

## Research

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# Sovereign Ratings Outlook

April 2012

- We expect several further sovereign ratings downgrades by S&P and Moody's among EMU countries over the rest of this year, with downgrades by at least one of these agencies of at least one notch for Italy, Spain, Ireland and Portugal. We expect that fiscal deficits will overshoot official forecasts in all the peripheral EMU countries this year and in 2013.
- In addition, we believe that it is likely that Moody's will place France's Aaa rating on review for possible downgrade by the autumn, after close examination of the supplementary budget due to be adopted after the extraordinary session of parliament that will follow the June legislative elections.
- Further ahead, we expect a wider range of sovereign ratings downgrades over the next 2-3 years, including France, Austria, Belgium, Finland and the Netherlands – on top of additional downgrades (at least one notch) for Italy, Spain, Portugal and Ireland. In addition, we expect the US and Japan will both be downgraded one notch over the next 2-3 years.
- Our outlook implies a shrinking pool of AAA countries over the next 2-3 years: only Canada, Germany, the UK, Switzerland, Sweden, Denmark, Norway and the Australasian economies will probably retain this status among major advanced economies. The UK has the weakest fiscal outlook of these AAA countries, and we expect that S&P will put the UK on negative ratings outlook over the next 2-3 years. It would not be a great surprise if the UK was also downgraded one notch at some stage.
- The only upgrade that we expect among advanced economies is for Greece, which is likely soon to emerge from the current "Selective Default" rating to a weak speculative grade rating. Nevertheless, further sovereign debt restructuring for Greece is likely over time and Greece probably will have another episode with a "Selective Default" rating at some stage in coming years.

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With thanks to Peter Goves and Jan Maguire

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**Figure 1. Global — Expected Sovereign Ratings Changes (measured from current ratings by S&P and/or Moody's), 2012-15**

Forecast NearTerm Ratings Changes (Next 2-3 Quarters)		Forecast Longterm Ratings Changes (Next 2-3 years)	
Upgrades	Downgrades	Upgrades	Downgrades
Greece	Italy, Spain, Ireland, Portugal,	Greece	US, Japan, France, Italy, Spain, Austria, Belgium, Finland, Ireland, Netherlands, Portugal

Source: Citi Investment Research and Analysis

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

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# Sovereign Ratings Outlook — April 2012

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This publication is a joint product between the Citi economics and rate strategy teams, with input from various other research teams. We aim to forecast the direction and scale of sovereign debt ratings (local currency), as well as any changes in the ratings outlook, for a range of countries. These are our judgments over the ratings outlook, rather than model-determined recommendations. All economic and fiscal forecasts are consistent with those published in Citi's monthly "Global Economic Outlook and Strategy" or other research. This publication does not aim to make a judgment on the financial market implications of ratings changes, except in so far as we expect any such market implications to affect other sovereign ratings. The full publication is released roughly once per quarter, with a briefer monthly summary in the "Global Economic Outlook and Strategy".

Figure 2. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

Country	S&P Ratings				Moody's Ratings			
	Current Rating	Current Outlook	Citi Nearterm (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-3 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Nearterm (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-3 Years) Forecast Rating & Outlook
US	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Canada	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3	A1 ↓
Germany	AAA	Stable	AAA	AAA (Neg)	Aaa	Stable	Aaa	Aaa (Neg)
France	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Italy	BBB+	Neg	BBB ↓	BBB- ↓↓	A3	Neg	Baa1 ↓	Baa3 ↓↓↓
Spain	A	Neg	BBB+ ↓↓	BBB ↓↓↓	A3	Neg	Baa1 ↓	Baa2 ↓↓
Austria	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Belgium	AA	Neg	AA (Neg)	AA- ↓	Aa3	Neg	Aa3 (Neg)	Aa3
Finland	AAA	Neg	AAA (Neg)	AA+ ↓	Aaa	Stable	Aaa	Aaa (Neg)
Greece	SD		CCC ↑↑↑↑	CCC ↑↑↑↑	C		Caa2 ↑↑↑↑	Caa2 ↑↑↑↑
Ireland	BBB+	Neg	BBB- ↓↓	BB ↓↓↓↓	Ba1	Neg	Ba1 (Neg)	Ba3 ↓↓
Netherlands	AAA	Neg	AAA (Neg)	AA+ ↓	Aaa	Stable	Aaa	Aaa (Neg)
Portugal	BB	Neg	B+ ↓↓	CCC ↓↓↓↓	Ba3	Neg	B1 ↓	Caa2 ↓↓↓↓
UK	AAA	Stable	AAA	AAA (Neg)	Aaa	Neg	Aaa (Neg)	Aaa (Neg)
Switzerland	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Sweden	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Denmark	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Norway	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. In the outlook we have not included an extension of the actual EFSF lending beyond the now targeted €440bn maximum capacity. In the event that a substantial extension of the EFSF takes place and is likely to incur sizeable fiscal costs, various Euro Area countries may be at risk of downgrade. NA Not available.

Sources: Moody's, S&P and Citi Investment Research and Analysis

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#### Citi Ratings Outlook: US

	Current	Near- Term	Long-Term
S&P	AA+ (Neg)	AA+ (Neg)	AA
Moody's	Aaa (Neg)	Aaa (Neg)	Aa1

Source: Citi Investment Research and Analysis

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#### Citi Ratings Outlook: Canada

	Current	Near- Term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Source: Citi Investment Research and Analysis

## Key Expected Ratings Issues

### US

The combination of economic recovery and reduced appropriations continues to whittle away at fiscal shortfalls, but at \$1.15 trillion, or 7½% to 8% of GDP, the federal budget deficit remains historically high. Updated official baseline projections show that even under current-law assumptions (entailing large-scale tax increases), publicly held federal debt in ten years still would be higher than anytime in the half-century preceding the recent string of outsized deficits. With major elections scheduled for November, key policy decisions are largely on hold. However, a major showdown looms over the convergence in 2013 of across-the-board spending cuts (prompted by the Budget Control Act), sweeping income and health care tax increases, and the expiration of temporary payroll tax relief. At the same time, the Treasury will exhaust its current borrowing authority shortly after the election and the need to increase the debt limit is likely to be a lightning rod for resolving increasingly ideological policy disputes. With current law set to reduce discretionary spending over the next decade to a 40-year low, the only options for fiscal consolidation centre on dramatic cuts to retirement and health care entitlements or equally imposing tax hikes or a combination of both. We are therefore keeping our expectations on how the US rating might evolve unchanged from our January view.

### Canada

The fiscal and political situations in Canada remain stable. Hence, we maintain that rating agencies will likely retain Canada's AAA status in both the near and long term. In March, Federal and provincial governments released budgets for 2012, which largely called for additional tightening to strengthen the nation's fiscal position. Much of the savings are anticipated to come from restrained government program spending as well as moderately improved Canadian economic prospects. These actions may place additional drag on real output this year, but should be favourable for the Canadian economy over the longer term.

The Federal government's fiscal outlook, in particular, has improved materially as it anticipates smaller deficits over the FY2012-13 through FY2014-15 span. The surfeits in fiscal years 2015-16 and 2016-17 are more substantial, and the government subsequently anticipates that debt as a percentage of GDP will be lower at the end of the forecast horizon than previously projected. Importantly, Canada will be well ahead of schedule regarding its G-20 commitments to halve deficits by 2013 and stabilize or reduce total government debt-to-GDP ratios by 2016. The government's assumptions are cast against a backdrop of domestic growth projections that are even more conservative than our own, but nonetheless reflect Canada's continued resilience amid external weakness and uncertainties.

The Federal government also announced key measures to support the financial system and businesses, including OTC derivative transactions regulations, greater oversight of the Canada Mortgage and Housing Corporation, covered bond market reform, uniform banking rules, tax-loophole closure and small business tax credits. The government also sought to secure long-term finances by making changes to its Old Age Security (OAS) program and Public Service Pension Plan. New legislation would raise the age of eligibility for OAS from 65 to 67, allow OAS take-up deferral, lift the retirement age for federal public servants from 60 to 65, and increase the contributions of public workers to the pension system to a 50/50 match over time. The likelihood that the Canadian government will accomplish its aims, holding all else equal, appears high given the Conservative party's multi-year mandate.

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Citi Ratings Outlook: Japan			
	Current	Near- Term	Long-Term
S&P	AA- (Neg)	AA- (Neg)	A+
Moody's	Aa3	Aa3	A1

Source: Citi Investment Research and Analysis

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Citi Ratings Outlook: Germany			
	Current	Near- Term	Long-Term
S&P	AAA	AAA	AAA (Neg)
Moody's	Aaa	Aaa	Aaa (Neg)

Source: Citi Investment Research and Analysis

## Japan

We are keeping our outlook on Japan's ratings outlook unchanged from our last publication. This highlights the chance of a one-notch downgrade by both S&P and Moody's agencies over the longer term from AA- to A+ and from Aa3 to A1 respectively.

In late March, the Noda Administration officially submitted the consumption tax hike bill, calling for a tax rate hike to 8% in April 2014 from 5% currently and to 10% in October 2015. However, it appears quite unlikely that the bill will be approved smoothly by the Parliaments. There is no consensus on the tax hike within the DPJ (Democratic Party of Japan) while the opposition parties are opposed to the government's proposal. Meanwhile, it seems possible that the LDP (Liberal Democratic Party) will cooperate with the DPJ in approving the bill if PM Noda promises to hold general elections soon. Or alternatively, PM Noda may oust the DPJ faction opposing the tax hike from the party and cooperate with the LDP in order to pass the bill. While there remain significant uncertainties, we figure that the bill will be approved eventually over the next six months and that this will keep sovereign ratings unchanged over the near term.

Meanwhile, were the bill to be implemented, the consumption tax hike would likely create a huge distortion in the economy. We estimate that a planned 3ppt tax hike in April 2014 would result in front-loaded demand of nearly ¥10tn (2% of GDP), followed by a sharp reactionary drop in spending. Moreover, the consumption tax hike would have a lasting impact on real consumption by eroding real incomes. We estimate that a 3ppt consumption tax hike would cut real consumption by 0.8ppt (-0.5ppt on real GDP) in the first year through a squeeze on household real incomes. Thus, the consumption tax hike to 8% would create huge distortions in the economy and that might make the planned second hike (to 10% in October 2015) difficult. In that case, concerns over fiscal sustainability would intensify further, leading to sovereign downgrades, as the relative stability in the JGB markets and confidence in fiscal conditions is largely being supported by a general perception that there is support for the consumption tax hikes in Japan.

## Germany

Recent reports by the rating agencies suggest that Germany's rating is unlikely to come under pressure near term. However, even Germany's AAA rating might be at risk if the sovereign debt crisis escalates further. In addition to the guarantees for the EFSF and the capital injections to the ESM, the German government's balance sheet is also likely to come under pressure from extra support to the banking system if the crisis continues to escalate. So, depending on the crisis escalation, we cannot rule out Germany's AAA rating being put on Negative Outlook over the longer term.

Supported by a recovering economy and an ongoing strong labour market, the general government deficit is likely to decline further from 1.0% of GDP in 2011 to 0.6% in 2012. However, the increase in public sector wages by 6.3% stretched over 2012 and 13 was larger than expected, and will prevent a larger deficit reduction. Moreover, the wage agreement probably will create severe stress for some municipalities. Recent demands from parts of all parties regarding an easing of fiscal policies ahead of the important NRW state election on May 13 suggest that the government might use the cyclical budget improvement to install some extra fiscal easing before the general election, which is scheduled for autumn 2013. After a decline of the general government debt-to-GDP ratio from 83.2% in 2010 to expected 81.3% in 2011, due partly to a partial repayment of some of the government support to the banking sector, we expect an unchanged debt-to GDP

ratio in 2012, when increasing guarantees for the EFSF and the capital contribution to the ESM likely will prevent a further reduction in the debt ratio. In coming years the debt ratio is likely to decline, but, if there is a further severe escalation of the crisis, the general government debt is likely to increase because of the extra support to other euro area countries and the domestic banking sector.

The government remains fragile mainly because of the weak position of the junior coalition partner FDP, which will make it difficult to find compromises regarding the implementation of structural reforms. As the government needs the support of the opposition for the fiscal compact in parliament, it is also unclear if and when Germany will ratify the fiscal compact. The SPD and Green opposition parties said they will only support the fiscal compact when it is amended in a way that it includes measures to support growth and when it comes in combination with a financial transaction tax.

## France

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### Citi Ratings Outlook: France

	Current	Near-Term	Long-Term
S&P	AA+ (Neg)	AA+ (Neg)	AA
Moody's	Aaa (Neg)	Aaa (Neg)	Aa1

Source: Citi Investment Research and Analysis

France's current ratings are expected to remain under pressure over the long term. Both S&P and Moody's have the French sovereign on "Negative Outlook". In their recent report<sup>1</sup>, S&P cites that this indicates the one-in-three chance that the rating could be lowered in 2012 or 2013. S&P lowered France's AAA to AA+ on 13<sup>th</sup> January, largely reflecting the general deterioration in Europe's creditworthiness and the "highly integrated economic and financial environment of the European Economic and Monetary Union."

Whether President Sarkozy gets another term on 6 May, or Socialist challenger François Hollande becomes the next occupant of the Elysée palace (our baseline scenario), we believe that rating agencies will likely downgrade France's rating sometime over the next 2-3 years by one notch to AA for S&P and Aa1 for Moody's. None of the manifestos suggests that the next five years will see much change in the pace of structural reform implementation that has characterized the first Sarkozy presidency. While both candidates have suggested that increasing taxation will be their preferred method of hitting the short-term budget targets, none has been particularly vocal on how to make the necessary savings in public expenditure. At the margin, since Hollande's manifesto relies on more tax increases than Sarkozy's, we fear that the negative implications for long-term GDP growth are more likely to lead to another rating downgrade than if Sarkozy were to pull off a surprising victory.

In the near term, however, we do not think that a rating change is likely. After all, the current government's track record on budget deficit reduction has been impressive, delivering a final reading of 5.2% of GDP in 2011 instead of the 5.7% target. Furthermore, it is unlikely that the economy will experience a double-dip recession, even if the government's 0.7% GDP growth baseline is higher than our upward revised forecast of 0.1% (from -0.3%). Nevertheless, we believe that it is likely that Moody's will place France's Aaa rating on review for possible downgrade by the autumn, after close examination of the supplementary budget due to be adopted after an extraordinary session of parliament after the June legislative elections.

<sup>1</sup> S&P RatingsDirect "France", 29<sup>th</sup> March 2012

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**Citi Ratings Outlook: Italy**

	Current	Near- Term	Long-Term
S&P	BBB+ (Neg)	BBB	BBB-
Moody's	A3 (Neg)	Baa1	Baa3
Source: Citi Investment Research and Analysis			

## Italy

After the two-notch downgrade by S&P in January to BBB+, Italy's sovereign rating was downgraded one notch to A3 by Moody's in February and is currently on negative outlook by both Moody's and S&P.

Moody's revised Italy's rating in February as part of its review on broader European sovereign credit quality. The agency cited as key drivers for the downgrade: (i) the uncertainty over the prospects for institutional reform and the weak macroeconomic outlook across the region; (ii) the challenges facing Italy's public finances, especially its large stock of debt and high cost of financing; and (iii) the significant risk that Italy's government may not achieve its consolidation strategy targets.

Over the short term (next 9 months), we believe that Italy will be downgraded further by one notch to BBB by S&P and to Baa1 by Moody's to reflect slow progress with the implementation of the reform agenda. While the recent criticism of the Monti government's labour market reform might be overstated by the approaching regional elections in May, the falling public support for PM Mario Monti in opinion polls suggests that the government will have increasing difficulties in going ahead with the implementation of structural reforms. Furthermore, we expect that, with a deeper recession than the government projects in 2012, the country is unlikely to meet its fiscal target of 1.6% of GDP.

With more evidence that the deficit is closer to our forecast of 2.6% of GDP this year, the rating agencies are likely to react with further downgrades, in our view. Furthermore, we expect that with a further escalation of the sovereign debt crisis, Italy is likely to require more support from official sources. Unless the support comes all in the form of ECB-sponsored bond purchases by the Italian banks – through more rounds of multi-year LTROs – existing bond-holders are likely to be subordinated relative to the ECB (if they use the SMP) or the IMF and the EFSF/ESM (if they provide market support). Taking this into account, the rating agencies are likely to react with further downgrades, in our view.

Over the medium term (next 2-3 years) we expect Italy's rating by S&P to go down by two notches in total and to settle at BBB- and its Moody's rating to go down by three notches to settle at Baa3. We believe that Italy's downgrades over the medium term will reflect the country's inability to reduce its large debt stock significantly. While the EU's new Fiscal Compact, if enacted, will force the country to adopt the austerity measures required to deliver strong primary surpluses, the heavy and persistent drag on economic activity likely to result from such continued fiscal retrenchment will limit the reduction of the country's debt.



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#### Citi Ratings Outlook: Spain

	Current	Near- Term	Long-Term
S&P	A (Neg)	BBB+	BBB
Moody's	A3 (Neg)	Baa1	Baa2

Source: Citi Investment Research and Analysis

## Spain

After the two-notch downgrade by S&P in January from AA- to single A, Spain was also downgraded by two-notches from A1 to A3 by Moody's in February. Both agencies have the Spanish sovereign on "Negative Outlook".

S&P says<sup>2</sup> that the Negative Outlook reflects the view that there is at least a one-in-three chance that the rating could be lowered again in 2012 or 2013 and flagged as key risks: (i) the country's high unemployment rate; (ii) the government's undertaking of the fiscal measures deemed necessary to meet budgetary targets and (iii) the possibility that private sector pressures result in a reassessment of the sovereign's fiscal performance by the agency.

Moreover, when Moody's downgraded the sovereign in February<sup>3</sup>, it stated that additional downward pressure could emerge in the event of a "further substantial deterioration in macroeconomic or financial market conditions, leading to sharp fiscal and debt slippage in Spain, or to a substantial erosion in Spanish policymakers' commitment to reform implementation". More recently, Moody's has noted<sup>4</sup> that recent advances in budgetary discipline represent "an essential step" towards fiscal consolidation. However, Moody's also affirms that "without additional measures in the next few months, we view the compliance with the overall general government 2012 deficit target, but also with that set for 2013, as very challenging and unlikely to be achieved by the sovereign".

We believe that, following the 2.5% of GDP deficit overshoot for 2011, Spain will not hit the 5.3% of GDP deficit target in 2012. In our view, the Government's debt stock for 2012 is likely to increase to 84% of GDP. In addition, government bond yields remain elevated after the recent Budget 2012 announcements and, while Spanish banks are unlikely to run out of LTRO-based liquidity just yet, the boost to their purchases of Spanish government debt has probably peaked. We expect that Spain will need to enter some form of a Troika programme late in 2012, largely focussed on measures to recapitalise and restructure the banks ([Focus on Spain](#)). Overall, we expect a two-notch downgrade of the Spanish Sovereign later this year by S&P and a one-notch downgrade by Moody's.

Over the longer term, we see Spain being downgraded by a further one notch by both S&P and Moody's to BBB and Baa2, respectively, and thereby settling at the lower end of the Investment Grade spectrum, reflecting the fact that whatever Troika programme it enters, it is likely to retain some form of market access for medium- and long-term issuance.

<sup>2</sup> S&P RatingsDirect "Spain's Ratings Lowered to 'A/A-1'; Outlook Negative" 13 January 2012

<sup>3</sup> Moody's Credit Opinion: "Spain, Government of", 13 February

<sup>4</sup> Moody's "Spain: 2012 Budget Offers Further Steps Towards Fiscal Consolidation, But Structural Imbalances Remain" 4 April 2012

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#### Citi Ratings Outlook: Austria

	Current	Near- Term	Long-Term
S&P	AA+ (Neg)	AA+ (Neg)	AA
Moody's	Aaa (Neg)	Aaa (Neg)	Aa1

Source: Citi Investment Research and Analysis

## Austria

Austria surprised on the positive side with a smaller-than-expected deficit of 2.6% of GDP in 2011, down from 4.5% in 2010. There was also progress regarding the outlook for the future budget. In February, parliament approved a multi-year consolidation package with a total consolidation volume of 2.5% of GDP for the period 2012 to 2016, which focuses mainly on expenditure reductions. In addition, there is also progress in the negotiations regarding a tighter national stability pact, which tightens the fiscal rules for the federal states and municipalities in order to achieve a balanced budget position for the general government. While there is still action required regarding the implementation of the austerity measures, the government has shown its willingness and ability to enact extra austerity in a swift way. However, although Germany – Austria's largest export destination – is recovering, we expect that weak demand from the rest of the euro area and also Central and Eastern Europe will be a headwind for Austria's exports and overall GDP growth. Taking this into account, the government's targeted reduction of the general government deficit to 0.6% of GDP in 2016 looks ambitious to us.

Recent reports by the rating agencies emphasised that, with the high exposure of the country's banking sector to Central and Eastern European countries and a sizable exposure to the euro area periphery countries, Austria's general government budget position remains quite vulnerable. Indeed, unless there is an agreement on a European level to install an area-wide bank support mechanism, which appears remote for the time being, in the event of a further escalation of the sovereign debt crisis, extra support measures for the banking sector are likely to lead to additional liabilities of the sovereign. So, even with the recent action by the government, we think that in the case of a further escalation of the sovereign debt crisis, Moody's and S&P (which both have Austria on Negative Outlook) will move Austria's rating downwards by one notch over the longer term.

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#### Citi Ratings Outlook: Belgium

	Current	Near- Term	Long-Term
S&P	AA (Neg)	AA (Neg)	AA-
Moody's	Aa3 (Neg)	Aa3 (Neg)	Aa3

Source: Citi Investment Research and Analysis

Belgium is on track to deliver a budget deficit of less than 3% of GDP in 2012, in our view. As the government is set to review its budget assumptions and austerity measures in July, we do not believe that rating agencies will see the need to put fresh downward pressure on the country's ratings in the near term. Indeed, the new government proved in the last few months that it was able to respond quickly to the EU Commission's request for additional budget savings. And in the last two months, we have been revising up our 2012 GDP growth forecast by a combined 0.5ppt to zero, suggesting that the general trend of modest rallies in economic sentiment is also benefiting Belgium.

Yet, in order to avoid further rating downgrades in the long-term, we argue that Belgium needs to reassure markets about its ability to recapitalize some of its most vulnerable banks, while managing a gradual debt deleveraging (both private and public) to minimize the downward impact on economic activity. One way of addressing the issue of competitiveness would be to break from the long tradition of wage indexation and link employees' remuneration to productivity gains. Given the country's ability to control its debt-to-GDP ratio, while maintaining an affordable level of debt financing costs and high domestic savings, we think that the potential for additional rating downgrades beyond AA-/Aa3 remains limited.



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#### Citi Ratings Outlook: Greece

	Current	Near- Term	Long-Term
S&P	SD	CCC	CCC
Moody's	C	Caa2	Caa2

Source: Citi Investment Research and Analysis

## Greece

S&P have indicated<sup>5</sup> that they would move Greece out of the SD rating into a triple C rating once the debt restructuring deal is concluded. We thus expect them to move Greece into the CCC category over the short term and expect Moody's to follow, moving Greece's rating upwards slightly from their lowest rating of C in the short term. Moody's indicated<sup>6</sup> that "if there are any upward movements in Greece's sovereign rating in the weeks after the debt exchange, they are likely to be small". The high level of uncertainty regarding the ability of a new Greek Government elected after the 6 May elections to command enough Parliamentary and public support for the implementation of an immediate round of austerity measures – worth 1.5% of GDP (approximately €11bn) for 2012, as agreed with the Troika – is a strong inhibitor for a stronger or more long-lasting exit from the default ratings. Furthermore, the new government has to identify additional budget savings worth 5.5% of GDP for the period 2013-14 up to the next Troika assessment in June.

Moreover, we expect ratings pressure to emerge again in the remainder of the year as it becomes evident that the PSI agreement will be insufficient to return Greece to a sustainable fiscal path. In fact, in our latest forecast, even after the effect of the debt restructuring is taken into account, the country's debt will still peak at around 180% of GDP in 2014. Even if the country goes ahead with additional austerity measures in coming years, with a likely ongoing recession, partly caused by additional fiscal tightening, Greece is unlikely to reduce the debt ratios to sustainable levels in the medium term.

We thus continue to believe that a bigger debt reduction deal, potentially also involving official sector creditors, will have to be negotiated – meaning that Greece will be moved into, and eventually also out of, the default ratings over the longer term as the country goes through its 2nd debt restructuring.

## Netherlands

At the time of writing the Dutch minority government continues talks with the supporting right-wing PVV party regarding budget cuts in order to reduce the deficit-to-GDP ratio below 3% of GDP in 2013, as requested by the European Excessive Deficit Procedure (EDP). Following a larger-than-expected deficit-to-GDP ratio of 4.7% in 2011, the government is unlikely to meet its internal target of a sub-3% deficit in 2012. As the correction of the housing sector continues and the deleveraging of household balance sheets is far from being finalized, we expect that a contraction in domestic demand will keep the economy in recession. We expect that with a deficit ratio of 4.5% of GDP in 2012 and the country's commitments to the European rescue facilities (EFSF and ESM) the debt ratio will continue to increase from 65.2% of GDP in 2011 to 70% in 2012, which is still below the euro area average.

The rating agencies will probably closely monitor the country's economic performance and the ability of Mark Rutte's minority government to implement further austerity measures. In addition to the difficulties in agreeing on budget cuts with the PVV, the government must also have in mind the aims of the left-wing opposition parties. Note that, because of the PVV being against any measures supporting closer European integration, the government requires support from the

<sup>5</sup> S&P RatingsDirect "Greece Remains in Selective Default; New Bond Issues Rates CCC" 15 March 2012

<sup>6</sup> Moody's "Credit Opinion: Greece, Government of", 14 March 2012

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#### Citi Ratings Outlook: Netherlands

	Current	Near- Term	Long-Term
S&P	AAA (Neg)	AAA (Neg)	AA+
Moody's	Aaa	Aaa	Aaa (Neg)

Source: Citi Investment Research and Analysis

other opposition parties to approve the Netherlands' participation in the ESM and the approval of the fiscal compact. While the opposition Labour party in principle supports measures to reach a balanced budget, they are against immediate extra tightening measures in the Netherlands and prefer an increase in revenues rather than the government's target to reduce expenditures. Depending on the outcome of the budget negotiations and, of course, the development of the sovereign debt crisis, rating agencies might put forward a change in their views on the Netherlands. As such, the Netherlands might lose its S&P AAA rating (S&P already has the Netherlands on "Negative Outlook") in coming years and Moody's might put the sovereign on "Negative Outlook".

## Portugal

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### Citi Ratings Outlook: Portugal

	Current	Near- Term	Long-Term
S&P	BB (Neg)	B+	CCC
Moody's	Ba3 (Neg)	B1	Caa2

Source: Citi Investment Research and Analysis

Moody's downgraded Portugal's government bond rating to Ba2 from Ba3, with "Negative Outlook" in February. As with the other Euro area sovereigns' downgrades, the agency highlighted uncertainty over the prospects for institutional reform and the weak macroeconomic outlook across the region as a key driver for the downgrade of Portuguese sovereign bonds.

As the drivers of the downgrade for the Portuguese sovereign in particular, Moody's also highlighted<sup>7</sup> (i) the effect of the anticipated deep recession on the country's fiscal prospects and debt dynamics; (ii) the greater-than-anticipated debt level due to the country's need to bring inside the general Government perimeter a substantial amount of liabilities from the state-owned enterprises sector and the country's local authorities; and (iii) the risk of contagion from a disorderly Greek default.

Over the short term (next 6-9 months), we believe that Portugal will be downgraded further by two notches to B+ by S&P and by one notch to B1 by Moody's to reflect the deeper-than-anticipated recession and the sharp increase in unemployment, which will make achieving this year's deficit target almost impossible. With the resulting risks of a negative market reaction, it is likely to become more evident to the Troika that Portugal will be unable to access the markets in the 2<sup>nd</sup> half of next year as targeted under the Troika programme. As a consequence of an extra funding gap, we expect a second programme for Portugal, maybe as early as in the May/June review.

Over the longer term (next 2-3 years) we expect S&P and Moody's both to downgrade Portugal down to the mid CCC range. This reflects our view that Portugal will have to go through some form of debt restructuring to bring its debt stock to sustainable levels. However, given the EU leaders' relatively positive view of Portugal's performance against its Troika reform targets, we expect that the country will get additional external funding without requesting a PSI in a first round of funding difficulties. We expect that eventually Portugal will face a PSI debt restructuring with a haircut of around 50%.

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<sup>7</sup> Moody's Adjusts Ratings of 9 European Sovereigns To Capture Downside Risks, 13 Feb 2012

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**Citi Ratings Outlook: Denmark**

	Current	Near- Term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Source: Citi Investment Research and Analysis

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**Citi Ratings Outlook: Finland**

	Current	Near- Term	Long-Term
S&P	AAA (Neg)	AAA (Neg)	AA+
Moody's	Aaa	Aaa	Aaa (Neg)

Source: Citi Investment Research and Analysis

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**Citi Ratings Outlook: Sweden**

	Current	Near- Term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Source: Citi Investment Research and Analysis

## Denmark

From the very strong starting point (surplus of 5% of GDP in 2005-06), Denmark's fiscal position has worsened markedly in recent years. Had it not been due to surprisingly high revenues from pension taxes (fuelling an extra DKK 30bn in revenues amid surprisingly high returns on equity and bond investments), the 2011 budget deficit would have landed at an estimated 4% of GDP instead of 2.5%. The government has used its fiscal scope to support growth, and will continue to do so, pushing the deficit above 5% of GDP this year. Government debt is still comparatively low in a European context (50% of GDP). Hence in the near term the fiscal outlook is not too bad. Nevertheless, if Denmark does not get back on track in terms of growth (currently generated exclusively by government spending) there could be some risks of a markedly worse debt profile in the medium term.

## Finland

Finland is the only euro area country (except for Luxembourg), which is both AAA rated and meets all of the Maastricht Treaty requirements; the country has a modest fiscal deficit (2.3% of GDP in 2011 according to the IMF) and public debt at about 50% of GDP. However, with a deteriorating economic outlook and an ageing population, public debt is set to rise in coming years. Finland is currently rated AAA, but with a Negative Outlook by S&P, meaning that over the longer term, downward pressure on the rating is more likely than in the other Nordic countries, which are all rated AAA Stable. As part of the plan to bring public finances onto a sustainable path, the 2012 budget implies a mild fiscal contraction this and next year. However, demands for tougher austerity measures have increased. Finland continues to have one of the lowest risk premiums versus Germany in the euro area (the 10-year bond spread has widened from about 20bp to 50bp during 2011), and, although Finland's triple-A rating remains on Negative Outlook by S&P (and was cut to Negative by Japan's R&I in late-March amid deteriorating competitiveness and a slowdown in the ICT industry), we believe that the effects of a possible downgrade are likely to be limited given Finland's comparatively low level of public debt.

## Sweden

Swedish government finances are very strong in a European context and are expected to remain around zero this and next year before gradually rising above the government's medium-term fiscal target of a 1% surplus on the budget balance in 2015. General government debt is relatively low at around 37% of GDP in 2011 and the debt/GDP ratio has been falling since 2001 (except in 2009) and probably will continue to fall in the next few years. The next election is in 2014, but none of the main political parties are proposing significant fiscal stimulus or retrenchment. The government has made it clear that it prioritizes safety margins in the budget over stimulating demand. However, with a rise in unemployment this year, we expect the government to make greater use of its fiscal flexibility (the 2011 Budget indicates stimulus of 0.3-0.4% of GDP this and next year).

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#### Citi Ratings Outlook: Norway

	Current	Near- Term	Long-Term
S&P	AAA	AAA	AAA
Moody's	Aaa	Aaa	Aaa

Source: Citi Investment Research and Analysis

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#### Citi Ratings Outlook: UK

	Current	Near- Term	Long-Term
S&P	AAA	AAA	AAA (Neg)
Moody's	Aaa (Neg)	Aaa (Neg)	Aaa (Neg)

Source: Citi Investment Research and Analysis

## Norway

Norway found large oil resources in the North Sea in the early 1970s. On the back of this it has a large fiscal surplus, likely to be around 13% of GDP this year. The non-oil deficit is targeted to be around 4% of the value of the Government Pension Fund Global and is expected to roughly meet that target this year (after being slightly higher in 2009-11), i.e. suggesting a broadly neutral fiscal stance. If the Norwegian economy deteriorates markedly, though, the government will likely add more stimuli to the economy (fiscal policy added 2%-points to mainland GDP in 2009). The Norwegian government is selling bonds, but has colossal financial assets and hence a net asset/GDP ratio of more than 150% of annual GDP.

## UK

We regard the UK as a relatively weak AAA. The fiscal deficit continues to trend lower, albeit from a high level. Recent data show the general government deficit (EDP basis) fell to 8.3% of GDP in 2011 from 10.1% in 2010 and 11.4% in 2009. Forthcoming data for March are likely to confirm that the public sector net borrowing aggregate also fell to about 8.3% of GDP in the 2011/12 fiscal year, having peaked at 11.1% in 09/10. Fiscal policy remains tight: the recent Budget was roughly neutral, leaving intact the existing fiscal consolidation of just over 1% of GDP per year for the next five years. The deficit will probably fall to about 6.5% of GDP on both the EDP and PSNB aggregates in 2012, but this includes a one-off windfall of 1-2% of GDP from the absorption of the pension fund of the state-owned postal service. The underlying deficit is likely to be roughly stable in 2012, with public spending cuts matched by weak revenues. The OBR expects the general government debt/GDP ratio will peak at 93.9% in 2014 and then fall to 89.7% in 2016. However, we expect that, with the sluggish economy, the deficit will not fall as fast as the OBR expects, sending the general government debt/GDP ratio above 100% in 2015 or 2016. With increasing tensions within the coalition, it is unlikely that the government will be willing to employ further fiscal tightening to get the debt/GDP ratio falling in the next few years.

Moody's and Fitch already have put the UK on "negative outlook", citing risks that economic underperformance will prevent the deficit falling as fast as the government hopes. S&P have reaffirmed the UK's status as a AAA, with a "stable outlook", emphasising the government's success in hitting its fiscal targets so far and the UK's strong policy framework rather than risks of economic slippage. We still see risks that S&P will put the UK on "negative outlook" at some stage but, in light of their recent comments<sup>8</sup>, have postponed such a move from "the next 2-3 quarters" to "the next 2-3 years". But, with Fitch and Moody's putting more emphasis on risks that the sluggish economy will limit the decline in the deficit, it would not be a surprise if either or both downgraded the UK one notch in the next 2-3 years.

<sup>8</sup> S&P RatingsDirect: "Ratings On The United Kingdom Affirmed at 'AAA/A-1+'; Outlook Stable", 13 April 2012

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**Citi Ratings Outlook: Ireland**

	Current	Near- Term	Long-Term
S&P	BBB+ (Neg)	BBB-	BB
Moody's	Ba1 (Neg)	Ba1 (Neg)	Ba3

Source: Citi Investment Research and Analysis

## Ireland

We continue to doubt that the current tight fiscal policies will return Ireland to a sustainable fiscal path (*Ireland — Tough Times Ahead*). After strong economic growth in early 2011, the economy recently has slipped back into recession and we expect that continued economic underperformance will cause government revenues to undershoot – and the deficit to overshoot – versus official forecasts in 2012 and beyond. The recent promissory note deal, whereby the €3.1bn payment was funded by the issue of long-term bonds to the IBRC (funded on repo by Bol) for one year, does little or nothing to improve the medium-term fiscal or financing outlook. This transaction has no effect on the 2012 fiscal deficit and, while it cuts the 2012 financing need, this financing need already is covered by the Troika programme (which allowed for the promissory note payment). The ECB clearly remains strongly opposed to promissory note restructuring. In any case, the probable deficit overshoot in coming years is likely to far exceed any potential interest savings if promissory note restructuring is agreed. In this context, we doubt that Ireland will be able to regain normal market access at a viable cost, and believe there is a high chance that Ireland will need a second bailout beyond 2013.

During their pan-European review earlier in the year, Moody's cited<sup>9</sup> that downward ratings pressure could arise should the government "*not meet the targeted fiscal consolidation goals. A further deterioration in the country's economic outlook would also exert downward pressure on the rating*". Similarly, S&P kept Ireland's rating on hold (at BBB+) during its review in January but also stated the Negative Outlook indicated that<sup>10</sup> "*there is at least a one-in-three chance that the rating will be lowered again in 2012 or 2013*". This was largely predicated on the possibility of weaker external demand, which in turn might undermine economic growth. Given such indications and our economic views, we maintain that downward pressure on Ireland's ratings is likely to emerge and look for S&P's rating to move towards BBB-later in 2012.

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<sup>9</sup> Moody's "Credit Opinion: Ireland, Government of" 15 February 2012

<sup>10</sup> S&P RatingsDirect: "Ireland's BBB+/A-2 Ratings Affirmed; Off Watch Neg, Outlook Negative" 13<sup>th</sup> January 2012

Figure 3. Selected Countries — Economic Forecast Overview (Percent), 2011-2016F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2011	2012F	2013F	2014F	2015F	2016F	2011	2012F	2013F	2014F	2015F	2016F	2011	2012F	2013F	2014F	2015F	2016F
<b>Global</b>	3.0	2.6	3.0	3.5	3.8	4.1	3.7	3.1	3.0	3.0	3.0	3.0	2.52	3.75	3.98	2.70	3.04	3.45
<i>Based on PPP weights</i>	3.7	3.1	3.5	3.9	4.1	4.3	4.2	3.5	3.4	3.3	3.3	3.3						
<b>Industrial Countries</b>	1.3	1.0	1.3	2.0	2.3	2.7	2.3	1.9	1.6	1.5	1.6	1.6	0.76	0.68	0.61	0.69	1.08	1.66
<b>United States</b>	1.7	2.1	2.0	3.0	3.5	4.0	2.5	2.1	1.8	2.1	2.2	2.2	0.25	0.25	0.25	0.40	1.15	2.10
<b>Japan</b>	-0.7	2.0	1.6	1.5	1.5	1.2	-0.3	0.1	0.2	0.3	0.4	0.5	0.10	0.10	0.10	0.13	0.48	0.75
<b>Euro Area</b>	1.5	-1.0	-0.2	0.8	1.2	1.7	2.7	2.8	1.9	1.3	1.1	1.2	1.19	1.00	0.63	0.50	0.50	0.75
Canada	2.5	2.0	2.3	2.8	3.2	3.6	2.9	2.1	1.8	2.0	2.0	2.0	1.00	1.00	1.63	2.19	2.50	3.00
Australia	2.0	3.4	3.9	4.3	3.8	3.6	3.4	2.6	3.4	2.9	2.7	2.5	4.63	4.06	4.44	5.00	5.25	5.75
New Zealand	1.3	1.8	2.3	3.0	3.2	3.4	4.0	1.6	2.4	2.6	2.9	2.8	2.50	2.50	3.69	4.75	5.50	5.50
Germany	3.1	0.9	1.6	1.5	1.8	1.7	2.3	2.2	2.3	2.3	2.2	2.2						
France	1.7	0.1	0.5	1.1	1.5	1.9	2.3	2.5	1.6	1.3	1.8	1.6						
Italy	0.4	-2.2	-0.9	0.4	0.7	1.8	2.9	3.6	2.0	0.2	0.0	0.9						
Spain	0.7	-2.7	-1.3	0.9	0.9	1.4	3.1	2.0	1.7	0.8	0.7	1.1						
Greece	-6.9	-6.5	-2.4	1.0	2.1	2.0	3.1	1.3	-0.3	0.2	1.0	1.1						
Ireland	0.7	-0.8	0.3	2.3	2.9	3.4	-0.4	0.2	0.0	0.3	0.5	0.5						
Portugal	-1.6	-5.4	-3.0	0.4	1.3	1.2	3.6	3.1	2.0	0.7	0.2	0.4						
Netherlands	1.3	-1.5	0.4	1.2	1.5	1.5	2.3	2.6	1.8	1.6	1.9	1.8						
Belgium	1.9	0.0	1.1	1.7	2.1	1.8	3.5	2.9	1.7	1.9	2.3	2.3						
Denmark	1.1	0.7	1.2	1.4	1.6	1.8	2.7	2.0	1.5	1.5	1.6	1.8	1.30	0.60	0.43	0.55	0.60	1.00
Norway	2.7	2.5	2.9	2.7	2.7	2.9	1.3	1.7	2.0	2.0	2.0	2.3	2.10	1.50	1.60	1.90	2.40	2.90
Sweden	4.0	0.7	1.9	2.6	2.7	2.7	2.9	1.2	1.9	1.9	2.1	2.0	1.80	1.20	1.10	1.60	2.10	2.50
Switzerland	1.9	0.7	0.9	1.5	1.6	1.6	0.2	-1.2	-1.3	-0.9	0.5	0.8	0.44	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.6	0.2	1.0	1.5	2.2	3.2	4.5	2.8	2.0	1.9	1.7	1.7	0.50	0.50	0.50	0.50	1.04	2.04
<b>Emerging Markets</b>	6.1	5.2	5.8	5.8	5.9	5.9	6.1	5.1	5.1	5.1	5.1	4.9	5.69	8.84	9.32	5.73	5.84	5.88
<b>China</b>	9.2	8.4	8.6	7.7	7.6	7.5	5.4	3.5	3.5	4.5	5.0	4.5	3.22	3.50	3.63	4.13	4.75	5.00
Taiwan	4.0	3.5	4.2	4.5	4.5	4.5	1.4	1.9	2.1	1.8	1.8	1.8	0.70	0.87	1.08	1.25	1.50	1.75
India	6.9	7.0	7.5	8.2	8.3	8.5	9.0	7.0	6.5	6.0	6.0	6.0	8.20	7.80	7.50	7.50	7.50	7.50
Indonesia	6.5	6.2	6.5	6.7	6.9	6.7	5.4	5.8	5.3	4.6	5.5	5.3	5.43	3.75	3.75	4.00	4.13	4.63
Korea	3.6	3.7	4.4	3.7	4.0	4.2	4.0	3.1	3.4	3.1	3.0	3.2	3.19	3.25	3.81	4.25	4.63	4.88
Czech Republic	1.7	-0.4	1.6	2.8	3.6	3.7	1.9	3.3	2.8	2.2	2.0	1.6	0.75	0.75	0.85	1.33	1.65	2.50
Hungary	1.7	0.0	1.4	2.1	2.0	1.8	3.9	5.6	3.5	3.5	3.1	3.3	6.04	6.98	6.35	6.00	5.94	5.02
Poland	4.3	2.7	2.4	3.1	3.4	3.4	4.3	3.9	2.7	2.5	2.5	2.5	4.22	4.50	4.08	4.35	4.75	4.75
Romania	2.5	1.7	3.2	4.2	4.3	4.3	5.8	2.8	2.7	2.5	2.5	2.5	6.19	5.06	5.00	5.00	5.00	5.00
Russia	4.3	3.5	4.0	4.0	4.0	4.1	8.4	5.3	7.0	5.8	5.5	5.0	8.12	7.81	6.85	6.00	5.96	5.42
Turkey	8.5	2.5	4.3	4.9	4.6	4.6	6.5	9.6	7.0	6.0	5.9	5.4	6.00	5.75	6.31	8.00	7.56	7.50
Nigeria	7.8	7.4	7.0	7.2	6.9	7.2	10.8	12.2	10.0	10.3	9.5	9.0	8.90	15.00	12.50	10.50	10.00	9.50
South Africa	3.1	2.9	3.8	4.4	4.4	4.5	5.0	6.0	5.4	5.3	5.4	5.5	5.50	5.75	7.25	8.00	8.00	8.00
Argentina	8.9	3.0	3.0	2.0	2.0	3.5	9.8	9.6	12.2	15.0	15.0	16.5	18.37	13.46	17.71	16.00	14.00	13.00
Brazil	2.7	3.3	4.5	4.5	4.5	4.5	6.6	5.2	5.4	4.5	4.0	4.0	11.71	9.31	10.29	10.00	9.00	8.25
Mexico	3.9	3.5	3.6	3.6	3.8	3.7	3.4	4.1	3.7	3.9	3.8	3.7	4.50	4.13	4.40	5.29	6.00	6.25
Venezuela	4.2	4.0	3.4	4.0	3.0	2.5	27.1	26.1	28.6	32.9	30.7	30.7	13.30	14.40	14.40	13.00	12.90	12.70

Note: For inflation, we use the PCE deflator in the US, wholesale price index in India, GDP deflator in Ireland. For Indonesia we refer to the FasB1 rate to reflect actual money market rates. Source: CIRA.



Figure 4. Selected Countries — Economic Forecast Overview (Percent), 2011-2016F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2011	2012F	2013F	2014F	2015F	2016F	2011	2012F	2013F	2014F	2015F	2016F	2011	2012F	2013F	2014F	2015F	2016F
Global	0.3	0.1	0.2	0.1	0.1	0.2	-4.9	-4.2	-3.3	-2.7	-2.4	-2.1	80	82	83	82	81	79
Based on PPP weights	0.6	0.3	0.3	0.0	0.1	0.1	-4.3	-3.9	-3.1	-2.6	-2.3	-2.2						
Industrial Countries	-0.8	-0.8	-0.7	-0.5	-0.3	-0.3	-6.9	-5.7	-4.4	-3.6	-3.0	-2.6	105	110	114	115	115	115
United States	-3.1	-3.3	-3.2	-2.9	-3.0	-3.0	-9.4	-7.8	-5.9	-4.6	-4.0	-4.0	98	104	106	108	108	108
Japan	2.1	1.3	1.9	2.0	2.0	2.0	-10.7	-10.8	-8.4	-8.2	-7.8	-7.4	228	236	243	247	252	255
Euro Area	-0.3	-0.3	-0.3	-0.1	0.1	0.2	-4.1	-3.3	-2.4	-1.8	-1.1	-0.4	88	94	97	97	95	93
Canada	-2.8	-1.5	-1.6	-1.9	-1.8	-1.5	-1.4	-1.2	-0.5	-0.1	0.2	0.4	79	78	77	77	75	73
Australia	-2.3	-2.9	-5.0	-4.9	-3.5	-3.2	-3.4	-1.8	0.2	0.3	1.2	1.7	6	7	7	6	6	5
New Zealand	-4.0	-5.2	-7.6	-6.9	-5.8	-5.5	-8.0	-6.0	-3.0	-0.9	0.2	0.9	21	27	30	30	30	29
Germany	5.8	5.0	4.4	4.7	4.8	5.1	-1.0	-0.6	-0.3	-0.1	0.4	0.8	81	81	80	78	75	72
France	-2.3	-2.0	-1.1	-0.4	0.2	0.4	-5.2	-4.4	-3.4	-2.2	-1.0	-0.3	85	91	95	96	94	91
Italy	-3.2	-2.8	-2.4	-2.1	-1.9	-1.6	-3.9	-2.6	-1.7	-1.6	-1.0	0.2	121	129	132	132	132	129
Spain	-3.5	-2.8	-2.2	-1.8	-1.6	-1.4	-8.5	-6.3	-5.3	-4.3	-3.7	-2.6	72	84	92	95	97	97
Greece	-9.6	-8.5	-7.5	-6.7	-5.6	-5.3	-9.3	-7.4	-6.2	-4.3	-3.5	-3.2	165	164	177	181	180	176
Ireland	0.1	4.2	4.2	7.1	9.3	11.6	-9.8	-9.6	-9.7	-7.7	-6.2	-6.1	105	117	127	131	132	133
Portugal	-8.1	-5.0	-2.9	-2.0	-1.8	-1.3	-4.0	-5.8	-3.5	-2.4	-2.1	-2.0	106	119	103	106	108	109
Netherlands	9.0	10.0	9.5	8.5	7.5	7.1	-4.7	-4.5	-3.5	-2.3	-1.5	-1.0	65	70	73	73	73	71
Belgium	-0.8	-0.2	0.3	1.0	2.0	2.4	-3.7	-2.9	-1.7	-1.0	-0.3	0.1	97	110	115	112	108	104
Denmark	6.5	5.4	5.2	3.7	3.3	3.5	-2.5	-5.2	-3.9	-2.6	-2.1	1.0	45	49	52	53	54	51
Norway	14.0	14.3	14.9	15.2	15.8	16.5	12.0	12.5	13.5	15.0	17.0	18.5	NA	NA	NA	NA	NA	NA
Sweden	7.2	7.5	7.8	6.7	6.9	7.3	0.1	-0.4	-0.2	0.5	1.5	1.9	37	37	36	34	31	27
Switzerland	15.0	13.8	14.0	14.2	14.7	15.7	0.6	0.2	-0.2	0.0	-0.1	-0.2	53	52	51	51	51	51
United Kingdom	-1.9	-1.6	0.2	1.1	1.7	2.0	-8.3	-6.5	-7.4	-6.6	-5.8	-4.5	83	88	94	99	102	103
Emerging Markets	2.3	1.8	1.6	0.9	0.8	0.8	-1.5	-1.7	-1.6	-1.4	-1.5	-1.6	34	34	33	33	32	31
China	2.8	2.0	1.5	1.0	1.0	1.0	-1.3	-2.0	-1.5	-1.0	-1.0	-1.0	15	16	15	15	14	13
Taiwan	8.8	8.7	8.4	8.0	8.0	8.0	-1.9	-1.6	-1.3	-1.0	-0.7	-0.7	39	39	40	42	43	44
India	-4.0	-4.0	-3.3	-2.7	-2.4	-1.9	-8.4	-8.0	-7.7	-7.0	-6.5	-6.0	69	69	68	66	64	63
Indonesia	0.2	-0.7	-0.8	-1.1	-1.0	-0.9	-1.2	-1.8	-0.7	-0.3	-0.5	-0.5	26	25	24	23	23	22
Korea	2.5	1.1	0.7	0.6	-0.3	-0.3	1.5	1.4	1.2	1.6	1.4	2.1	33	33	32	30	28	26
Czech Republic	-2.9	-3.8	-2.5	-2.8	-2.9	-2.2	-3.1	-3.1	-2.8	-2.3	-1.5	-0.5	41	44	45	44	43	40
Hungary	1.7	1.2	1.5	2.0	2.2	2.1	4.2	-3.2	-3.0	-3.3	-2.9	-2.7	81	78	78	77	77	77
Poland	-4.1	-3.7	-3.9	-5.1	-5.3	-4.9	-5.1	-3.3	-2.7	-1.9	-1.7	-1.7	54	53	52	50	49	48
Romania	-4.2	-4.5	-4.7	-5.0	-5.0	-5.0	-4.1	-2.0	-2.0	-2.5	-2.3	-2.0	39	39	39	39	38	37
Russia	5.2	5.2	2.1	-1.0	-1.0	-1.0	2.0	0.3	0.1	-0.1	-1.1	-1.1	8	8	8	8	8	8
Turkey	-10.0	-8.5	-8.3	-7.5	-6.8	-6.0	-1.3	-2.2	-2.5	-2.5	-2.7	-3.0	41	41	39	39	38	36
Nigeria	5.9	5.2	6.0	4.6	3.7	3.1	-3.0	-2.1	-2.0	-2.4	-2.8	-2.3	NA	NA	NA	NA	NA	NA
South Africa	-3.4	-4.7	-5.6	-6.6	-6.3	-5.8	-5.0	-4.8	-4.2	-3.6	-3.5	-3.5	38	41	42	43	43	42
Argentina	0.4	0.3	0.2	-0.5	-0.5	-0.5	-1.6	-3.0	-3.0	-1.3	-0.6	0.1	49	49	49	52	53	53
Brazil	-2.1	-2.1	-2.4	-2.7	-3.0	-3.3	-2.6	-1.9	-2.6	-2.4	-2.2	-2.5	63	63	63	64	64	65
Mexico	-0.8	-1.6	-1.9	-2.5	-2.4	-2.6	-2.5	-2.2	-2.0	-1.9	-1.9	-1.8	40	40	38	38	38	37
Venezuela	9.1	6.9	8.4	7.3	7.9	7.6	-5.0	-5.0	-4.0	-5.2	-5.0	-4.8	43	36	36	37	37	38

Note: Fiscal deficit and debt figures for all countries are general government debt and deficits. We assume sovereign debt restructuring in Portugal in 2012-13. Source: Citi Investment Research and Analysis

## **Notes**

## Appendix A-1

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