in domestic demand (we estimate at 0.4% QQ, after -0.3% in 4Q). We expect private consumption likely rose strongly in 1Q, on the back of a better-than-expected recovery in the labour market, falling inflation, and less fiscal tightening. Recent gains in business confidence together with improvements in firms' financial position should have kept business investment rising in 1Q. In addition, we expect export growth to remain robust; however a rise in imports is likely to cap the net export contribution to real GDP growth.		
Apr 30 08:00	HICP, Apr P	Forecast: 0.2% YY	Prior: -0.2% YY
London Time	We expect the annual HICP inflation rate to bounce back to 0.2% in April, from -0.2% YY in March (lowest since Oct 2009). The increase should be driven by adverse base effects in the energy component (energy prices probably flat MM in Apr-14 against a 2.7% MM drop in Apr-13) and by some temporary effects due to the later timing of Easter relative to last year (adding some 0.1pp to the headline rate). On the other hand, we expect some further easing in food prices. Overall we project HICP inflation to remain subdued over this year on the back of a strong euro and still ample spare capacity.		
Apr 30 08:00	Retail Sales, Mar	Forecast: 0.7% YY	Prior: -0.4% YY
London Time	We expect real retail sales to rise by 0.7% MM in March, after a nearly flat reading (-0.1% MM) and a strong pick-up (+2.3% MM) in February and January, respectively. We expect this will translate into a YY growth rate (WDA) of 0.7% in March (vs. -0.4% in February). Overall we project retail sales to rise by 0.4% QQ in Q1, leading to positive growth for private consumption.		
Belgium			
Apr 30 14:00	GDP, 1Q	Forecast: 0.2% QQ, 1.3% YY	Prior: 0.5% QQ, 1.0% YY
London Time	We look for a fourth successive quarter of expansion in GDP, but anticipate economic activity to have grown at a slower pace of 0.2% QQ (1.0% annualised) in 1Q-14. Economic sentiment has continued to improve in the first quarter, with business confidence showing some steady gains, but the uptrend in household sentiment appears to have lost momentum. We believe that this will be temporary given the underlying improvement in private sector employment expectations, while the cheap cost of borrowing should put the corporate sector in a position to invest again.		
Sweden			
Apr 28 08:30	Retail Sales, Mar	Forecast: 0.2% MM	Prior: 0.4% MM
London Time	The improved momentum in retail sales (0.6% QQ in 2Q, 0.5% QQ in 3Q, 0.89% QQ in 4Q and Jan-Feb outcome 0.5% above 4Q average) is well in line with the improvement seen in confidence and production volumes in recent NIER business surveys; in March, reported selling volumes stood at their highest level since early 2011. We also note that tax cuts early this year should be supportive for consumption near-term. On balance, this supports a further acceleration in private consumption this year.		

## Economic Indicators

### Sweden continued

Apr 29 08:00	<b>Consumer Confidence, Apr</b>	<b>Forecast: 101.2</b>	<b>Prior: 99.6</b>
London Time	Parts of the surprise decline for consumer confidence in Jan-Mar are expected to be reversed in April. Rising home prices and an improving labour market suggest that confidence should improve further ahead. Improved sentiment during the second half of 2013 has partly been reflected in hard data.		
Apr 29 08:00	<b>Manufacturing Confidence, Apr</b>	<b>Forecast: 99.6</b>	<b>Prior: 99.8</b>
London Time	Business confidence fell further in March, following a very strong period. We expect geopolitical concerns to continue to weigh on sentiment also in April.		
Apr 29 08:30	<b>Household Lending, Mar</b>	<b>Forecast: 5.2% YY</b>	<b>Prior: 5.1% YY</b>
London Time	Annual lending growth is showing signs of acceleration, although the upturn has been somewhat weaker than expected. Given ongoing gains on the housing market, we see a clear risk that household lending could pick up further ahead. Although this is well in line with the Riksbank's expectations (forecasting a pick-up to around 5.5% YY this year), we reckon the board would be more comfortable with a slowdown in lending growth.		
May 1 07:30	<b>Manufacturing PMI, Apr</b>	<b>Forecast: 54.3</b>	<b>Prior: 56.5</b>
London Time	The current level of the NIER survey sentiment points to a lacklustre recovery for the manufacturing sector. The questions in the NIER survey, meanwhile, cover both current and expected conditions as opposed to the PMI, which measures current conditions. When looking at the current conditions in the NIER survey in isolation, i.e. inflow of orders and actual production, they were somewhat mixed with orders increasing to the highest level since mid-2011 in March, while production fell back to the levels prevailing in Sep-Oct-2013. We expect ongoing geopolitical concerns to weigh on sentiment in April. Hard data have only just partly started to recover		

### Norway

Apr 30 09:00	<b>LFS Unemployment Rate, Feb</b>	<b>Forecast: 3.4%</b>	<b>Prior: 3.5%</b>
London Time	The LFS unemployment indicator is notoriously volatile, but the trend remains sideways; the LFS unemployment rate was on average 3.5% for every quarter of 2013. The marginal upturn in unemployment in Nov-Jan (up 0.1pp to 3.6%) was due to an increased labour supply; however, adjusting for this, unemployment was unchanged from the three preceding quarters. In Jan-Mar (reported as Feb), we expect the jobless rate to fall slightly in line with the seasonal pattern. With below-trend growth ahead, we expect labour market conditions to weaken slightly.		
Apr 30 09:00	<b>Retail Sales, Mar</b>	<b>Forecast: 0.2% MM</b>	<b>Prior: 0.6% MM</b>
London Time	Private consumption growth slowed to 2.1% YY in 2013, down from a 3.0% YY gain in 2012 and monthly consumption metrics point to further weakness ahead; households' domestic spending on goods was weak in Feb (-0.2% MM, -1.6% YY). We note, though, that goods consumption accounts for a little less than 50% of overall private consumption, and that the other components of private consumption – spending on services and consumption abroad – have shown stronger development in recent quarters. Uncertainty about the housing market situation and slightly higher unemployment may have dampened consumers' propensity to spend. We worry that ongoing below-trend growth will dampen growth in real disposable incomes, which coupled with rising unemployment and declining home prices, could make consumers more cautious.		
May 1 08:00	<b>Manufacturing PMI, Apr</b>	<b>Forecast: 51.5</b>	<b>Prior: 51.9</b>
London Time	We expect Norwegian PMI to tick slightly lower in April. This would be well in line with indications from other business surveys, which point to below trend-pace growth ahead (RNR points to stable below-trend growth, while the BTS signals slightly above trend growth). We note that PMI is not closely watched by Norges Bank as there often are problems with the seasonal adjustment procedure. Also, PMI covers a very small sample compared to e.g. Norges Bank's own Regional Network Report and the quarterly manufacturing survey from Statistics Norway.		

### United Kingdom

Apr 29 09:30	<b>GDP, 1Q, Preliminary</b>	<b>Forecast: 1.0% QQ, 3.3% YY</b>	<b>Prior: 0.7% QQ, 2.7% YY</b>
London Time	The available data show solid gains in industrial production, services output and construction in the early part of 1Q, although these data will also incorporate the February services output data released at the same time. Based on the existing data, we expect the YY gain in GDP to reach the highest since 2007.		
Apr 29 09:30	<b>Service Sector Output, Feb</b>	<b>Forecast: 0.3% MM, 2.8% YY</b>	<b>Prior: 0.4% MM, 3.2% YY</b>
London Time	Surveys suggest that service sector output continues to expand rapidly, and hence we expect another solid gain in these data. These figures are crucial inputs to the 1Q GDP data released at the same time.		
May 1 09:30	<b>Manufacturing PMI, Apr</b>	<b>Forecast: 55.0</b>	<b>Prior: 55.3</b>
London Time	The manufacturing PMI has weakened for four months in a row, and we expect another modest drop this month. Even so, a figure in line with our forecast would leave this index well above its long-run average of 51-52 and hence would signal continued solid output growth.		

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

## Key Economic Indicators (5 May – 9 May 2014)

During The Week		Forecast	Last
08:00	UK: Halifax House Prices, Apr		
Monday 5 May		Forecast	Last
07:30	Sweden: Services PMI, Apr		
08:30	Sweden: Industrial Production, Mar		
08:30	Sweden: Services Production, Mar		
09:00	Norway: Credit Indicator C2, Mar		
09:30	Euro Area: Sentix Investor Confidence, Apr		
10:00	Euro Area: Industrial Producer Prices, Mar		
	Euro Area: Eurogroup Meeting (Brussels)		
	UK: Bank Holiday		
Tuesday 6 May		Forecast	Last
	EU: Ecofin Meeting (Brussels)		
07:45	France: Industrial Investment Survey		
08:00	Spain: Unemployment, Apr		
09:00	Norway: Unemployment, Apr		
09:00	Euro Area: Services PMI, Apr Final		
	Composite PMI, Apr Final		
09:30	UK: Services PMI, Apr	57.2	57.6
10:00	Euro Area: Retail Sales, Mar		
Wednesday 7 May		Forecast	Last
06:45	Switzerland: Unemployment, Apr		
07:00	Germany: Incoming Orders, Mar		
07:45	France: Industrial Production, Mar		
07:45	France: Trade Balance, Mar		
Thursday 8 May		Forecast	Last
00:01	UK: RICS House Price Survey, Apr		
06:45	Switzerland: SECO Consumer Confidence, Apr		
07:00	Germany: Industrial Production, Mar		
08:00	Spain: Industrial Production, Mar		
08:15	Switzerland: Consumer Prices, Apr		
08:30	Sweden: Average House Prices, Apr		
08:30	Netherlands: HICP, Apr		
09:00	Norway: Norges Bank Interest Rate Outcome		
09:00	Norway: Industrial Production, Mar		
10:00	Greece: Unemployment, Feb		
12:00	UK: MPC Outcome		
12:45	Euro Area: ECB Outcome (Press Conference at 13:30)		
Friday 9 May		Forecast	Last
07:00	Sweden: PES Unemployment Rate, Apr		
07:00	Germany: Trade Balance, Mar		
07:45	France: Budget Balance, Mar		
08:30	Netherlands: Industrial Production, Mar		
09:00	Norway: Consumer Prices, Apr		
09:00	Italy: Industrial Production, Mar		
09:30	UK: Trade Balance – Goods & Services, Mar		
09:30	UK: Industrial Production, Mar	0.4% MM, 3.1% YY	0.9% MM, 2.7% YY
	Manufacturing Output, Mar	0.3% MM, 2.9% YY	1.0% MM, 3.8% YY
09:30	UK: Construction Output, Mar		
10:00	Greece: Industrial Production, Mar		
10:00	Greece: Consumer Prices, Apr		

Sources: National statistical offices, central banks and Citi Research estimates

Publication Title	Author	Date
<b>Euro Area — Sovereign Debt Update</b>		
Draghi: QE Needs a Significant Shift in Inflation Outlook	European Economics Team	Apr 25, 2014
ECB: No Need for Urgent Action, Concerns over QE Complexity	European Economics Team	Apr 24, 2014
ECB's Coeuré Sees Room to Cut Rates	European Economics Team	Apr 23, 2014
Chances of QE Have Increased to More Than 50:50	European Economics Team	Apr 22, 2014
<b>Euro Area</b>		
Euro Area - The ECB And QE: "Whatever it Takes", Redux	Guillaume Menuet	Apr 22, 2014
Euro Area - ECB Bulletin Highlights: Slack, Recovery And Fiscal Multipliers	Guillaume Menuet	Apr 10, 2014
Spain - What's Next For Catalonia Following Congress Rejection?	Giada Giani	Apr 8, 2014
Greece - Two Years After the Biggest Sovereign Debt Restructuring in History	Giada Giani	Apr 8, 2014
France - Tax cuts and reforms, but little on savings and budget targets	Guillaume Menuet	Apr 8, 2014
ECB - Dovish Draghi Signals Unanimous Commitment To Act	Guillaume Menuet	Apr 3, 2014
Spain - Labour Market Recovery Strengthens In Q1	Giada Giani	Apr 2, 2014
France Macro View - Manuel Valls Tasked To Prioritise Growth Over Deficit Reduction	Guillaume Menuet	Apr 1, 2014
Euro Area - Inflation Falls to 0.5% YY in March	Giada Giani	Mar 31, 2014
ECB - Likely To Stay Put in April Despite Room To Ease	Guillaume Menuet	Mar 28, 2014
European Economic Forecast Highlights - March 2014	Ann O'Kelly	Mar 27, 2014
Euro Area - The Exposure of Euro Area and EU Countries to Russia & Ukraine	European Economics Team	Mar 25, 2014
Italy - Renzi Ready to Embark on Expansionary Fiscal Policy	Giada Giani	Mar 13, 2014
ECB - Happy to Stay Put, but Keeps Bias to Ease	Guillaume Menuet	Mar 6, 2014
Ireland — After the Programme	Michael Saunders	Mar 4, 2014
<b>Euro Economics Weekly</b>		
Portugal: "Clean Exit" or Precautionary Credit Line?	Giada Giani	Apr 17, 2014
France: Will Valls Succeed Where Others Have Failed?	Guillaume Menuet	Apr 11, 2014
The Rise of The Output Gap	Ebrahim Rahbari	Apr 4, 2014
Italy — Some Short-Term Optimism	Giada Giani	Mar 28, 2014
Euro Area: Upside Risks To Q2 GDP	Guillaume Menuet	Mar 21, 2014
The Eurozone Investment Recovery	Ebrahim Rahbari	Mar 14, 2014
Internal Devaluation in the Periphery	Giada Giani	Feb 7, 2014
ECB to Cut: Beware the (Early) Ides of March	Guillaume Menuet	Feb 28, 2014
German Inflation: Lower For a Little Longer	Ebrahim Rahbari	Feb 21, 2014
Could Eurozone Politics Return to the Fore?	Giada Giani	Feb 14, 2014
ERS: An Alternative Solution to OMT?	Guillaume Menuet	Feb 7, 2014
The Euro Area Now and Japan Then: Separated by One Large Shock	Ebrahim Rahbari	Jan 31, 2014
Spain Is Becoming More German	Giada Giani	Jan 24, 2014
Belgium: Politics the Likely Main Wild Card in 2014	Guillaume Menuet	Jan 17, 2014
Germany 2014 Outlook: Recovery And Rebalancing	Ebrahim Rahbari	Jan 10, 2014
2014 Outlook: GDP Risks, Credit Dynamics and Inflation Update	European Economics Team	Jan 6, 2014
<b>Chief Economist Publications</b>		
Global Economic Outlook and Strategy - March 2014	Willem Buiter	Mar 26, 2014
<b>Scandi</b>		
Scandi Economics Update	Tina Mortensen	Apr 25, 2014
Denmark - DNB Exits Period of Negative Rates	Tina Mortensen	Apr 24, 2014
Sweden - Dovish Minutes, As Expected	Tina Mortensen	Apr 24, 2014
Denmark - Quiet Stagnation	Tina Mortensen	Apr 14, 2014
<b>Switzerland</b>		
Switzerland - SNB Keeps Policy On Hold	Michael Saunders	Mar 20, 2014
<b>UK</b>		
UK - YouGov Reports Further Drop in Near-Term Inflation Expectations	Michael Saunders	Apr 23, 2014
UK - CBI Survey: Another Sign That Britain Is Booming	Michael Saunders	Apr 23, 2014
UK - Fiscal Data and MPC Minutes	Michael Saunders	Apr 23, 2014
UK - Labour Market Data Highlight Strength Of Economy	Michael Saunders	Apr 16, 2014
UK - CPI Inflation Edges Down, Probably Near The Low	Michael Saunders	Apr 15, 2014
<b>UK Economics Weekly</b>		
Recovery, Rebalancing and Broadening	Michael Saunders	Apr 17, 2014
CPI Disinflation and RPI Reflation	Michael Saunders	Mar 28, 2014
Raising UK Growth Forecasts Again	Michael Saunders	Mar 21, 2014
Policy Continuity and Flexibility	Michael Saunders	Mar 14, 2014
UK — Scottish Independence: Will It Happen? What Would Be The Implications?	Michael Saunders	Mar 7, 2014

Source: Citi Research

**Notes**



**Notes**

**Notes**

## Appendix A-1

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