Citi Research

Economics

21 September 2012 │ 20 pages

Europe

Euro Economics Weekly

France: Austere 2013 Budget, But Over-Optimistic GDP Baseline

- The French government announced that it will present the *'most austere budget in 30 years'* on Friday 28 September. The exercise will encapsulate the government's main priorities while attempting to meet the 2013 budget deficit target of 3% of GDP.
- A review of the budgets presented since 2005 reveals that the government has had a bias of over-optimism when it comes to forecasting GDP growth in the following year. And so has the consensus, albeit to a lesser extent. We believe that the 0.8% official GDP baseline is too optimistic and that the budget deficit target will likely be missed, given our forecast of a 3.7% deficit.
- Unless HoSHoGs were to decide that the protection of the euro area GDP baseline in 2013 is paramount once the Fiscal Compact Treaty has been fully ratified, allowing member states to focus on slightly smaller structural budget deficit adjustment, we fear that the French government will likely be forced to take additional austerity and structural measures to impress investors and rating agencies (Guillaume Menuet, see page 2).

Jürgen Michels
+44-20-7986-3294
juergen.michels@citi.com

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

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

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

Ann O'Kelly
+44-20-7986-3297
ann.okelly@citi.com

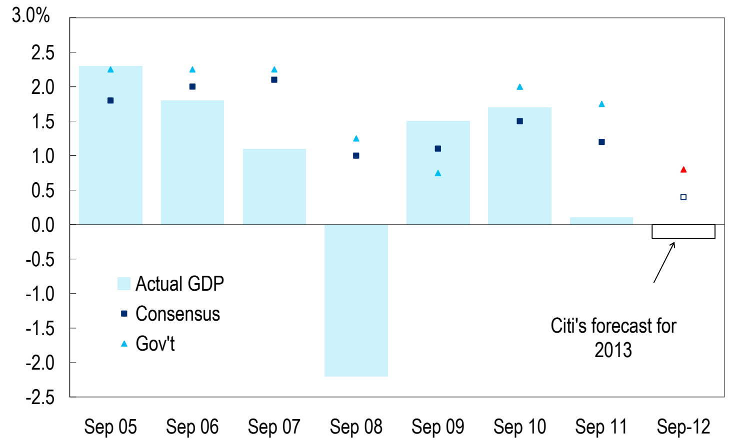
With thanks to Carla Clifton

Figure 1. Citi Market Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	U.K. Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vs Bunds
4Q 12	1.27	0.50	1.50	0.79	0.50	20	8.62	1.00	7.37	1.50	1.20	0.00	-89
4Q 13	1.19	0.25	2.00	0.77	0.50	25	8.33	1.00	7.24	2.00	1.20	0.00	-123

Source: Citi Research

Figure 2. France — GDP Growth One Year Ahead, 2005-2012



Sources: Consensus Forecasts, French Finance Ministry and Citi Research

France: The 2013 Budget and Beyond

All eyes on Friday's budget, that will show how the government intends to hit its budget deficit target of 3% of GDP

The French government announced that it will present the '*most austere budget in 30 years*' on Friday 28 September. This is undoubtedly the most important event of the year for a new administration eager to prove its credibility to the investor community. The exercise will encapsulate the government's main priorities while attempting to meet the 2013 deadline set by the EU Council for France to correct its excessive deficit. If it were to succeed in hitting its budget deficit target of 3% of GDP, this government would match the performance of its predecessor in 2007.

We argue that the 0.8% 2013 GDP official baseline is too optimistic and the 3% budget deficit target will be missed

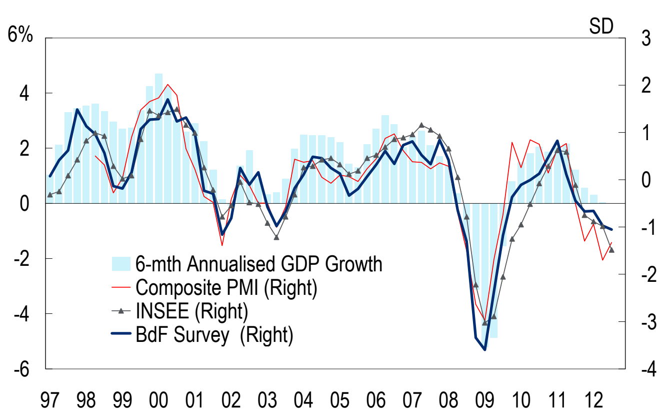
This note begins with a review of the challenging situation in France, ranging from falling confidence, rising unemployment and clear erosion in the popularity of the new administration. Despite repeated official attempts to dispel GDP growth concerns, we argue that the 0.8% 2013E GDP official baseline is too optimistic and the 3% budget deficit target will be missed. We argue in favor of a shift of focus away from headline deficits to a cyclically adjusted budgetary adjustment framework, which is in our view more suited to alleviating some austerity in the short-term, therefore helping to protect the GDP baseline. The note goes on to summarize the main features of the 2013 budget and presents the key areas where the government needs to deliver some improvement in terms of its competitiveness and social security financing to comply with long-term fiscal objectives

A challenging economic backdrop

A French GDP recession remains our baseline scenario for 2013

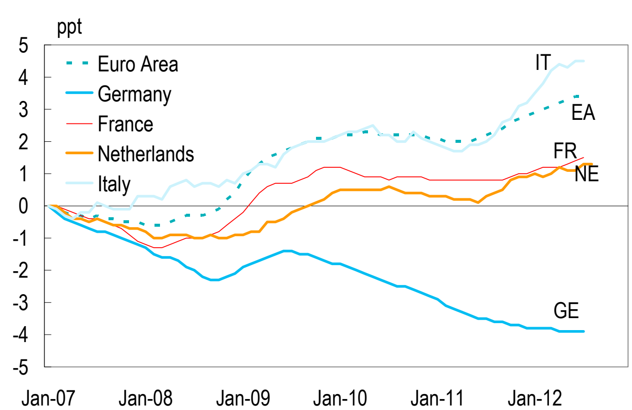
French economic activity has been slowing in the first half of 2012. GDP growth has been flat on an annualized basis compared to 0.5% in H2 2011 and a relatively healthy 1.9% in H1 2011 (see Figure 3). Economic sentiment and other surveys of business confidence are well below historical averages: the composite flash PMI for September recorded a drop of 4.8 points to 44.1, its lowest reading since April 2009.

Figure 3. France — Six-Month Annualized GDP Growth, Jan-97-Sep-12



Sources: Markit, INSEE, Banque de France and Citi Research

Figure 4. Selected Countries — Change in Unemployment Rate, Jan-07 to Aug-12



Sources: Eurostat and Citi Research

Labour market issues will need to be addressed, through structural reforms

Unemployment is rising at a slightly faster pace than in other countries of the soft core, and the gap with Germany is becoming considerable (see Figure 4).This highlights a gradual erosion of competitiveness (mostly due to differences in the product mix) that will require the government to lower the cost of labor, most likely by transferring some social security contributions to a broader revenue based tax such as CSG. Note that confidence in President François Hollande and his government is falling more rapidly than at the start of the Sarkozy Presidency in 2007 (according to recent polls) as French voters begin to realize that despite a campaign slogan of *'change is now'*, the intention to enact profound structural

changes in the French labor market in terms of additional flexibility is not necessarily what some of his supporters had hoped for.

Confident politicians attempt to dispel GDP growth concerns

Confidence is a key ingredient for recovery

Since confidence is a key ingredient for recovery, it is not surprising that the key figures of the government have intensified the frequency of public speeches and media interviews in the past few weeks. President Hollande himself in a recent televised address expressed confidence in his ability to turn the economy around by 2014. He also announced that he would be bringing forward the deadline for labor market reform to respond to growing criticisms of not doing enough to tackle the crisis. While he stuck to his initial pledge to consult with social partners, he gave unions and employers until the end of 2012 to reach a *'historic compromise'* on labor reform. He warned that failure to find an agreement by this deadline would lead the government to act unilaterally.

European actions are necessary to address the euro area crisis and protect the GDP baseline in our view

On the European scene, President Hollande urged fellow heads of states and governments to take *'long lasting'* decisions at the October 18-19 EU Summit, calling for structural fixes rather than short-term answers. In a similar vein, French Prime Minister Jean-Marc Ayrault stressed to EU President Commission Manuel Barroso that it was imperative to activate the banking union as soon as possible, focusing particularly on the ECB's supervisory role to allow direct recapitalization of banks through the ESM, without which downside growth risks would resurface. We argue that the government is right to be worried about the risk of delays in the activation of support measures, given the fragility of the GDP baseline for the euro area as a whole and France.

The ECB's OMT programme (see Euro Economics Weekly - OMT: Unsheathing the Latest Weapon in the ECB's Armoury) should help

There was also widespread satisfaction in the tone of the commentaries following the ECB's decision to present its OMT programme. French Finance Minister Pierre Moscovici noted the ECB's *'conceptual jump'* in defending the euro, saying that confirmation that the euro is irreversible enables him to see some *'light at the end of the tunnel'*, likely contributing to helping solve the euro area sovereign debt crisis.

Four key conditions necessary to protect the GDP baseline

We see four necessary but not sufficient conditions — largely outside the sphere of domestic influence — for confidence to return and protect the GDP baseline across the euro area. **First**, European governments need to find a solution to keep Greece in the euro area[1], either by giving the country more time/additional funding or by extending/forgoing some debt repayments. **Second**, firewalls for countries in need of financial assistance need to be activated to keep short-end yields at a low enough level, either because of the ECB's intervention threat or because of effective buying of periphery debt assuming appropriate conditionality. **Third**, the ECB must be made a banking supervisor, and all possible further conditionality for allowing the ESM the option of direct bank recapitalization of institutions under the ECB's oversight. **Fourth**, external demand dynamics must be sufficiently robust to give exporters some outlets for their goods and services. Given the prevailing level of uncertainty related to these conditions presented above, we remain circumspect about the likelihood of GDP growth surprising to the upside in 2013.

[1] This is not our baseline scenario as we continue to put the probability of Grexit in the next 12-18 months at about 90%.

We argue that the government's 2013 GDP baseline is too optimistic

The negative impact on GDP growth of increased taxation will likely be more sizeable than assumed by the government

In our September GEOS publication, we maintained our 2013 French GDP forecast of -0.2%, anticipating a budget deficit overshoot to 3.7% of GDP[2]. With increased taxation being the government's main variable of adjustment, accounting for 2/3 of the fiscal tightening planned for 2013, we argue that the negative impact on GDP growth is likely to be greater than assumed by the government. We wonder how investors will likely judge the government's 0.8% GDP baseline compared to a consensus forecast that the economy will grow by only 0.3% (see Figure 2).

A historic bias of over-optimism

A review of the budgets presented since 2005 reveals that in each of the last six years, i) the consensus has been more accurate than the government in forecasting the following year's GDP growth; ii) the government is more optimistic about the following year's GDP growth than the consensus; iii) the consensus of private forecasters typically overestimates the following year's GDP growth by 0.6ppt. As a result, we feel comfortable with our baseline of a modest contraction in GDP.

A supplementary budget will probably be unavoidable…

Arguably, our scenario would likely require a supplementary budget to be submitted at some stage in early 2013 to adjust the GDP assumptions if economic activity were to disappoint. The obvious window to do so could be in February 2013, after the release of Q4 GDP data which will give a better picture of the likely entry point for 2013 GDP. An earlier date towards the end of 2012 is possible, assuming a successful outcome to the tripartite negotiations between employers, trade unions and the government to introduce some flexibility in the French labor market and improve firms' competitiveness. We would also highlight the importance of the EU Council on December 13 and 14 when HoSHoGs ought to discuss what to do about the lack of economic activity across the euro area and whether to adjust the dose of budget austerity.

…unless structural budget deficit targets become the new reference

We believe that countries should be judged as soon as possible on their ability to deliver a cyclically-adjusted or structural budget deficit reduction effort rather than the headline targets which cannot be met in the current environment of subdued to non-existent growth in our view. We suspect that at some stage, HoSHoGs will come to the same conclusion. The expected adoption of the Fiscal Compact in France during October and its implementation across the euro area in 2013 should make this new approach attractive.

Why is the credibility argument so important?

The onus is on the new administration to show it remains committed to budget equilibrium…

French Finance Minister Pierre Moscovici indicated on many occasions that France would have to make huge efforts to reach its budget deficit goals but that the government was fully committed to delivering on its promise to bring the 2013 budget deficit to 3.0% of GDP to maintain credibility. Why is credibility so important? French Prime Minister Jean-Marc Ayrault, speaking to the MEDEF employers' group annual symposium earlier in September stressed that the government would implement spending restraint, a strategy that would reinforce '*France's financial credibility*' and would be beneficial to companies.

[2] We are not alone in expecting another challenging year for the government with respecting to achieving its GDP forecast. Les Echos polled France's primary dealers (and other domestic economic research institutes) for their GDP growth forecasts in 2012 and 2013. The average of the 18 responses shows GDP growth of 0.1% in 2012 (Gov't 0.3%) and 0.3% in 2013 (Gov't 0.8%). For the budget deficit, the average suggests that the target of 4.5% of GDP will be met in 2012, but that the budget deficit will only be reduced to 3.5% of GDP in 2013.

…to keep borrowing costs at their historical lows…

There are two main reasons, in our view. First, by delivering a credible budget, the government is hopeful of maintaining its average borrowing costs at a historically low level. Any positive surprises compared to what is budgeted in terms of interest payments would be welcomed as it would diminish the need for extra savings if another round of tightening were to be imposed by the strict adherence to the nominal 3% target of the Excessive Deficit Procedure.

…and to avoid a possible rating downgrade by Moody's in the coming quarters

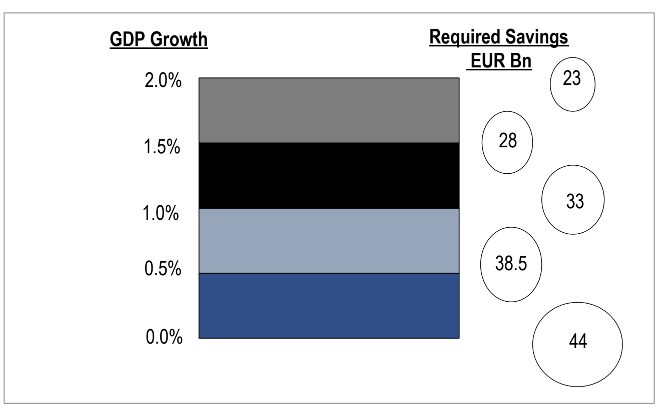
Second, the government is aware that Moody's review of the sovereign rating will likely be concluded in October. In its last review, Moody's noted *that 'a return to a stable outlook on France's sovereign rating would require significant progress towards improving the debt metrics and an easing of the euro area sovereign crisis given Moody's concerns regarding the country's exposure to contingent liabilities'*. By adopting an austere budgetary construct that would offer more clarity about debt metrics, the government is hopeful that a stable outcome could be reinstated. We doubt that this will be the conclusion and continue to believe that during the next six to nine months, Moody's will place France's sovereign rating on review for possible downgrade, to be followed by a one-notch cut to Aa1[3].

GDP growth of 0.8% requires €30bn of savings says the government

One of the more difficult decisions for the government was the choice of the GDP baseline for 2013

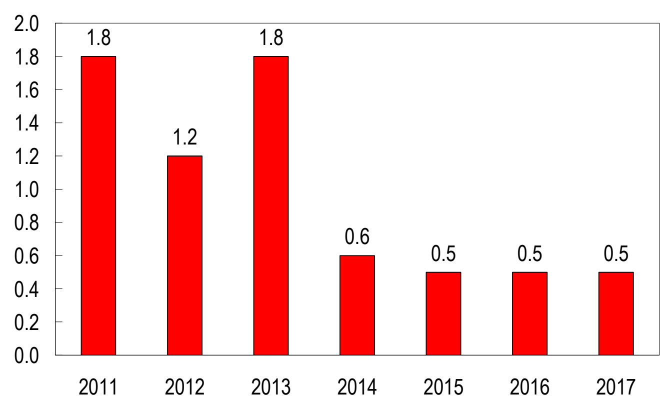
According to a document[4] released after the cabinet meeting on September 12, a *'realistic'* GDP baseline of 0.8% was selected for 2013. In the view of the government, this requires identifying €30bn of budgetary adjustments to reduce the budget deficit to 3% of GDP in 2013 from 4.5% in 2012. Based on our GDP baseline, we estimate that to hit the budget deficit target, the government would have to find up to €48bn or 2.4% of GDP as explained in our Euro Economics Weekly - France: Hard Choices Lie Ahead, 6 July 2012. The government has qualified the rebalancing the public sector accounts as *'imperative'*, confirming its intention to bring the public sector accounts in balance in 2017, stressing that its dual priorities are to present a credible fiscal strategy and to support economic growth. The split between expenditure savings and tax increases will be 1/3 and 2/3 in 2013. However, more efforts to reduce expenditure will be undertaken over the course of the five-year presidency given the objective of an equal share of adjustment.

Figure 5. France — Required Savings for GDP Growth Scenarios, 2013



Sources: French Audit Court of Accounts and Citi Research

Figure 6. France — Estimated Change in Structural Deficit, 2011-2017



Sources: French Audit Court of Accounts

3 For more details, please refer to our recent quarterly Sovereign Ratings Outlook - July 2012

4 http://www.gouvernement.fr/gouvernement/les-grandes-orientations-budgetaires-et-fiscales-pour-2013

Reducing government expenditure by €10bn

A freeze in outlays excluding pensions and debt servicing

In order to spread the effort evenly between the main sectors, the government plans to apply a freeze in nominal outlays for 2013 at the level of those for 2012, resulting in expenditure savings worth €10bn. Central government sector employment will be kept constant: the 10,000 teaching posts and 1,000 police and justice jobs to be created in 2013 will be offset by job cuts in other areas. Public sector pay will '*also be stabilized*''. Specific policies to '*contain and reverse unemployment trends'* will include the creation of 100,000 *'generational contracts'* during 2013, in addition to existing measures to provide "emergency" subsidized contracts. Particular attention will also be given to the housing sector to support construction and renovation projects, and by the same token support economic activity. The government also stressed that the 2013 budget is part of its *'global strategy to reform and modernize public intervention'* with a view to constrain ministries to made additional savings[5].

Some efforts will also be required from social security and local authorities

Some savings worth €2.5bn will also be required in healthcare and social security, to be detailed in a specific budget to be presented on October 10. Local authorities are also expected to make some savings as central government transfers will be frozen in 2013 at the level of those of 2012. At a later stage, the government wants local authorities to participate in the rebalancing of public sector accounts by ratifying a '*growth and solidarity pact*'.

Raising €20bn of revenues

The private sector will bear the brunt of the adjustment, equally split between corporations and households

On the revenue front, the government aims to raise €20bn in 2013, equally split between corporations and households, targeting in particular the largest firms and more wealthy individuals. **On the corporate side**, the government's strategy aims to curtail the tax deductibility of interest payments[6], but to exempt small and medium sized firms, which will also benefit from a more generous scheme for the tax deductibility of research spending in order to foster innovation and exports. **On the household side**, the government will i) introduce a new marginal tax rate of 45% for revenues in excess of €150,000; ii) lower the tax free allowance for children; iii) cap the amount of tax avoidance schemes per household; iv) introduce an exceptional contribution of 75% will be applied for two years for taxpayers with revenues in excess of €1mn a year; v) make the more affluent households pay a larger wealth tax as the adjustments introduced by the previous administration will be cancelled. Note that by removing the indexation of the various tax thresholds to inflation, all but the lower paid households will be required to contribute a larger part of their income to the budgetary adjustments.

Next steps for the government

Improve competitiveness

French President Francois Hollande argued that turning the country around would *'take time'* and that he was working to a *'five-year'* programme, although there was *'not a day to lose'* given the *'exceptionally grave'* crisis. He remarked that the most urgent task facing his government was to create jobs. After promises to look at competitiveness were made by PM Jean-Marc Ayrault in a speech to the employers' association earlier in the summer, some trade unions are worried that additional labour market flexibility will lead to more unemployment rather than more jobs, given the weakness of economic activity. Although the unions have a point, France is lagging behind some of its peers in competitiveness terms, as shown by the sizeable widening of the trade deficit in recent years. We argue that the government

---

[5] This process will be defined collectively during the autumn of 2012, and later synthesized by Marylise Lebranchu, minister of state reform, decentralization and public service.

[6] Applying a reduced rate for the deductibility of interest payments on loans from 100% to 85% in 2013 and 75% in 2014.

has little choice but to implement a labour market reform agenda, especially since it forms part of the EU Council recommendations[7].

Balance the social security accounts

The government is mulling some changes in the financing of social security spending by widening the tax base in order to reduce the burden on payroll taxes and make some strides towards boosting firms' competitiveness. The deadline set by President Hollande for a decision on this issue is the first quarter of 2013[8]. Reforming how social security is financed is on the government's agenda for 2013. France's Cour des Comptes, the state's audit office, indicated in September that it was essential that the deficit in the country's welfare system is cut to zero over the coming years, highlighting some discrepancy between the current situation and the norm of balanced budgets in most of the euro area. It seems also likely that a rise in contributions will be necessary in order to settle the rising amount of social security debt outstanding.

Enhance the availability of credit

The challenging economic situation is prompting President Hollande and PM Ayrault to accelerate the launch of the public sector bank — with a capacity of €30bn (€10bn more than originally announced) for lending and capital investments — that featured in the election manifesto to alleviate some of the retrenchment in credit to SMEs. However, given the likely time lag between credit applications and loans being extended, we do not expect this new vehicle to have much impact on loan volumes before Q2 2013.

Conclusions

Relying on large corporates to pay more tax is a risk given the tools at their disposal to limit their tax bill

The main risk of the 2013 budget is its expected excessive reliance on revenue raising measures, in our view, particularly as they rely on larger firms paying an increasing share of their revenues into the government's coffers. Sudden increases in direct fiscal pressure invariably generate slightly less revenues than planned as tax payers either alter their revenues or adopt strategies to mitigate their tax bill.

The squeeze on households is also likely to have some consequences on spending at a time of rising unemployment worries

For households, we would expect the increased fiscal pressure to lead to an increase in precautionary savings and therefore to have a negative impact on consumption, while keeping sentiment close to its record lows. Both the growing threat of rising unemployment and the restricted availability of credit suggest that consumer spending will struggle to grow in 2013, most likely limiting VAT receipts.

We forecast a budget deficit of 3.7% of GDP in 2013

We conclude that the government is unlikely to hit its 3% budget deficit target in 2013, and will probably be forced to take additional austerity and structural measures to impress markets and rating agencies, unless HoSHoG were to decide collectively that the protection of the euro area GDP baseline is paramount once the fiscal compact treaty has been fully ratified.

[7] On 10 July 2012, the EU Council recommended that France take action within the period 2012-2013 to introduce further reforms to combat labour market segmentation by reviewing selected aspects of employment protection legislation, in consultation with the social partners in accordance with national practices, in particular related to dismissals; continue to ensure that any development in the minimum wage is supportive of job creation and competitiveness; take actions to increase adult participation in lifelong learning.

[8] Louis Gallois, former CEO of EADS and the government's point person on competitiveness had advocated a cut in corporate taxes and charges. He remarked that *"we need to create a competitiveness shock,"* calling for cuts in taxes and social charges of as much as €50bn, stressing that the measure has to be *'quite massive'"*

Key Economic Indicators (24 September – 28 September 2012)

During The Week		Forecast	Last
07:00	UK: Nationwide House Prices, Aug		
	UK: Liberal Democrat Party Conference, Brighton, Sep 22-26		
Monday 24 September		**Forecast**	**Last**
08:30	Netherlands: GDP, 2Q Details		
08:30	Netherlands: Producer Confidence, Sep		
09:00	Germany: ifo Business Climate, Sep	101.8	102.3
Tuesday 25 September		**Forecast**	**Last**
07:00	Germany: GfK Consumer Confidence		
07:45	France: Business Confidence, Sep	88	90
	Own-Company Production Outlook, Sep	-10	-6
09:00	Italy: Consumer Confidence, Sep	85.7	86.0
09:30	UK: BBA Mortgage Advances, Aug		
10:00	Italy: Contractual Wages, Aug		
	Spain: Budget Balance, Aug		
15:30	IMF's *Global Financial Stability Report* – Chapters 3 and 4 released		
Wednesday 26 September		**Forecast**	**Last**
	Germany: HICP, Sep Flash	0.1% MM, 2.2% YY	0.4% MM, 2.2% YY
	National Consumer Prices, Sep Flash	0.1% MM, 2.1% YY	0.4% MM, 2.1% YY
07:45	France: Consumer Confidence, Sep	85	87
08:15	Sweden: Consumer Confidence, Sep	5.2	5.4
	Manufacturing Confidence, Sep	-10	-9
09:00	Norway: LFS Unemployment Rate, Jul	2.9%	3.0%
09:00	Italy: Retail Sales, Jul		
11:00	UK: CBI Retail Survey, Sep		
11:00	Ireland: Residential Property Prices, Aug		
17:00	France: Jobseekers Net Change, Aug	28.0K	41.3K
	Total Jobseekers, Aug	3,015.1K	2,987.1K
Thursday 27 September		**Forecast**	**Last**
07:00	Germany: Import Prices, Aug	0.2% MM, 2.1% YY	0.7% MM, 1.2% YY
08:00	Spain: Retail Sales, Aug		
08:55	Germany: Unemployment, Sep	+4K	+9K
09:00	Italy: Business Confidence, Sep		
09:00	Euro Area: M3, Aug	4.1% YY, 3.7% 3-M YY	3.8% YY, 3.4% 3-M YY
09:30	UK: Balance of Payments, 2Q	£-11.2 Billion, -2.9% of GDP	£-11.1 Billion, -2.9% of GDP
09:30	UK: GDP, 2Q (3rd release)	Provisional: -0.5% QQ, -0.5% YY	1Q: -0.3% QQ, -0.2% YY
10:00	Euro Area: Economic Confidence, Sep	85.0	86.1
	Industrial Confidence, Sep	-17.0	-15.3
	Consumer Confidence, Sep	-25.9	-24.6
15:30	IMF's *World Economic Outlook* – Chapters 3 and 4 released		
Friday 28 September			
00:01	UK: GfK Consumer Confidence, Sep		
06:30	France: GDP, 2Q Final	0.0% QQ, 0.3% YY	0.0% QQ, 0.3% YY
07:00	Germany: Retail Sales, Aug	0.5% MM	-1.0% MM
07:45	France: Consumer Spending, Jul-Aug	-1.7% MM, -1.0% YY	June: 0.1% MM, 0.2% YY
07:45	France: Producer Prices, Jul-Aug	0.2% MM, 1.4% YY	June: -0.9% MM, 1.3% YY
08:00	Switzerland: KoF Economic Barometer, Sep		
08:00	Spain: HICP, Sep Flash	2.8% YY NSA	2.7% YY NSA
08:30	Netherlands: Producer Prices, Aug		
08:30	Sweden: Retail Sales, Aug	0.4% MM	0.3% MM
09:00	Norway: Retail Sales, Aug	-0.1% MM	-0.1% MM
09:00	Norway: Registered Unemployment Rate, Sep	2.4%	2.6%
09:00	Italy: Producer Prices, Aug		
09:30	UK: Service Sector Output, Jul	1.7% MM, 1.1% YY	-1.7% MM, -0.6% YY
10:00	Italy: HICP, Sep Flash	2.5% YY	3.3% YY
10:00	Euro Area: HICP, Sep Flash	2.5% YY	2.6% YY
	Spain: Current Account, Jul		
	Greece: Retail Sales, Jul		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area

Sep 27 09:00 London Time — ***M3, Aug*** — **Forecast: 4.1% YY, 3.7% 3-M YY** — **Prior: 3.8% YY, 3.4% 3-M YY**

Because of some changes in reporting there will be probably some substantial revisions in the M3 data. However, based on positive base effects we expect some increase in the YY rate. After the increase in July we expect loan growth to the private sector to contract again compared to the previous month in August.

Sep 27 10:00 London Time
- ***Economic Confidence, Sep*** — **Forecast: 85.0** — **Prior: 86.1**
- ***Industrial Confidence, Sep*** — **Forecast: -17.0** — **Prior: -15.3**
- ***Consumer Confidence, Sep*** — **Forecast: -25.9** — **Prior: -24.6**

The flash estimate for consumer confidence and available business sentiment readings (ie the PMIs) suggest that the downturn in the EU Commission economic sentiment index is continuing in September. We expect the index to fall by 1.1 points MM to 85.0, the lowest reading since August 2009 and 1.7 standard deviations below the long-term average.

Sep 28 10:00 London Time — ***HICP, Sep Flash*** — **Forecast: 2.5% YY** — **Prior: 2.6% YY**

We expect a small reduction in the inflation rate in September. However, with the VAT rate increase in Spain and the increase in energy prices, risks to the forecast are on the upside. Note that there is also a positive base effect, as last year's September VAT rate hike in Italy is falling out of the 12M moving window.

Germany

Sep 24 09:00 London Time — ***Ifo Business Climate, Sep*** — **Forecast: 101.8** — **Prior: 102.3**

We expect a fifth consecutive fall in the business confidence reading despite the gains in the ZEW index and the PMIs. However, even after this series of declines, the headline reading is likely to stay slightly (0.2 standard deviations) above the long-term average. In September we expect a decline in business expectations by 0.7 points MM to 93.5, party reflecting news of weaker demand in Asia and the stronger EUR. Furthermore, we expect a decline in the assessment of the current business situation by 1.2 points to 110.0.

Sep 26
- ***HICP, Sep Flash*** — **Forecast: 0.1% MM, 2.2% YY** — **Prior: 0.4% MM, 2.2% YY**
- ***National Consumer Prices, Sep Flash*** — **Forecast: 0.1% MM, 2.1% YY** — **Prior: 0.4% MM, 2.1% YY**

We expect a small increase in consumer prices in September compared to the previous month, partly due to higher energy prices. Core prices are likely to be roughly unchanged on a monthly basis as seasonal price moves – increase in prices for clothing after the sales period and fall in prices for tourism-related services after the holiday season – are likely to level each other out.

Sep 27 07:00 London Time — ***Import Prices, Aug*** — **Forecast: 0.2% MM, 2.1% YY** — **Prior: 0.7% MM, 1.2% YY**

Higher commodity prices – mainly oil – probably contributed to the second consecutive increase in import prices in August. The YY rate is likely to increase to the highest reading since May.

Sep 27 08:55 London Time — ***Unemployment, Sep*** — **Forecast: +4K** — **Prior: +9K**

We expect the sixth month of consecutive small increases in unemployment claims. However, as in previous months, the claimant rate is likely to stay unchanged at 6.8%, the lowest reading since German unification. The ILO unemployment rate probably will also stay unchanged at 5.5% in August – latest available reading.

Sep 28 07:00 London Time — ***Retail Sales, Aug*** — **Forecast: +0.5% MM** — **Prior: -1.0% MM**

Following a disappointing July reading we expect a modest rebound in August. However, the increase in energy prices might have had a negative impact on retail sales.

France

Sep 25 07:45 London Time
- ***Business Confidence Indicator, Sep*** — **Forecast: 88** — **Prior: 90**
- ***Own-Company Production Outlook, Sep*** — **Forecast: -10** — **Prior: -6**

The manufacturing PMI report recorded a sizeable drop in September. The 3.6-point fall was the largest in the survey's history and the seventh successive decline. Reuters indicated that new manufacturing orders had fallen more sharply than export orders suggesting a further weakening in domestic demand. To be sure, the situation is challenging for the sector and we look for a 2-point drop in INSEE's measure of business confidence to -1.2std. We suspect that the own company production measure will fall to its lowest since the spring of 2009.

Sep 26 07:45 London Time — ***Consumer Confidence Indicator, Sep*** — **Forecast: 85** — **Prior: 87**

Household confidence improved in every month of 2012 leading up to the presidential elections. But in June and July household sentiment turned, partly on clear evidence of the difficulties in the labour market, with unemployment worries increasing markedly (up 20 points over the two months combined). We suspect that the recent increase in energy prices and the prospect of higher taxes for 2013 will also make households more cautious about the short-term outlook. We forecast a two-point drop in the composite measure to 85 (-1.7std), covering August and September.

Sep 26 17:00 London Time
- ***Jobseekers – Net Change, Aug (000s)*** — **Forecast: 28.0K** — **Prior: 41.3K**
- ***Jobseekers, Aug (000s)*** — **Forecast: 3,015.1K** — **Prior: 2,987.1K**

A few weeks ago, French Labour minister Michel Sapin announced that the total number of jobseekers had already increased beyond the 3mn threshold in August. We forecast an increase of 28,000 in the total number of jobseekers in August. The weakness of economic activity is the primary determinant of the deteriorating labour market dynamics, in our view. However, there are also some issues about the elevated cost of labour, particularly the taxes paid by employers and employees to finance social security. The government is preparing a comprehensive reform of the labour market for 2013.

Economic Indicators

France continued

Sep 28 06:30 London Time	***Gross Domestic Product, 2Q Final***	**Forecast: 0.0% QQ, 0.3% YY**	**Prior: 0.0% QQ, 0.3% YY**
	This final estimate will likely confirm that France narrowly avoided recession in the first half of 2012. There is a significant risk of a final outcome of -0.1%, and the third quarter probably reveal a contraction in economic activity given the overwhelming survey evidence of further deterioration in domestic demand dynamics. With business confidence well below its long-term average and no signs of a turning point in the residential housing market, we are pessimistic for the investment picture in the quarters ahead. With tax increases likely to be the primary policy tool for the budgetary adjustment, we suspect that the household savings ratio will remain elevated, dampening consumption in the quarters ahead.		
Sep 28 07:45 London Time	***Consumer Spending, Aug***	**Forecast: -1.7% MM, -1.0% YY**	**Prior: 0.1% MM, 0.2% YY (Jun)**
	Car registrations declined significantly in July before rebounding a little in August, but the situation remains complicated with some manufacturers shutting down plants in reaction to falling demand. Retail sales also contracted in both July and August according to Banque de France, painting a weak picture for the third quarter. With consumer confidence on a renewed downward trajectory, and with few prospects of any improvement in the coming months, we look for consumer spending to contract again in the third quarter.		
Sep 28 07:45 London Time	***Producer Prices, Aug***	**Forecast: 0.2% MM, 1.4% YY**	**Prior: -0.9% MM, 1.3% YY (Jun)**
	The report will cover both July and August, as there was no publication during the summer break. We forecast that prices rose slightly in both months. Surveys suggest that manufacturers are reporting price expectations in line with historical averages, limiting the prospects for headline rate declines in coming months.		

Italy

Sep 25 09:00 London Time	***Consumer Confidence, Sep***	**Forecast: 85.7**	**Prior: 86.0**
	We expect Italian consumer confidence to continue to weaken in September driven by news of a deteriorating economy and by households' worries over unemployment. We expect both confidence over the state of own finances and over the prospects for the economy to weaken in September.		
Sep 28 10:00 London Time	***HICP Flash Estimate, Sep***	**Forecast: 2.5% YY**	**Prior: 3.3% YY**
	Inflation in 2012 has remained stubbornly high averaging 3.5% in the year to end August. However, we expect September to show a marked slowdown, driven by the phasing out of base effects associated with the one ppt increase in VAT (from 20% to 21%) which took place in Sep 11.		

Spain

Sep 28 08:00 London Time	***HICP, Flash***	**Forecast: 2.8% YY NSA**	**Prior: 2.7% YY NSA**
	The rise in VAT (from 18% to 21% for the standard rate and 8% to 10% for the reduced rate) took effect on September 1 and we expect most of the tax increase will be passed on to consumers over the coming months. We expect flash HICP (NSA) inflation for September to come in at 2.8%YY, up from 2.7% in August and following two months of large price increases due to rises in energy and healthcare prices. The final estimate for September will be published on 11 October.		

Sweden

Sep 26 08:15 London Time	***Consumer Confidence, Sep***	**Forecast: 5.2**	**Prior: 5.4**
	Signals are somewhat mixed for consumer sentiment in September. Some house price indicators suggest less downward pressure in the housing market since the turn of the year, sentiment in the retail sector remains below the long-term average, and car sales deteriorated in August, contracting by 12.7% YY. Developments on the stock market have been flat so far in September compared with the August average. On balance, we expect consumer confidence to drop marginally in September. Consumer confidence stands slightly above its long-term average (of 5.1), indicating an expansion in private consumption ahead. Inflation expectations should stay around current levels of 2.1% YY.		
Sep 26 08:15 London Time	***Manufacturing Confidence, Sep***	**Forecast: -10**	**Prior: -9**
	Manufacturing confidence is expected to deteriorate marginally in September. Manufacturing PMI stands well below 50 and the new orders component in PMI is also well below 50 (41.1 in August).		
Sep 28 08:30 London Time	***Retail Sales, Aug***	**Forecast: 0.4% MM**	**Prior: 0.3% MM**
	Retail trade was 0.2pp above the 2Q pace versus a 1.5% QQ gain in 1Q 2012 and a 0.1% QQ gain in 2Q 2012. Short-term indicators for the retail sector have gradually been weakening lately and the NIER survey for the retail sector now stands well below the long-term average, suggesting a weaker momentum in retail trade data ahead.		

Norway

Sep 26 09:00 London Time	***LFS Unemployment Rate, Jul***	**Forecast: 2.9%**	**Prior: 3.0%**
	The labour market remains firm; the jobless rate stood at 3.0% in 2Q, the lowest quarterly average since 4Q 2008 and well below the long-term average of 4.0% and employment growth on an annual basis has exceeded 2% in the last six months. We expect the July jobs data to confirm this picture.		
Sep 28 09:00 London Time	***Retail Sales, Aug***	**Forecast: -0.1% MM**	**Prior: -0.1% MM**
	Short-term momentum weakened around mid-year. However, judging by fundamentals, the outlook for solid consumption growth remains in place; the labour market is still firm (the jobless rate stood at 3.0% in 2Q, the lowest quarterly average since 4Q 2008 and well below the long-term average of 4.0% and employment growth on an annual basis has exceeded 2% in the past six months), growth in households' real disposable income this year should match last year's very robust 4.2% YY gain and interest rates are around historically low levels. In other words, we expect to see a recovery in private spending in coming months.		
Sep 28 09:00 London Time	***Registered Unemployment Rate, Sep***	**Forecast: 2.4%**	**Prior: 2.6%**
	The labour market remains firm. In line with the seasonal pattern, we expect the registered jobless rate to drop 0.2pp to 2.4% in September.		

Economic Indicators

United Kingdom			
Sep 27 09:30 London Time	***Balance of Payments, 2Q***	**Forecast: £-11.2Billion, -2.9% of GDP**	**Prior: £-11.1 Billion, -2.9% of GDP**
	Figures already have been released showing that the deficit on goods and services trade rose to £11.1bn in 2Q from £7.8bn in 1Q, but we expect this to be offset by a rebound in the surplus on direct investment earnings from the low level seen in 1Q. Data for earlier quarters are often revised significantly.		
Sep 27 09:30 London Time	***GDP, 2Q (3rd Release)***	**Provisional: -0.5% QQ, -0.5% YY**	**Prior (1Q): -0.3% QQ, -0.2% YY**
	2Q growth already has been revised from minus 0.7% QQ to minus 0.5%, and we do not expect further substantial revisions at this stage. The split is likely to show that the corporate sector's financial surplus fell from 4.9% of GDP in 1Q to about 2.7% of GDP in 2Q, reflecting weaker profits, while the household savings rate rose to about 8.3% from 6.4% in 1Q. We suspect that the bias to higher household savings will persist in coming quarters.		
Sep 28 09:30 London Time	***Service Sector Output, Jul***	**Forecast: +1.7% MM, 1.1% YY**	**Prior: -1.7% MM, -0.6% YY**
	We expect that service sector output rebounded sharply in July, reversing the drop in June (which was caused by the Queen's Diamond Jubilee). Such a figure would put services output in July 0.5% above the 2Q average, hence pointing to a solid rebound in 3Q GDP.		

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

Key Economic Indicators (1 October – 5 October 2012)

During The Week		**Forecast**	**Last**
	UK: Labour Party Conference, Manchester, Sep 30-Oct 4		
09:00	UK: Halifax House Prices, Sep		
Monday 1 October		**Forecast**	**Last**
07:30	Sweden: PMI, Sep		
08:00	Norway: PMI, Sep		
08:15	Switzerland: Retail Sales, Aug		
08:30	Switzerland: PMI, Sep		
09:00	Norway: Credit Indicator C2, Aug		
09:00	Italy: Unemployment, Aug Preliminary		
09:00	Euro Area: Manufacturing PMI, Sep Final		
09:30	UK: Manufacturing PMI, Sep	48.0	49.5
09:30	UK: Personal Borrowing, Aug		
10:00	Euro Area: Unemployment, Aug		
18:00	Italy: Budget Balance, Sep		
Tuesday 2 October		**Forecast**	**Last**
08:00	Spain: Unemployment, Sep		
10:00	Euro Area: Producer Prices, Aug		
Wednesday 3 October		**Forecast**	**Last**
09:00	Euro Area: Services PMI, Sep Final		
	Composite PMI, Sep Final		
09:30	UK: Services PMI, Sep	52.5	49.5
09:30	UK: BoE Housing Equity Withdrawal, 2Q		
10:00	Euro Area: Retail Sales, Aug		
Thursday 4 October		**Forecast**	**Last**
08:15	Switzerland: Industrial Production, 2Q		
08:30	Netherlands: Consumer Prices, Sep		
09:00	Italy: National Accounts, 2009-2011		
09:30	UK: Profitability of UK Companies, 2Q		
12:00	UK: MPC Outcome		
12:45	Euro Area: ECB Outcome – Press Conf. at 13:30 (Ljubljana, Slovenia)		
Friday 5 October			
08:00	Spain: Industrial Production, Aug		
08:30	Sweden: Services Production, Aug		
09:00	Norway: Industrial Production, Aug		
10:00	Euro Area: GDP, 2Q (3rd Estimate)		
11:00	Germany: Incoming Orders, Aug		

Sources: National statistical offices, central banks and Citi Research

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area: Sovereign Debt Crisis Update	Jürgen Michels	Sep 21, 2012
ECB - Governing Council "almost unanimous" on approving the OMT	Guillaume Menuet	Sep 6, 2012
ECB - What to expect at Thursday's meeting	Guillaume Menuet	Sep 5, 2012
European Economic Forecast Highlights	Ann O'Kelly	Aug 24, 2012
ECB - Words But No Deeds (Yet)	Jürgen Michels	Aug 2, 2012
Euro Economics Weekly		
Euro Economics Weekly - Ireland — Crucial Period Ahead	Michael Saunders	Sep 14, 2012
OMT: Unsheathing the Latest Weapon in the ECB's Armoury	Guillaume Menuet	Sep 7, 2012
Taking Stock of the Industrial Cycle	Guillaume Menuet	Aug 31, 2012
Eventful September Ahead	Jürgen Michels	Aug 23, 2012
Focus on Portugal	Jürgen Michels	Aug 17, 2012
Chief Economist Publications		
Global Economic Outlook and Strategy - September 2012	Willem Buiter	Sep 19, 2012
Germany		
Germany - Court Gives Green Light for ESM Participation Under Conditions	Jürgen Michels	Sep 12, 2012
Spain		
Spain: Focus on the Regions	Ebrahim Rahbari	Aug 1, 2012
Ireland		
Ireland - GDP Flat in Q2, Underperforms Consensus	Michael Saunders	Sep 20, 2012
Ireland - Economy Shrinks Again	Michael Saunders	Jul 12, 2012
Norway		
Scandi Economics Update	Tina Mortensen	Sep 21, 2012
Norway - Volatile Air Fares behind Low August Inflation	Tina Mortensen	Sep 10, 2012
Sweden		
Sweden - Expansionary 2013 Budget Bill	Tina Mortensen	Sep 20, 2012
Sweden - Neutral Minutes	Tina Mortensen	Sep 18, 2012
Denmark		
Denmark - Lars Rohde Named as New Central Bank Governor	Tina Mortensen	Aug 21, 2012
Switzerland		
Switzerland - SNB Leaves Rates and FX Peg Unchanged	Michael Saunders	Sep 13, 2012
Switzerland - GDP Data Highlight Internal/External Disparities	Michael Saunders	Sep 4, 2012
UK		
UK – Fiscal Deficit Continues to Rise -	Michael Saunders	Sep 21, 2012
UK - MPC, BoE Agents And Productivity	Michael Saunders	Sep 19, 2012
UK - Inflation Data and CP-AC	Michael Saunders	Sep 18, 2012
UK Economics Weekly		
The Labour Market "Miracle"	Michael Saunders	Sep 14, 2012
The UK's Looming Fiscal Dilemma	Michael Saunders	Sep 7, 2012
Export Recovery Is Failing	Michael Saunders	Aug 31, 2012
Economy Still Underperforming	Michael Saunders	Aug 24, 2012
Weak Productivity Won't Stop Inflation Falling	Michael Saunders	Aug 17, 2012

Source: Citi Investment Research And Analysis

Notes

Notes

Notes

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Jürgen Michels; Guillaume Menuet; Michael Saunders; Ebrahim Rahbari; Ann O'Kelly

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports.

Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.
This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any

information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual